

Stock	Buy / Short	Thesis	Current Price	Target Price
AGX	BUY	<p>Argan, Inc. conducts its operations through its wholly-owned subsidiaries, Gemma Power Systems (GPS), LLC and affiliates, and Southern Maryland Cable (SMC), Inc. Through a construction joint-venture formed during 2014, the company is currently manufacturing two natural gas-fired power plants in the Marcellus Shale region (northeast Pennsylvania). Over the past three years, the company successfully completed the construction of six significant energy projects located near Desert Hot Springs, California. The company also completed a biomass-fired project, prior to its planned completion date, for East Texas Electric Cooperative, Inc. for a power plant fueled by chipped-timber located near Woodville, Texas. This company has proven its ability to efficiently, timely and properly manufacture energy plants that are essential to the regions they serve. The company continues to receive business increasing its backlog as it operates solely in the U.S while. Historically, the company has been able to manage operating costs significantly below its competitors. Furthermore, the company has managed to do so without incurring any debt over the past five years. It is evident through a DCF valuation with a focus on ROIC that Argan has flown under the radar in the market and is currently undervalued.</p>	\$ 31.96	\$ 47.13

FIT	BUY	<p>Fitbit, Inc. (FIT) is the undisputed market leader in the market for fitness trackers, and is well on its way to establishing its name as a generalized trademark for all fitness trackers. Over the last few years, they have been an attractive prospect for investors, growing revenues at well over 100% on a year over year basis, from 175% YoY growth in 2014, to 149.3% YoY growth in 2015. On top of this, FIT has managed to keep gross margins strong, with full year numbers at a steady 48% for the last two years. They have been financially solid on the core financial statements, maintaining strong cash flows, with YoY EBITDA growth of 104% in 2015. This is paired with an impressive balance sheet that boasts no debt and a cash balance of \$535.8 million. Although they have strong financials, poor forward guidance for Q1 2016 regarding a shrinking operating margin due to both increased SG&A expenses, as well as anticipated additional manufacturing costs, triggered a massive sell-off. This sell-off ultimately caused their stock price to drop from \$16.52 before earnings to \$12.15 four days later, a drop of 26.5%. This was an overreaction by the market, as their Earnings Per Share and revenue growth blew away estimates for 2015, and their year-long guidance predicts a year with revenue growth comfortably above 30%. They were also able to easily explain that these anticipated increased costs are the direct result of their plan to make a global launch of new products Fitbit Blaze and Alta. Ultimately, FIT wants to maximize production and perform a global launch, which are the dominant reasons for their negative guidance. The major sell-off was an overreaction by the market, as FIT is simply investing more money to make more money, lowering profits in the short-term before seeing revenues in the long-term. This sell-off has provided us with the perfect</p>	\$ 14.51	\$ 25.01
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RST	BUY	<p>Rosetta Stone is widely recognized today as the industry leader in providing effective language programs. Rosetta Stone is also a leader in the literacy education space, helping a growing number of millions of students build fundamental reading skills through its Lexia Learning division. Currently, Rosetta Stone is in the process of a major operational shift that will lead to substantially higher margins, reduced operational costs, and will result in a bottom line profitable company. This operational shift began when Rosetta Stone recognized why its consumer segment, the largest component of its business, has created huge losses over the past 4 years. As a result of this discovery, Rosetta Stone developed a new strategy that fosters growth with higher margins in a different business segment for the future of the company. This new strategy takes advantage of a subscription based pricing model that enables reoccurring revenue from repeat customers in the education market. By itself, this new pricing model helps Rosetta Stone establish a more reliable revenue stream and also lightens the need for excessive marketing. At this stage in the business transition, the new strategy is about to take over as the major component of the business and will bring a lot of additional value to Rosetta Stone. Coinciding with this successful business transition, Rosetta Stone has 139.4 million in deferred revenue and 102.7 million of that will be recognized in the next 12 months. This appears to be a major catalyst as 102.7 million dollars represents an additional 63% of the current 163 million market cap. As this revenue is recognized over the next 4 quarters it will boost total revenues and compensate for the declining consumer segment that Rosetta Stone is phasing out of.</p>	\$ 7.42	\$ 11.27
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GBX	BUY	Greenbrier has lost nearly a quarter of its value this year, despite strong financial results that has beaten analysts' estimates. This largely unjustified stock drop could be explained by a growing sentiment that U.S. railcars manufacturer will be largely affected by the current energy crisis and the strong dollar. Greenbrier managed to build a diversified backlog and is not totally tied to energy markets. Indeed, only 27% of its backlog is being energy related and tank cars used for crude oil transportation accounts for 11% of its backlog. On the sale side, the firm did not receive any order cancelations, it is well positioned in the U.S. market, by gaining 17% more market share since 2006. Long-term average demand in the U.S is expected to be 50,000 railcars every year, guaranteeing orders for the future. In addition, the new regulation proposed by the U.S Transportation Department concerning tanker cars, if applied, could also strengthen the number of orders for the coming years. Finally, the firm is expanding their international activities, creating new revenue stream for the firm. This bring some stability to the firm as it diversifies its revenue stream and open the door for new markets where demand for railcars are expected to be strong. Given its low correlation with the current energy crisis, its strong financial performance and the firm recent orders, I do believe that this stock represents a good investment opportunity in a mid to long-term strategy.	\$ 26.90	\$ 35.15
LANC	BUY	With \$0 of debt, an ROIC/WACC of 4.39, and impressive dividends and margins, LANC is set to outperform the market, as well as its sector. Lancaster Corporation is the parent company of 15 subsidiaries, and plans to continue acquire businesses that add value. Furthermore, last quarter's earnings miss has left LANC undervalued, and investors with a buying opportunity. The corporation continues to increase their dividend payout ratio, and have also issued multiple special dividends. A buy of LANC will act as a stable investment, while also providing significant returns, through dividends and the stock's return to fair value.	\$ 105.70	\$ 118.30

Macroeconomic Overview

U.S. Markets

Index	Weekly % Change	YTD % Change
S&P 500	+1.11%	-1.06%
Dow Jones Industrial	+1.21%	-1.22%
NASDAQ Composite	+0.67%	-5.17%
Russell 2000	+0.52%	-4.26%
VIX	-2.14%	-9.39%

U.S. equities logged a fourth consecutive week of gains last week, despite the light economic calendar that provided very few catalysts. The biggest piece of news last week came from across the Atlantic on Thursday, with the

ECB's decision to cut its three reference rates further and to increase the size of its monthly bond buying program to include corporate bonds for the first time. These measures were more aggressive than most analysts anticipated, causing wild swings in equities which originally sold off before staging a final hour rally that went on to continue on Friday. As a result, all major U.S. indices posted weekly gains, with the S&P 500 gaining 1.11% and recording its highest close of the year. Small caps had largely outperformed large caps at the start of the week, but underperformed in the second half of the week. As a result, the Russell 2000 posted a modest gain of +0.52% and is still down over four percent year to date. Similarly, the tech-heavy NASDAQ Composite had gotten a head start on Monday, but underperformed in the rest of the week. The benchmark gained 0.67% through Friday, dragged down by healthcare and industrials. The Dow Jones posted the largest gain of the week, with 19 out of 30 components posting weekly gains. The benchmark's biggest movers were Chevron (CVX), Cisco Systems (CSCO) and McDonald's (MCD), which helped the index gain 1.21% and climb back above the 17,200 for the first time since the start of the year. Stocks benefitted from a big climb in oil prices, and the positive correlation of the stock market with oil prices held true for another week. The rebound in oil prices grew stronger last week, with WTI and Brent crude gaining 5.8% and 4.31% respectively. The price of WTI has climbed over 45% since it bottomed at \$26.14 on February 11, while Brent rallied 34.7% since its \$29.98 low on that same day. The rally in energy prices and energy put a dent in gold's uptrend, after the precious metal rallied more than 20% this year. Gold futures for delivery in April lost 1.54%, finishing the week just above \$1,250 an ounce, while silver lost 0.45%. Volatility slightly fell last week, with the VIX finishing 2.14% below 17. Next week, the Federal Reserve meeting will take place on Tuesday and Wednesday, and most analysts predict the Fed will not announce an increase in interest rates. February retail sales will be published on Tuesday, and are expected to post a -0.1% decline month over month or 0.3% gain when excluding auto and gasoline sales. On Wednesday, February CPI and housing starts will be published at 8:30, followed by industrial production for February at 9:15, and Janet Yellen will host her traditional post-FOMC meeting press conference at 2:30.

International Markets

Index	Weekly % Change	YTD % Change
BE 500	+0.16%	-6.75%
Stoxx Europe 600	+0.13%	-6.45%
DAX	+0.07%	-8.49%
FTSE 100	-0.96%	-1.64%
CAC 40	+0.81%	-3.11%
Nikkei 225	-0.45%	-11.01%
Shanghai Composite	-2.22%	-20.59%
Shenzhen Composite	-1.27%	-27.01%

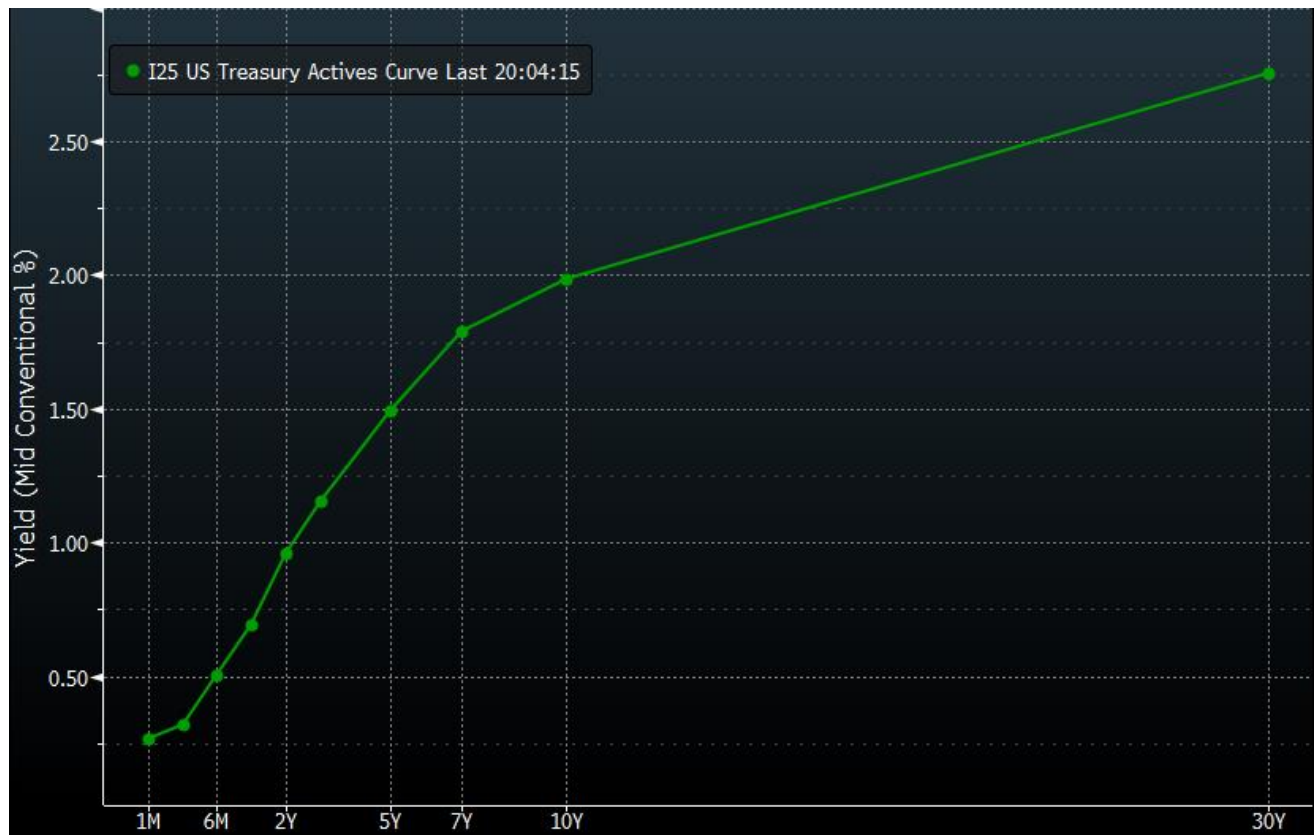
International equities had a more mitigated week, with European stocks posting minor gains while Asian shares fell. The surprise announcement from the ECB was not sufficient to push European indices far in the green, as the Stoxx Europe 600 only rose 0.13% while the Bloomberg European 500 gained 0.16%. France was the biggest gainer, with the CAC 40

rising 0.81% after climbing above 4,500 for the first time this year. Germany's DAX lagged behind, dragged down by shares of Volkswagen AG which lost 6% last week on renewed concerns about the emissions scandal. The benchmark of 30 German stocks gained 0.07% last week, mostly thanks to Deutsche Bank and Commerzbank. In the U.K, stocks fell for a second week in a row, and the FTSE 100 recorded its biggest one-day drop of the month on Thursday. The index, which lost 0.96% last week, was dragged down by shares of AngloAmerican (AAL.LN) and Glencore (GLEN.LN), both of which fell more than 10%. In Asia, the picture for China's growth got worse on Tuesday when the country announced an unexpected 25% drop in exports, causing the trade surplus to narrow. This triggered a broad selloff in Chinese equities, causing the Shanghai Composite to fall 2.22% and the Shenzhen Composite to fall 1.27%. In Japan, the trading week seemed to be divided in two, with the Nikkei falling through Wednesday to then recoup most of its losses by Friday. As a result, the Nikkei 225 posted a minor loss of 0.45%, and remains below 17,000. The Bank of Japan is holding monetary policy next week, which is due to end on Tuesday and could have a strong impact on Japanese stocks.

Bond Report

This week, The US Treasury yields climbed for the fourth straight week, the longest rise since May 2013. On Monday, U.S. treasury yields rose despite a very flat day on the bond market. Indeed, few volumes were traded and the higher oil prices led investors to sell their government bonds in favor of riskier assets. Tuesday has been the only green day on the bond market however, as we have seen a bigger contraction than expected overnight in the Chinese market that led to a bond rally. The weak Chinese trade data could have been the main driver of the bond rally, but both the strong overseas bond market and the first losing day in March for the S&P, pushed investors to buy government securities. On Wednesday, U.S. treasury yields slightly increased, following both Japanese and European bond yields, as investors were selling their securities ahead of the ECB meeting of Thursday. The strong stock market and the increasing oil prices did avoid yields to hit bottom lines, as U.S. government bonds looked much more attractive than European bonds. On the Thursday's ECB meeting, Mario Draghi said that it will not be necessary to cut rates further. Automatically, the bond market rallied in the morning, following the press conference but sold off later on the day pushing yields higher. On Friday, yields continued to climb as Oil futures reached a 3-month high. This news influenced investors to sell their haven assets in favor of riskier assets such as stocks. In addition, a lower than expected loss in import prices increased the stock rally. Overall, the yield on the benchmark 10-year Treasury note gained 9 bps over the week, 5 bps only on Friday to reach 1.98%, its highest level since the end of January. Concerning the 2-year note, its yields increased by 8 bps over the week, 3 bps only on Friday to 0.97%, its highest level since the beginning of January. Among longer maturities, the 30-year bond yield increased by 4.5 bps over the week and 5 bps just on Friday to 2.75%, a level reached for the last time in early February.





What's next and key earnings

Several events are to be closely watch this week. First, there will be the beginning of the FOMC meeting on Tuesday. At 8:30, the PPI-FD report will be released. Because of sharp declines in commodities prices, we are expected to see a decline of 0.2% for the month of February, following the 0.1% increase of January. If we exclude the energy section, the core rate is expected to follow January's growth of 0.1%. In the same time, the retail sales report will be released. Both weak automobile and gasoline sales are expected to slow down retail sales which were expected to increase by 0.3. The consensus is expected to be a decline of 0.1% for February. This strength is due to a strong contribution from consumer spending. On Wednesday, the Consumer Price Index report will be released. One more time, weak gasoline sales are pulling down the expectations to a consensus of -0.3% with a core rate that is expected to gain 0.2%. On the same time, the housing starts report will be released. After showing previous strength, analysts believe that the strength will continue its trend with an annualized rate of 1.45 million housing starts for February, up from 1.1 million in January. However, housing permits are expected to remain at the prior level of 1.202 million. Later in the morning, the industrial production report will be released. Despite a strong production of both auto and capital goods in January, analysts are expected to see no growth in this sector. If we do include the utilities and mining production, we should see a 0.2% decrease for the industrial production. In the afternoon, the FOMC meeting is announced. The FED funds rate are expected to remain unchanged at a range between 0.25% and 0.5% even if some FED officials have been signalling the strength of inflation data. During that meeting, the FED will also release its economic projections concerning civilian unemployment rate, GDP and personal consumption expenditures price index.

Argan, Inc. (AGX)

AGX

Analyst: Kyle Ritchie

BUY on AGX

Price Target: \$47.13

Key Statistics as of 3/9/16

Market Price:	\$31.96
Industry:	Industrials
Market Cap:	\$474 M
52-Week Range:	\$28.03 - \$42.50
5 Year Beta:	1.01
Dividend Yield:	2.19%

Thesis Points:

- Historical and Current ROIC/WACC ratio
Demonstrates Value Creation
- Proven Ability to Efficiently Manage Operating Costs
- Stable Capital Structure

Company Description

Argan, Inc., through its subsidiaries, provides a range of development, consulting, engineering, procurement, construction, commissioning, operations, and maintenance services to the power generation and renewable energy markets. The company operates through Power Industry Services and Telecommunications Infrastructure Services segment. The Power Industry Services segment serves public utilities, independent power project owners, municipalities, public institutions, and private industry. The Telecommunications Infrastructure Services segment serves the federal government, local governments, telecommunications, and broadband service providers, as well as electric utilities primarily in the mid-Atlantic region. Argan, Inc. was founded in 1961 and is headquartered in Rockville, Maryland.



Thesis

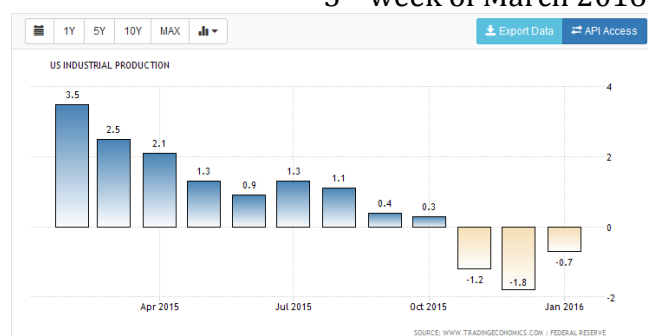
Argan, Inc. conducts its operations through its wholly-owned subsidiaries, Gemma Power Systems (GPS), LLC and affiliates, and Southern Maryland Cable (SMC), Inc. Through a construction joint-venture formed during 2014, the company is currently manufacturing two natural gas-fired power plants in the Marcellus Shale region (northeast Pennsylvania). Over the past three years, the company successfully completed the construction of six significant energy projects located near Desert Hot Springs, California. The company also completed a biomass-fired project, prior to its planned completion date, for East Texas Electric Cooperative, Inc. for a power plant fueled by chipped-timber located near Woodville, Texas. This company has proven its ability to efficiently, timely and properly manufacture energy plants that are essential to the regions they serve. The company continues to receive business increasing its backlog as it operates solely in the U.S while. Historically, the company has been able to manage operating costs significantly below its competitors. Furthermore, the company has managed to do so without incurring any debt over the past five years. It is evident through a DCF valuation with a focus on ROIC that Argan has flown under the radar in the market and is currently undervalued.

Industry Outlook

The second half of 2015 was a difficult year for companies on almost every front. The uncertainty in the price of crude oil played a major role in this volatile market which has carried over into the beginning of 2016. The price chart on the previous page reflects AGX stock price over the past year. In comparison with the green line which represents the S&P 500, it is clear that like most other stocks, AGX has reacted to market volatility almost identically.

The Industrial Production Index (IPI) is an economic indicator published by the Federal Reserve Board of the United States. From 1920 until 2016, Industrial Production in the US averaged 3.83% beating the average GDP from 1947-2016 which stands at 3.24%.

Siena Market Line 3rd week of March 2016



The preceding chart represents the percent change in the IPI on a monthly basis in comparison to the respective month of the previous year. It is the third consecutive fall. Economists forecast this negative trend to continue in the short-term as follows:

Calendar	GMT	Reference	Actual	Previous	Consensus	Forecast
12/16/2015	2:15 PM	Nov	-1.20%	0.30%		0.30%
1/15/2016	2:15 PM	Dec	-1.80%	-1.20%		-1.40%
2/17/2016	2:15 PM	Jan	-0.70%	-1.80%		-0.60%
3/16/2016	1:15 PM	Feb		-0.70%		-0.70%
4/15/2016	1:15 PM	Mar				-0.58%
5/17/2016	1:15 PM	Apr				-0.36%

In regards to Argan specifically, industry and revenue growth drivers include the reduction in heavy carbon emitting power plants. Standards under the Clean Power Plan will shift the construction of power plants from coal-fired generators to natural gas, renewable energy, and power-generation facilities.

Business Model/Management

Argan has a simple business model. The company generates its revenue through its wholly-owned subsidiaries: Gemma Power Systems (GPS), Southern Maryland Cable, Inc. (SMC), Atlantic Projects Company, Ltd. (APC) and its most recently acquired, The Roberts Company (Roberts). GPS provides engineering, procurement and construction services to power generation and renewable energy markets. SMC provides telecommunications data infrastructure services. APC was acquired last year in May and provides turbine, boiler, large rotating equipment installation, and commissioning along with outage services to the global power industry. Roberts was acquired in December of 2015 and is principally an industrial fabricator and constructor serving both light and heavy industrial organizations. The company manages its subsidiaries and utilizes their collective resources to complete industrial projects.

Argan's management team is that of an experienced one. Chief Executive Officer and chairman Rainer H Bosselmann has been with Argan since 2003. An analysis of his total return (TRA) since inception is 14.33% compared to a relative 6.38% in the sector. Prior to joining Argan the stock was valued at \$7.75, and since he has been appointed to CEO the stock has increased to \$31.63. The Vice Chairman and CEO of GPS is William F. Griffin Jr. Lastly, the Chief Financial Officer is David Watson.

An interesting feature of the upper management team for Argan is how they are compensated. As stated in the Proxy Statement, document 14A filed on May 8, 2015; "It has been our practice to not set specific individual goals for any of the executives at the start of each year. Instead, the CEO and Compensation Committee review the overall performance of the company." This is a very appealing feature for investors. What this translates to is management does not have to aim for specific margins or sheer revenue growth out of self-interest. The management team works together to create shareholder value and has no particular target when valuing the company itself. Internal and organic growth is just as important as inorganic growth for this company.

The elements of compensation for management include the following: a base salary, an annual cash bonus awards, and stock options. Year over year salaries have increased and bonuses have been distributed demonstrating an effective management team.

Cross-Sectional Analysis

This section includes a cross-sectional analysis of Argan. Management has suggested the following publicly traded companies as most comparable in regards to the industry and market capitalization: Dycom Industries, Furmanite Corp, Granite Construction, Great Lakes Dredge & Dock Corp, Integrated Electrical Services Corp, MYR Group Inc., Primoris Services Corp., Orion Marine Group, Inc., Sterling Construction Company, Inc., and Willbros Group, Inc.

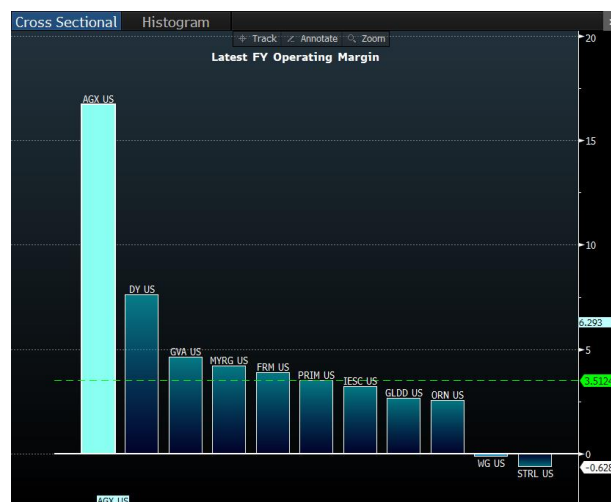
Figures in the analysis have been taken from the latest year, will show a median green line and AGX will appear as the lighter blue bar graph.

First off, the gross profit margin, which can be seen in the next column above.



As you can see from the preceding graph, Argan has a gross profit margin of 21.8% while the median among its peers falls at 11.5%.

The next margin to be analyzed is the operating margin.



Argan's percentage of earnings before interest and taxes is over 16% while the median of its peers is 3.5%.

The graph on the following page compares the profit margin of Argan in comparison to the aforementioned peers. Argan's profit margin in the latest year was 7.95% while the median of its peers was 2.55%.

ROIC/WACC – Value Creation

An important indicator of how effective a company's capital expenditures truly are is the ROIC/WACC ratio. This ratio demonstrates value creation. When a company is returning a higher yield on newly invested capital in comparison to its weighted average cost of capital – the company is creating shareholder value. As you can see from the chart below, Argan has strategically chosen projects that are profitable.

ROIC	13.2%	13.2%	23.4%	58.4%	32.9%
WACC	5.6%	5.6%	6.5%	7.3%	8.6%
ROIC/WACC	2.35	2.35	3.62	8.04	3.81

The company invests in the necessary components, and through its subsidiaries, delivers quality and efficient renewable-energy power plants to its customers. Adjusting for variable accounting factors such as goodwill impairment, the five-year average ROIC/WACC ratio is 4.03. This figure may appear relatively high but the amount of revenue Argan generates through construction contracts justifies this rate of return.

Stable Capital Structure

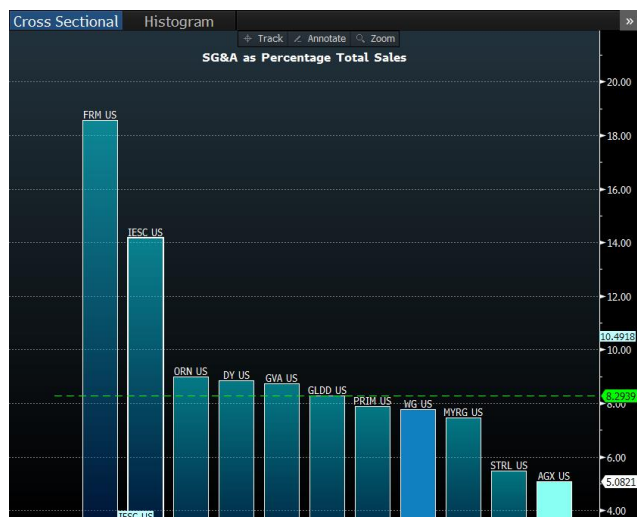
A key component to the long-term success of this company is its stable capital structure. Over the past five years, Argan has not needed to incur any debt, short or long-term, to finance its business operations. This is very appealing to investors who understand the importance of a strong balance sheet. Operating in an industry that is so capital intensive makes it crucial to not incur debt that a company cannot manage. In regards to the previously named peers, the median D/E of these companies is .48 while Argan's is 0. Furthermore, Argan has had a growing cash balance since 2011 suggesting and proving its capability to acquire more companies. The table below shows Argan's cash balance for the last five years in millions.

Cash/Near Cash/Short-Term Investments	2010	2011	2012	2013	2014	2015
	66.2	83.3	156.5	175.1	272.2	333.7



Efficiently Managed Op. Costs

The graph demonstrates why Argan has managed to earn these higher margins. The chart below compares the company's SG&A expense as a percentage of sales. Argan's SG&A expense as a percentage of net sales is 5.08% while the median of its peers is above 8%. Given the fact that the cost of goods in the industrial sector is the highest operating expense, Argan has managed to significantly decrease all other operating expenses to improve profitability to shareholders.



Furthermore, through diversified acquisitions of essential business components, Argan has established favorable relationships with its suppliers. Coupled with their diversified subsidiaries, Argan's ability to decrease other operating expenses proves the value being created for the company.

Valuation

The valuation of AGX is based on a discounted cash flow model with a focus on return on invested capital. Attached below are the inputs and assumptions that have been used in the forecast along with a Monte Carlo simulator to demonstrate which inputs are most sensitive in the valuation.

When valuing AGX a conservative approach has been applied. Since AGX operates solely in the US, a 40% tax rate as well as 6% risk premium has been applied. However, since AGX is a small-cap company, an additional premium has been added amounting to 8.36%.

A 3% risk-free rate as well as a 3% long-term growth rate has been used. A ten-year period of convergence has been used to forecast the time until the continuing period.

Using the aforementioned assumptions, the model has computed an intrinsic value of \$41.49 with a 1-year target of \$47.13.

The two analysts covering AGX have a median target of \$47.50.

Conclusion

In conclusion, it is clear that AGX is certainly undervalued. Given the current market volatility, AGX is a safe investment as its five-year unlevered beta is .56 while its current unlevered beta is 1.01. The company has no debt, a large cash balance, and analysts are forecasting 2016 revenue growth to be 56%. While this figure has not been used in the valuation, it is clear that expectations for this company are high. The macro-economic analysis as well as the internal financial analysis of AGX points to only direction, BUY.

Argan, Inc. (AGX)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Kyle Ritchie
3/10/2016

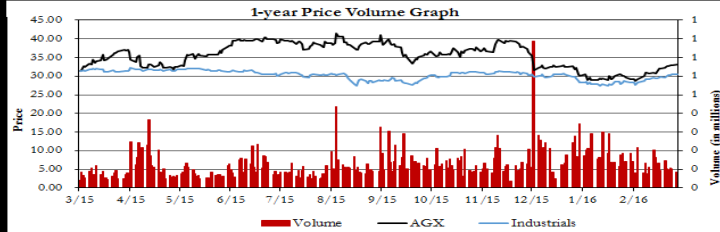
Current Price:
Dividend Yield:

\$31.63
0.0%

Intrinsic Value
Target Price

\$41.49
\$47.13

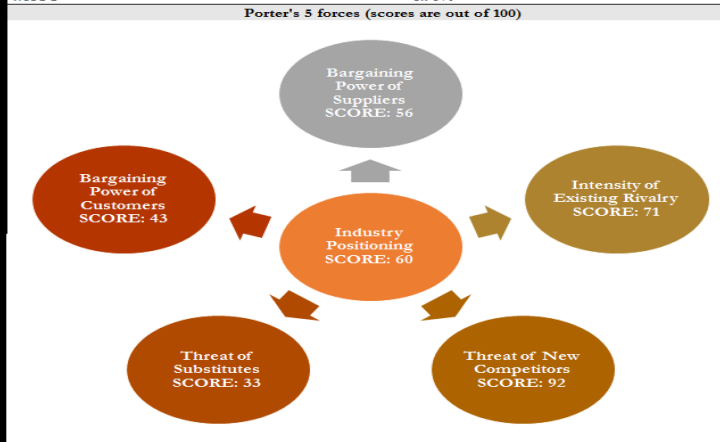
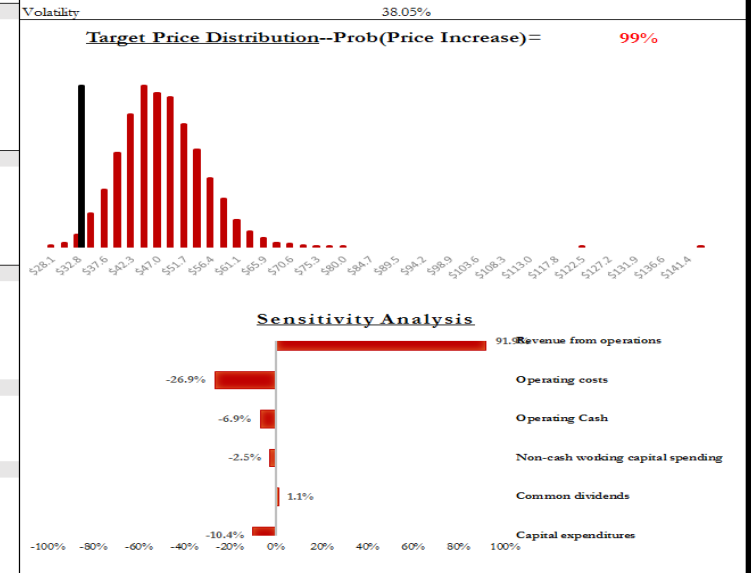
Target 1 year Return: 49.02%
Probability of Price Increase: 98.59%



Description	
Argan, Inc., through its subsidiaries, provides a range of development, consulting, engineering, procurement, construction, commissioning, operations, and maintenance services to the power generation and renewable energy markets.	
General Information	
Sector	Industrials
Industry	Construction and Engineering
Last Guidance	November 3, 2015
Next earnings date	April 7, 2016
Estimated Country Risk Premium	8.48%
Effective Tax rate	40%
Effective Operating Tax rate	39%

Market Data	
Market Capitalization	\$468.96
Daily volume (mil)	0.06
Shares outstanding (mil)	14.83
Diluted shares outstanding (mil)	15.01
% shares held by institutions	80%
% shares held by investments Managers	67%
% shares held by hedge funds	11%
% shares held by insiders	8.27%
Short interest	3.00%
Days to cover short interest	2.63
52 week high	\$42.50
52-week low	\$28.03
Levered Beta	1.06
Volatility	38.05%

Quarter ending	Past Earning Surprises	EBITDA	Peers
10/31/2014	Revenue 20.42%	64.77%	
1/31/2015	5.34%	20.08%	
4/30/2015	-3.41%	48.79%	
7/31/2015	-2.58%	85.05%	
10/31/2015	8.66%	11.72%	
Mean	5.69%	46.08%	
Standard error	4.3%	13.7%	
Management	Position	Total compensations growth	Total return to shareholders
Bossmann, Rainer	Chairman, Chief Executive Of	6.58% per annum over 6y	-5.08% per annum over 6y
Griffin, William	Director, Vice Chairman of G	13.65% per annum over 6y	-5.08% per annum over 6y
Martin, Daniel	President of Gemma Power Sys	0.19% per annum over 5y	12.06% per annum over 5y
Trudel, Arthur	Senior Advisor to Chairman &	4.65% per annum over 6y	-5.08% per annum over 6y
Watson, David	Chief Financial Officer and	N/M	N/M
Deily, Richard	Vice President	N/M	N/M
Profitability	AGX (LTM)	AGX (5 years historical average)	Industry (LTM)
ROIC	26.5%	28.24%	8.24%
NOPAT Margin	15%	11.51%	2.7%
Revenue/Invested Capital	1.83	2.45	3.06
ROE	26.0%	19.38%	9.09%
Adjusted net margin	14%	11.35%	2.6%
Revenue/Adjusted Book Value	1.80	1.71	3.53
Invested Funds	AGX (LTM)	AGX (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	74.3%	104.3%	22%
Estimated Operating Cash/Total Capital	25.2%	69.8%	N/A
Non-cash working Capital/Total Capital	-25.2%	-50.0%	16%
Invested Capital/Total Capital	51.5%	64.8%	74%
Capital Structure	AGX (LTM)	AGX (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.24	0.17	0.14
Cost of Existing Debt	1.96%	1.42%	3.29%
Estimated Cost of new Borrowing	1.38%	1.38%	3.29%
CGFS Risk Rating	1.96%	AAA	BBB
Unlevered Beta (LTM)	0.00%	0.56	1.17
WACC	1.96%	6.73%	12.33%



Period	Revenue growth	Valuation	ROIC/WACC
Base Year	17.3%	14.5%	2.36
10/31/2016	27.5%	13.9%	3.38
10/31/2017	25.1%	14.0%	3.72
10/31/2018	22.6%	14.0%	3.53
10/31/2019	20.2%	14.0%	3.37
10/31/2020	17.7%	14.0%	3.24
10/31/2021	15.3%	14.0%	3.11
10/31/2022	12.8%	14.0%	2.99
10/31/2023	10.4%	13.9%	1.11
10/31/2024	7.9%	13.9%	1.05
10/31/2025	5.5%	13.9%	1.00
Continuing Period	3.0%	13.9%	0.94
Period	Invested Capital	Net Claims	Price per share
Base Year	\$79.55	-\$41.50	\$39.73
10/31/2016	\$117.70	-\$109.53	\$45.27
10/31/2017	\$74.28	-\$159.30	\$50.97
10/31/2018	\$151.12	-\$221.16	\$56.93
10/31/2019	\$218.63	-\$297.36	\$63.06
10/31/2020	\$194.76	-\$390.12	\$69.27
10/31/2021	\$221.04	-\$501.41	\$75.43
10/31/2022	\$284.08	\$451.71	\$81.36
10/31/2023	\$354.70	\$429.56	\$96.09
10/31/2024	\$432.29	\$379.15	\$111.90
10/31/2025	\$515.60	\$286.58	\$129.12
Continuing Period			

Fitbit, Inc.

NYSE: FIT

Analyst: Joseph Gonyeau

Sector: Technology

BUY

Price Target: \$25.01

Key Statistics as of 3/11/2016

Market Price:	\$14.51
Industry:	Scientific & Technical Instruments
Market Cap:	\$3,134.3M
52-Week Range:	\$11.91-\$51.90
Beta:	1.63

Thesis Points:

- The fitness tracking industry is growing rapidly and Fitbit is the undisputed market leader.
- Health insurance discounts will make Fitbit a necessity for governments, employers, and insurers.
- Q4 Earnings triggered a market overreaction, dropping the price by 26.5%, making now a perfect time to buy.

Company Description:

Fitbit, Inc. (FIT) merged the health and fitness markets in 2007 and have since established themselves as a leading global health and fitness brand by providing wearable health and fitness tracking devices. The Fitbit platform combines connected health and fitness devices with software and services, including an online dashboard and mobile apps, data analytics, motivational and social tools, personalized insights, and virtual coaching through customized fitness plans and interactive workouts. Their platform helps people increase their physical activity, eat healthier, sleep better, and actively manage their weight. They achieve this through their family of eight wearable connected health and fitness trackers. These wrist-based and “clippable” devices automatically track users’ daily steps, distance traveled, calories burned, and their quality of sleep and display real-time feedback to encourage them to become more active in their daily lives. Since its June 2015 IPO, Fitbit has established itself as the market leader in fitness trackers, commanding a 26.9% market share in 2015, 11% greater than their next biggest competitor, Xiaomi. Fitbit’s stock price has dropped by about half since the beginning of 2016; however, this was due in large part to a market overreaction to 2016 forward guidance, making now a perfect time to buy a very bullish stock.



Thesis

Fitbit, Inc. (FIT) is the undisputed market leader in the market for fitness trackers, and is well on its way to establishing its name as a generalized trademark for all fitness trackers. Over the last few years, they have been an attractive prospect for investors, growing revenues at well over 100% on a year over year basis, from 175% YoY growth in 2014, to 149.3% YoY growth in 2015. On top of this, FIT has managed to keep gross margins strong, with full year numbers at a steady 48% for the last two years. They have been financially solid on the core financial statements, maintaining strong cash flows, with YoY EBITDA growth of 104% in 2015. This is paired with an impressive balance sheet that boasts no debt and a cash balance of \$535.8 million. Although they have strong financials, poor forward guidance for Q1 2016 regarding a shrinking operating margin due to both increased SG&A expenses, as well as anticipated additional manufacturing costs, triggered a massive sell-off. This sell-off ultimately caused their stock price to drop from \$16.52 before earnings to \$12.15 four days later, a drop of 26.5%. This was an overreaction by the market, as their Earnings Per Share and revenue growth blew away estimates for 2015, and their year-long guidance predicts a year with revenue growth comfortably above 30%. They were also able to easily explain that these anticipated increased costs are the direct result of their plan to make a global launch of new products Fitbit Blaze and Alta. Ultimately, FIT wants to maximize production and perform a global launch, which are the dominant reasons for their negative guidance. The major sell-off was an overreaction by the market, as FIT is simply investing more money to make more money, lowering profits in the short-term before seeing revenues in the long-term. This sell-off has provided us with the perfect opportunity to buy an undervalued stock with no debt and a large cash balance.

Industry Outlook

As obesity rates rise, and technology makes gathering and synthesizing information easier, the market for fitness trackers is booming, with Fitbit at the forefront. The Fitbit ecosystem allows Fitbit devices to interact with dozens of different apps, web sites and has seen unparalleled success catering to the fitness and health audience. Not only is the market for individual sales

booming, but Fitbit is on the verge of tapping into a new market, that could enable Fitbit to establish itself as a dominant force worldwide. James Park, the CEO of Fitbit, has been seeking ties with health and life insurance companies, who would use Fitbit products to encourage their customers to live healthier lives, to save the insurers money on healthcare costs. As society becomes more health-conscious, there has been a global shift from reactive sick-care to preventative healthcare, and the Fitbit ecosystem is vital to the expansion of this global trend, as it is on the cusp of becoming a necessity for employers, insurers, and even governments seeking to save money on healthcare. Fitbit has already established a relationship with John Hancock Life Insurance, who gives their employees free Fitbits and reduced premiums in exchange for uploading data on their lifestyle. In the U.S., it is typically employers who help pay for the insurance and healthcare costs of their employees. Corporations are starting to learn that signing up for this system can save them money on insurance premiums and healthcare costs, with over 70 of the Fortune 500 companies already subscribing to the Fitbit ecosystem. To compound this, healthier employees are more productive, boosting bottom-line productivity. As corporations begin to see the cost savings associated with the Fitbit ecosystem, governments undoubtedly will as well. Outside of the U.S., it is generally the government that faces healthcare costs, and Fitbit has already established a trial relationship with the Australian government. In 2016, one million Australian citizens will trial the new Australian e-health system, which included various Fitbit products, to analyze their health data. If the system is shown to decrease the costs of healthcare claims as is expected, Fitbit may be able to establish itself as a market leader in a massive new revenue generating service.

Business Model

Fitbit's business model revolves around the sale of their eight core health and fitness devices, which currently account for almost all of their revenues, with a small portion of their revenue derived from their subscription based services. They target a large, mainstream health and fitness market by offering products and systems that help their customers track steps, sleep patterns, diet, and calories burned, to name a few. Aside from their hardware, they also offer online

dashboards and mobile apps that synthesize the information gathered from the Fitbit devices, to give users a more meaningful collection of data to track their fitness. With their open API, they enable third-party developers to create health and fitness apps that interact with their platform. This open platform and their large community of connected users, has enabled them to establish a large ecosystem of apps, and motivational and fitness videos to increase the Fitbit experience.

People

Fitbit is led by their youthful CEO James Park and CTO Eric Friedman, the company's original co-founders. Park was named among Fortune magazine's "40 Under 40" in 2015, an annual ranking of the most influential young people in business. Park serves as a tenacious leader for the Fitbit shareholders, navigating the company through its turbulent beginnings as a \$400,000 startup. Eric Friedman is the other co-founder of Fitbit, with previous experience co-founding Wind-Up Labs, Inc., in 2002. During his time at Wind-Up Labs, he oversaw the creation of HeyPix, one of the forerunners in P2P photo sharing applications. Both Park and Friedman have extensive experience in software engineering, which is commonly mentioned as a driving force behind the ease of navigating the Fitbit dashboard. Their past has proven them both to be pioneers in the advancement of technology, which is very useful for Fitbit, as its advancement relies on the continuous innovation of hardware.

Competitive Advantage

There is currently a lot of competition in the fitness tracker market, including brands such as Jawbone, Xiaomi, and Apple; however, Fitbit has the competitive advantages to ensure that it holds its rank as the market powerhouse. First, Fitbit has established itself as a global brand. The Fitbit name has essentially become synonymous with the connected fitness market, and is well on its way to establishing itself as a brand such as "Band Aid." In the first Quarter of 2015, Fitbit's products were 85% of the total dollars spent on fitness trackers, up from around 60% in 2013, and 70% in 2014. Fitbit's next competitive advantage is the broad

range of connected devices that it offers, with varying price ranges. Many companies offer numerous variations of a certain product, but Fitbit offers multiple different products, and different variations within each group. It also offers multiple levels of functionality and price, ranging from sleep monitoring to advanced GPS capabilities. One of their other biggest competitive advantages is that not only do they provide the hardware devices, but also the software platform to track the data that is gathered by the device. The software helps the consumer utilize the information in a relevant way. The hardware and software work together towards the specific goal of monitoring one's fitness. Products such as the Apple watch offer fitness tracking as just one small feature among many, whereas Fitbit focuses and excels at it. The final major competitive advantage that Fitbit has over its competitors is that its devices are compatible with many platforms, from the Nike+ app to Under Armour's fitness app. This allows people to track their fitness along with their friends who may be using different devices, and could open the door for future sales growth as those software users become Fitbit hardware users.

Financials

Since Fitbit is a young hardware maker, operating margins are razor thin, as new competitors are continuously entering the market. Regardless, Fitbit has seen impressive YoY revenue growth over the past few years, from 175% in 2014, to 149% in 2015, and a more stable anticipated growth of 33% in 2016. Operating Costs to revenue have also decreased from around 100%, to a much more stable 81% since 2013, with a slight anticipated spike in operating costs to occur in 2016. Operating Costs to revenue can be expected to increase to about 83% as Fitbit begins its global marketing campaign and international expansion. However, after a year operating costs will most likely stabilize to around 80% before tapering off to an industry average of around 76%. As negative guidance anticipates operating margins to decrease in Q1 2016, a result of this expansion, a major sell-off occurred in the market, causing Fitbit's price to drop by 26%. This was unwarranted, as Fitbit is simply investing in itself now, to increase revenues and bolster its margins in the future. Growth so far has been completely contained in

the United States; for Q4, the U.S. accounted for over \$500m in revenues, while no other regions broke \$100m in sales. Full year revenues were 74% domestically, but the ability to expand internationally and reach a 50% split in revenue by geographic regions provides tremendous upside. This expansion is intended to capitalize on the growing popularity of fitness trackers, as the amount of active Fitbit users is up 16.9 million (152%) at the end of 2015, as they sold 32.3 million devices over the last two years. Fitbit is also very financially flexible, with more than \$535 million in their cash balances. Based on a 1 year estimated beta for Fitbit relative to the S&P 500 over the same year, Fitbit had an impressive ROIC of around 44% in 2015 with a WACC of 23%, significantly greater than the industry average of 13% in the Technology and Hardware industry, signifying that this is a value creating company. ROIC is anticipated to be a more stable 32% for 2016, showing that even through a global expansion, they can be expected to create value. Aside from the negative guidance for Q1, Fitbit smashed Q4 estimates due to a very strong holiday season, and is trading at around 12x Earnings Per Share. EPS in Q4 came in at \$0.35, beating estimates by \$0.10, as revenues also beat estimates by \$63.8 million. With revenues growing at 100% on a YoY basis, gross margins have been kept quite strong, at a steady 48% for the last two years. FIT also has strong cash flows, with YoY EBITDA growth of 104% in 2015. The negative guidance for Q1 has caused the price of FIT to drop drastically, providing an opportune time to engage in a long position. Full year guidance for 2016 has been kept in line with consensus, with anticipated revenues of around \$2.5 billion, EBITDA between \$400m and \$800m, and EPS around \$1.15. Based on UFCF, I have an intrinsic value at \$18.55, with a 1-year target at \$25.14, slightly above analyst estimates, making now the perfect time to buy.

Conclusion

Fitbit is the dominant market leader in a booming market capitalizing on increased awareness of physical activity. Shortly after its June IPO, Fitbit was trading in the low \$50s as investors were impressed by its massive growth; however, after peaking in August the stock has been in a steady decline. Like Fitbit, many of the high P/E and tech growth stocks were also hit significantly harder than the overall market, signifying more of a macroeconomic issue than anything wrong with Fitbit. A more recent selloff occurred in January, after Q4 negative guidance regarding the upcoming year. This dropped Fitbit's price by 26%, which is based off of anticipated decreases in margins caused by increased SG&A expenses and R&D expenses. However, this is only for Q1, and Fitbit's forward guidance for 2016 as a whole is still very positive, with revenue growth expected to be above 30%. I feel that the market brought Fitbit to a more realistic price in December, and that the January price decline was unwarranted. This is a value creating company that has the dominant share in a growing market and is on the cusp of tapping into an untapped market that could provide unheard of returns. This recent sell off has given us the chance to buy a very bullish stock at a significant discount.

Fitbit Inc. (FIT)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Joseph Gonyeau
3/13/2016

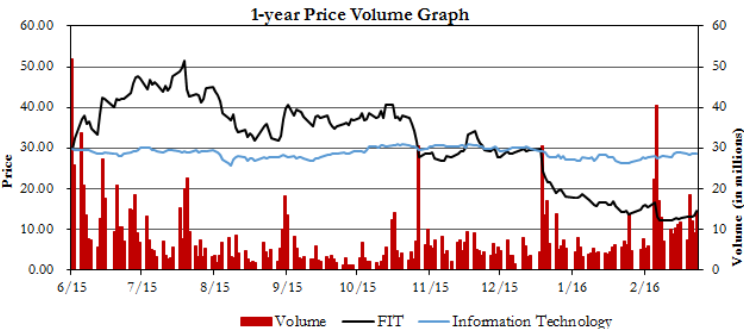
Current Price:
Divident Yield:

\$14.51
0.0%

Intrinsic Value
Target Price:

\$18.55
\$25.14

Target 1 year Return: 73.25%
Probability of Price Increase: 99.8%



Description
Fitbit, Inc. provides wearable health and fitness tracking devices.

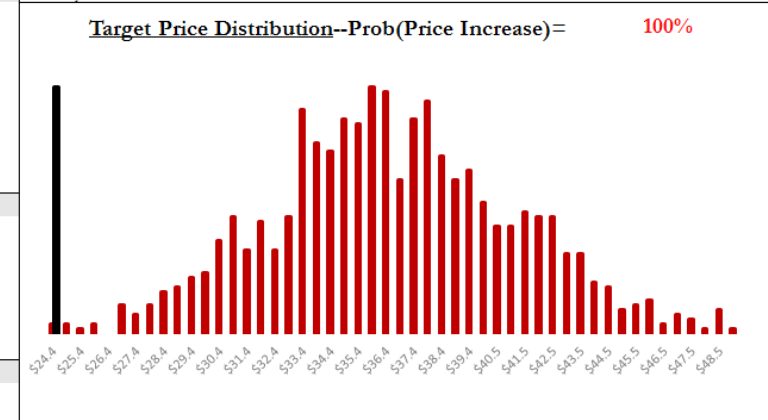
General Information

Sector	Information Technology
Industry	Electronic Equipment, Instruments and Components
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	12.42%
Effective Tax rate	36%
Effective Operating Tax rate	46%

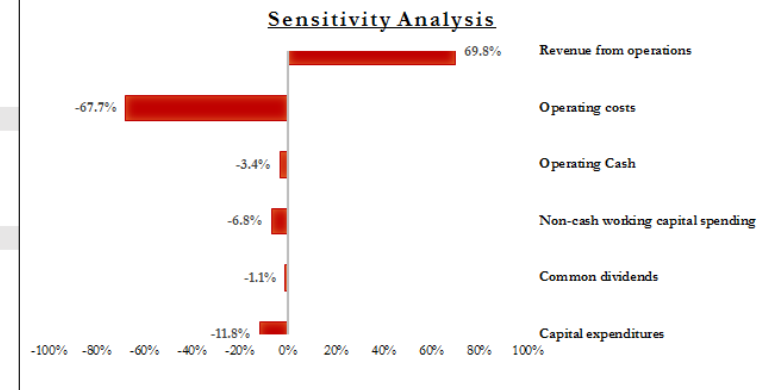
Market Data	
Market Capitalization	\$2,922.57
Daily volume (mil)	14.18
Shares outstanding (mil)	216.01
Diluted shares outstanding (mil)	164.21
% shares held by institutions	97%
% shares held by investments Managers	22%
% shares held by hedge funds	5%
% shares held by insiders	24.52%
Short interest	18.60%
Days to cover short interest	4.81
52 week high	\$51.90
52-week low	\$11.91
Levered Beta	
Volatility	0.00%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
12/31/2014	N/A	N/A
3/31/2015	N/A	N/A
6/30/2015	25.53%	112.31%
9/30/2015	13.73%	65.85%
12/31/2015	9.81%	18.36%
Mean	16.36%	65.50%
Standard error	4.7%	27.1%

Peers	
GoPro, Inc.	
Garmin Ltd.	
Apple Inc.	



Management	Position	Total compensations growth	Total return to shareholders
Park, James	Co-Founder, Chairman, Chief	N/M	0% per annum over 0y
Friedman, Eric	Co-Founder, Chief Technology	N/M	0% per annum over 0y
Zarella, William	Chief Financial Officer	N/M	0% per annum over 0y
Hartmann, Hansgregory	Chief Operations Officer	N/M	N/M
Missan, Andrew	Executive Vice President and	N/M	N/M
Rosa, Tim	Vice President of Global Mar	N/M	N/M
Profitability	FIT (LTM)	FIT (3 years historical average)	Industry (LTM)
ROIC	44.8%	-408.12%	9.24%
NOPAT Margin	9%	#DIV/0!	11.8%
Revenue/Invested Capital	4.98	#DIV/0!	0.78
ROE	#VALUE!	#VALUE!	10.35%
Adjusted net margin	9%	#DIV/0!	10.7%
Revenue/Adjusted Book Value	#VALUE!	#VALUE!	0.97
Invested Funds	FIT (LTM)	FIT (3 years historical average)	Industry (LTM)
Total Cash/Total Capital	61.5%	70.8%	22%
Estimated Operating Cash/Total Capital	43.7%	54.8%	N/A
Non-cash working Capital/Total Capital	16.9%	11.9%	15%
Invested Capital/Total Capital	89.9%	101.9%	75%
Capital Structure	FIT (LTM)	FIT (3 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.02	0.00	0.16
Cost of Existing Debt	0.78%	17.97%	3.52%
Estimated Cost of new Borrowing	1.25%	0.50%	3.52%
CGFS Risk Rating	0.78%	#DIV/0!	CCC
Unlevered Beta (LTM)	0.00%		1.02
WACC	0.78%	23.02%	15.02%



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

Period

Valuation



Period	Revenue growth
Base Year	149.3%
12/31/2016	33.0%
12/31/2017	23.0%

Valuation	ROIC/WACC
NOPAT margin	1.95
	1.37
	1.16

Lancaster Colony Corporation

NASDAQ: LANC

Analyst: Senan Lonergan

Sector: Consumer Staples.

BUY

Price Target: \$118.30

Key Statistics as of 3/13/2016

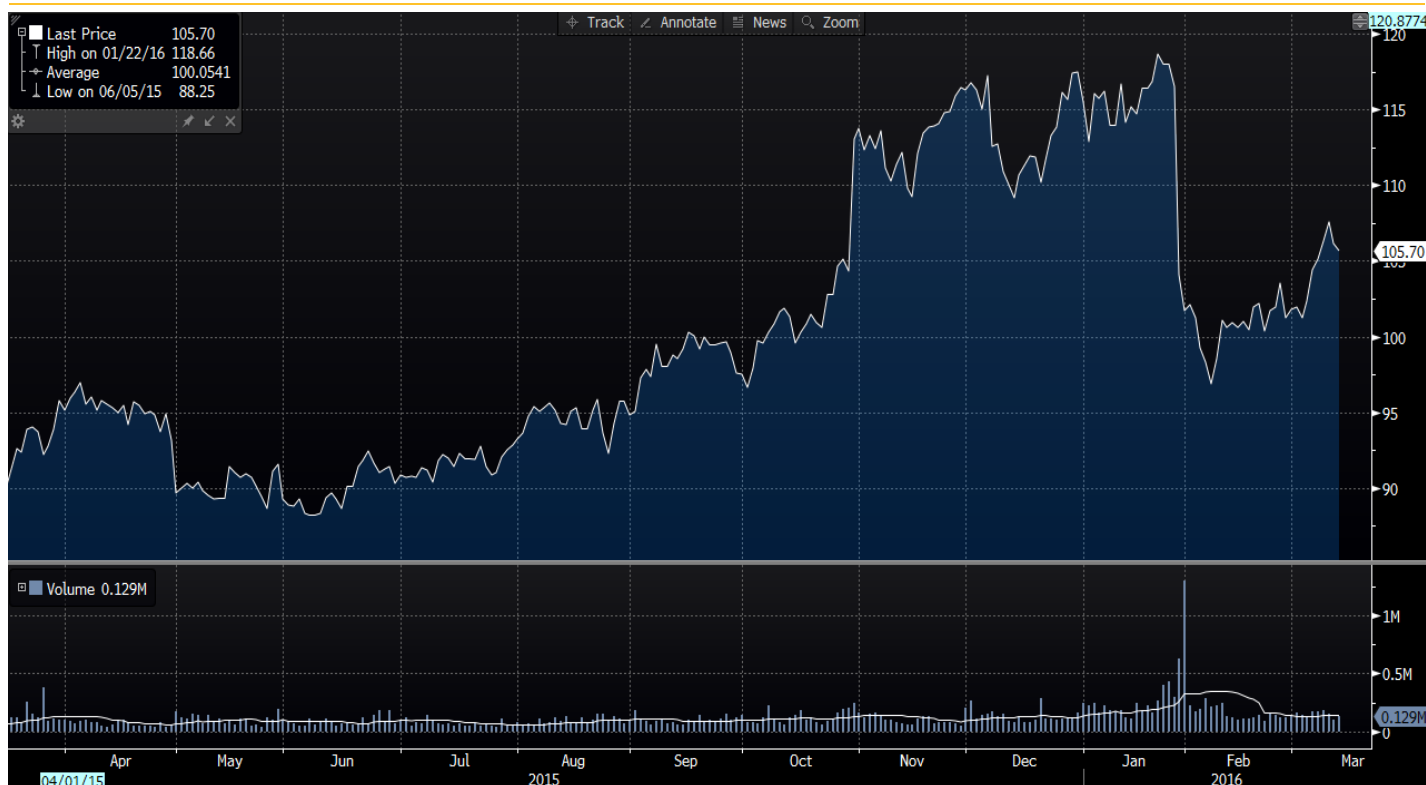
Market Price:	\$105.70
Industry:	Major Foods - Diversified
Market Cap:	\$2.89B
52-Week Range:	\$87.23 - \$119.80
Beta:	0.61

Thesis Points:

- Last quarter's earnings miss has presented a buying opportunity
- Impressive ROIC/WACC and margins
- Debt free balance sheet
- Increasing dividend payout ratio

Company Description:

Lancaster Colony Corporation was founded in 1961, is based in Columbus, Ohio, and is traded on the NASDAQ under the ticker name LANC. Lancaster Colony Corporation manufactures and markets specialty food products for the retail and foodservice markets in the United States. LANC is the parent company of 15 subsidiaries. The corporation offers salad dressings and sauces under the Marzetti, Cardini's, Simply Dressed, Katherine's Kitchen, and Girard's brand names; fruit glazes, vegetable dips, and fruit dips under the Marzetti brand name; Greek yogurt vegetable dips and hummus under the Otria brand name; and frozen garlic breads under the New York BRAND, Mamma Bella, and Mamma Bella's brand names. The company also provides frozen Parkerhouse style yeast dinner rolls and sweet rolls, as well as biscuits under the Sister Schubert's, Marshall's, and Mary B's brand names; premium dry egg noodles under the Inn Maid and Amish Kitchen brand names; frozen specialty noodles under the Reames and Aunt Vi's brand names; croutons and related products under the New York BRAND, Texas Toast, Chatham Village, Cardini's, Simply Dressed, and Marzetti brand names; snack sticks under the New York BRAND name; flatbread wraps and pizza crusts under the Flatout brand name; and caviar under the Romanoff brand name. In addition, it manufactures and sells other products to brand license agreements, including Olive Garden's dressing, Jack Daniel's mustards, Hungry Girl flatbreads, and Ortalli's balsamic vinegar. The company's products are sold through sales personnel, food brokers, distributors, retailers, and restaurants, as well as industrial customers.



Thesis

With \$0 of debt, an ROIC/WACC of 4.39, and impressive dividends and margins, LANC is set to outperform the market, as well as its sector. Lancaster Corporation is the parent company of 15 subsidiaries, and plans to continue acquire businesses that add value. Furthermore, last quarter's earnings miss has left LANC undervalued, and investors with a buying opportunity. The corporation continues to increase their dividend payout ratio, and have also issued multiple special dividends. A buy of LANC will act as a stable investment, while also providing significant returns, through dividends and the stock's return to fair value.

Sector and Industry Outlook

The 2016 macro environment has staged the consumer staples sector to outperform the market. China's instability, volatile oil prices, the threat of Britain leaving the EU, the upcoming presidential election, and other factors, are increasing the possibility of a bear market or recession. Bull markets typically last five times longer than bear markets, and many economists expect 2016 to be a negative year, or at the very best, a flat year. Historically, the consumer staples sector far outperforms the S&P500 when the overall market is down. The sector has had only one year of negative returns since 2003, and that was in 2008. Still, CONS outperformed the market by 21.6% in 2008. Focusing more specifically on the Major Foods Diversified Industry, economists expect it to continue growing at its usual slow pace. While LANC does offer products that have a declining growth rate, such as frozen foods, its diversification shields them from this risk. Historically, consumers have made food purchases based on price, convenience and taste, but research produced by Deloitte shows that consumers largely take into effect health and transparency. Corporations in the food business, such as LANC, will need to adjust to the consumer's preferences by providing products that are healthy and transparent, but also remain convenient and tasteful. Overall, the industry outlook is not spectacular, but it will continue to grow with our population, and the corporations that adjust to consumer demand will lead the pack.

Shareholders of LANC have become accustomed to earnings beats with an average surprise of 14.84% for EPS since 2003. However, in late January of 2016, LANC missed analyst's estimates by 5.3%, with a revenue surprise of -2.35%. Management attribute the miss to uncontrollable factors such as egg prices, seasonal consumer preferences, and clean-floor policies. A large portion of LANC's daughter companies produce goods that require eggs. An unexpected avian influenza drove egg prices higher and diminished margins. Furthermore, management has admittedly misjudged the seasonal consumer preferences that come with their most recent acquisition, Flatout. Flatbreads and pizza crusts have proven to be much more seasonal than management expected. Although management expected this, shareholders and analysts did not fully consider Walmart's clean-floor policy and how it decreases LANC's frozen goods sales. These factors due in fact hurt LANC's sales and margins, but investors overreacted to this quarterly report and the stock is now undervalued. Overall sales for the corporation grew 7% YOY, as well as EPS up 4.2% YOY. Furthermore, for all of the factors that management has deemed responsible for the earnings miss, each are being addressed in an efficient manner. Firstly, egg prices are expected decrease in 2016 and plan to limit their exposure to commodity cost volatility by implementing structure purchasing programs. Second, seasonal segments such as Flatout will report higher sales that come with warm weather. Consumer preferences show that flatbreads and pizza crusts are in much higher demand in the Spring and Summer. Third, LANC has been decreasing its portion of revenue that comes from frozen foods. From 2013 to 2015, frozen foods as a portion of revenue has decreased from 35.9% to 32.8% and frozen foods has increased from 64.1% to 67.2%. Management continues evaluate consumer preferences and adjusts accordingly. As previously mentioned, shareholders have become accustomed to earnings beats, and this past quarter's miss has caused the price of the stock to drop by over 15%.

Earnings Miss

Capital Structure and Liquidity

LANC has proven to have a more stable capital structure than its competitors, and is also significantly more liquid. The company has \$0 of short term and long term debt, compared to the industry average of nearly 43% debt to total capital. Moreover, LANC has a current ratio of 4.6 and a quick ratio of 3.28 while the industry's metrics are 3.32 and 2.31, respectively. Lastly, LANC's cash conversion cycle was over 54 days in 2010, and has since decreased to under 36 days. Management continues to become more efficient every year and stands as a safer investment than other Major Foods Diversified companies.

Acquisitions

LANC has a long history of acquisitions, the most recent being the Flatout segment. Management continues to evaluate businesses that may add value to the corporation. All acquisitions are purchased with cash, which allows the company to remain debt free while avoiding share dilution. Management has estimated that capital expenditures for 2016 could total approximately \$15-\$20M and that any perspective acquisitions will be again be purchased with cash only. Lastly, of Lancaster's long history of purchases, only one acquisition was deemed a failure by not adding value to the company.

Porter's Five Forces

The analysis has given LANC an overall score of 50 industry positioning. The intensity of existing rivalry is fairly high, as many of the products that LANC produces has a lot of competition. Although there is not one corporation that directly competes with Lancaster, several small companies compete with LANC subsidiaries. Furthermore, the bargaining power of customers is fairly high because of large number of substitutes. The bargaining power of suppliers is not too much of a risk for LANC, as there are numerous suppliers. However, the greater risk stems from macro factors that increase prices, such as the egg issue in 2015. Lastly, there is not a considerable threat of new competitors because sales are largely due to brand name. LANC's subsidiaries' products are recognized by consumers and brand loyalty is crucial in this industry.

Dividend Payout and Share Repurchase

This past fiscal year marked the 52nd consecutive year in which the dividend rate has increased. This

indicates continued financial strength and stability. 2016 will yield approximately 2% in dividends for shareholders, with the possibility of another special dividend. Management has issued two special dividends in the past, one in 2012 and one this past December. Fiscal year 2015 yielded nearly 7% in dividends after a \$5 special dividend was paid in December.

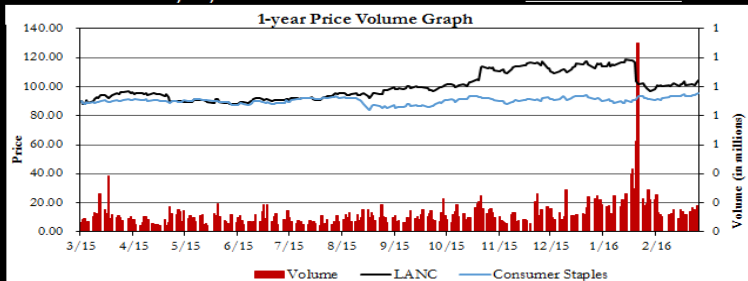
LANC authorized 2,000,000 shares in November, 2010 to be eligible for repurchase. There are currently 1,419,682 shares still available for repurchase with no official timeline for when they will be bought back.

Growth and Profitability

LANC demonstrates considerable growth and profitability. Revenue continues to grow YOY, with the last five quarters demonstrating significant growth. This past quarter revenue grew 7% YOY, and gross profit and EBITDA also increased. EPS has increased the last three quarters, and analysts expect Q3 2016 and Q4 2016 to grow by 19% and 15.7% respectively. COGS has remained relatively constant at about 76%, but analysts expect operating income to improve in the next two years. Lastly, LANC yields an impressive ROIC/WACC of 4.39. Over the last five years, ROIC has improved from 26% to 42.8%, while WACC has only increased from 6.4% to 8.8%. The corporations steady improvement in ROIC/WACC stems from its successful acquisitions and represents management's ability to add value to the company.

Conclusion

Lancaster is positioned to outperform the market in 2016. The stock is currently priced at \$105.70, with an intrinsic value of \$108.79. The combination of a 1.9% dividend, and 1 year target price of \$118.30 will provide shareholders with a significant one year return. The markets over reaction to last quarter's earnings miss has left the stock undervalued. Investors overreacted to macro environment factors that were out of management's control. Lancaster has an ideal capital structure, is more profitable than its industry, and plans to continue acquiring business to further improve its ROIC/WACC.

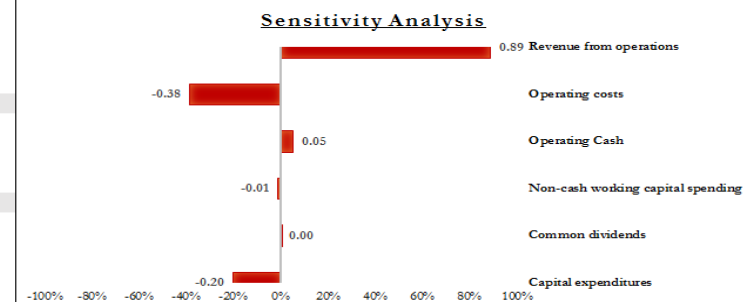
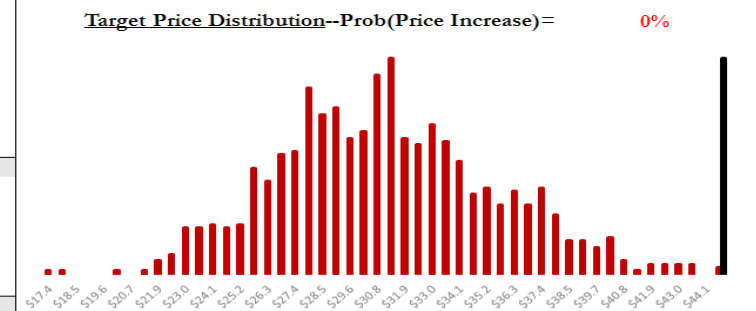
**Lancaster Colony Corporation
(LANC)**
CENTER FOR GLOBAL FINANCIAL STUDIES
BUY
Analysis by Senan Lonergan
Current Price:
\$105.70
Intrinsic Value
\$108.79
Target 1 year Return: 10.65%
Probability of Price Increase: 0%
3/13/2016
Divident Yield:
1.9%
Target Price
\$118.30


Description
Lancaster Colony Corporation manufactures and markets specialty food products for the retail and foodservice markets in the United States.

Market Data	
Market Capitalization	\$2,877.10
Daily volume (mil)	0.01
Shares outstanding (mil)	27.37
Diluted shares outstanding (mil)	27.35
% shares held by institutions	55%
% shares held by investments Managers	44%
% shares held by hedge funds	3%
% shares held by insiders	28.88%
Short interest	3.21%
Days to cover short interest	4.45
52 week high	\$119.80
52-week low	\$86.85
Levered Beta	0.61
Volatility	19.97%

General Information	
Sector	Consumer Staples
Industry	Food Products
Last Guidance	November 3, 2015
Next earnings date	April 28, 2016
Estimated Country	Risk Premium
Effective Tax rate	25%
Effective Operating Tax rate	32%

Past Earning Surprises			
Quarter ending	Revenue	EBITDA	Peers
12/31/2014	1.14%	N/A	J&J Snack Foods Corp.
3/31/2015	3.36%	-0.83%	Snyder's-Lance, Inc.
6/30/2015	0.75%	10.03%	B&G Foods Inc.
9/30/2015	5.52%	11.64%	Flowers Foods, Inc.
12/31/2015	-2.35%	-3.05%	McCormick & Company, Incorporated
Mean	1.68%	4.45%	Farmer Brothers Co.
Standard error	1.3%	3.7%	Pinnacle Foods Inc.
Management		Total compensations growth	Total return to shareholders
Gedach, John	Chairman, Chief Executive Of	3.39% per annum over 6y	3.37% per annum over 6y
Fell, Douglas	Chief Financial Officer, Vic	N/M	29.29% per annum over 1y
Rosa, Bruce	Vice President of Developmen	1.89% per annum over 6y	3.37% per annum over 6y
Ganobisik, Dale	Director of Investor Relatio	N/M	N/M
Shurte, Matthew	General Counsel and Company	N/M	N/M
Segal, David	Senior Corporate Counsel and	N/M	N/M
Profitability		LANC (LTM)	LANC (5 years historical average)
ROIC	27.5%	30.74%	14.67%
NOPAT Margin	9%	12.53%	11.1%
Revenue/Invested Capital	3.00	2.45	1.32
ROE	28.0%	31.47%	17.29%
Adjusted net margin	9%	12.49%	9.4%
Revenue/Adjusted Book Value	3.07	2.52	1.85
Invested Funds		LANC (LTM)	LANC (5 years historical average)
Total Cash/Total Capital	15.6%	26.0%	10%
Estimated Operating Cash/Total Capital	15.6%	13.7%	N/A
Non-cash working Capital/Total Capital	13.1%	16.3%	5%
Invested Capital/Total Capital	66.0%	65.7%	87%
Capital Structure		LANC (LTM)	LANC (5 years historical average)
Total Debt/Common Equity (LTM)	0.01	0.02	0.23
Cost of Existing Debt	1.58%	1.56%	4.31%
Estimated Cost of new Borrowing	1.40%	1.40%	4.30%
CGFS Risk Rating	AAA	AAA	B
Unlevered Beta (LTM)	0.60	0.44	0.50
WACC	8.80%	7.06%	7.68%



Period	Revenue growth	ROIC/WACC	Valuation	Net Claims	Price per share
Base Year			Invested Capital		
12/31/2016	7.0%	4.38	\$440.94	\$58.85	\$106.88
12/31/2017	6.0%	4.36	\$426.09	-\$45.05	\$116.41
12/31/2018	5.0%	4.41	\$452.81	-\$155.15	\$125.88
12/31/2019	4.0%	4.45	\$375.58	-\$277.55	\$135.72
12/31/2020	4.0%	4.56	\$386.45	-\$418.81	\$146.15
12/31/2021	3.8%	4.66	\$368.58	-\$561.23	\$156.60
12/31/2022	3.5%	4.77	\$404.69	-\$713.86	\$167.38
12/31/2023	3.4%	4.90	\$432.56	-\$877.19	\$178.46
12/31/2024	3.3%	5.04	\$457.46	-\$1,051.12	\$189.84
12/31/2025	3.1%	5.20	\$478.46	-\$1,236.01	\$201.49
Continuing Period	3.0%	5.38	\$498.81	-\$1,432.43	\$213.40

Rosetta Stone, Inc.

NYSE: RST

Analyst: Michael Post

Sector: Software

BUY

Price Target: \$11.27

Key Statistics as of 3/11/2016

Market Price: \$7.42
 Industry: Educational Software
 Market Cap: \$163M
 52-Week Range: \$6.17-9.19
 Beta: 1.0

Thesis Points:

- RST is undergoing a major operational shift towards a more efficient and profitable form of business
- RST is capitalizing on the ongoing benefits of reoccurring revenue
- RST has 139.4 Million in deferred revenue and plans to recognize 102.7 million of it over the next 12 months (63% of Current Market Cap)

Company Description:

Rosetta Stone, founded in 1992 and headquartered in Virginia, provides technology-based learning products in the United States and internationally. It operates through three segments: North America Consumer, Rest of World Consumer, and Global Enterprise & Education. The company develops, markets, and supports a suite of language-learning and kids literacy solutions consisting of software products, web-based software subscriptions, online and professional services, audio practice tools, digital downloads, and perpetual CD packages. It also provides brain fitness solutions to enhance memory, concentration, thinking, and problem-solving skills using brain training exercises. Rosetta Stone offers its courses in 30 languages under the following brands: The Blue Stone Logo, Lexia Learning, and Lexia. Rosetta Stone Inc. sells its products and services through call centers, websites, third party e-commerce Websites, home shopping networks, consignment distributors, select retail resellers, daily deal partners, and third-party resellers, as well as directly to individuals, educational institutions, corporations, and government agencies.



Thesis

Rosetta Stone is widely recognized today as the industry leader in providing effective language programs. Rosetta Stone is also a leader in the literacy education space, helping a growing number of millions of students build fundamental reading skills through its Lexia Learning division. Currently, Rosetta Stone is in the process of a major operational shift that will lead to substantially higher margins, reduced operational costs, and will result in a bottom line profitable company. This operational shift began when Rosetta Stone recognized why its consumer segment, the largest component of its business, has created huge losses over the past 4 years. As a result of this discovery, Rosetta Stone developed a new strategy that fosters growth with higher margins in a different business segment for the future of the company. This new strategy takes advantage of a subscription based pricing model that enables reoccurring revenue from repeat customers in the education market. By itself, this new pricing model helps Rosetta Stone establish a more reliable revenue stream and also lightens the need for excessive marketing. At this stage in the business transition, the new strategy is about to take over as the major component of the business and will bring a lot of additional value to Rosetta Stone. Coinciding with this successful business transition, Rosetta Stone has 139.4 million in deferred revenue and 102.7 million of that will be recognized in the next 12 months. This appears to be a major catalyst as 102.7 million dollars represents an additional 63% of the current 163 million market cap. As this revenue is recognized over the next 4 quarters it will boost total revenues and compensate for the declining consumer segment that Rosetta Stone is phasing out of.

Old Business Model

Since inception, Rosetta Stone has strategized ways to grow its business in the consumer segment market. This business entails finding individual consumers that are willing and wanting to purchase Rosetta Stone's expensive learning software products as a one time expense for the educational experience. Once found, Rosetta Stone is then responsible for the production and packaging of its products in the form of CD's. These CD's are then shipped to each customer and that process all together is added up into costs of goods sold. In the earlier years of operations, Rosetta Stone was a new and very popular idea that experienced a rapid organic growth in sales as a result. Over time, these organic sales began diminishing as initial excitement faded and Rosetta stone was forced to rely heavily on its marketing in order to maintain a high level of sales. At a

certain point, in 2011, the associated marketing expenses required to maintain a positive growth in sales along with the high costs of goods sold, forced Rosetta Stone to have negative net income. This negative net income continued for the next 4 years as operational expenses surpassed revenue every year. Rosetta Stone's old business model turned out to be obsolete and only effective during a short period of natural sales growth.

New Business Model

By 2012, Rosetta Stone discovered that its old business model had become obsolete and was no longer profitable. In order to prevent the eventual bankruptcy that would result if no changes were made, Rosetta Stone planned to change its operational strategy entirely. The first major change was shifting its products physical form of a CD to a virtual one that could be downloaded from the internet cloud from anywhere. This would remove the majority of costs of goods sold by eliminating the production, packaging, and shipping costs that all used to be associated with a single sale. Rosetta Stone then planned to change its pricing model from a one time purchase item to a subscription based pricing strategy. This would allow customer to subscribe for limited time use of their products and then re-subscribe if the products were proving affective and they wanted to continue. This pricing strategy was estimated to be much more advantageous for Rosetta Stone because of reoccurring revenue reasons and was also very effective because its products were proven to work. Customers would spend a month learning a language, and then want to re-subscribe for additional time with Rosetta Stone software for additional language learning. With this operational change, Rosetta Stone also determined that a more applicable market for this business strategy was the education system. Schools would subscribe for the school year and re-subscribe every year thereafter for their language education programs. With that in mind, Rosetta Stone began shifting its business focus to the education segment and subscription revenue. 4 year later, in 2015, subscription revenue passed product revenue for the first time in Rosetta Stone's history. This is a major moment for Rosetta Stone because its higher margin business segment is now taking over the majority of the company.

Current Business Model Status

Currently, Rosetta Stone has just reached the half way point of its operational transition process and is about to become a new company driven by new financial success. The consumer segment of Rosetta Stones business, previously the controlling factor that was plagued by high costs of goods sold and the need to sustain continuous excessive marketing, has been phased down since 2009 and as of 2015 represents less than half of the overall business. The outline below shows consumer segment revenue and its overall relation to the revenue of the entire company.

Year	2009	2010	2011	2012	2013	2014
Consumer Rev	218.5	215.6	195.4	180.9	156.8	136.3
% of Total Rev	87%	83%	73%	66%	59%	52%

As of quarter 3, 2015, consumer segment revenue has fallen to less than 48% of the overall business and experienced and accelerated 40% revenue decline. On a positive note, profit margin for the consumer segment has increased by 50% y-o-y in 2015 as a result of a 31% decline in sales and marketing expense. This increased margin and revenue decrease can be attributed to the decreased need for spending on marketing efforts in the consumer segment. Going forward, reduced cost in sales and marketing can be considered normal as the education segment requires a lot less excessive marketing to penetrate. The outline below highlights the growth of subscription revenue and compares it to the overall revenue of the entire company.

Year	2009	2010	2011	2012	2013	2014
Subscription Rev	33.7	43.3	73.1	92.3	107.9	125.6
% of Total Rev	13%	17%	27%	34%	41%	48%

As of quarter 3, 2015, subscription revenue in the education segment has grown to become over 52% of the overall business. This is a major moment for Rosetta Stone because the education segment has higher margins and is now the controlling factor of the company. At this point, continued growth in this market will begin to have a much stronger effect on the bottom line for the overall company. Investors can expect Rosetta Stone to return to a profitably state in the near future.

Subscription Revenue Growth

The main product driving education and subscription growth for Rosetta Stone is Lexia. Lexia is a language learning software primarily for the K5 literacy segment and has been gaining traction in recent months. Lexia has over a 90% retention rate meaning 90% of schools that have tried Lexia remain long term customers in following school

Siena Market Line 3rd week of March 2016

years. Lexia's booking grew by over 70% y-o-y comparing 3rd quarters and totaled roughly 30 million in 2015. Projections are for booking to exceed 100 million in the next 4 years and management believes this is easily achievable. Lexia's revenue increased by 103% q3 compared to a year ago and is estimated to total 21 million in 2015. Though very successful thus far, Lexia still has a very large market to expand in and still a tremendous amount of growth to achieve. Aside from Lexia, Rosetta Stones other products in the educational subscription segment are also experiencing good growth as can be seen by the overall growing subscription revenue. Revenue in this particular segment for these products were up about 12% and are also projected to continue to have high growth success along with Lexia.

Conclusion

Rosetta Stone has just passed the half way point in its operational transition process, and is soon to become a profitable company with growth in sales in higher margin segments. Operational expenses are going to continue to decline as the consumer segment is phased out of the business entirely, and a leaner and financially stronger Rosetta Stone will result. The new controlling business segment, electronic education, will allow Rosetta Stone to achieve all of its plans in changing operations. Products will soon only be downloaded removing a lot of overhead and will only be offered through subscription services allowing for much more dependable revenue streams. At this point going forward, Rosetta Stone is now controlled by this new segment they have chosen to take on as the company's future and will be redefined by the success of this business. With this in mind, I rate Rosetta Stone a strong buy with a 1 year price target of \$11.27, representing over a 50% upside. As Rosetta Stone continues to successfully transition its business as planned, I foresee it becoming a cash cow in a reliable market with higher margins of upwards 30%. Therefore, I give Rosetta Stone this 1 year price target but suggest holding for multiple years thereafter. Rosetta Stone is a buy with a long term investment horizon.

Analysis by Michael Post
3/11/2016

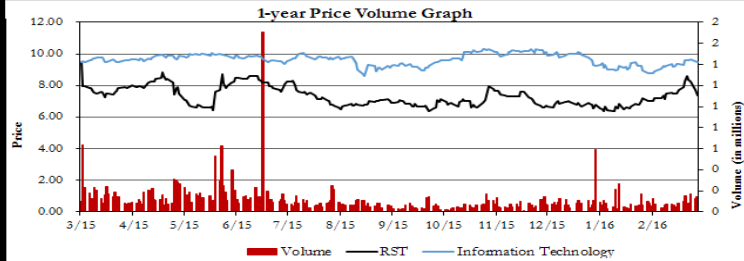
Current Price:
Divident Yield:

\$7.42
0.0%

Intrinsic Value
Target Price

\$7.69
\$11.27

Target 1 year Return: 51.93%
Probability of Price Increase: 98%



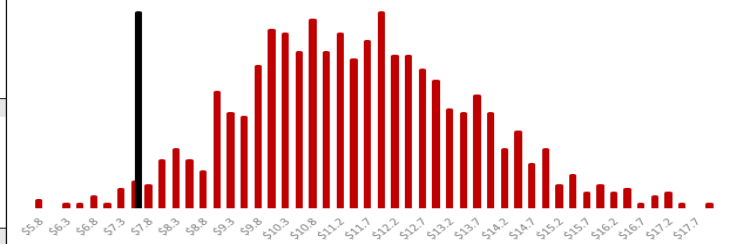
Description
Rosetta Stone Inc., together with its subsidiaries, provides technology-based learning products in the United States and internationally.

General Information
Sector Information Technology
Industry Software
Last Guidance November 3, 2015
Next earnings date March 14, 2016
Estimated Country Risk Premium 7.92%
Effective Tax rate 38%
Effective Operating Tax rate 42%

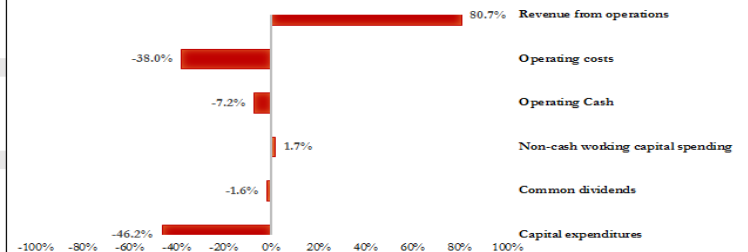
Market Data	
Market Capitalization	\$161.73
Daily volume (mil)	0.04
Shares outstanding (mil)	21.80
Diluted shares outstanding (mil)	21.45
% shares held by institutions	48%
% shares held by investments Managers	36%
% shares held by hedge funds	33%
% shares held by insiders	3.91%
Short interest	2.46%
Days to cover short interest	5.96
52 week high	\$9.19
52-week low	\$6.17
Levered Beta	1.09
Volatility	42.31%

Past Earning Surprises			
Quarter ending	Revenue	EBITDA	
9/30/2014	-6.48%	-316.64%	
12/31/2014	-2.55%	-146.58%	
3/31/2015	32.58%	-181.47%	
6/30/2015	13.91%	-120.30%	
9/30/2015	-3.48%	-179.71%	
Mean	6.80%	-188.94%	
Standard error	7.4%	33.9%	
Peers			
K12, Inc. DeVry Education Group Inc. Apollo Education Group, Inc.			
Total compensations growth			
Hass, Arthur	Interim Chief Executive Offi	N/M	0% per annum over 0y
Pierro, Thomas	Chief Financial Officer	20.81% per annum over 2y	-11.07% per annum over 2y
Verses, Judy	President of Global Enterpri	-3.22% per annum over 3y	12.88% per annum over 3y
Swad, Stephen	Adviser	-12.57% per annum over 4y	-20.18% per annum over 4y
Hartford, M.	Controller, and Principal Ac	N/M	N/M
Cudd, Sonia	General Counsel and Corporat	N/M	N/M
Total return to shareholders			
Profitability			
RST (LTM)	RST (5 years historical average)	Industry (LTM)	
ROIC	5.71%	11.53%	
NOPAT Margin	1.49%	13.4%	
Revenue/Invested Capital	3.84	0.86	
ROE	-2.91%	12.51%	
Adjusted net margin	1.40%	12.0%	
Revenue/Adjusted Book Value	-2.08	1.04	
Invested Funds			
RST (LTM)	RST (5 years historical average)	Industry (LTM)	
Total Cash/Total Capital	45.2%	46%	
Estimated Operating Cash/Total Capital	26.6%	N/A	
Non-cash working Capital/Total Capital	-29.4%	-21%	
Invested Capital/Total Capital	81.6%	63%	
Capital Structure			
RST (LTM)	RST (5 years historical average)	Industry (LTM)	
Total Debt/Common Equity (LTM)	0.15	0.11	
Cost of Existing Debt	1.67%	3.81%	
Estimated Cost of new Borrowing	0.83%	3.81%	
CGFS Risk Rating	#DIV/0!	CC	
Unlevered Beta (LTM)	0.92	1.18	
WACC	8.66%	12.01%	

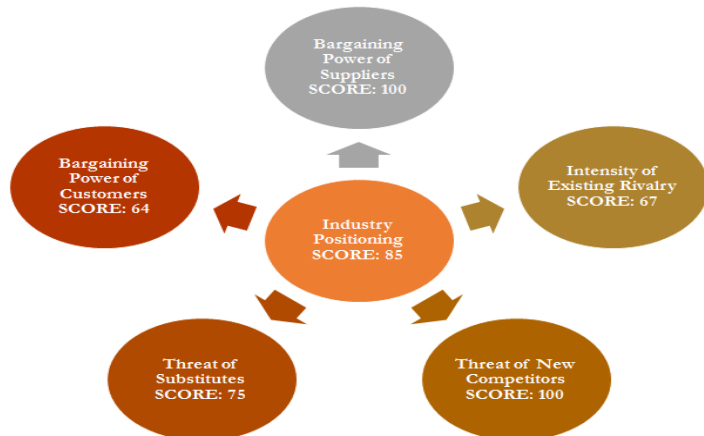
Target Price Distribution--Prob(P Price Increase)= 98%



Sensitivity Analysis



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



Period	Revenue growth	Valuation	ROIC/WACC
Base Year	-8.2%	NOPAT margin	-0.45
9/30/2016	-1.0%	-3.6%	0.40
9/30/2017	2.0%	3.0%	0.42
9/30/2018	2.0%	4.5%	0.59
9/30/2019	4.0%	7.5%	0.71
9/30/2020	4.0%	9.3%	0.77
9/30/2021	5.0%	10.4%	0.88
9/30/2022	4.0%	12.3%	1.03
9/30/2023	3.0%	14.7%	1.09
9/30/2024	3.0%	15.9%	1.12
9/30/2025	3.0%	16.5%	1.11
Continuing Period	3.0%	16.4%	1.11
Period	Invested Capital	Net Claims	Price per share
Base Year	\$163.96	\$34.03	\$6.03
9/30/2016	\$86.78	\$36.98	\$10.06
9/30/2017	\$214.49	\$34.90	\$13.16
9/30/2018	\$167.66	\$2.65	\$16.42
9/30/2019	\$189.85	-\$31.60	\$19.75
9/30/2020	\$175.82	-\$68.79	\$23.13
9/30/2021	\$256.06	-\$110.91	\$26.55
9/30/2022	\$305.86	-\$160.25	\$30.00
9/30/2023	\$329.85	-\$216.39	\$33.43
9/30/2024	\$354.77	-\$274.42	\$36.83
9/30/2025	\$377.81	-\$333.65	\$40.20
Continuing Period			

The Greenbrier Companies, Inc.

GBX

Analyst: Nicolas Morand
Sector: Railroads

BUY on GBX

Price Target: \$35.15

Key Statistics as of 03/12/16

Market Price: \$26.90
 Industry: Railroads Services
 Market Cap: \$769.3 M
 52-Week Range: \$19.89 - \$66.50
 Beta: 2.62

Thesis Points:

- Strong financial results beating analyst's estimates
- Low correlation with the current energy crisis
- New revenue streams and a confident management team

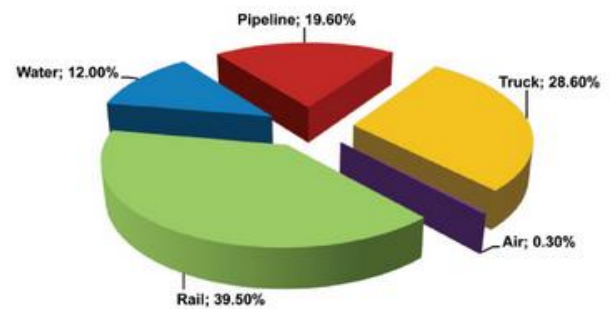
Company Description:

The Greenbrier Companies, Inc is a transportation manufacturing company based in Lake Oswego, Oregon. It is the results of the merger of Commercial Metals Company and M.D. Friedman in the 70's, and went public in 1994. This company is specialized in transportations services, especially railroad cars and marine vessels manufacturing. This company also provide railroad refurbishment services as well as railroad car leasing services.



3rd week of March 2016

Percent ton-miles



Thesis

Greenbrier has lost nearly a quarter of its value this year, despite strong financial results that has beaten analysts' estimates. This largely unjustified stock drop could be explained by a growing sentiment that U.S. railcars manufacturer will be largely affected by the current energy crisis and the strong dollar. Greenbrier managed to build a diversified backlog and is not totally tied to energy markets. Indeed, only 27% of its backlog is being energy related and tank cars used for crude oil transportation accounts for 11% of its backlog. On the sale side, the firm did not receive any order cancelations, it is well positioned in the U.S. market, by gaining 17% more market share since 2006. Long-term average demand in the U.S is expected to be 50,000 railcars every year, guaranteeing orders for the future. In addition, the new regulation proposed by the U.S Transportation Department concerning tanker cars, if applied, could also strengthen the number of orders for the coming years. Finally, the firm is expanding their international activities, creating new revenue stream for the firm. This bring some stability to the firm as it diversifies its revenue stream and open the door for new markets where demand for railcars are expected to be strong. Given its low correlation with the current energy crisis, its strong financial performance and the firm recent orders, I do believe that this stock represents a good investment opportunity in a mid to long-term strategy.

Industry Outlook

Nowadays, the U.S freight rail network is without any question, the most dynamic transportation system. As you can see on the graph below, according to the U.S Federal Railroad Administration, 39.5% of freight moves are operated via rails.

Indeed, almost everything could be ship via rails from manufacturing goods to commodities such as oil. Railroads are mostly useful to transport raw materials and heavy freight over long distance. This \$60 billion industry consists of 140,000 mile of rails, created more than 220,000 jobs through the country, and is highly beneficial in terms of fuel consumptions, highway fatalities, logistics costs and maintenance costs. Railroads are well implemented inside the country and goods can move anywhere easily. In addition, thanks to the NAFTA agreement, rail networks are connected with Canada and Mexico which makes it easier to ship goods abroad as well as importing goods. More and more investments are made in U.S. transportation infrastructure so as to compete with the future population and demographic challenges. Indeed, we are expected to see an urban growth in the near future as the population continue to grow. Automatically, more freight and passenger will move to these places forcing the railroad companies to offer transportation solutions to answer those challenges. The U.S. government believe that one of the solutions is intermodal cars that will greatly improve transportations efficiencies. With recent improvement in facilities and services, intermodal cars will become more competitive in the future. Greenbrier did understand the challenge we are facing and positioned itself to be the market leader in the intermodal railcar production.

Porter's Five Forces

Bargaining power of suppliers: **LOW**

There is a low bargaining power of suppliers. There are many suppliers that can provide raw materials needed to the manufacturing process of railcars. Besides, Greenbrier did acquire one of its

3rd week of March 2016

supplier in 2006, which decreased a step further the bargaining power of its suppliers.

Bargaining power of customers: **HIGH**

There is a high bargaining power of suppliers however. Indeed, there are few buyers of railcars, which is why railcar manufacturer have long-term relationship with their customers so as to assure future orders.

Threat of substitutes: **LOW**

Railcars remain the most efficient way for good transportation. It represents 39.5% of the freight transportation, the biggest share and should not be forsaken in favor of other transportation mode. Besides, its basic use makes it difficult to replace by a substitute product.

Existing rivalry: **High**

There are four main railcar manufacturer in the U.S. market in addition to smaller companies that are entering the market. Those firms are specialized on only one type of railcars while companies such as Greenbrier, American Railcar and Trinity are competing for tank cars, intermodal cars and hoppers. There is very little product differentiation in the industry making existing rivalry a real threat.

Barriers to Entry: **High**

It might not be extremely hard for a new company to enter the market as there is no need for high technological investment. However, as mentioned above, there are very few buyers of railcars which already have long-term relationship with market leaders. Given the very little product differentiation among railcars, it is very unlikely to see a real innovation in railcar that could give a specific advantage to a new company.

Product Portfolio

Greenbrier is operating its business under three main segment. The first one, which represents its main activity as it accounts for 79% of its revenues is the manufacturing activity. The most common

type of cars among the firm's backlog is conventional railcars. These cars are mostly used to carry various type of good from agricultural product to general merchandise. These conventional railcars are used from various industry to carry their resource in the country. Another type of car that the firm has been developing is tank cars. It has been created to allow its customer in the North American market, the transportation of more than 60 different commodities. Greenbrier is considered as one of the three biggest railcar manufacturers in Europe. In Europe, Greenbrier works with its local customers to manufacture appropriate tank car to answer their needs in terms of quality and security, as it mostly contains light oil and chemical products. The last manufacturing segment is the marine vessel fabrication. Greenbrier manufactures heavy industrial product such as conventional deck barges, double-hull tank barges and other type of barges. Overall, these manufacturing activities recorded a gain of \$2.136 billion for the year 2015, an increase of almost 24% compared to the year 2014. The second segment of Greenbrier's operations, which accounts for 15% of the firm's total revenue is the refurbishment and parts segment. Basically, the firm is engage in the repair and refurbishment of both its own and third parties railcars. This include heavy railcar repair as well as simple maintenance process such as the reconditioning of wheels. Greenbrier did invest its resources on the manufacturing part for 2015 as the refurbishment and parts segment recorded a small gain of \$371 million, compared to the \$495 million the previous year. This represents a decrease of 33% year over year. Finally, the firm's last segment, which represents the remaining 6% of its revenues is the leasing and services segment. Greenbrier own a lease fleet of around 8,000 railcars, from its 36,000 unit's backlog. This enables the firm to offer direct finance lease, mile lease and operating lease to its panel of customers. The leasing segment brought revenues of around \$98 million in 2015, an increase of 15% from the year 2014.

Unjustified drop

Surprisingly, Greenbrier has lost around a quarter of its value in a year. Over year, in Q1 2016, Greenbrier managed to increase its revenue by

3rd week of March 2016

62%. The firm's performance represents the fourth straight session of record braking in terms of revenues. During this quarter, earning per shares were announced \$2.15, largely above the \$1.63 of analysts' estimates. Revenues from operations and operating costs are the two main driver of the stock price. The decline of the stock cannot be explained by the revenue from operations. The graph below illustrate the firm's strong financial performance. As you can see, revenues are increasing and outweigh operating costs year over year, leading to a net increase of operating income.



The firm also managed to improve its position toward the industry by gaining some market shares in North America. Indeed, Greenbrier, which represented 13% of the North America market share in 2006 currently own 30% of the market share. It represents the biggest increase of market share in the industry, overweighting its competitors' gain in market share. Greenbrier stock decline can be explain with the fact that investors are mostly concerned about both the number of orders and the firm's exposure to the current energy crisis. Because of the slowdown in energy activities, demand for tank cars carrying crude oil has been automatically slowing. However, over the years, the firm started to diversify its product portfolio and the firm could perfectly manage a slowdown for tank cars orders. Indeed, among its 36,000 units' backlog, around 9,500 are being energy related and among those cars, less than 4,000 are used for crude oil transportation. This proves the low correlation that the firm is having with energy related activities. Other railcars such as boxcars represents a long-term opportunity for Greenbrier. Indeed, boxcars are quickly aging and will need to be replaced soon. The firm is currently focusing on the production of boxcars to fill up the gap that will be created from old boxcars. Regarding the

analysts' concern about orders, Greenbrier did not face any order cancelations for the year 2016 and is expected to deliver around 22,500 units this year. The firm recently conclude a deal with Saudi Railway Company for the delivery of 1,200 railcars for 2016. Therefore, management is expecting to enter the Saudi Arabian market where stellar large-scale infrastructure project are currently being planned. The firm is expanding its revenue stream internationally, which will bring more diversification and consequently stability to the firm. On May 2015, Greenbrier announced that it had acquired 19.5% ownership stake in Amsted-Maxion Hortolandia, which is the main railcar manufacturer in South America. Furthermore, Greenbrier has the option to acquire an additional 40.5% of ownership by September 2017. This is a strategical move as demand for railcar in the Brazilian market is forecasted to exceed 4,000 units annually. This forecast is calculated based on the country's investment in infrastructure, especially its railway network and an aging fleet where 60% of rail freight are 30 years of older, altering their current efficiency. On the U.S. territory, the recent regulation proposed by the U.S Department of Transportation could also strengthen Greenbrier's order for the future. This rule will make substantial changes so as to improve accident prevention. It consists of the replacement or improvement of older cars declared unsafe, over the next five years, which contains flammable liquid. If this rules is apply by the U.S. government, we could expect an increase in demand or refurbishment for this type of tank cars.

On a pure company side, management decreased its long-term debt to \$326, the lowest level since 2005. With their growth in revenues, this will allow the company to have cash on hand. They will probably use this cash to continue their share buyback program. Indeed, over the last two years, the firm repaid its shareholders nearly \$150 million via both share repurchases and dividends. Furthermore, management has the board's approval to buy back \$100 million shares, which clearly demonstrate that the firm strongly believe its current stock is undervalued by the market. As mentioned earlier, revenues and operating costs are the main driver of the stock price. Total revenues for the year 2015 are recorded at \$2.605 billion, a 15.4% increase compared to the \$2.203 billion in revenues for 2014. EBITDA grew at a faster pace of 41.23% from \$220.8 million in 2010

3rd week of March 2016

to \$375.7 in 2015. The firm is clearly decreasing its operating expenses overtime creating value for the firm. Another value creation ratio to look at is the ROIC over WACC ratio. As summarize on my pro forma valuation below, we currently have a ratio of 1.78, meaning that the firm is creating value to its shareholders.

Valuation

The valuation of the Greenbrier Companies is based on a pro forma that values the firm with a discounted cash flow and focuses on the company's return on invested capital. A summary of the outputs used for this valuation can be found at the end of this paper. Revenue growth are computed to follow analysts' estimate and converging to 3% in the long-term, which is the long-term T-note rate. A country weighted average risk premium has been calculated at 6.45%, a 0.45% increase to the U.S. 6% because of the firm international activities. The corporate tax rate has been calculated at 38.99% using the same method. Other variables used for the valuation can be found in the summary output at the end of the paper. After launching a Monte-Carlo simulation, I calculated an intrinsic value for the stock at \$28.21, a one-year target price of \$35.15 (a 32.25% increase compare to its current price) and a 92.7% probability of a stock price increase.

Conclusion

I do believe that Greenbrier stock's decline is largely unjustified and is currently undervalued. This stock represents a good investment for mid to long-term strategy on a portfolio. The firm's financial performance are strong, it has a very low exposure to the energy crisis, it did not receive any order cancelations and expanding its international activities could increase its number of orders. Management, through its current share repurchase program believes its stock price is undervalued as well. I do believe that the upside potential for this stock is greater than the downside, which is why I do recommend a buy at its current level.

**The Greenbrier Companies,
Inc. (GBX)**

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Nicolas Morand
3/13/2016

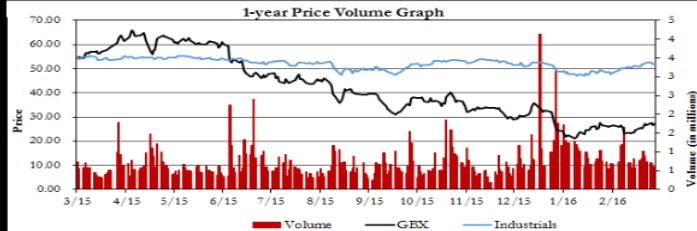
Current Price:
Dividend Yield:

\$26.90
1.6%

Intrinsic Value
Target Price

\$28.21
\$35.15

Target 1 year Return: 32.25%
Probability of Price Increase: 92.7%



Description
The Greenbrier Companies, Inc. designs, manufactures, and markets railroad freight car equipment in North America and Europe.

Sector
Industry
Last Guidance
Next earnings date
Estimated Country Risk Premium
Effective Tax rate
Effective Operating Tax rate

General Information
Industrials
Machinery
November 3, 2015
April 3, 2016
6.45%
39%
38%

Market Data
Market Capitalization
Daily volume (mil)
Shares outstanding (mil)
Diluted shares outstanding (mil)
% shares held by institutions
% shares held by investments Managers
% shares held by hedge funds
% shares held by insiders
Short interest
Days to cover short interest
52 week high
52-week low
Levered Beta
Volatility

\$769.25
0.61
28.60
33.04
96%
74%
11%
4.59%
25.05%
7.34
\$66.50
\$19.89
2.62
54.54%

Past Earning Surprises	
Quarter ending	Revenue
11/30/2014	-8.97%
2/28/2015	2.69%
5/31/2015	-3.77%
8/31/2015	-6.17%
11/30/2015	6.64%
Mean	-1.92%
Standard error	2.9%

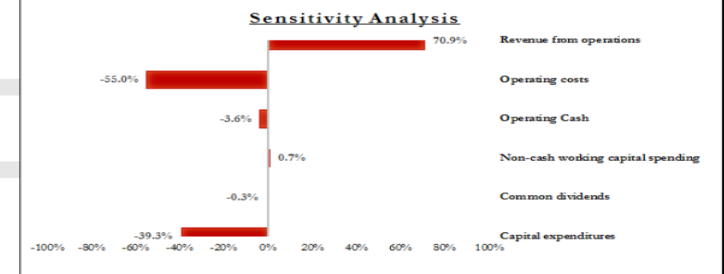
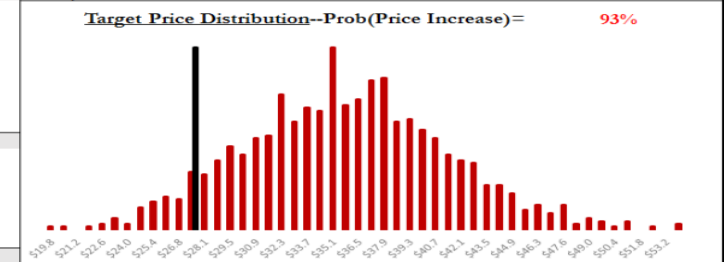
Past Earning Surprises	
Quarter ending	EBITDA
11/30/2014	7.38%
2/28/2015	19.56%
5/31/2015	-0.97%
8/31/2015	8.46%
11/30/2015	26.53%
Mean	12.19%
Standard error	4.8%

Peers
Westinghouse Air Brake Technologies Corporation
Trinity Industries Inc.
American Railcar Industries, Inc.
FreightCar America Inc.
Terex Corporation
Navistar International Corporation

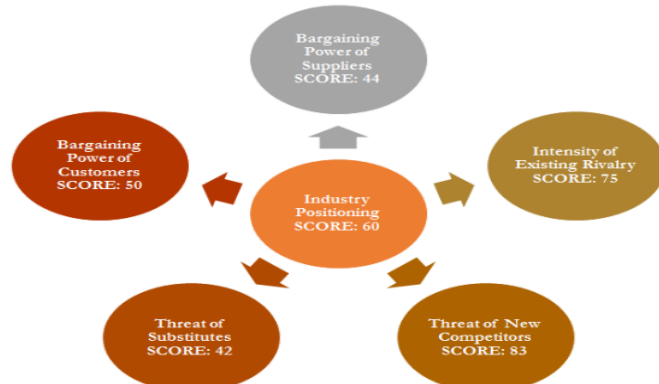
Management	
Furman, William	Chairman, Chief Executive Of
Rittenbaum, Mark	Executive Vice President of
Sharp, James	Executive Vice President and
Centunio, Alejandro	Executive Vice President and
McManus, Victoria	Chief Strategic Officer and
Glenn, William	President of Greenbrier Euro
Profitability	
ROIC	26.5%
NOPAT Margin	10%
Revenue/Invested Capital	2.64
ROE	27.5%
Adjusted net margin	10%
Revenue/Adjusted Book Value	2.87
Invested Funds	
Total Cash/Total Capital	12.0%
Estimated Operating Cash/Total Capital	10.3%
Non-cash working Capital/Total Capital	19.9%
Invested Capital/Total Capital	80.4%
Capital Structure	
Total Debt/Common Equity (LTM)	0.63
Cost of Existing Debt	4.15%
Estimated Cost of new Borrowing	1.38%
CGFS Risk Rating	4.15%
Unlevered Beta (LTM)	2.62
WACC	14.87%

Total compensations growth	
Chairman, Chief Executive Of	42.81% per annum over 6y
Executive Vice President of	33.68% per annum over 6y
Executive Vice President and	23.07% per annum over 3y
Executive Vice President and	35.72% per annum over 6y
Chief Strategic Officer and	14.13% per annum over 6y
President of Greenbrier Euro	-100% per annum over 5y
GBX (5 years historical average)	
ROIC	12.50%
NOPAT Margin	4.38%
Revenue/Invested Capital	2.85
ROE	14.24%
Adjusted net margin	3.46%
Revenue/Adjusted Book Value	4.12
GBX (5 years historical average)	
Total Cash/Total Capital	10.6%
Estimated Operating Cash/Total Capital	9.0%
Non-cash working Capital/Total Capital	15.4%
Invested Capital/Total Capital	73.7%
GBX (5 years historical average)	
Total Debt/Common Equity (LTM)	0.78
Cost of Existing Debt	3.95%
Estimated Cost of new Borrowing	1.79%
CGFS Risk Rating	AAA
Unlevered Beta (LTM)	1.91
WACC	12.52%

Total return to shareholders	
Chairman, Chief Executive Of	6.84% per annum over 6y
Executive Vice President of	6.84% per annum over 6y
Executive Vice President and	30.86% per annum over 3y
Executive Vice President and	6.84% per annum over 6y
Chief Strategic Officer and	6.84% per annum over 6y
President of Greenbrier Euro	-0.12% per annum over 5y
Industry (LTM)	
ROIC	10.07%
NOPAT Margin	8.7%
Revenue/Invested Capital	1.16
ROE	11.13%
Adjusted net margin	7.8%
Revenue/Adjusted Book Value	1.42
Industry (LTM)	
Total Cash/Total Capital	12%
Estimated Operating Cash/Total Capital	N/A
Non-cash working Capital/Total Capital	20%
Invested Capital/Total Capital	87%
Industry (LTM)	
Total Debt/Common Equity (LTM)	0.40
Cost of Existing Debt	13.19%
Estimated Cost of new Borrowing	12.17%
CGFS Risk Rating	BBB
Unlevered Beta (LTM)	1.16
WACC	9.51%



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



Period	Revenue growth
Base Year	31.9%
11/30/2016	-14.7%
11/30/2017	-12.9%
11/30/2018	-11.1%
11/30/2019	-9.4%
11/30/2020	-7.6%
11/30/2021	-5.8%
11/30/2022	-4.1%
11/30/2023	-2.3%
11/30/2024	-0.5%
11/30/2025	1.2%
Continuing Period	3.0%
Period	Invested Capital
Base Year	\$742.68
11/30/2016	\$695.05
11/30/2017	\$857.63
11/30/2018	\$904.24
11/30/2019	\$1,104.29
11/30/2020	\$1,328.11
11/30/2021	\$1,314.97
11/30/2022	\$1,312.24
11/30/2023	\$1,335.59
11/30/2024	\$1,378.84
11/30/2025	\$1,437.71
Continuing Period	

Valuation	
NOPAT margin	ROIC/WACC
10.0%	1.78
7.6%	1.06
7.7%	0.97
7.8%	0.91
8.0%	0.86
8.2%	0.82
8.4%	0.80
8.7%	0.79
9.1%	0.80
9.4%	0.83
9.8%	0.87
10.2%	0.93
Net Claims	
\$287.75	\$26.51
\$3.44	\$33.74
-\$236.24	\$40.29
-\$436.83	\$46.70
-\$609.57	\$53.09
-\$762.81	\$59.56
-\$902.91	\$66.16
-\$1,034.86	\$72.93
-\$1,162.64	\$79.87
-\$1,289.56	\$86.99
-\$1,418.48	\$94.27