Stock	Buy / Short	Thesis	Current Price	Target Price
AFAM	BUY	Almost Family (AFAM) is an efficient company with growth potential in a rapidly growing field. Being a relatively small company with a presence across the Eastern US provides AFAM with a strong base for their business. Through aggressive M&A activity, the firm has been able to establish business in other states and begin the process of geographic expansion, as seen in Ohio or New York, for example. M&A activity has also been responsible for the growth of new product segments, such as the firm's assessment services that have been the subject of three acquisitions. This shows competent leadership and effective M&A activity which will increase AFAM's diversity of products. Geographic expansion, as a result of M&A's or otherwise, will show a similar effect. Increasing their presence across the United States will allow AFAM to improve economies of scale and explode revenue. The improvement of margins, which is strong at 6.82 for 2015, and expansion of customer base will be fueled by the continued expansion of Medicare/Medicaid throughout the United States. As the population ages and more individuals are covered under state-run health care plans, AFAM's customer base will continue to expand. AFAM's intrinsic value is projected at $37.58 showing that it is undervalued. Current market price is $36.73 with a 1-year target price of $44.91; a 22.3% upside.	$ 36.73	$ 44.91

LULU	SELL	Lululemon atletica (LULU) is an up-and-coming competitor in a shark tank of global competitors. Nike (NKE) and Underarmour (UA), namely, are the biggest competitors and threats to LULU. With massive economies of scale, the greatest minds in the business, and unmatched brand loyalty, these companies are poised to overtake LULU in the athleisure sphere. These companies have pronounced products that directly compete with LULU products and with a lack of product differentiation, LULU will be drowned out by these two goliaths and the slew of copycat companies that pop up every year. In an attempt to keep up with these competitors, LULU has expanded in recent years, cutting margins by 27% since 2012. Intimidating competitors aside, LULU has shown to be led by inefficient management, especially when it comes to inventory. In recent years LULU has begun to hold onto inventory longer and longer, greatly reducing inventory and increasing finished goods to total assets. These metrics are beginning to converge on the large competitors of UA and NKE. As inventory on hand and turnover turn sour, LULU will suffer even further with operating costs and holding costs because of a lack of economies of scale compared to the larger competitors. The industry that LULU operates in isn't going to do it any favors, either. Fashion, as with many other consumer discretionary products, come and go with the seasons and can completely change in a month's time. With small brand recognition (goodwill is just 2% of total assets), LULU is more prone to falling to larger competitors when trends shift. This is a risk that is not easily diversified away and is reflected in the recent volatility of LULU stock. A short is recommended on LULU with a target of $52.59. At the current market price of $60.52 this represents a 13.1% downside.	$ 60.52	$ 52.59
LC	BUY	LendingClub Corporation was founded in 2006 and is headquartered in San Francisco, California. The company went public in December of 2014, priced around $15 per share. LendingClub operates as an online marketplace that connects borrowers and investors in the United States. Its marketplace facilitates various types of loan products for consumers and small businesses, including unsecured personal loans, super prime consumer loans, unsecured education loans, and patient finance loans. The company also offers investors an opportunity to invest in a range of loans based on terms and credit characteristics. LendingClub customers include retail investors, high-net-worth individuals and family offices, banks and finance companies, insurance companies, hedge funds, foundations, pension plans, and university endowments. The company's mission is to transform the banking system and make credit more affordable and investing more rewarding.	$ 7.67	$ 11.20

ABBV	BUY	AbbVie is one of the leading biopharmaceutical companies, with over 40 products on the market and an additional 50 drug candidates being developed. The company is at the forefront of innovation, and has entered into collaboration agreements with companies such as Calico, Google's life-sciences branch, and Infinity (INFI). The company's strategy involves taking on lots of debt in order to fund R&D efforts which ultimately lead to the commercialization of a new drug. As a result, the company is more leveraged than its peers, but is also more profitable.	$ 56.12	$ 68.50
CHGG	BUY	Five years ago, Chegg was solely focused on textbooks and had zero digital footprint. Through their partnership with Ingram, Chegg has undergone a shift in long-term direction, working to establish a 100% digital business model with a focus on Chegg services. In five years they have been able to go from generating 0 revenues digitally to anticipated 2016 digital revenues between $137 and $145 million. The transition has been successful so far, with 70% of Chegg users now using Chegg Services, while the other 30% rely on Chegg for textbook rentals. Due to this, Chegg anticipates revenues to grow by 57% in Q2 this year. This growth will help transition Chegg into a high margin business with low capital expenditures. After poor forward guidance, Chegg's stock price dropped by 35%; however, this was unwarranted as it was largely due to a change in revenue recognition timing from their transition. Due to Chegg's recent price drop, its skyrocketing profit margins, and its ability to tap into an $84 billion market, now is the perfect time to enter a long-term position on a very bullish company.	$ 4.45	$ 6.95
NLS	BUY	Nautilus Inc. has been rapidly growing the last few years, and is continuing to improve margins as well. The recent acquisition of Octane has positioned NLS as a major influence in the fitness equipment segment. Typically dominated by companies such as Brunswick Corporation, ICON Health and Fitness Inc., and Amer Sports Corporation, Nautilus is gaining considerable market share. Moreover, NLS is outperforming these competitors in metrics such as EBITA Margin and Cost of Revenue. Although Nautilus's cost of capital is higher than these competitors, its return on invested capital is yielding a significantly higher ROIC/WACC.	$ 18.85	$ 28.00

Macroeconomic Overview

U.S. Markets

Index	Weekly % Change	YTD % Change
S&P 500	+1.81%	+1.41%
Dow Jones Industrial	+1.58%	+2.11%
NASDAQ Composite	+2.95%	-1.85%
Russell 2000	+3.53%	-1.60%
VIX	-11.13%	-28.06%

U.S equities recorded another strong week, as the S&P 500 posted its biggest weekly gain in a month. The index gained only 0.63% through Friday but most of the gains followed the comment of the Federal Reserve Chair on Monday. Janet Yellen dismissed near-term rate hike. The Federal Open market Committee members expressed their concerns about global financial and economic outlooks. Small-cap stocks clearly outperformed their larger counterparts last week, with the Russell 2000 gaining 3.53% to close just shy of the 1,118 mark last crossed on January. The small cap benchmark's year-to-date performance remains negative at -1.60%, whereas the DJIA extended its gains from previous week, climbing from 17,557.34 level on Monday to settle at 17,792.75 on Friday after gaining 1.58%. The tech-heavy NASDAQ Composite also had a strong week, advancing 2.95% to close at 4,914.54. U.S stock market gains were also pushed higher by generally bullish economic data, and the employment situation report on Friday. Indeed, the US labor market kept improving in March. Nonfarm payrolls increased by 215,000, surpassing the 205,000 consensus. The unemployment rate increased by 10 bps from 4.9% in February to 5.0% in March. The markets still perceived these data as a positive signal because of the increase in the participation rate, which rose from 62.9% to 63%. Despite the strength of the labor market, most investors are pricing a single rate hike, in June, until the end of the year. On Monday, the Institute for Supply Management's manufacturing purchasing managers' index (ISM manufacturing Composite Index), which rose from 49.5 in February to 51.8 in March, showed the first expansion of the US manufacturing sector in six months. The new orders index, which rose from 51.5 in February to 58.3 in March, also sent a strong positive signal to investors. In addition, the average hourly earnings reported an expansion in wages with a 0.3% gain against a decrease of -0.1% in February, beating the market consensus by 10 bps. The Consumer Confidence index progressed at a level of 96.2 in March against a 94.0 revised level of February. Following these economic data and last week trend, volatility felt with the VIX index decreasing by 11.13%. Gold remained quiet stable with a loss of 0.85% at $1222.25/ounce, while silver decreased by 2.49%, closing at $15.05/ounce. Crude oil futures for delivery in May decreased sharply, by 7.17% at $36.63 for WTI and by 2.08% at $39.60, after the EIA announced last week that crude oil inventories rose by 2.3 million barrels and an increase in the US dollar. In corporate news, the Taiwan based manufacturer Foxconn concluded a $3.5 billion deal to buy Sharp. In the meantime, Marriott International won the bid to acquire Starwood hotels & Resorts Worldwide Inc for $13.6 billion after Anbang Insurance withdrew its offer of $14 billion. Regarding next week economic news, the ISM Non-manufacturing PMI and the Markit Composite PMI and JOLTs report will be announced on Tuesday. As usual on Thursday, the EIA will report crude oil inventories level, and the market will also look forward to the Fed Chair's speech.

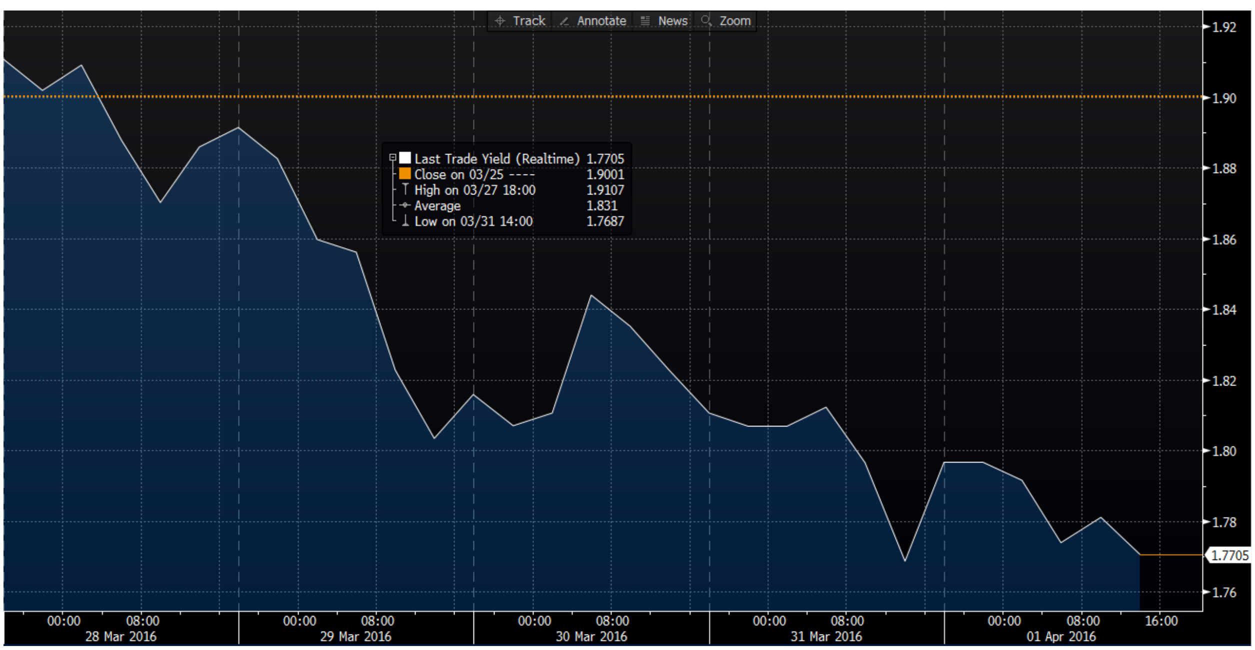
S&P 500, DJIA, NASDAQ Composite, Russell 2000 5-day chart.

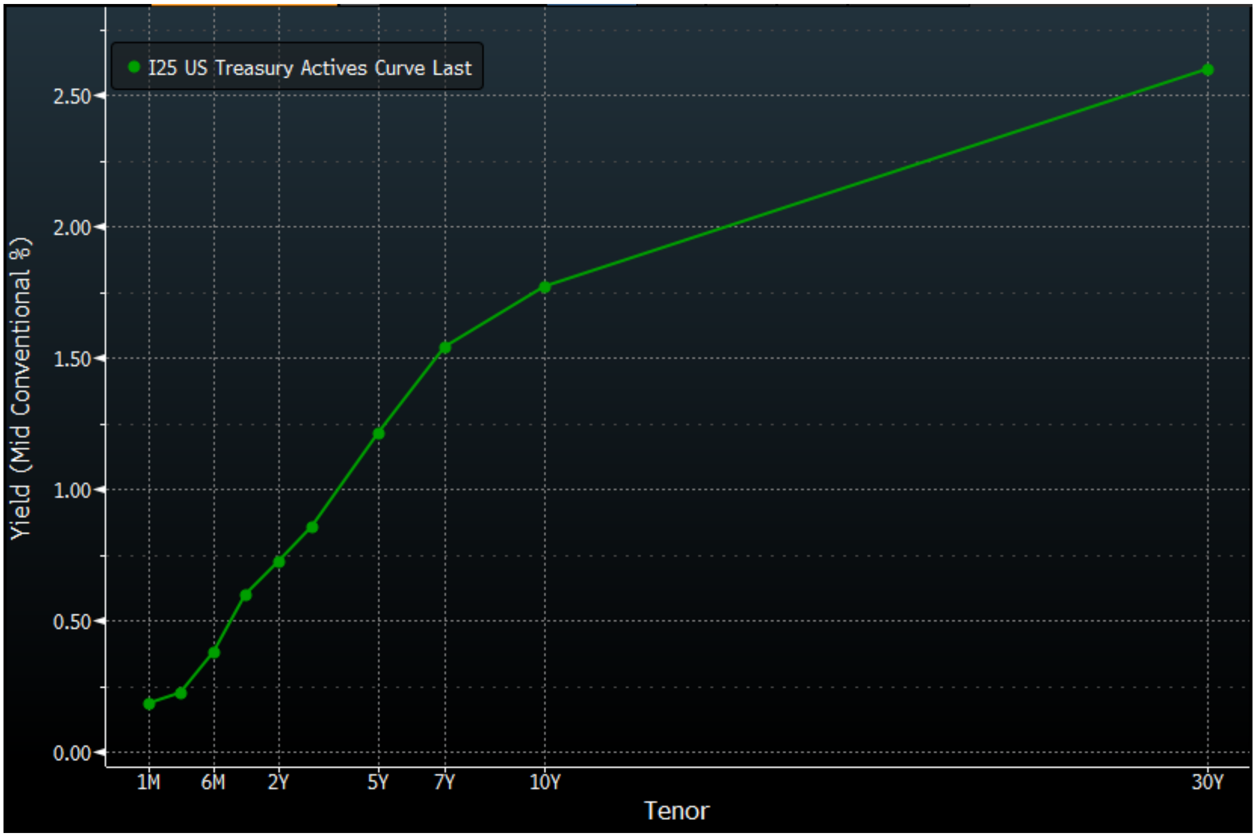
International Markets

International equity markets underperformed their US peers, with most European and Asian benchmarks posting large losses last week. The U.K's FTSE 100 Index finished the week -0.86% lower, as the industrial production growth increased only by 0.2% YOY and the manufacturing PMI reached its lowest level since February, while France's CAC 40 lost -2.30%. The Bloomberg European 500 stayed quiet stable with a -0.68% loss, while the Stoxx Europe 600 lost 2.93%. In Asia, Japan's Nikkei 225 lost 4.93% to reach a level not seen since March 1. Chinese stocks followed last week rally trend, with the Shanghai Composite and Shenzhen Composite gaining 1.01% at 3,009.53 and 0.87% at 1,901.51 respectively. China will release its foreign exchange reserve data on Wednesday, and the accounts of the European Central Bank's March meeting will be released on Thursday. The U.K will also release industrial and manufacturing production figures on Thursday, followed by the region's flash GDP data on Friday. Finally, the Eurozone will release retail sales data on Tuesday.

Bond Report

This week, The US Treasury yields have reported their biggest weekly declines in two months due to cautious approach to rate increases by the Federal Reserve early in the week. As of now there the expectations for an April rate hike are out of the question; however, the market is still expecting a hike by the end of the year. On Monday, treasury yields decreased as the market has struggled to deconstruct the Fed's monetary-policy intentions as dovish or hawkish. While other investors have implied for normalizing policy. Federal Reserve Chairwomen Janet Yellen, on Tuesday, spoke about her opinion for favoring a more dovish, or cautious approach to interest-rate hikes, than expected. As a result two-year Treasury dropped to a one-month low congruent with yields across all maturities, while investors bet on the idea that the Fed will not likely raise rates more than one time this year. Furthermore, as Treasury prices rise the benchmarks for mortgages and other consumer interest rates known as long-term yields fell. Short- term US Treasury yields continue to decline on Wednesday, as bond investors continue to make adjustments of fewer interest hikes to their projections. Chicago Fed President Charles Evans defended Yellen's overly dovish outlook that global risks are too high. On the other hand, long-term Treasury yields rose from Tuesday's one-month low as investors sold safe assets such as government debt due to a rally in risk assets, mostly equities and oil. This spread between long and short- term Treasury, known as steepening yield curve, as a result common with rate-hike expectations fell. Similar to the earlier half of the week, on Thursday, the downward trend in short-term Treasury yields continued due to the dovish comments. In addition, long-term yields took a down turn as prices rose. On Friday, the official jobs report was released which investors have been waiting all week on. The US unemployment rate rose from 5% to 4.9%, the highest level in two years in addition to the US creating 215,000 new jobs this March. In response short-term yields rose due to the positive jobs report and signs for improvement in the manufacturing sector; whereas, Long-term US treasury yields had their largest weekly decline in two months still due to Yellen's dovish comments. Moreover, the upbeat job report will help reassure the FED that the economy is healthy and growing; however, for the two year yield the larger rise indicates the Fed's dovish stance as valid. Overall, the two-year Treasury fell by 7.3bps to 0.796% on Tuesday from 0.869% the previous day ending the week with a 10.8bps drop and finishing at 0.764%. The 10-year treasury yield also declined 10.8bps over the week and finished at 1.793%. Among longer maturities, the 30year treasury yield finished the week at a decline of 7bps and finished at 2.603%. Treasury yields had their largest quarterly drop in nearly four years, as Treasury prices climbed during 2016's first quarter.





What's next and key earnings

On Monday March 28th, February's import and exports analysis was released showing rises in both, with the largest driver being exports of capital goods, while industrial supplies went down with oil based price weakness. Also high jump in consumer goods signals a rising business expectations in the US. Consumer confidence index for March holds strong at 96.2 despite lack of wage gains and the current political conditions. Personal income and outlays have shown conservative spending by consumers with spending on non-durable goods down sharply on lower fuel prices, while durable goods and services did not change. As a result the estimates for GDP will not be rising following the personal spending report for the first quarter. On Wednesday, EIA Petroleum report was released showing a record high of 534.8miliion barrels in the week of March 25th. Meanwhile, product inventories declined while still remaining above average with gasoline and distillates down. The 4-week average of total products supplied continues to rise 2.2% higher than last year, a slower rate than the usual rise of 5% year-on-year, caused by the decrease in distillates supply. As for jobless claims they are at all-time lows; however, some improvements to this trend are being seen with jobless claim rises in the latest weeks. Motor vehicle sales have historically been a very strong uptrend to cushion March's weakness; however, vehicles sales slowed very sharply this March. Although, this decline in vehicle sales cannot be seen as a predicting indicator for the outlook for vehicle sales as they historically been strong and consistent. On Friday, consumer sentiment index for the month of March came to be 91.0 and on the rise; although, a slight drop from the past two months. Lastly, construction spending report for the month of February looks very strong.

Almost Family, Inc.

NASDAQ: AFAM

Analyst: Dylan Cirrilla
Sector: Healthcare

Buy

Price Target: $44.91

Key Statistics as of 3/15/2016

Market Price:	$36.73
Industry:	Healthcare Services
Market Cap:	$387.1m
52-Week Range:	$50.48 - $34.08
Beta:	1.2

Thesis Points:

- Aggressive M&A activity
- Geographic expansion
- Continued expansion of Medicare/Medicaid

Company Description:

Almost Family (AFAM) is a health care services company that provides senior home healthcare services. AFAM offers senior skilled nursing care management, cardiovascular disease treatment, physical rehabilitation, and speech therapy services. AFAM serves patients throughout the United States, specifically in the North and South East United States. The company provides specialty programs that are diversely targeted, such as Cardiocare, Orthopedics, Optimum Balance, B.R.E.A.T.H.E. and Urology, to name a few. The company is currently located in 14 states with 229 branches and has plans to expand operations off of the east coast. AFAM has been very active in acquisitions with their most active year being 2015. The company acquired six companies for over $150 million, and acquiring over $140 million in revenue. Visiting Nurse services, services that involve nurses visiting homes of patients to provide skilled care, accounts for 81.8% of revenue. Personal Care, which involves aides and day-to-day living assistance account for the remainder of the company's revenue. AFAM will be expanding a new "Innovation" segment of their business where they will be seeing growth through aggressive M&A activity, as seen in the purchase of Long Term Solutions and WILLCARE.

Thesis

Almost Family (AFAM) is an efficient company with growth potential in a rapidly growing field. Being a relatively small company with a presence across the Eastern US provides AFAM with a strong base for their business. Through aggressive M&A activity, the firm has been able to establish business in other states and begin the process of geographic expansion, as seen in Ohio or New York, for example. M&A activity has also been responsible for the growth of new product segments, such as the firm's assessment services that have been the subject of three acquisitions. This shows competent leadership and effective M&A activity which will increase AFAM's diversity of products. Geographic expansion, as a result of M&A's or otherwise, will show a similar effect. Increasing their presence across the United States will allow AFAM to improve economies of scale and explode revenue. The improvement of margins, which is strong at 6.82 for 2015, and expansion of customer base will be fueled by the continued expansion of Medicare/Medicaid throughout the United States. As the population ages and more individuals are covered under state-run health care plans, AFAM's customer base will continue to expand. AFAM's intrinsic value is projected at $37.58 showing that it is undervalued. Current market price is $36.73 with a 1-year target price of $44.91; a 22.3% upside.

Industry Outlook

AFAM resides in the healthcare services industry. Healthcare, has seen considerable growth and promises to sustain or better that growth in the coming years. With the passage of the Affordable Care Act and other groundbreaking healthcare legislation, nearly all Americans are covered under some form of insurance. These forms of insurance will continue to increase in their utilization levels as the population ages. The establishment of a public health system will continue to be a staple in American politics for the foreseeable future. The popularity of presidential candidates Bernie Sanders' and Hillary Clinton's healthcare proposals seems to indicate this trend. Healthcare has also been shifting on a more macro level to a focus on the patient as opposed to fees, profits, or other fiscal focuses. This focus on the patient will see a paradigm shift from in-patient facilities such as nursing homes or hospitals, to a home-focused approach; this is AFAM's market of choice. The macro outlook of the healthcare industry shows promising growth for AFAM and will be a stable and organic driver of revenue for years to come.

Business Model

AFAM's business model involves two main segments, with another segment to be expanded in the future. The first segment is AFAM's skilled nursing care segment. This service involves nurses and sometimes physicians traveling from one of AFAM's 229 branches to a patient's house to provide care. This care can be rehabilitative or any other kind of advanced medical care. Teams of physicians and nurses will also travel to patient's homes for specialty programs in which patients can pay for services tailored to their particular ailment, such as urology or geriatric psychology. The second segment of the AFAM business model is the Personal Care division. For services within this division, aides will travel to patients' homes and provide day-to-day services, akin to the services offered in an assisted living home. The last segment of AFAM's business is developmental and considered an Assessment division. Through M&A's, AFAM has established a business in which they analyze risks associated with certain conditions, facilities, populations, etc. and provides this information to legislators, insurance companies, and other healthcare focused stakeholders. This division will see considerable expansion in the near-future as M&A activity continues to increase.

M&A Activity

AFAM has a history of aggressive M&A activity. CEO Steve Guenthner stated that the company is always especially aggressive but slightly less aggressive when macro factors appear to be against this form of expansion. Almost Family consists of a group of ten companies which have been acquired or merged with to expand geographic reach or expand product offerings. AFAM's most acquisitive year was 2015 with six acquisitions totaling over $150 million. The main purpose of these acquisitions were to expand into Ohio and New York and expand the new assessment business segment that AFAM has established. AFAM's CEO, Guenthner, has hinted that M&A activity will continue in the future as the company has seen success in their previous acquisitions.

Product Differentiation

AFAM offers a holistic approach to homecare and to the patients that pay for AFAM's services. For day-to-day or simple rehabilitative needs, AFAM can offer top-notch services. If conditions progress or new ones form, AFAM can provide skilled nursing services with specialized programs. In the background, AFAM conducts lobbying and advocacy efforts. This shows AFAM's knowledge and passion for the industry. These are two intangible factors that ensure longevity of AFAM and ensure the improvement of their products and services. AFAM can offer patients the prospect of additional services for the future, as well. As an aggressive acquirer and proven adaptor to change, AFAM provides patients with an optimistic look towards the future in terms of products. The company has proven itself as an innovator and adaptor and will continue to do so as customer needs change.

Financials

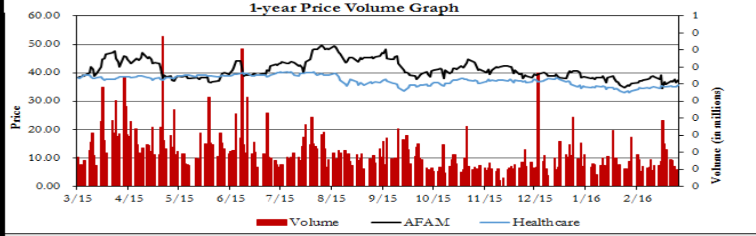
AFAM has performed positively in recent years with attractive trends forecasted for the future. Revenue growth since 2007 has been 303% or 33.67% per annum on average. This revenue growth has outpaced operating cost growth by a percent per year. This high operating expense growth is likely attributable to synergistic adjustments as a result of M&A activity and is not a result of inefficient operations within the company. AFAM is also superior when compared to its competitors. AFAM's ROIC with the exclusion of goodwill is 22.8% compared to 15% of the industry's competitors. AFAM's cost of equity and cost of debt are also lower than competitors' by 2.1% and 5.1% respectively. This indicates lower risk associated with AFAM, resulting in a lower overall WACC. The higher than industry-average WACC can be compared to the higher than industry-average ROIC to show value creation into the future above the industry average. Individual margins of AFAM's product lines are upward trending. AFAM's largest product segment, Visiting Nurses which provides in-home advanced care, has a margin of 12.1%, up 1% from the previous year. AFAM's Personal Care segment operates at about a 4% margin routinely, and is also in development. The "Healthcare Innovations" segment has been operating at 0 or slightly negative operating income since 2013 but will turn a positive income in the coming years as the segment expands. AFAM's Current market price is $36.73 with a 1-year target price of $44.91; a 22.3% upside.

Conclusion

Almost Family (AFAM) is a best-in-class homecare provider with aggressive tendencies in a market that shows great growth potential. The previous M&A success has proven AFAM management can effective merge and acquire firms to expand product segments or expand geographic presence. CEO Steve Guenthner has hinted that M&A activity will be present in the future and will help the company grow from its strong east coast presence. The expansion into other geographic locations will bolster AFAM's customer base and promise revenue growth. This organic growth will be multiplied by the country's continued efforts to expand Medicare and Medicaid. As more Americans age and are covered by a form of insurance, they will require treatment. This coupled with the paradigm shift to a more home-centric treatment option will provide the macro setting for AFAM to create value.

Almost Family Inc. (AFAM) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by Dylan Cirrilla	Current Price:	$36.73	Intrinsic Value	$37.58	Target 1 year Return: 22.36%
3/15/2016	Divident Yield:	0.1%	Target Price	$44.91	Probability of Price Increase: 75.1%



Description

Almost Family, Inc., together with its subsidiaries, provides home health services.

General Information

Sector	Healthcare
Industry	Healthcare Providers and Services
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.00%
Effective Tax rate	40%
Effective Operating Tax rate	37%

Market Data

Market Capitalization	$383.87
Daily volume (mil)	0.01
Shares outstanding (mil)	10.30
Diluted shares outstanding (mil)	9.75
% shares held by institutions	60%
% shares held by investments Managers	54%
% shares held by hedge funds	16%
% shares held by insiders	13.21%
Short interest	3.23%
Days to cover short interest	4.12
52 week high	$50.48
52-week low	$33.69
Levered Beta	1.42
Volatility	40.92%

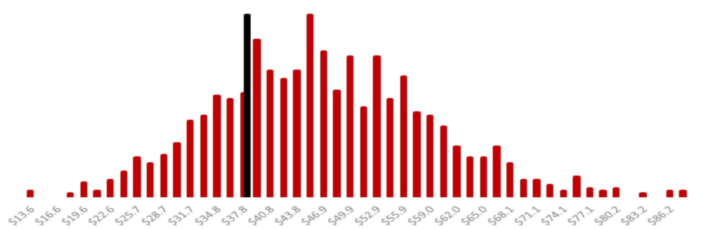
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	0.33%	-80.95%
4/3/2015	2.49%	0.86%
7/3/2015	-0.79%	-0.69%
10/2/2015	-1.36%	-1.94%
1/1/2016	-2.62%	-18.15%
Mean	-0.39%	-20.17%
Standard error	0.9%	15.6%

Peers

LHC Group, Inc.
Amedisys Inc.
BioScrip, Inc.
Addus HomeCare Corporation
Capital Senior Living Corp.
Diversicare Healthcare Services Inc.
Team Health Holdings, Inc.
USMD Holdings, Inc.

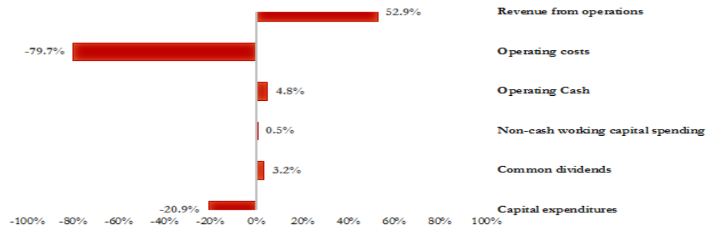
Target Price Distribution--Prob(Price Increase)= 75%



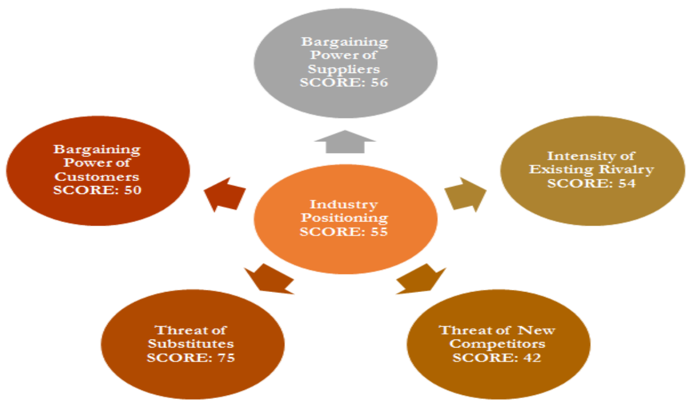
Management	Position	Total compensations growth	Total return to shareholders
Yarmuth, William	Chairman and Chief Executive	2.96% per annum over 5y	-4.06% per annum over 5y
Guenthner, C.	President and Principal Fina	5.38% per annum over 5y	-4.06% per annum over 5y
Schwartz, Daniel	Chief Operating Officer and	19.11% per annum over 1y	-10.45% per annum over 1y
Lyles, Patrick	Senior Vice President of Adm	3.42% per annum over 5y	-4.06% per annum over 5y
Kaushal, Rajneesh	Chief Clinical Officer and S	18.56% per annum over 2y	19.54% per annum over 2y
Reibel, Jeffrey	Chief Accounting Officer and	N/M	N/M

Profitability	AFAM (LTM)	AFAM (5 years historical average)	Industry (LTM)
ROIC	11.3%	14.11%	10.76%
NOPAT Margin	9%	10.81%	5.3%
Revenue/Invested Capital	1.30	1.31	2.02
ROE	14.3%	14.71%	15.97%
Adjusted net margin	8%	10.63%	4.7%
Revenue/Adjusted Book Value	1.71	1.38	3.37
Invested Funds	**AFAM (LTM)**	**AFAM (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	1.3%	4.4%	16%
Estimated Operating Cash/Total Capital	1.3%	3.7%	N/A
Non-cash working Capital/Total Capital	8.4%	9.0%	2%
Invested Capital/Total Capital	100.5%	99.8%	79%
Capital Structure	**AFAM (LTM)**	**AFAM (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.48	0.25	0.64
Cost of Existing Debt	3.27%	3.12%	4.33%
Estimated Cost of new Borrowing	1.38%	1.38%	4.33%
CGFS Risk Rating	3.27%	AAA	BBB
Unlevered Beta (LTM)	2.38%	1.22	0.72
WACC	3.27%	9.50%	6.53%

Sensitivity Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	7.3%	8.7%	1.22
1/1/2017	16.2%	7.8%	1.03
1/1/2018	14.9%	7.7%	1.06
1/1/2019	13.6%	7.6%	1.05
1/1/2020	12.2%	7.7%	1.05
1/1/2021	10.9%	7.6%	1.05
1/1/2022	9.6%	7.6%	1.04
1/1/2023	8.3%	7.6%	1.03
1/1/2024	7.0%	7.5%	1.01
1/1/2025	5.6%	7.5%	0.99
1/1/2026	4.3%	7.5%	0.98
Continuing Period	3.0%	7.5%	0.98

Period	Invested Capital	Net Claims	Price per share
Base Year	$227.10	$189.91	$37.15
1/1/2017	$283.17	$187.36	$44.39
1/1/2018	$303.75	$202.69	$52.28
1/1/2019	$399.29	$215.63	$60.80
1/1/2020	$409.12	$224.62	$70.03
1/1/2021	$560.69	$233.61	$79.86
1/1/2022	$630.74	$239.09	$90.63
1/1/2023	$726.69	$248.93	$101.47
1/1/2024	$826.52	$258.23	$112.84
1/1/2025	$930.37	$224.47	$124.69
1/1/2026	$1,040.61	$174.03	$136.62
Continuing Period			

SIENA college

Siena Market Line
1st week of April 2016

Lululemon Athletica Inc.
NASDAQ: LULU

Analyst: Dylan Cirrilla
Sector: Consumer Discretionary

Sell

Price Target: $52.59

Key Statistics as of 3/28/2016

Market Price:	$60.52
Industry:	Textiles, Apparel and Luxury Goods
Market Cap:	$8.266b
52-Week Range:	$70.00 – 43.14
Levered Beta:	.4

Thesis Points:

- Dominant competitors
- Inefficient management of inventories
- Fickle customer base; trendy product line

Company Description:

Lululemon Athletica Inc. is a designer and retailer of technical athletic apparel. Since their inception, lululemon has developed a distinctive corporate cultures with a mission to produce products which create "transformational experiences for people to live happy, healthy, fun lives." The company has two main brands: lululemon and ivivva athletica. The lululemon brand is targeted to the general public, mostly female market for athleisure products. The ivivva product line is target towards a dancer market. Lululemon sells its products through brick and mortar corporate-owned stores (302 stores in 2015) or through a direct to consumer scheme through their website, lululemon.com.

Thesis

Lululemon atletica (LULU) is an up-and-coming competitor in a shark tank of global competitors. Nike (NKE) and Underarmour (UA), namely, are the biggest competitors and threats to LULU. With massive economies of scale, the greatest minds in the business, and unmatched brand loyalty, these companies are poised to overtake LULU in the athleisure sphere. These companies have pronounced products that directly compete with LULU products and with a lack of product differentiation, LULU will be drowned out by these two goliaths and the slew of copycat companies that pop up every year. In an attempt to keep up with these competitors, LULU has expanded in recent years, cutting margins by 27% since 2012. Intimidating competitors aside, LULU has shown to be led by inefficient management, especially when it comes to inventory. In recent years LULU has begun to hold onto inventory longer and longer, greatly reducing inventory and increasing finished goods to total assets. These metrics are beginning to converge on the large competitors of UA and NKE. As inventory on hand and turnover turn sour, LULU will suffer even further with operating costs and holding costs because of a lack of economies of scale compared to the larger competitors. The industry that LULU operates in isn't going to do it any favors, either. Fashion, as with many other consumer discretionary products, come and go with the seasons and can completely change in a month's time. With small brand recognition (goodwill is just 2% of total assets), LULU is more prone to falling to larger competitors when trends shift. This is a risk that is not easily diversified away and is reflected in the recent volatility of LULU stock. A short is recommended on LULU with a target of $52.59. At the current market price of $60.52 this represents a 13.1% downside.

Industry Outlook

LULU resides in the textiles, apparel and luxury goods industry. As an industry in the consumer discretionary sector, this is a very fickle industry and is quite sensitive to economic downturns. Despite this, the industry has outperformed the S&P 500 by nearly 3x returns since 2006 and has done so with similar volatility. This is due to the dynamic nature of consumer discretionary and is boosted by brand loyalty, present in companies like Apple (AAPL), Nike (NKE) and Coach Leather (COH). The presence of brand loyalty provides some protection against economic downturn as these products are less likely to be dropped from consumer's baskets as a product they are not familiar with or feel no connection with. With the economy seemingly recovered from the recession of the late 2000's, consumer sentiment has improved. The prospect of low rates from the Fed has also fueled this. Continued expectations of a rate hike has fallen short, encouraging spending and fueling consumer spending habits. Textiles, apparel, and luxury goods is likely to have steady growth over the next few years, resulting in growth for those large brand loyalty companies like NKE and Underarmour (UA). Those without brand loyalty or with trendy product lines such as LULU may fall to the wayside as consumers side with more familiar or trendy options.

Philosophy and Business Model

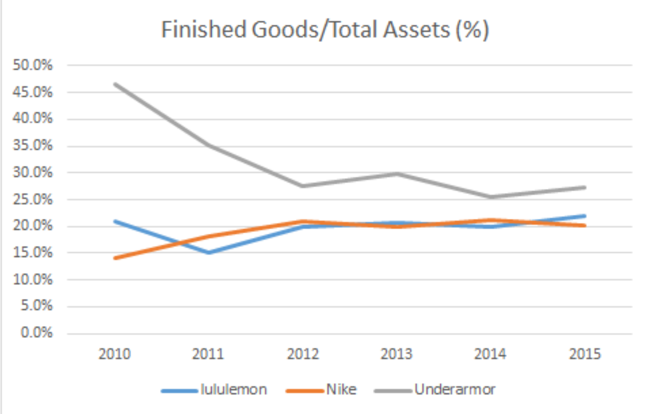
LULU has developed a distinctive corporate culture since its inception to pair with its mission: creating components for people to live longer, healthier, fun lives. This statement is simple and simply aims to create transformational experiences for their customers. The company promotes a set of core values that include high quality products, operational integrity, leading a balanced and fun life, and nurturing an entrepreneurial spirit. The company hopes to accomplish this mission and fulfilling its values by expanding its product lines into other fitness related apparel such as bags, water bottles, and yoga mats. These newly diversified products and current products are primarily targeted towards "sophisticated and educated women" who is health conscious. LULU also aims to create value in their corporate-owned stores by creating an innovative retail experience. Corporate-owned stores have a 2015 margin of 25.8%, down from 36.4% in 2011. Aside from the direct to consumer and corporate-owned stores, LULU continues to grow and develop its less traditional channels of revenue such as wholesale, outlets, showrooms, and temporary locations. These are largely for brand awareness, aside from outlets, and are not expected to be a large contributor to total revenue. To produce their products, LULU works with approximately 57 suppliers and does not own or operate any manufacturing facilities. The majority of this production is done through two main suppliers.

Major Competitors

Lululemon's industry is one dictated by brand awareness, operating costs, cost, and quality. The first, and most threatening of competitors, is Nike (NKE). Nike is undeniably the strongest brand in apparel, arguable the strongest brand across all industries. Such a strong brand is likely to withstand an economic downturn and has the ability to adapt without losing a tremendous amount of market share. Consumers will "buy anything with a swoosh on it", regardless of what the product is. This gives Nike an advantage over other competitors. Nike has also been able to achieve economies of scale through their large-scale, global operations. Economies of scale paired with a long history of operations have smoothed out Nike's operating margin, showing a standard deviation from 2010-2015 of .31%. These economies of scale have also allowed Nike to competitively price their products compared to LULU. When comparing best sellers between the two companies, LULU was outpriced by an average of 37%. With better prices, stronger brand recognition, and equal perceived quality, as well as true quality, Nike beats LULU in every arena. The same can be said of lululemon's second large competitor, Underarmour. With similar brand recognition, especially with a strong presence in hardcore athletic wear, Underarmour competes with Nike for brand loyalty and, just as Nike had, dominates LULU. Just as Nike had, Underarmour has been able to achieve economies of scale and, through their long history and experience, Underarmour has smoothed their operating margins as well. Underarmour's standard deviation of operating margin is .48% compared to 3.71% of lululemon. This shows more reliable operations which can indicate more efficient management, economies of scale, or reliable revenue streams. Again, similar to Nike, Underarmour dominates LULU on best sellers; this time LULU was outpriced by an average of 26%. Lululemon's competitors are larger, more efficient, equal in terms of quality, and have greater brand recognition. In terms of the monster competitors in this industry, LULU is not best in class.

Inventory Issues

In recent years, LULU has struggled to effectively manage its inventory supply. In terms of total finished goods to total assets, LULU has increased from 15.2% to 21.9% of total assets from 2011. When compared to the two major competitors, Nike and Underarmour, lululemon sits between Underarmour's 27.3% and Nike's 20.1%. However, Nike has been able to achieve stability in this ratio and has continued to maintain this level of inventory from 2011. Underarmour, while holding more inventory, has been trending downward, quite aggressively, since 2010. Reducing finished goods to total assets from 46.6% in 2010 to 27.3% in 2015.



A similar story is told through inventory turnover where LULU has plummeted in efficient from 6.24 in 2011 to 4.24 in 2016. This downward trend is consistent with lululemon's inability to sell off inventory and is indicative of a decrease in consumer interest of LULU products and offerings. A decrease in turnover, resulting in an increase of finished goods to total assets, is resulting in items being sold off at discount. While this process has just began, indicated by the "we bought too much" tab on lululemon.com, it will cause the company's attractive margins to fall, positioning the company's goliath competitors even better in the market.

Financials

LULU has been fairly accurate with guidance since Q4 of 2014, resulting in a mean revenue surprise of .29% and EBITDA surprise of 2.99%. However, Q3 of 2015 had a -.53% surprise on revenue and -3.87% on EBITDA. With falling earnings surprises in EBITDA, especially towards the all-important holiday season, LULU may be facing a drop-off in consumer interest and, as a result, a drop-off in revenues. LULU also has a promising ROIC/WACC ratio of 2.16. However, this is because of the company's conservative capital structure. With a total debt/common equity (LTM) ratio of .07, the company is holding nearly half as much debt as the industry average. This capital structure is not feasible for the foreseeable future of LULU. To compete with the large competitors and continue to grow at the pace the company has indicated they hope to, more debt will need to be added. While this will likely still result in an ROIC/WACC ratio greater than 1, cash flows available to shareholders will decrease as interest payments will take over portions of cash. This trend is indicated by lululemon's invested capital/total capital ratio of 86.9%. This is compared to the 77% industry average that shows the company is spending a large amount internally, trying to fund growth and keep up with the larger competitors.

Conclusion

Lululemon Athletica Inc. is an undifferentiated apparel company in an industry dominated by giants. With the scale and brand presence of these giants, LULU will need to fund growth to keep up with competitive prices and consistent quality. With weakness already showing in the company's management through inefficient inventory management, LULU will collapse under the pressure of growing inventories and impending debt payments as the company will require large amounts of capital for their prospective expansion. From a macro view, the industry is not conducive to many competitors. In fashion, especially a subset of fitness and "athleisure", trends come and go at the drop of a hat. One month lululemon can be the next big thing, the next month it could be yesterday's news. Without the scale and strong brand recognition that the competitors have, lululemon's revenues will fall, inventories will pile up, and margins will be pressed. The market has overpriced this stock because of past earnings surprises and prospective growth in the company's industry. Yoga, fitness, and athleisure appear to be the "new thing". However, this trend will give way to another trend and lululemon's presence in the apparel market will shrink and fall to the global giants. A recommendation is made for a short. With the current market price of $60.52 and a target price of $52.59, there is the potential for 13.1% gain.

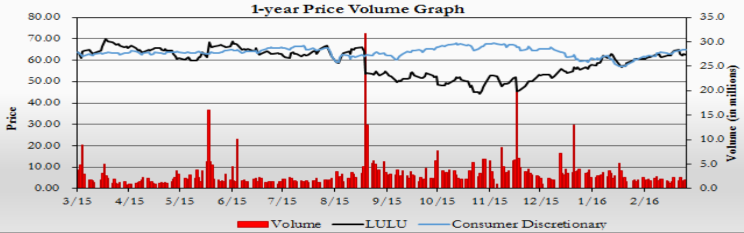
Lululemon Athletica Inc. (LULU)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Dylan Cirilla	Current Price:	$60.21	Intrinsic Value	$49.40	Target 1 year Return: -12.63%
3/28/2016	Divident Yield:	0.0%	Target Price	$52.59	Probability of Price Increase: 9.2%

1-year Price Volume Graph



Description

lululemon athletica inc., together with its subsidiaries, designs, manufactures, and distributes athletic apparel and accessories for women, men, and female youth.

General Information

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	March 30, 2016
Estimated Country Risk Premium	8.87%
Effective Tax rate	34%
Effective Operating Tax rate	33%

Market Data

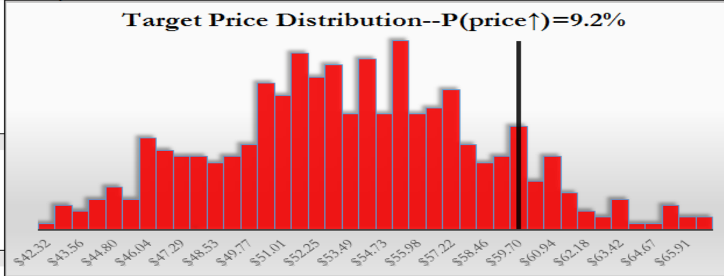
Market Capitalization	$8,266.98
Daily volume (mil)	3.67
Shares outstanding (mil)	137.30
Diluted shares outstanding (mil)	141.69
% shares held by institutions	55%
% shares held by investments Managers	69%
% shares held by hedge funds	11%
% shares held by insiders	7.29%
Short interest	15.38%
Days to cover short interest	8.08
52 week high	$70.00
52-week low	$43.14
Levered Beta	-0.14
Volatility	42.93%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
11/2/2014	-1.23%	6.38%
2/1/2015	0.45%	4.48%
5/3/2015	1.16%	5.56%
8/2/2015	1.61%	2.42%
11/1/2015	-0.53%	-3.87%
Mean	0.29%	2.99%
Standard error	0.5%	1.8%

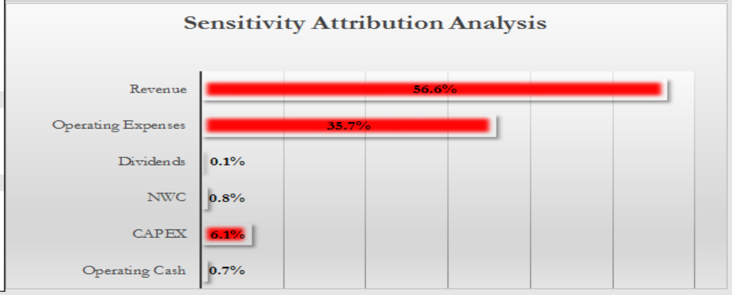
Peers

Under Armour, Inc.
Coach, Inc.
G-III Apparel Group, Ltd.
Urban Outfitters Inc.
Columbia Sportswear Company
Express Inc.
Chico's FAS Inc.
Kate Spade & Company

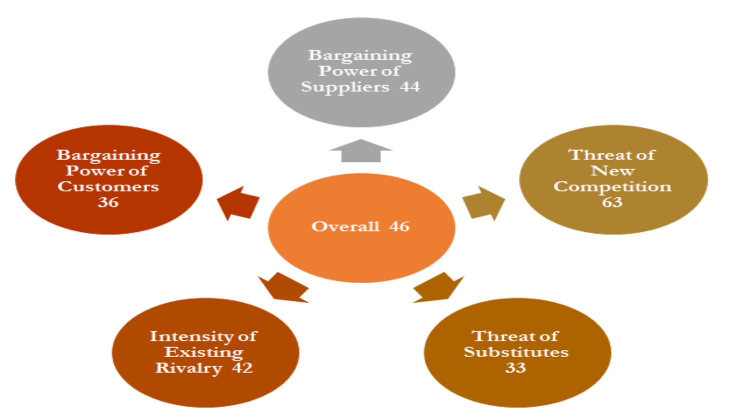


Management	Position	Total compensations growth	Total return to shareholders
Potdevin, Laurent	Chief Executive Officer and	-100% per annum over 1y	44.98% per annum over 1y
Poseley, Tara	Executive	-100% per annum over 1y	44.98% per annum over 1y
Haselden, Stuart	Chief Financial Officer	N/M	N/M
Gore, Larry	Senior Vice President of Mer	N/M	N/M
Battersby, Jennifer	Senior Vice President of Sou	N/M	N/M
Toro, Felix	Senior Vice President and He	N/M	N/M

Profitability	LULU (LTM)	LULU (5 years historical average)	Industry (LTM)
ROIC	28.5%	50.29%	16.87%
NOPAT Margin	17%	23.14%	10.0%
Revenue/Invested Capital	1.71	2.17	1.69
ROE	20.7%	33.49%	18.67%
Adjusted net margin	16%	22.89%	9.5%
Revenue/Adjusted Book Value	1.27	1.46	1.97
Invested Funds	**LULU (LTM)**	**LULU (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	24.0%	39.1%	21%
Estimated Operating Cash/Total Capital	11.0%	10.2%	N/A
Non-cash working Capital/Total Capital	18.9%	9.2%	26%
Invested Capital/Total Capital	86.9%	71.2%	77%
Capital Structure	**LULU (LTM)**	**LULU (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.07	0.04	0.12
Cost of Existing Debt	2.41%	2.41%	3.66%
Estimated Cost of new Borrowing	2.41%	2.41%	3.20%
CGFS Risk Rating	2.41%	AA	BBB
Unlevered Beta (LTM)	0.00%	1.07	0.81
WACC	2.41%	13.17%	9.85%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	14.2%	16.7%	16.29
11/1/2016	13.7%	15.5%	9.20
11/1/2017	14.5%	16.2%	7.67
11/1/2018	18.4%	17.5%	6.87
11/1/2019	15.4%	17.9%	5.82
11/1/2020	13.5%	17.3%	4.72
11/1/2021	11.7%	16.7%	3.91
11/1/2022	9.9%	16.2%	3.28
11/1/2023	8.0%	15.6%	2.78
11/1/2024	6.2%	15.0%	2.38
11/1/2025	4.3%	14.4%	2.04
Continuing Period	2.5%	13.7%	1.76

Period	Invested Capital	Net Claims	Price per share
Base Year	$420.61	$278.79	$50.11
11/1/2016	$595.93	-$25.86	$52.06
11/1/2017	$814.63	-$307.19	$54.48
11/1/2018	$1,026.33	-$618.21	$57.36
11/1/2019	$1,146.18	-$982.98	$60.66
11/1/2020	$1,459.35	-$1,410.46	$64.49
11/1/2021	$1,586.66	-$1,859.03	$68.59
11/1/2022	$1,812.15	-$2,347.61	$73.08
11/1/2023	$2,121.62	-$2,874.33	$77.97
11/1/2024	$2,470.27	-$3,435.74	$83.27
11/1/2025	$2,823.67	-$4,026.70	$89.00
Continuing Period			

LendingClub Corporation

NYSE: LC

Analyst: Michael Post
Sector: Financials

BUY

Price Target: $11.20

Key Statistics as of 3/29/2016

Market Price:	$7.67
Industry:	Consumer Finance
Market Cap:	$3.17B
52-Week Range:	$6.34 - 21.15
Beta:	.5

Thesis Points:

1. LC is undervalued because of macroeconomic, legislative, and competitive concerns that are causing over conservative analyst expectations.
2. LC is projected to continue to post higher revenue growth and higher earnings per share over all competitors.
3. LC has a superior management team that will continue to make value creating decisions for the company and its shareholders.

Company Description:

LendingClub Corporation was founded in 2006 and is headquartered in San Francisco, California. The company went public in December of 2014, priced around $15 per share. LendingClub operates as an online marketplace that connects borrowers and investors in the United States. Its marketplace facilitates various types of loan products for consumers and small businesses, including unsecured personal loans, super prime consumer loans, unsecured education loans, and patient finance loans. The company also offers investors an opportunity to invest in a range of loans based on terms and credit characteristics. LendingClub customers include retail investors, high-net-worth individuals and family offices, banks and finance companies, insurance companies, hedge funds, foundations, pension plans, and university endowments. The company's mission is to transform the banking system and make credit more affordable and investing more rewarding.

Peer-To-Peer Consumer Finance Industry

The Peer-to-Peer lending industry is a newly created market that gives borrowers and lendors another ability to satify each others needs without the use of banks. Banks have previously controlled this market as one of the only providers of such lending and borrowing services. However, banks are now faced with growing competition and a shift in consumer behavior from personal banking to virtual peer-to-peer buisness. This form of buisness was made readily available for consumers at the end of 2014 when LendingClub, the first of its kind, was able to perfect an algorithm that managed risk and regulated transactions between parties. Favorably, the peer-to-peer industry is under a lot less government regulation than the banking industry because of the excessive federal policies that were put in place over banks after the 2008-2009 financial crisis. These policies regulate the banking loan system, and make it much harder for banks to give consumers their desired loans. These same regulations however do not apply for peer-to-peer lending, and therefore many individuals that were turned down because of increased regulation now have an alternative market place to receive their needed funds. As LendingClub was able to prove their capability, banks realized the potential of LendingClub taking over their market share, and invested in competitng against LC by partnering with companies that researched and developed their own peer-to-peer lending place. To be clear, the peer-to-peer lending process consists of matching borrowers of certain risk levels with lendors of certain risk tolerences. LendingClub, or any of its peers, do not actually issue any loans themselves and therefore bear very little responsibility. The key component for this industry is managing default risk by properly evaluating borrowers capability of taking on debt.

Thesis Point 1 – Currently Undervalued

As explained above, the peer-to-peer lending industry is a new form of business that is not heavily regulated by government policies. For this reason, many analysts are skeptical that government intervention will take place and begin regulating the peer-to-peer industry which would dramatically slow growth potential and reduce revenue estimates for companies such as LendingClub. This assumption is currently priced into the market and is partially responsible for the LC's currently discounted stock price. Interestingly, this assumption is based only on speculation and as a result is currently undervaluing LendingClub's potential. LendingClub's management team has done an excellent job working with government officials, through multiple Q&A meetings and ongoing progress updates, to build a completely transparent business model that the government can easily understand and therefore trust without intervening. As of 2016, the government has taken no initiatives to interfere with LC's operations, and management has openly expressed their lack of concern for the possibility of government regulation. Despite this, as seen in the chart below, LC managed to beat revenue estimates every single quarter and will continue to outperform analysts' conservative revenue estimates in 2016 as well.

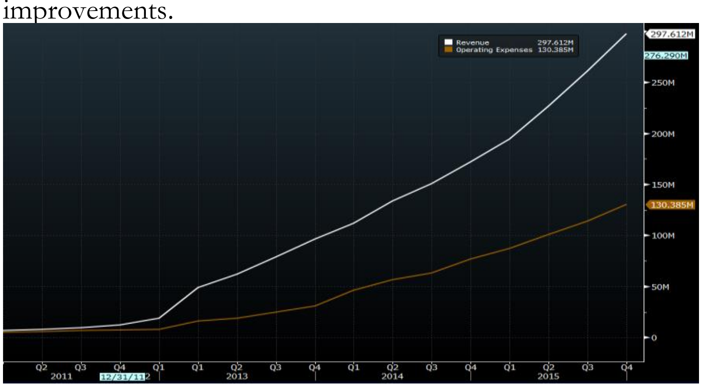
3 Months Ending	03/31/2015	06/30/2015	09/30/2015	12/31/2015
Revenue				
Consensus Estimate	75.6	91.8	108.0	130.6
Comparable Actual	81.2	96.9	116.3	135.5
Revenue Surprise %	7.4	5.6	7.7	3.7

The key driving factor for LC's success and government cooperation is and will continue to be the accuracy of the underlying algorithm controlling all transactions. This algorithm is responsible for controlling the default rate, which is the most important measure for a lending service marketplace. As a result of growing macroeconomic concerns, analysts question whether the algorithm will be able to manage worse economic conditions or will the default rate grow out of control. LendingClub has addressed this concern and publically stated that they have run thousands of scenario tests and simulations changing various factors and guarantee that its algorithm can sustain an economic downturn without default rates growing out of control, as a result of their qualification screening process for borrowing candidates. Currently, LC's default rate floats around 5%, which is in line with management estimates and below analyst expectations because of their speculative concerns. Coinciding the pessimistic ideas on the industry, analysts also over accounted for the growing competition that LendingClub is facing. They projected that LC was going to have to reduce its profit margins in order to better compete with growing competition. LC, however, actually increased their fee structure and overall margins while maintaining over 70% revenue growth year-over-year. LC was able to do this by building a trustworthy name that lenders feel more comfortable giving loans through than other competitors. The chart below shows LC's earnings estimates compared to those that analysts predicted. The outperforming trend is going to continue until analysts better understand this industry and more importantly LendingClub itself. The misconception that currently exists is resulting in conservative growth estimates that are forcing artificial concern and causing LendingClub's stock price to currently be undervalued.

Earnings Per Share	03/31/2015	06/30/2015	09/30/2015	12/31/2015
Consensus Estimate	0.01	0.02	0.02	0.04
Comparable Actual	0.02	0.03	0.04	0.05
EPS Surprise %	150.0	100.0	73.9	31.6
Pretax Income (Loss)				
Consensus Estimate	-7.1	-5.6	-5.3	0.8
Comparable Actual	-5.7	10.8	2.2	5.2
Pretax Income (Loss) Surprise %	18.9	-	-	556.4

Thesis Point 2 – Continuing Growth

LendingClub has outperformed analyst expectations for the past year and will continue to post high revenue growth and higher profit margins in 2016 as well. In 2015, LC accomplished a loan origination increase of 82%, signifying the increasingly growing consumer demand and supply for peer-to-peer borrowing and lending. Operating revenue increased 93% year-over-year, and this was a direct result of a slightly increased fee structure that LC deemed appropriate. LendingClub evaluated the average return of their platform to be 7.8% for the average consumer, and therefore felt increasing its fee structure was suitable given the high average returns. The high growth in loan originations, despite the increased fees, is a good sign that consumers had small sensitivity to changes in the fee structure because of the high average returns. By increasing fees, LC was able to improve its revenue yields by over 5% and improve contribution margins to 49% for the year. The chart bellows portrays the increasing contribution margin that LC has been able to accomplish through its operational improvements.



When accounting for sales, marketing, origination, and service expenses, LC accomplished an annual EBITDA margin of 16.3% for the 2015 year. Looking forward to 2016, LendingClub predicts continued success with a 72% revenue growth and an improved EBITDA margin to 19%. Management's plan is to continue to run the company as they have and capitalize on the natural growth of this new market. The next product that is currently being perfected and soon to be released on LC's platform is mortgages.

What is just as impressive as LendingClub's individual growth as a company is its comparison to competitors within the same industry. The exhibit below compares LendingClub's revenue and earnings per share growth to 10 of its closest competitors.

Name (BICS Best Fit)	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y
Average	16.31%	10.43%
100) LENDINGCLUB CORP	72.52%	97.77%
101) SLM CORP	21.90%	23.40%
102) CREDIT ACCEPTANCE CORP	14.07%	13.74%
103) BLACKHAWK NETWORK HO...	24.65%	12.45%
104) SANTANDER CONSUMER U...	16.31%	12.09%
105) EURONET WORLDWIDE INC	6.50%	-3.17%
106) NELNET INC-CL A	-0.21%	-10.73%
107) NAVIENT CORP	-7.81%	-12.96%
108) WEX INC	4.52%	-13.43%
109) SQUARE INC - A	49.04%	-14.81%
110) ONEMAIN HOLDINGS INC	-22.11%	--

As seen above, LC had revenue growth of 72.52% and eps growth of 97.77% compared to the industry average of 16.31% and 10.43%. While competitors are enjoying the natural growth of the industry, it is clear that LendingClub has superior management and is operating more efficiently and effectively than any of its competitors.

Management

LendingClub's Founder and CEO is Renaud Laplanche. Renaud was recognized on Bloomberg Markets' 2015 Most Influential List, an annual list that acknowledges 50 of the top leaders across technology, finance and politics around the globe. In 2014 he won the Economist Innovation Award in the consumer products category. He was ranked one of the top SMB CEOs by the Glassdoor Employees' Choice Awards in 2015 and was named the "best start-up CEO to work for" by Business Insider in 2014. Renaud has an MBA from London Business School and a JD from Montpellier University.

LendingClub's Chief Financial Officer is Carrie Dolan. Prior to Lending Club, Carrie was the Treasurer for Charles Schwab Corporation, a leading provider of securities, brokerage, banking, and financial advisory services to individual investors and independent investment advisors. Carrie also served as the Chief Financial Officer for Schwab Bank, a bank she helped launch in 2003. Carrie was named one of the Most Powerful Women in Finance by American Banker in 2015 and named the 2015 Financial Woman of the Year by the Financial Women of San Francisco (FWSF).

Thesis Point 3

LendingClub is managed by highly qualified individuals that possess both a high level of technological expertise and financial experience. Thus far, this knowledge has enabled them to stay ahead of their peers by consistently achieving higher growth and higher profitability than their closest 10 competitors. In addition to building a highly efficient and successful company, LC's management has proved that their decisions include the best interest of all shareholders as well as the company. As of quarter 4 of 2015, LendingClub announced that they plan on initiating a 150 million dollar stock buyback program that will take place over the next 12 months. Currently, LendingClub has almost no debt, approximately 550 million dollars in cash, and is looking for value creating decisions such as this program. In addition to the share repurchase, LC's management has also expressed an ongoing interest in possible acquisitions. Though there are no known acquisition targets as of now, LC is financially strong and their management will not underutilize its strong balance sheet. As the company continues to grow an increasingly larger cash position, investors can inspect either acquisitions or a dividend program to be initiated in the near future. Either way, LC's management has proved and will continue to prove that their knowledge and experience will lead to value creating decisions.

Conclusion

LendingClub is an industry leader within a newly created peer-to-peer industry that may change the future of lending forever. The idea of this movement is hard to accept for most analysts, and this fact is causing LC to be wrongfully undervalued at its current stock price of $7.67. Management's decision to initiate the 150 million dollar share buyback program also proves they believe LC's share price is currently undervalued. Accounting for the expected growth and improving profitability, LendingClub is proving that it will remain the powerhouse of its peers and continue to grow as a highly successful company. This being said, I expect LC will return to its original IPO price of $15 per share, and then continue to grow, as analysts better understand the potential and value of the company. More conservatively, I place a one-year $11.20 price target on the company, which represents a greater then a 46% return based on its current price of $7.67.

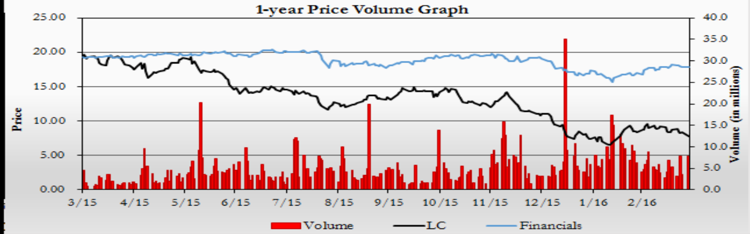
Siena Market Line
1st week of April 2016

CENTER FOR GLOBAL FINANCIAL STUDIES

LendingClub Corporation (LC)

BULLISH

Analysis by Michael Post	Current Price: $7.81	Intrinsic Value $11.20	Target 1 year Return: 161.48%
4/2/2016	Divident Yield: 0.0%	Target Price $20.41	Probability of Price Increase: 100%



Description

LendingClub Corporation, together with its subsidiaries, operates as an online marketplace that connects borrowers and investors in the United States.

General Information

Sector	Financials
Industry	Consumer Finance
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	5.56%
Effective Tax rate	40%
Effective Operating Tax rate	36%

Market Data

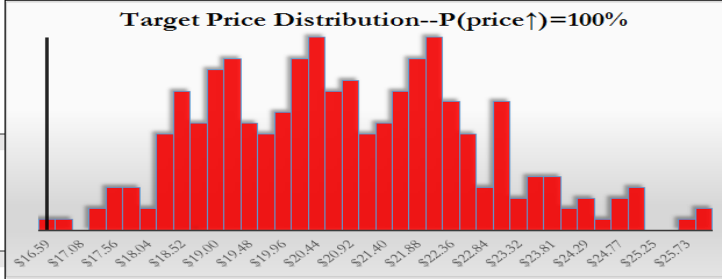
Market Capitalization	$2,948.45
Daily volume (mil)	1.33
Shares outstanding (mil)	381.43
Diluted shares outstanding (mil)	374.87
% shares held by institutions	76%
% shares held by investments Managers	60%
% shares held by hedge funds	6%
% shares held by insiders	5.12%
Short interest	14.61%
Days to cover short interest	8.31
52 week high	$19.98
52-week low	$6.34
Levered Beta	
Volatility	0.00%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	1.27%	-13.79%
3/31/2015	7.31%	153.16%
6/30/2015	5.81%	105.48%
9/30/2015	8.09%	72.41%
12/31/2015	4.13%	29.87%
Mean	5.32%	69.43%
Standard error	1.2%	29.0%

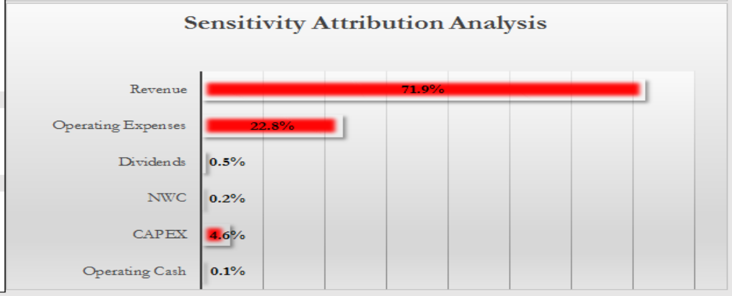
Peers

- OneMain Holdings, Inc.
- On Deck Capital, Inc.
- Green Dot Corporation
- Enova International, Inc.
- World Acceptance Corp.
- Credit Acceptance Corp.
- SLM Corporation
- Synchrony Financial

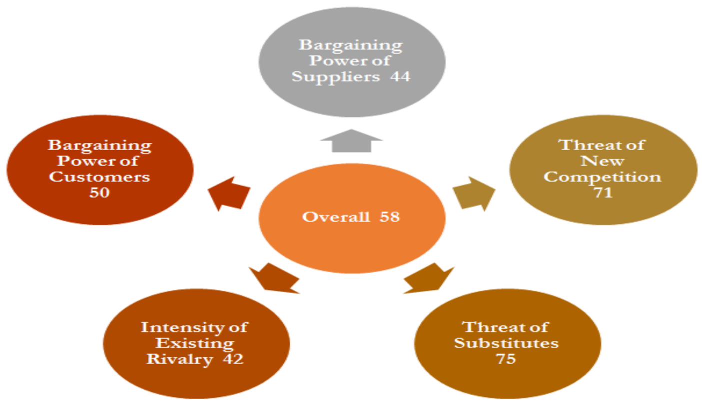


Management	Position	Total compensations growth	Total return to shareholders
Laplanche, Renaud	Founder, Chairman of Board o	123.37% per annum over 5y	N/M
Dolan, Carrie	Chief Financial Officer	73.7% per annum over 4y	N/M
Sanborn, Scott	Chief Operating & Marketing	86.14% per annum over 4y	N/M
MacIlwaine, John	Chief Technology Officer	44.63% per annum over 3y	N/M
Chen, Chaomei	Chief Risk Officer	89.61% per annum over 3y	N/M
Altieri, Jason	Chief Legal Officer, Complia	N/M	N/M

Profitability	LC (LTM)	LC (5 years historical average)	Industry (LTM)
ROIC	-2.0%	1.81%	#DIV/0!
NOPAT Margin	8%	-40.79%	#DIV/0!
Revenue/Invested Capital	-0.24	-0.04	#DIV/0!
ROE	-2.0%	-2.00%	#DIV/0!
Adjusted net margin	8%	-40.94%	#DIV/0!
Revenue/Adjusted Book Value	-0.25	0.05	#DIV/0!
Invested Funds	**LC (LTM)**	**LC (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	-18.3%	-19.6%	20%
Estimated Operating Cash/Total Capital	-18.3%	-19.6%	N/A
Non-cash working Capital/Total Capital	0.0%	0.0%	0%
Invested Capital/Total Capital	108.7%	100.0%	75%
Capital Structure	**LC (LTM)**	**LC (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.01	0.00	7.37
Cost of Existing Debt	6.14%	4.59%	#DIV/0!
Estimated Cost of new Borrowing	6.14%	4.91%	0.00%
CGFS Risk Rating	6.14%	#DIV/0!	B
Unlevered Beta (LTM)	0.00%		0.54
WACC	6.14%	5.86%	4.57%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	103.6%	8.1%	-0.34
12/31/2016	60.0%	7.3%	-0.23
12/31/2017	30.0%	9.8%	-0.24
12/31/2018	20.0%	10.2%	-0.26
12/31/2019	10.0%	10.5%	-0.28
12/31/2020	5.0%	10.9%	-0.32
12/31/2021	3.0%	11.4%	-0.40
12/31/2022	3.0%	12.1%	-0.53
12/31/2023	3.0%	12.1%	-0.72
12/31/2024	3.0%	12.1%	-1.10
12/31/2025	3.0%	12.2%	-2.31
Continuing Period	3.0%	12.5%	24.55

Period	Invested Capital	Net Claims	Price per share
Base Year	-$137.67	-$10.17	$8.12
12/31/2016	-$330.10	-$7,138.84	$20.72
12/31/2017	-$730.32	-$8,206.17	$20.85
12/31/2018	-$1,772.31	-$8,694.51	$20.84
12/31/2019	-$1,757.61	-$8,400.20	$20.77
12/31/2020	-$3,702.08	-$7,662.59	$20.78
12/31/2021	-$6,234.84	-$6,738.96	$20.94
12/31/2022	-$7,204.02	-$5,768.03	$21.27
12/31/2023	-$7,565.09	-$4,875.44	$22.16
12/31/2024	-$7,119.33	-$3,759.08	$22.85
12/31/2025	-$6,208.01	-$2,576.47	$23.77
Continuing Period			

Siena Market Line
1st week of April 2016

AbbVie Inc.

NASDAQ:ABBV

Analyst: Arthur Jeannerot
Sector: Healthcare

BUY

Price Target: $68.5

Key Statistics as of April 3, 2016

Market Price:	$56.12
Industry:	Biotechnology
Market Cap:	$92.89B
52-Week Range:	$45.45-71.60
Beta:	1.19

Thesis Points:

- AbbVie generates over $20B in annual sales in more than 170 countries.
- Sales of established drugs allow heavy investing in R&D.
- Concerns over Humira's intellectual property have been blown out of proportion.

Company Description:

AbbVie was founded in 2013 as a spinoff of Abbott Laboratories' (ABT) biopharmaceutical division. The company develops, manufactures, and distributes prescription drugs in over 170 countries. Its product portfolio comprises over 40 drugs, including the best-selling drug in the world Humira, which generated sales of more than $14 billion in 2015. The company is at a turning point, as it seeks to diversify its revenue streams in order to reduce its reliance on Humira, which will soon be off-patent. This overreliance on one product is one of the reasons the stock has performed poorly lately, but thanks to a recent favorable patent ruling and extensive intellectual property around Humira, those concerns should prove less threatening than previously anticipated.

Thesis

AbbVie is one of the leading biopharmaceutical companies, with over 40 products on the market and an additional 50 drug candidates being developed. The company is at the forefront of innovation, and has entered into collaboration agreements with companies such as Calico, Google's life-sciences branch, and Infinity (INFI). The company's strategy involves taking on lots of debt in order to fund R&D efforts which ultimately lead to the commercialization of a new drug. As a result, the company is more leveraged than its peers, but is also more profitable.

Company History

AbbVie was created on January 1st, 2013 when it was spun off from Abbott Laboratories in order to separate the company's pharmaceutical research division from its diagnostic and device business. As a result, the company's history as a public company is short, even though it has years of experience developing and bringing to market new drugs. AbbVie started with a product portfolio of ten drugs, including three with annual sales of $1 billion or more (known as blockbusters).

Porter's 5 Forces

The bargaining power of suppliers is low, as AbbVie has agreements with several third parties for the supplying of raw materials. According to the company, none of those agreements are material because they don't put the company's business at risk. AbbVie always carries significant inventory of its key production inputs in order to be able to face an eventual disruption in the supply chain.

The bargaining power of customers is relatively high, as AbbVie distributes its products to a broad range of customers including but not limited to wholesalers, distributors, and government agencies. As a result, certain customers represent a significant portion of AbbVie's business, notably in the United States where almost all of the company's revenue comes from three wholesalers. Therefore, AbbVie's business could be severely affected by the loss of one of those customers.

The threat of substitutes is also high, as is often the case in the pharmaceutical industry. Even though AbbVie's leading product is currently one of the best in class treatments for several indications, this situation could evolve at any time as other firms advance their clinical development. The most important attributes of a drug are effectiveness, safety and price and if certain substitutes for AbbVie's products manage to be more attractive on any of those aspects, it could impact the company's business.

The threat of new competitors is also high, especially when the intellectual property surrounding a product expires. This usually results in a flurry of new competing products, which are usually cheaper and quickly gain market share. The threat of competition fur Humira, AbbVie's flagship product, is currently one of the main concerns of the company and is one of the biggest value drivers.

The intensity of existing rivalry is also high, as the biopharmaceutical industry is very competitive and companies are constantly developing new products. For AbbVie, competition consists mostly of biosimilars such as generic versions of its formerly patented drugs.

Humira

Humira is AbbVie's best-selling drug by far and, with sales of $14.01 billion in 2015 it is also the best-selling drug in the world. Humira is approved to treat a variety of autoimmune disorders, including but not limited to rheumatoid and psoriatic arthritis, Crohn's disease and plaque psoriasis. It is commercialized in over 60 countries including North America, the European Union, Japan, Brazil and Australia. Humira was first commercialized in January 2003 and quickly achieved blockbuster status, reaching $1 billion in sales in 2004 and $10 billion in 2013. Unfortunately for AbbVie, monopolies don't last forever and the patents that protect Humira will expire soon. In the United States, the composition patent on Humira will expire in December 2016, opening the way for competitors to market their biosimilar version. However, Humira is covered by a flurry of other patents, including 70 that expire between 2022 and 2034, which will make it harder for competitors to create a generic version. According to the company's CEO, those patents should protect Humira from biosimilars until 2022. This makes a big difference as it could translate into tens of billions of dollars of extra revenue for AbbVie. Furthermore, the company keeps researching new indications for Humira such as rheumatology, gastroenterology and ophthalmology.

Other blockbusters

Apart from Humira, AbbVie owns a few other drugs that have reached or have the potential to reach blockbuster status.

Viekira was approved in December 2014 for the treatment of genotype 1 chronic hepatitis C in adults. The drug was successfully launched in the U.S and Europe, and quickly gained traction to become AbbVie's second best-selling drug with revenues of $1.6 billion in 2015. Viekira represents a tremendous opportunity for AbbVie, notably in Japan, the second largest market for hepatitis C where Viekira was approved in September of last year.

Imbruvica is an oral, once-daily treatment for adults with previously treated chronic lymphocytic leukemia (CLL) or mantle cell lymphoma (MCL) as well as Waldenström's macroglobulinemia. AbbVie bought the rights to Imbruvica last year when it acquired Pharmacyclics, Inc. The drug generated $754 million of revenue in 2015 and is expected to bring in $1 billion in 2016 and $5 billion in 2020.

Duopa is a prescription gel used to treat patients with advanced Parkinson's disease. Duopa represents a promising new treatment for patients with severe Parkinson's disease, as its innovative mode of delivery allows it to be administered over a continuous period of up to 16 hours. Duopa has been commercialized in Europe since 2004 under the name Duodopa, but was only approved by the FDA in January 2015. Therefore, the product is just starting to penetrate the U.S market, where the company believes it can reach around 190,000 patients. AbbVie believes Duopa sales should exceed $1 billion by 2020, which represents an increase of more than four times over the $231 million of revenue for 2015.

Pipeline

With sales of more than $20 billion in 2015, AbbVie can afford to invest heavily in R&D in order to be ready when sales of Humira start to decline. The company is currently running clinical trials on 47 different indications, with 13 in Phase I, 17 in Phase II and 17 in Phase III. The pipeline is mostly focused on oncology, with treatments such as Imbruvica for different forms of leukemia, or Veliparib for breast and lung cancer as well as ovarian cancer. The company's R&D spending has grown around 20% per year, from $2.9 billion in 2013 to $4.3 billion in 2015, which represents about 18.8% of revenue as opposed to 15.4% in 2015.

Pharmacyclics Acquisition

On March 4 2015, AbbVie announced the acquisition of Pharmacyclics, a Sunnyvale, Calif. biopharmaceutical company focused on the development of therapies for cancers and immune-mediated diseases. AbbVie's $20.8 billion offer represented a 44% premium over Pharmacyclics' value, and was paid with $12.4 billion in cash and the rest in AbbVie stock. The acquisition makes sense because it falls within the company's strategy, allowing it to diversify its revenue stream while also broadening its pipeline.

Financials

In 2015, AbbVie's revenues grew 15% to reach $22.9 billion, while adjusted EBITDA grew 29% to $14.9 billion. This improvement in profitability is the result of a continuing improvement in gross margin, which rose from 76% to 80% over the past two years. The increase in gross margin is attributable to a more favorable product mix, price increases, and operational improvements. Selling, general and administrative expenses have also remained steady around 28% of sales, which translates into greater operating income. It is important to note that SG&A were much higher in 2014 due to a one-time payment of $1.7 billion related to the cancellation of the proposed merger with Shire. As a result, net margin also increased slightly, from 21.85% in 2013 to 22.4% in 2015. The company has $29.2 billion in long-term debt, which is a sharp increase from last year's $10.5 billion. This increase is mainly due to the issuance of $16.7 billion of senior notes, which was necessary to finance the $20.8 billion acquisition of Pharmacyclics. AbbVie has $2 billion in debt due in 2016, $4 billion maturing in 2017, $6 billion maturing in 2018, and $21 billion maturing between 2020 and 2045. The company generated $7.5 billion of operating cash flows in 2015, a 20% increase over 2013's $6.3 billion. The net increase in cash was only $351 million in 2015, reflecting the $11.5 billion cash outflow required to acquire Pharmacyclics. The company has been paying a dividend since it became independent in 2013, and has increased the amount every year from $1.60 in 2013 to $1.75 in 2014 and $2.1 in 2015, representing a 14.56% compound annual growth rate. Management also announced it was raising the quarterly dividend from $0.51 to $0.57, which results in a total payout of $2.28 for 2016 and a forward dividend yield around 4%. AbbVie has also been repurchasing stock aggressively, in part to finance the stock portion of the Pharmacyclics acquisition. In 2015, the company repurchased a total of 119 million shares for approximately $7.8 billion, and still has $1.9 billion remaining in its share repurchase program.

Valuation

In order to value AbbVie, I used a proforma model with a focus on invested capital. The model is based on a 10-year forecast, with a long-term growth rate of 3%, and the summary of the valuation is attached to the last page of this report. The risk premium and effective corporate tax rate were calculated using a weighted average of the company's revenue by geography. This results in a risk premium of 7.13% and an effective corporate tax rate of 33.9%. The forecast also includes some of the company's targets, such as sales of $37 billion in 2020, and operating margin at 50% at maturity. The ROIC/WACC ratio, which stood at 4.15 for 2015, is expected to slowly decrease to a more realistic 1.3 in the continuing period. The model also capitalizes R&D and SG&A expenses over a 10-year life, and both are forecasted at 25% of revenue for the continuing period. Those assumptions result in an intrinsic value of $57.15 and a 12-month price target of $69.27.

Conclusion

Even though its history as an independent, publicly-traded company is short, AbbVie has demonstrated its capacity to create value. Over the past years, it has managed to do so by increasing sales and decreasing costs, which resulted in a greater NOPAT margin. The company's ability to create value is also illustrated by its ROIC/WACC greater than 1, which means that invested capital returns more than its cost. The stock currently appears undervalued due to concerns about the company's sales growth, which might come under pressure next year as Humira's composition patent expires in the U.S. However, I believe those fears have been blown out of proportion, and that AbbVie has what it takes to keep Humira sales growing until 2020, which will result in a much higher stock price. I recommend a buy on ABBV with a 1-year price target of $69.27, which translates into an upside potential of 27%.

Siena Market Line
1st week of April 2016

CENTER FOR GLOBAL FINANCIAL STUDIES

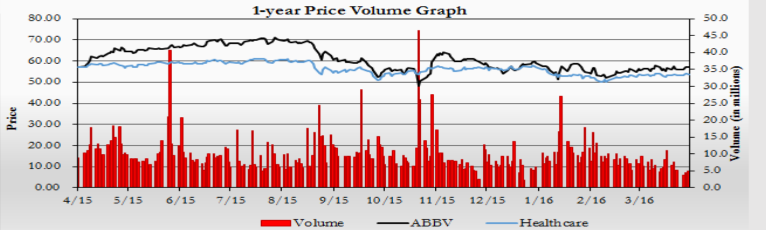
AbbVie Inc. (ABBV) | **BULLISH**

Analysis by Arthur Jeannerot

4/2/2016

Current Price:	$56.12	Intrinsic Value	$57.15
Divident Yield:	3.8%	Target Price	$69.27

Target 1 year Return: 27.23%
Probability of Price Increase: 93.9%



Description

AbbVie Inc. discovers, develops, manufactures, and sells pharmaceutical products worldwide.

General Information

Sector	Healthcare
Industry	Biotechnology
Last Guidance	November 3, 2015
Next earnings date	April 24, 2016
Estimated Country Risk Premium	7.13%
Effective Tax rate	34%
Effective Operating Tax rate	1%

Market Data

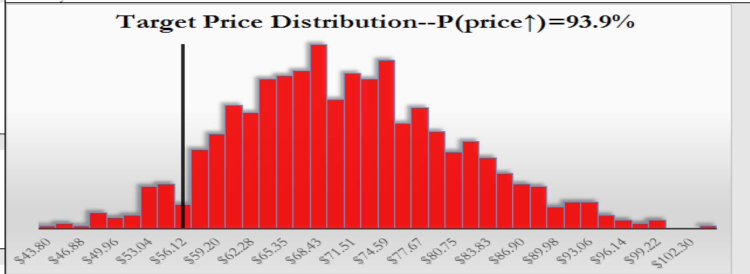
Market Capitalization	$92,890.36
Daily volume (mil)	4.53
Shares outstanding (mil)	1617.74
Diluted shares outstanding (mil)	1637.00
% shares held by institutions	55%
% shares held by investments Managers	57%
% shares held by hedge funds	4%
% shares held by insiders	0.09%
Short interest	1.47%
Days to cover short interest	2.69
52 week high	$71.60
52-week low	$45.45
Levered Beta	1.30
Volatility	0.00%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	1.90%	-11.94%
3/31/2015	1.15%	9.84%
6/30/2015	-2.08%	-1.41%
9/30/2015	0.88%	-15.13%
12/31/2015	0.27%	5.24%
Mean	0.42%	-2.68%
Standard error	0.7%	4.8%

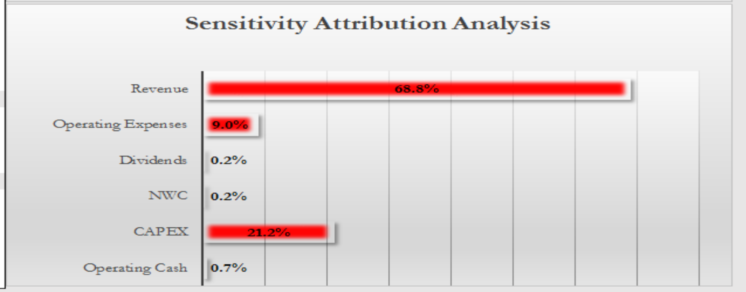
Peers

Eli Lilly and Company
Bristol-Myers Squibb Company
Merck & Co. Inc.
Pfizer Inc.
Amgen Inc.
Gilead Sciences Inc.
Biogen Inc.
Regeneron Pharmaceuticals, Inc.

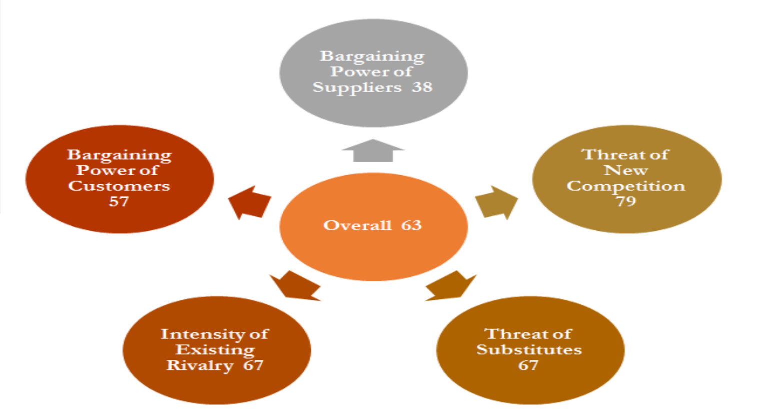


Management	Position	Total compensations growth	Total return to shareholders
Gonzalez, Richard	Chairman, Chief Executive Of	22.32% per annum over 5y	N/M
Chase, William	Chief Financial Officer and	43.03% per annum over 4y	N/M
Severino, Michael	Chief Scientific Officer and	-42.79% per annum over 1y	-5.99% per annum over 1y
Schumacher, Laura	Executive Vice President of	4.15% per annum over 6y	N/M
Alban, Carlos	Executive Vice President of	16.01% per annum over 4y	N/M
Saleki-Gerhardt, Azita	Senior Vice President of Ope	N/M	N/M

Profitability	ABBV (LTM)	ABBV (5 years historical average)	Industry (LTM)
ROIC	46.5%	33.86%	13.66%
NOPAT Margin	90%	48.07%	21.7%
Revenue/Invested Capital	0.52	0.70	0.63
ROE	50.6%	20.33%	15.42%
Adjusted net margin	88%	47.50%	18.5%
Revenue/Adjusted Book Value	0.58	0.43	0.83
Invested Funds	**ABBV (LTM)**	**ABBV (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	11.1%	15.6%	30%
Estimated Operating Cash/Total Capital	10.2%	11.8%	N/A
Non-cash working Capital/Total Capital	-0.7%	1.8%	7%
Invested Capital/Total Capital	99.0%	96.1%	63%
Capital Structure	**ABBV (LTM)**	**ABBV (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.32	0.15	0.16
Cost of Existing Debt	5.20%	-10.09%	4.01%
Estimated Cost of new Borrowing	2.98%	4.01%	4.01%
CGFS Risk Rating	5.20%	B	CC
Unlevered Beta (LTM)	3.08%	1.30	0.89
WACC	5.20%	11.71%	9.11%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	14.5%	90.2%	4.15
12/31/2016	13.6%	43.3%	1.46
12/31/2017	9.9%	43.6%	1.40
12/31/2018	8.4%	44.2%	1.42
12/31/2019	10.0%	43.2%	1.42
12/31/2020	9.0%	41.1%	1.38
12/31/2021	8.1%	37.1%	1.26
12/31/2022	4.9%	35.5%	1.19
12/31/2023	3.5%	34.1%	1.14
12/31/2024	3.3%	32.7%	1.10
12/31/2025	3.0%	31.4%	1.06
Continuing Period	3.0%	37.9%	1.30

Period	Invested Capital	Net Claims	Price per share
Base Year	$22,337.38	$31,155.17	$55.70
12/31/2016	$24,936.94	$26,194.04	$67.19
12/31/2017	$35,054.85	$18,840.41	$77.89
12/31/2018	$38,584.90	$9,464.78	$89.29
12/31/2019	$44,313.41	$864.84	$100.69
12/31/2020	$74,845.30	-$8,300.31	$112.44
12/31/2021	$87,354.93	-$17,248.23	$124.78
12/31/2022	$96,139.27	-$28,262.97	$137.61
12/31/2023	$104,449.72	-$40,357.84	$150.81
12/31/2024	$113,842.76	-$52,665.70	$164.32
12/31/2025	$123,044.42	-$65,287.74	$178.17
Continuing Period			

Siena Market Line
1st week of April 2016

Chegg, Inc.

NYSE: CHGG

Analyst: Joseph Gonyeau
Sector: Consumer Disc.

BUY

Price Target: $6.95

Key Statistics as of 4/2/2016

Market Price:	$4.45
Industry:	Education Services
Market Cap:	$390.41M
52-Week Range:	$3.15-8.84
Beta:	0.83

Thesis Points:

- The market overreacted to Q4 guidance, dropping the price by 50%, providing an ideal entry point.
- By 2017, Chegg will have a 100% digital business model which will bolster profit margins.
- Chegg's market is far from saturated, thus subscriber growth rate is not expected to stabilize.

Company Description:

Based in Santa Clara, California, Chegg helps both college and high school students by offering a wide array of services that include tutoring, help with homework, internship matching, online textbook rentals, and even scholarships. Chegg's integrated platform offers products and services that students utilize throughout the college lifecycle, from choosing a college through graduation and beyond. In 2015, Chegg matched roughly 5.0 million domestic and international students with colleges and universities and provided over 6.4 million textbooks and eTextbooks. Due to Chegg's new partnership with Ingram Content Group (Ingram), they are no longer spending their own capital on owning or warehousing textbooks. This is anticipated to save more than $100 million in working capital annually. The partnership has affected Chegg's top line, causing an unwarranted 35% drop in their stock price, providing an opportune time to buy a growth stock at a significant discount.

Thesis

Five years ago, Chegg was solely focused on textbooks and had zero digital footprint. Through their partnership with Ingram, Chegg has undergone a shift in long-term direction, working to establish a 100% digital business model with a focus on Chegg services. In five years they have been able to go from generating 0 revenues digitally to anticipated 2016 digital revenues between $137 and $145 million. The transition has been successful so far, with 70% of Chegg users now using Chegg Services, while the other 30% rely on Chegg for textbook rentals. Due to this, Chegg anticipates revenues to grow by 57% in Q2 this year. This growth will help transition Chegg into a high margin business with low capital expenditures. After poor forward guidance, Chegg's stock price dropped by 35%; however, this was unwarranted as it was largely due to a change in revenue recognition timing from their transition. Due to Chegg's recent price drop, its skyrocketing profit margins, and its ability to tap into an $84 billion market, now is the perfect time to enter a long-term position on a very bullish company.

Business Model

Chegg's revenues are derived from three main areas: rental, services, and sales. In 2015, 40% of their net revenues were from rentals, 44% were from services, and 16% were through sales. Under their changing platform, rentals are either fulfilled through Chegg or their new partner, Ingram. A Chegg-fulfilled rental of $50 results in $50 of revenue for Chegg at a very low margin. An Ingram-fulfilled rental at $50 results in $20 of commission for Chegg at a very large margin. Gross margin dollar for each are roughly the same, which has led to a decline in revenues, yet profits have stayed constant. Chegg has announced that it is unsure of the pace at which Ingram will transition into providing all of their rentals, but it is expected to handle all textbook rentals by 2017. Chegg Services consist of their connected learning platform (the Student Hub), ACT and SAT test preparation services, online tutoring, Chegg Study Service, College admissions, and Scholarship and Internship Services. Students typically pay for Chegg Services on a monthly or annual basis, and these services are experiencing rapid growth as their partnership with Ingram is saving capital which is being injected into Chegg Services. Sales of print textbooks account for the least of their revenues. These are generally done through direct website purchases or on a just-in-time basis and are recognized based on shipment.

People

Chegg is led by their CEO Dan Rosensweig. Mr. Rosensweig joined Chegg from Yahoo in 2010, and is the driving force behind their shift to a 100% digital model. Mr. Rosensweig was inspired by companies such as Netflix and Adobe which have seen tremendous success converting to these models. Rosensweig believes that the change in model will help Chegg better serve student needs, as they are now focused on the student relationship while Ingram controls the catalog.

Product Differentiation & Competition

Chegg does not have any competitors that compete across their business as a whole, rather, they face significant competition in each aspect of their business. They see major competition in their products and services for students, as the market for textbooks and supplemental materials is extremely competitive. They face competition from college bookstores, online marketplaces like Amazon and eBay, providers of eTextbooks such as Apple, Blackboard, and Google. Chegg differentiates itself by emphasizing its extremely low prices compared to competitors, as well as the broad selection of their books, and on the compatibility of their eTextbooks across a wide variety of desktops and mobile devices. They also see major competition in their enrollment marketing services, where they compete against traditional methods of student recruitment. These include student data providers, radio, internet advertising, and even television. Chegg is able to differentiate itself through their extremely low cost, as well as the high level of quality connections that they have between prospective students and colleges. They foster these connections by providing prospective students with an easy-to-use platform that allows them to input goals and academic history, helping them learn about colleges and locate scholarships.

Subscriber Growth

Chegg currently has the room and expertise to grow and thrive, and is very far from saturating its Total Addressable Market (TAM). From FY2012 to FY2015, they were able to grow subscribers by 233%. Annual subscriber growth is around 40% YoY, with growth from FY2013-FY2014 at 40%, and growth from FY2014-FY2015 at 43%. This trend suggests that there is much more room for growth and that Chegg has not yet saturated its Total Addressable Market

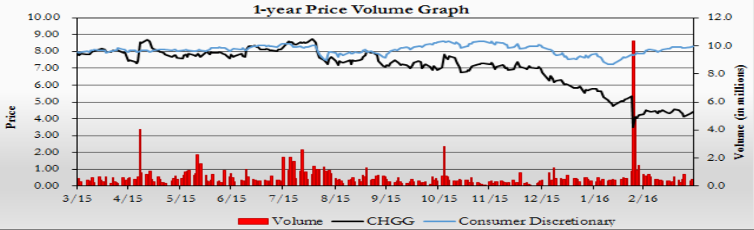
Financials

Chegg's stock price plummeted 35% in the wake of their Q4 earnings report. This was largely due to their release of poor forward guidance and missing their projected revenue; however, the market does not entirely understand what is happening. Both of these issues are due to Chegg's recent partnership with Ingram Content Group. The problem is that partnering with Ingram has hurt Chegg's topline revenue. This is not that big of an issue as Chegg is just as profitable. Although the new partnership with Ingram hurt revenues, profit margin increased significantly. Q4 Revenues of $68 million were at the bottom end of guidance, ultimately missing analyst estimates. Yet a gross margin of 61.4% was ahead of a guided 56-58%, due to the increase in rentals through Ingram. On top of this, Q4 adjusted EBITDA of $15.3 million topped the guided range of $10-$15 million. Chegg also has a 2018 projected model forecasting that Chegg Services will grow at 30%, with upwards of 60% in gross margins, and greater than 25% EBITDA margin. It is evident that Chegg is on the path to becoming profitable, with a current market cap of 390.41M as a percentage of sales is quite low. New Guidance projects 2017 adjusted EBITDA to be around $40 million, and possibly $75 million by 2018. Chegg's current enterprise value is about $280 million, which leaves the stock at about 1.6x revenue on an enterprise basis. This is quite reasonable relevant to peers. Based on the proforma, as Chegg transitions into a 100% digital model, we can expect significant value creation, with an ROIC of 13.9% compared to a WACC of 11.6% in the continuing period. The proforma also shows that NOPAT margins are on a steady rise, jumping from negative 1% to positive 18% from 2017 to 2018. Based on UFCF valuation, Chegg has an intrinsic value of $5.55 and a 1-year target value of $6.95. Chegg's management also feels that the stock is undervalued, with the CEO Dan Rosensweig and CFO Andrew Brown both disclosing six-figure purchases on the open market just above $4. For these reasons, now is the perfect time to buy a value stock at a serious discount.

Conclusion

Chegg is on the verge of a massive transition towards a 100% digital business model. This new model is anticipated to save upwards of $100m in capital per year, with this savings being reinvested into Chegg Services. As Chegg Services grow, Chegg will be on the brink of receiving monthly and annual revenues from student subscribers. Subscriber revenue is very promising, and this is accentuated in this case, as the market for helping students is an $84 billion market. The market overreacted to Chegg's missed revenue and poor forward guidance. Both of which were attributed to Chegg's partnership with Ingram, and the uncertain rate at which the transition was to occur; however, it is anticipated that Ingram will be handling all rentals by 2017. This transition also brings with it revenue growth of 20%, gross margins upwards of 60%, and EBITDA margins greater than 25%. With bolstered margins on the horizon, low capital expenditures, and a 40% YoY subscriber growth, Chegg is very close to tapping into an $84 billion market. For these reasons, Chegg is significantly undervalued, giving us the opportunity to buy a very bullish stock at a significant discount.

Chegg, Inc. (CHGG)	CENTER FOR GLOBAL FINANCIAL STUDIES			BULLISH
Analysis by Joseph Gonyeau	Current Price:	$4.45	Intrinsic Value	$5.55	Target 1 year Return: 56.22%
4/3/2016	Divident Yield:	0.0%	Target Price	$6.95	Probability of Price Increase: 98%



Description

Chegg, Inc. operates student-first connected learning platform that empowers students to take control of their education to save time, save money, and get smarter.

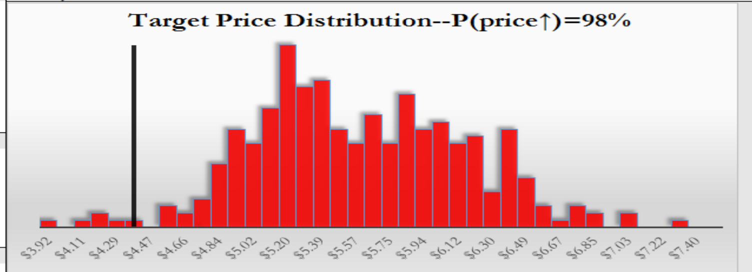
General Information	
Sector	Consumer Discretionary
Industry	Diversified Consumer Services
Last Guidance	November 3, 2015
Next earnings date	May 3, 2016
Estimated Country Risk Premium	10.94%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data	
Market Capitalization	$403.01
Daily volume (mil)	0.32
Shares outstanding (mil)	89.96
Diluted shares outstanding (mil)	86.82
% shares held by institutions	54%
% shares held by investments Managers	46%
% shares held by hedge funds	19%
% shares held by insiders	9.78%
Short interest	14.67%
Days to cover short interest	16.86
52 week high	$8.84
52-week low	$3.15
Levered Beta	1.61
Volatility	0.00%

Past Earning Surprises

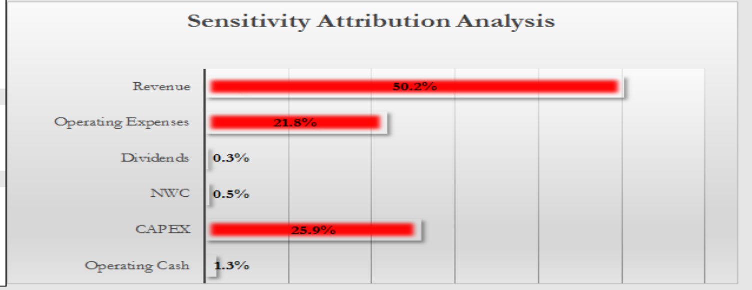
Quarter ending	Revenue	EBITDA
12/31/2014	-0.95%	152.82%
3/31/2015	8.26%	-353.15%
6/30/2015	4.89%	347.88%
9/30/2015	3.84%	-215.68%
12/31/2015	-5.20%	34.12%
Mean	2.17%	-6.80%
Standard error	2.4%	125.8%

Peers
American Public Education, Inc.
Capella Education Co.
Strayer Education Inc.
2U, Inc.
eBay Inc.
K12, Inc.
Bridgepoint Education, Inc.
Alphabet Inc.

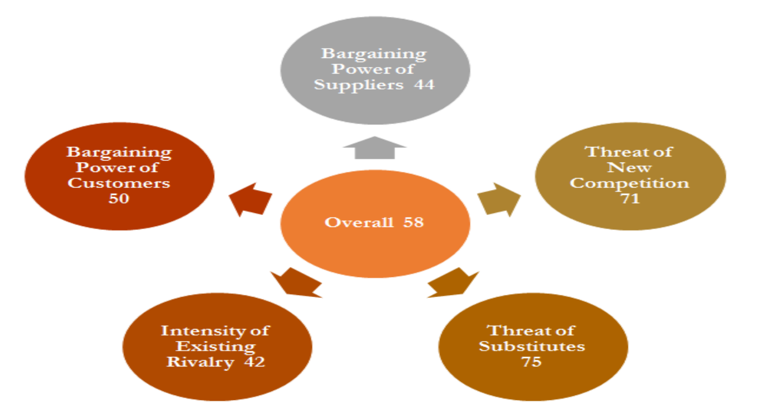


Management	Position	Total compensations growth	Total return to shareholders
Rosensweig, Daniel	Chairman, Chief Executive Of	22.91% per annum over 2y	N/M
Brown, Andrew	Chief Financial Officer	87.71% per annum over 2y	N/M
Geiger, Charles	Chief Technology Officer	42.72% per annum over 2y	N/M
Tomasello, Robin	Principal Accounting Officer	N/M	N/M
Osier, Michael	Chief Information Officer	N/M	0% per annum over 0y
Chesnut, Robert	Senior Vice President, Gener	N/M	N/M

Profitability	CHGG (LTM)	CHGG (5 years historical average)	Industry (LTM)
ROIC	-2.7%	3.41%	21.42%
NOPAT Margin	-4%	0.52%	14.7%
Revenue/Invested Capital	0.64	6.58	1.45
ROE	-2.7%	-1.78%	30.19%
Adjusted net margin	-4%	-1.00%	12.7%
Revenue/Adjusted Book Value	0.62	1.78	2.37
Invested Funds	**CHGG (LTM)**	**CHGG (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	16.5%	21.5%	9%
Estimated Operating Cash/Total Capital	10.1%	12.5%	N/A
Non-cash working Capital/Total Capital	-1.6%	-10.2%	21%
Invested Capital/Total Capital	93.0%	113.6%	91%
Capital Structure	**CHGG (LTM)**	**CHGG (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.05	0.05	0.45
Cost of Existing Debt	2.34%	14.98%	2.95%
Estimated Cost of new Borrowing	1.37%	1.58%	2.95%
CGFS Risk Rating	2.34%	AAA	BB
Unlevered Beta (LTM)	0.00%		0.60
WACC	2.34%	19.74%	8.58%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-1.1%	-4.3%	-0.14
12/31/2016	-20.1%	-2.0%	-0.05
12/31/2017	-18.0%	-1.5%	-0.04
12/31/2018	39.2%	17.8%	0.69
12/31/2019	24.4%	22.8%	1.00
12/31/2020	20.2%	24.9%	1.19
12/31/2021	18.0%	26.3%	1.37
12/31/2022	14.2%	26.7%	1.49
12/31/2023	10.6%	26.7%	1.56
12/31/2024	8.3%	26.5%	1.63
12/31/2025	6.5%	25.9%	1.68
Continuing Period	3.0%	17.9%	1.20

Period	Invested Capital	Net Claims	Price per share
Base Year	$52.64	$23.81	$5.20
12/31/2016	$223.19	-$42.47	$6.58
12/31/2017	$225.46	-$103.55	$8.02
12/31/2018	$420.38	-$136.66	$9.75
12/31/2019	$469.20	-$198.14	$11.76
12/31/2020	$478.85	-$284.38	$13.93
12/31/2021	$437.81	-$390.20	$16.20
12/31/2022	$401.92	-$515.78	$18.51
12/31/2023	$463.71	-$664.17	$20.84
12/31/2024	$534.93	-$830.94	$23.15
12/31/2025	$607.05	-$1,011.46	$25.40
Continuing Period			

Siena Market Line
1st week of April 2016

Nautilus Inc.

NYSE: NLS

Analyst: Senan Lonergan
Sector: Consumer Disc.

BUY

Price Target: $28

Key Statistics as of 4/1/2016

Market Price:	$18.85
Industry:	Consumer Goods
Market Cap:	584.45M
52-Week Range:	$13.82-22.95
Beta:	1.32

Thesis Points:

- Impressive growth with margin improvements
- Closing gap between biggest competitors
- Undervalued, cheap stock

Company Description:

Nautilus, Inc., a consumer fitness products company, designs, develops, sources, and markets cardio and strength fitness products, and related accessories for consumer use in the United States, Canada, and internationally. The company operates in two segments, Direct and Retail. It offers specialized cardio, treadmills, ellipticals, and bike products under the Nautilus brand; fitness equipment comprising cardio and strength products, including TreadClimber and Max Trainer specialized cardio machines, PowerRod and Revolution home gyms, and SelectTech dumbbells under the Bowflex brand; cardio products, including elliptical machine under Octane Fitness brand; and recumbent elliptical under xRide and LateralX brand names. The company also provides exercise bikes, including the Airdyne, treadmills, and ellipticals under Schwinn brand; and various kettlebell weights and weight benches under Universal brand. In addition, it engages in licensing its brands and intellectual properties. The company offers its products directly to consumers through television advertising, catalogs, and the Internet; and through a network of retail companies consisting of sporting goods stores, Internet retailers, and large-format and warehouse stores, as well as specialty retailers and independent bike dealers. Nautilus, Inc. was founded in 1986 and is headquartered in Vancouver, Washington.

Thesis

Nautilus Inc. has been rapidly growing the last few years, and is continuing to improve margins as well. The recent acquisition of Octane has positioned NLS as a major influence in the fitness equipment segment. Typically dominated by companies such as Brunswick Corporation, ICON Health and Fitness Inc., and Amer Sports Corporation, Nautilus is gaining considerable market share. Moreover, NLS is outperforming these competitors in metrics such as EBITA Margin and Cost of Revenue. Although Nautilus's cost of capital is higher than these competitors, its return on invested capital is yielding a significantly higher ROIC/WACC.

Industry Outlook

While imported machinery and international players may increase competition, revenue for the Gym, Fitness and Health Clubs industry is expected to rise over the next five years at an annualized rate of 3.0%. Nearly 17% of young adults are considered obese, and there is a political movement in place, advocating for healthier life styles that involve fitness equipment. Furthermore, Sports participation rates are also expected to increase, especially among school aged participants. According to the NCAA's 2015 Sports Sponsorship and Participation Rates report, the number of student athletes and NCAA sponsored sports teams has steadily increased since 1988, and the trend is expected to continue. As gyms memberships and sports participation increases over the next five years, demand for new gym and exercise equipment is expected to increase. The life cycle for the fitness equipment industry has reached a period of larger companies buying smaller companies, in order to add value while diminishing competition. With fewer companies dominating the market share, there is greater demand for international business. Companies such as NLS are now expanding.

Growth

Nautilus has experienced rapid growth in the last 5 years. In 2014, revenue grew by 25.43% and in 2015, 22.34%. Since 2011, NLS has nearly doubled its revenue; reporting $335.8M in 2015. As mentioned before, the companies operates in two segments, Direct and Retail. Direct revenue, sales to places like gyms, accounts for about two thirds of total sales, while the remaining third comes from retail. Both segments have grown by double digits which can be accredited to the successful development and marketing of new products. Management mentioned in the latest quarter earnings that they expect to maintain the growth rate for both of the businesses, which is the high-single digit, low-double digit rates. Furthermore, in addition to revenue growth, NLS is consistently improving margins. Since 2011, both gross and EBITDA margins have improved by nearly 10%. The direct segment's operating margin has improved by nearly 7.5% over the last 4 years, while the retail segment has continued to fluctuate around 12-14%. With direct side revenues growing rapidly, alongside its margin improvement, NLS's total EBITA margin has surpassed its competitors and is just shy of 14%.

Market Share and Competition

The recent acquisition of Octane has generated greater sales, and as a result, NLS holds about 13% of the industry. More than half of the $1.8 billion fitness equipment industry is dominated by two companies, Brunswick (BC) and ICON Health and Fitness. BC takes up about a third of the market share, and although the company continues to grow, its financials show that it's operating income's growth rate has been steadily declining over the last 6 years. BC will prove to be Nautilus's greatest competitor for years to come. On the other hand, the second largest player in the industry, ICON Health is on the decline. IBIS World estimates that revenue has decreased at an annualized rate of 7.7% to $405.0 million in the five years to 2016. This sharp decline is largely due to the scaling back of domestic manufacturing operations, numerous lawsuits, as well as competition newer faces such as Nautilus. Profit has also suffered, as increasing legal fees and operational costs outpaced revenue. The third biggest competitor for NLS is Amer Sports corporation (HEL). HEL takes up approximately 3% of the market share, however, they specialize in commercial sales primarily. Nonetheless, Nautilus has taken over the third spot in this battle for market share, and soon enough, they will surpass ICON Health.

DuPont Analysis

When comparing the financials of NLS to two of its largest publicly traded competitors (BC and HEL), it is clear that Nautilus has many strengths as well as some weaknesses. Beginning with revenue to total employees, last fiscal year, NLS recorded 0.71 while the two competitors recorded 0.33. This plays a crucial role in the overall cost of revenue which for NLS, was just 47.2%, while for BC and HEL was 72.9%. Furthermore, these costs have been trending downward for NLS, while the industry remains relatively constant. LFY, NLS outpaced these competitors by 3.3% for EBITA margin, which for many analysts is surprising in various aspects. A smaller, growing, company is expected to be less profitable than well-established corporations, but at the same time, the significantly lower cost of goods should yield a higher margin. Where NLS is considered less efficient than its competitors is SG&A/revenue, which is primarily attributed to Selling and Marketing expenses. A major catalyst for the revenue growth that NLS is experiencing stems for the expenditure on advertisement and marketing. Management attributes their gain in market share to the successful response they see from these expenses, and as a result, do not plan on decreasing this percentage. Moreover, analysts are nervous of marketing and selling expenses to actual increase during the Olympics and presidential election time frame, but management assures that S&M has reached its maximum. With this is mind, when NLS become large enough to slow down S&M expenditure, there low COGS presents them with a serious competitive advantage over their competitors. They continue to reach out to consumers through advertisement, spend 36.7% of their revenue on SG&A (compared to 13.9%), and still manage to yield a higher ROIC. Overall NLS's ROIC/WACC has improved from 0.91(history) to 1.54(LFY), while HEL and BC has worsened from 1.48(history) to 1.39(LFY).

Capital Structure and Ownership

Nautilus has typically operated without debt, but the recent acquisition of Octane has put $80 million on their books. NLS does not have an official credit rating because of how recent this acquisition was, but management has reflected their confidence in being able to full the interest payments with the stability that they currently have.

Investment advisors ownership from March 2015 to now has increased 5%, now totaling 79.79% of all holdings. Hedge Fund Manager's hold 13.17% of shares, a decline of 2.64% from last year, and Pension Funds hold 3.15%, an increase of 1.42% from last year.

Conclusion

Nautilus Inc. is positioned to become the 2nd largest player in the fitness equipment industry. Their rapid revenue growth paired with superior margins is justifying the markets mispricing of the stock. Within the year, the price will increase to $28 a share, as management continues to report record breaking quarters. The DuPont analysis comparing NLS to two of its largest competitors breaks down the company's strengths, as well as their large portion high selling and marketing expenses. While many analysts view these advertising costs to be way to high, management acknowledges these expenditures to be the catalyst for their revenue growth, and ultimately gain in market share.

Nautilus Inc. (NLS)

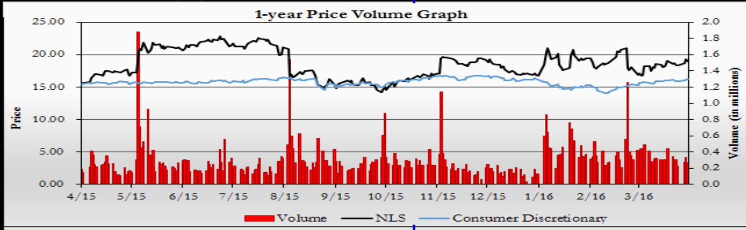
CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Senan Lonergan
4/2/2016

Current Price:	$18.85	Intrinsic Value	$26.84
Divident Yield:	0.0%	Target Price	$32.12

Target 1 year Return: 70.39%
Probability of Price Increase: 100%



Description

Nautilus, Inc., a consumer fitness products company, designs, develops, sources, and markets cardio and strength fitness products, and related accessories for consumer use in the United States, Canada, and internationally.

General Information

Sector	Consumer Discretionary
Industry	Leisure Products
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	9.15%
Effective Tax rate	24%
Effective Operating Tax rate	-11%

Market Data

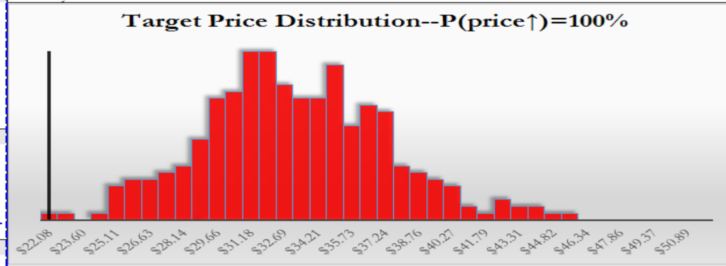
Market Capitalization	$584.45
Daily volume (mil)	0.23
Shares outstanding (mil)	31.01
Diluted shares outstanding (mil)	31.59
% shares held by institutions	55%
% shares held by investments Managers	73%
% shares held by hedge funds	13%
% shares held by insiders	6.76%
Short interest	3.54%
Days to cover short interest	2.80
52 week high	$22.95
52-week low	$13.82
Levered Beta	1.38
Volatility	55.58%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	-0.11%	-4.29%
3/31/2015	15.21%	48.77%
6/30/2015	4.17%	2.61%
9/30/2015	4.79%	22.62%
12/31/2015	0.04%	-12.72%
Mean	4.82%	11.40%
Standard error	2.8%	11.0%

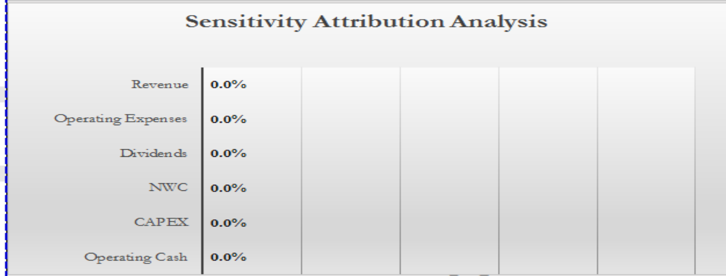
Peers

Callaway Golf Co.
Malibu Boats, Inc.
Brunswick Corporation
Johnson Outdoors Inc.
MCBC Holdings Inc.
Escalade Inc.

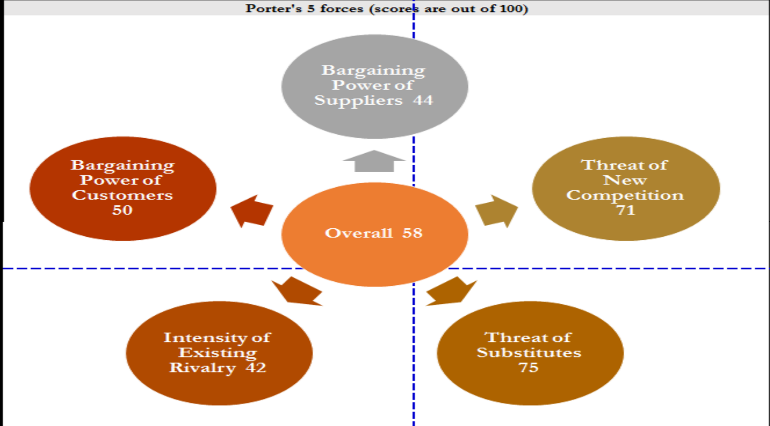


Management	Position	Total compensations growth	Total return to shareholders
Cazenave, Bruce	Chief Executive Officer and	2.09% per annum over 3y	60.97% per annum over 3y
Nayar, Sidharth	Chief Financial Officer	N/M	0% per annum over 0y
McMahon, William	Chief Operating Officer	22.6% per annum over 5y	-0.33% per annum over 5y
Bolio, Wayne	Senior Vice President of Law	13.63% per annum over 5y	-0.33% per annum over 5y
Murdock, Robert	Vice President and General M	25.7% per annum over 2y	107.96% per annum over 2y
Brotherton, Aaron	Director of Marketing	N/M	N/M

Profitability	NLS (LTM)	NLS (5 years historical average)	Industry (LTM)
ROIC	60.8%	8.99%	13.37%
NOPAT Margin	23%	2.68%	10.6%
Revenue/Invested Capital	2.67	3.36	1.26
ROE	53.2%	10.08%	15.10%
Adjusted net margin	23%	2.39%	9.7%
Revenue/Adjusted Book Value	2.35	4.22	1.56
Invested Funds	**NLS (LTM)**	**NLS (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	21.4%	30.2%	24%
Estimated Operating Cash/Total Capital	10.8%	22.2%	N/A
Non-cash working Capital/Total Capital	8.7%	6.2%	24%
Invested Capital/Total Capital	89.5%	92.1%	76%
Capital Structure	**NLS (LTM)**	**NLS (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.22	0.23	0.18
Cost of Existing Debt	1.45%	3.23%	4.79%
Estimated Cost of new Borrowing	2.41%	1.79%	4.79%
CGFS Risk Rating	1.45%	AAA	A
Unlevered Beta (LTM)	0.00%	1.08	0.87
WACC	1.45%	12.36%	10.58%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	22.3%	22.7%	4.11
12/31/2016	29.9%	12.0%	1.48
12/31/2017	27.2%	12.2%	1.44
12/31/2018	24.5%	12.4%	1.54
12/31/2019	21.8%	12.6%	1.60
12/31/2020	19.1%	12.8%	1.64
12/31/2021	16.4%	13.0%	1.62
12/31/2022	13.7%	13.2%	1.61
12/31/2023	11.1%	13.4%	1.66
12/31/2024	8.4%	13.6%	1.71
12/31/2025	5.7%	13.7%	1.76
Continuing Period	3.0%	13.9%	1.82

Period	Invested Capital	Net Claims	Price per share
Base Year	$73.59	$89.82	$27.29
12/31/2016	$78.72	$129.98	$31.44
12/31/2017	$85.02	$142.28	$36.09
12/31/2018	$110.64	$156.88	$41.21
12/31/2019	$125.63	$166.66	$47.04
12/31/2020	$254.01	$194.64	$53.19
12/31/2021	$345.66	$206.43	$59.92
12/31/2022	$420.35	$163.80	$67.19
12/31/2023	$512.73	$90.05	$74.81
12/31/2024	$624.69	-$19.78	$82.66
12/31/2025	$768.02	-$168.88	$90.62
Continuing Period			