Stock	Buy / Sell	Thesis	Current Price	Target Price
ABT	BUY	Since 2001 Abbott has made 18 acquisitions, some of which the firm has since re-sold to other businesses. The variation in these arrangements is a testament to the management team's commitment to improving the company's market share in many fields but also to innovation. The management team is willing to make bold moves that place Abbott in advantageous positions within the healthcare marketplace. Abbott is currently in talks with Alere Incorporated to acquire the point-of-care giant. This move would not only improve shareholder value for both firms immediately, it will also set Abbott up for significant synergies in the coming years.	$ 44.08	$ 49.16
GILD	BUY	In the past years, Gilead Sciences (NASDAQ:GILD) has outperformed most of the earnings estimate due to their increasing revenue streams and efficient pipeline. Currently, the company has several products under Phase 3 that will soon be introduced in the market in order to strengthen their revenue. Furthermore, the company has shown stable financial results and has efficiently managed their important debt. As a sign of confidence to the investors, Gilead Sciences' management has triggered a vast wealth distribution to shareholders composed of a dividend payout and a stock repurchase program. As the leader of the biotechnology industry, Gilead was not spared by the political environment of the last years. With the threat of a regulation on drug prices, the firm has suffered an important fall in their stock value until recently due to the fear of a reduction of their margins. Gilead Sciences has a strong customer base and a healthy product pipeline that might generate an increase in stock price in the next year.	$ 101.93	$ 114.83
KTOS	BUY	Kratos has the necessary demand and proper business strategy to begin an upward trend as a growing company with a more affordable focus. Macroeconomic factors are positively boosting the potential for the defense industry and Kratos is focused on the correct war-fighting capabilities most recently requested by the United States Department of Defense. Kratos will experience organic growth in many of its business segments and has set expectations really low for 2016 in an effort to remain conservative.	$ 5.39	$ 7.53

MBUU	BUY	Malibu Boats Inc. is a designer, manufacture and marketer of performance sports boats. Malibu Boats in the best of its class of any of the boat manufacture companies. With 32% market share in 2014, Malibu Boats has successfully been able to take market share away from its competitors. This has been done through better boat quality as well as personalization through the extensive technology that they possess. Malibu Boats is looking to gain market share as they aim to enter the premium luxury segment of boats with their M235 series. Though the boat industry took a huge hit during the recession, it has been picking up steam of late. This along with the Federal Reserve wanting to raise interest rates will be key drivers in individuals buying more boats. At the price of $17.20, Malibu Boats is considered a BUY. With a 1-year target of $23.06, Malibu Boats has an upside potential of 25%.	$ 17.20	$ 23.06
MIK	BUY	In the beginning of February 2016, Michaels acquired Lamrite West. Lamrite West is a wholesaler in the arts and crafts industry. The acquisition was for $150 million. The market reacted very well to the announcement of the event. Since the acquisition, the stock price increase from $22.08 all the way to its 52 week high of $29.56. Investors believe that there is a lot of value to be created from acquiring Lamrite West. Michaels has effectively cut out a link in the supply chain and should be able to show improved margins in the near future. One aspect of the company that has investors worried is their high amount of debt. They currently have about $2.7 billion in debt which is fairly large considering that their revenue is $4.9 billion in comparison. On the positive note, they have shown consistent improvements within the last two years. In 2014, the amount of debt was totaled at $3.6 billion and in just two years they have been able to shrink their debt by 25%.	$ 28.28	$ 48.08

COL	BUY	Rockwell Collins' fundamentals are in the top range of its industry. The company is showing strong and improving margins over the years with strong expectations over the next ten years, especially regarding the growth rate. While competitors are expected to grow at 3% over the next years, COL is expected to grow between 3% and 5%. The very large portfolio of the company is offering a great diversification of customers and risks, and give the company more potential for growth in the long run. The outlook for the overall industry is offering better growth rates than the forecast global GDP growth rate, which is going to improve the top-line growth of the company. Based on its excellent fundamentals, plus its large portfolio and R&D investments, the company is still better prepared than competitors for future growth, and better margins. Based on the stock chart analysis, the company is also offering a positive alpha compared to the aerospace & defense industry. The 5% drop will soon be erased as it offers an opportunity to buy the stock at a cheap price, and may be able to pass the $100 barrier over the next months.	$ 90.01	$ 108.00
WSM	BUY	WSM is a company with an increasing presence inside and outside the USA. Due to a weak 2015 growth, expectations have been lowered for the company, but chances are those expectations are actually wrong. The company can benefit from the diversification and quality of its products as well as its partnerships and a bullish housing market to secure a higher growth than forecasted. While 2015 have shown different WSM problems such as the distribution of their products, the company has made the necessary changes that will drive its growth in 2016 and 2017.	$ 59.52	$ 68.96
WTW	SELL	Although Weight Watchers still holds the largest market share in the weight loss services industry, WTW has consistently been declining in revenue, and will soon lose its hold as the industry's leader. The industry outlook is favorable in the sense of obesity and population metrics, however, increased competition is a serious threat. In addition to growing companies such as Nutrisystem, Medifast, and GNC, advancements in technology, such as phone applications, are making Weight Watchers less appealing. The partnership of Oprah Winfrey has driven the stock price up, but Q4 financials have indicated that she is not effecting growth, and as a result, the stock is largely overvalued.	$ 14.62	$ 6.20

Macroeconomic Overview

U.S. Markets

Index	Weekly % Change	YTD % Change
S&P 500	+0.52%	+2.33%
Dow Jones Industrial	+0.59%	+3.32%
NASDAQ Composite	-0.65%	-2.02%
Russell 2000	+1.39%	+0.95%
VIX	-2.94%	-27.40%

U.S equity benchmarks maintained last week's upward trend. There were not a lot of economic data reports this week. On Monday, building permits report was lower than expected at a level of 1.086 million (consensus at 1.170M). However, on Tuesday, existing home sales increase to 5.33M, slightly above expectations of 5.30M. The U.S job market keeps strengthening with initial jobless claims reported at a level that has not be seen since 1973 with 247,000 claims for a consensus at 263,000. The Russell 2000 reacted to the releases by a weekly gain of 1.39%, and entered into positive territory on a year to date basis with an increase of 0.95%. This week was also the beginning of the earnings season, which was mostly disappointing for tech companies. Netflix, Microsoft and Alphabet reported earnings below consensus and erased $68 billion from their market capitalization. Therefore, the NASDAQ Composite, which is the tech savvy index, reported one of its worst week since February with a weekly drop of 0.65%, and it remains in negative territory year to date (-2.02%). In the same time, the S&P 500 companies beat earnings consensus by 4.0% on average. The S&P 500 responded to these earnings by reaching its highest 2016 level at 2,110 points, and then decreased at 2,091.58 points for a weekly gain of 0.52%. In the meantime, the Dow Jones Industrial index ended the week with a year to date and weekly increase of 3.32% and 0.59% respectively. Regarding the energy market, investors were looking at the results of the OPEC and Non OPEC meeting of Doha. Iran, after launching its first oil shipments in three years in February, canceled its participation at the meeting. Saudi Arabia, which has experienced a gap in its budget because of the drop in prices, refused to freeze oil production at the current level without Iran participation. The West Texas Intermediate oil futures for delivery in June went from $41.65/barrel on Sunday to $38/barrel on Monday morning. It finished the week at $42.74/barrel for a weekly gain of 2.99% after IEA predicted that 2016 would see the biggest non-OPEC drop in oil production in 25 years. Gold stayed flat this week with a modest 0.04% increase at $1233.03/ounce. On the contrary, silver increased by 4.59% and finished the week at $16.96/ounce after massive buying in Shanghai. Silver is now at a return of 21% year to date. In the corporate news, European Union regulators alleged that Google is abusing its dominant position with Android and that it only promotes its own shopping service. The company could have to pay up to 10% of its global revenues. Moreover, Verizon and a private consortium, called TPG, are the last companies involved in the bids to acquire Yahoo. Next week, the U.S will release its new home sales, pending home sales, GDP, Conference Board Consumer Confidence reports.

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

International Markets

Index	Weekly % Change	YTD % Change
BE 500	+1.45%	-5.12%
Stoxx Europe 600	+1.65%	-4.74%
DAX	+3.20%	-3.44%
FTSE 100	-0.53%	+1.09%
CAC 40	+1.66%	-1.45%
Nikkei 225	+4.30%	-7.68%
Shanghai Composite	-3.86%	-16.39%
Shenzhen Composite	-5.61%	-19.12%

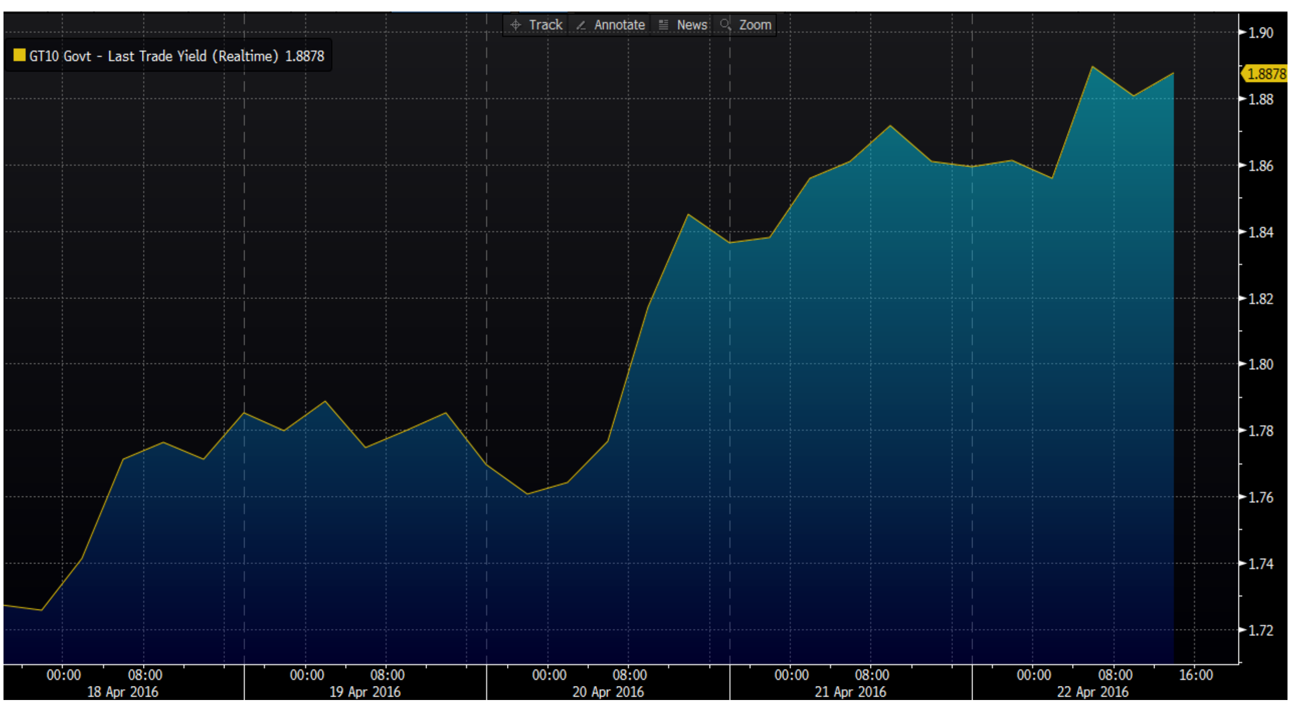
International equity markets kept up with last week bullish trend, except for the FTSE 100 and the Chinese indexes. On Monday, the Stoxx Europe 600 reached early January levels at 350.75 points. Despite the fact that the European Central Bank kept its deposit, lending and repo rates unchanged, the German DAX and the French CAC 40 gained 3.20% and 1.66% respectively. Indeed, on Friday, German manufacturing PMI came up at 51.9, beating the consensus by 0.9, while the French services PMI was at 50.8 compared with the 50.2 expected by the market. Only the FTSE 100 fell by 0.53% last week. Retail sales (MoM) were way below expectations at -1.3% against a consensus of -0.1%, and Claimant Count Change, which measures the change in the number of unemployed people, was also higher than expected at 6700 counts for a consensus of – 11,300.

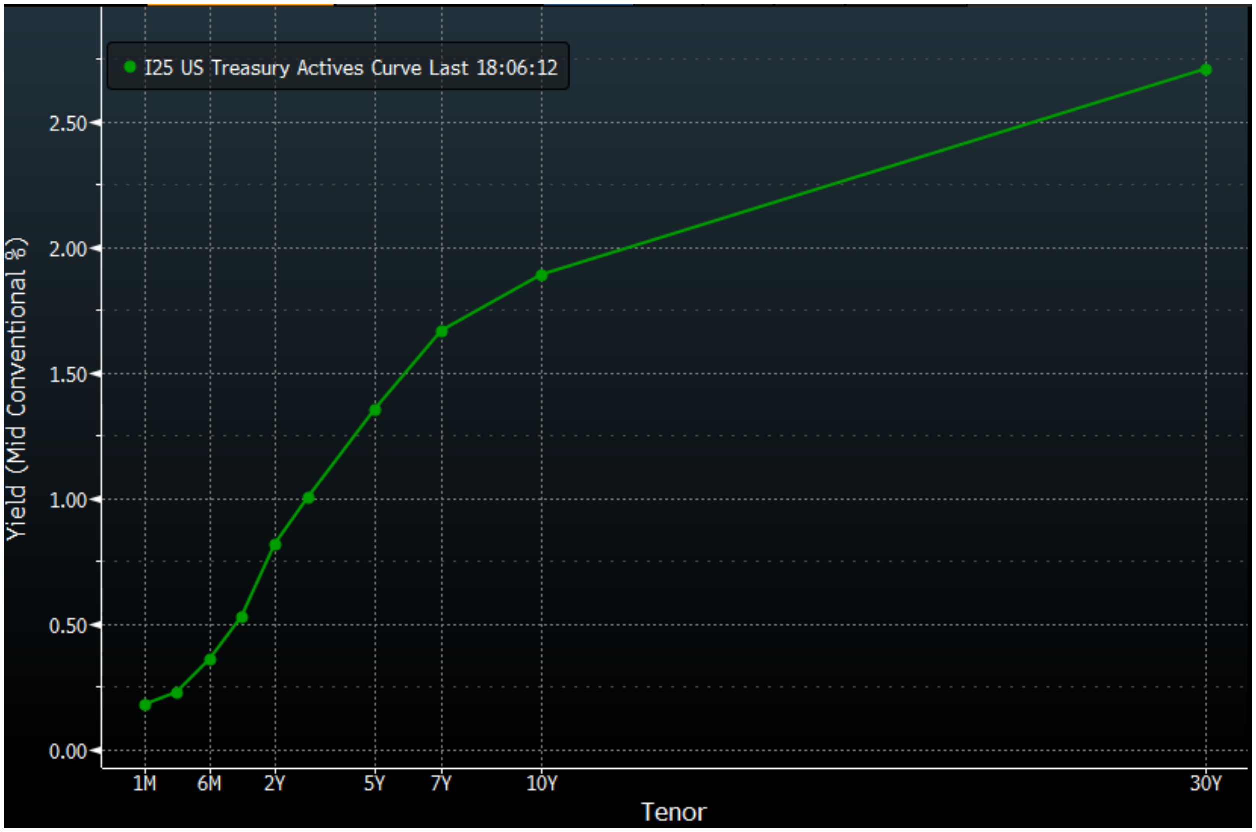
In Asia, the Nikkei 225 was traded at its highest level in two months, following a second week of a new bullish trend. Investors seems to expect further actions regarding monetary easing. The Japanese Central Bank will held a meeting at the end of next week to discuss its policies.

Meanwhile in China, the Shanghai Composite and the Shenzhen Composite ended the week with a drop of 3.86% and 5.61% respectively amid new concerns about the credit growth and many defaults of Chinese companies. George Soros warned that "China resembles US in 2008." Next week, the U.K will release its GDP for the first quarter, Germany its unemployment rate, the Eurozone its GDP.

Bond Report

This week, The US Treasury yields continue to climb for their highest levels this month. This reflects a desire for riskier assets, such as equities and oil, by investors. Although, with the S&P at its best in four months and the Dow industrials at its highest in nine months, a negative tone will still be carried through in Treasurys. The Federal Reserve's dovish approach continues to lead investors to plan on interest rates remaining lower for longer. The market implies a June rate increase remains at a 16% probability. The Federal Reserve will meet next week to discuss further monetary policy. On Monday, Treasury yields rose even higher than their largest weekly jump in weeks last Friday. Oil prices recovered some from their losses after oil prices plunged with a failed agreement of top class oil producers Doha and Qatar. This left equities in the U.S. to reverse into the positive direction leaving better than expected corporate earnings results. In response, Treasury yields rose as risky assets recovered. A continuing rally in the equity markets and the selling of safe assets, such as government debt, on Tuesday, pushed yields to remain at April's high. Boston's Federal Reserve president Eric Rosengarten presented his concern that unemployment could fall sharply if interest rates remain low. His comments were perceived hawkish by investors pushing yields higher. However, do to news that housing starts in the U.S. dropped to a 12 month low in March Tuesday's gains on Treasury yields were somewhat capped. On Wednesday, Treasury yields experienced the largest single day jump in seven weeks. This was due to a rally in oil and equity markets. Until the Fed's policy meeting next week the Treasury market will remain at the mercy of risky assets. This is due to Fed officials not making any comments until the meeting next week, which are the genuine market drivers. For the fourth straight session this week Treasury yields increase, on Thursday. Due to a bond selloff that started in Europe, after a climb in government bond yields due to the European Central Bank failing to change key interest rates. Thursday's increase was trimmed by some return in demand to the Treasury market pushing Treasury prices higher. Treasury yields continued the week's upward trend, on Friday. The main driver being a strong desire for riskier assets, such as oil futures and high yield bonds. A continued strong upward trend in the labor market and commodities are leading investors to consider the possibility that inflation will soon rise thus increasing yields further. Overall, Treasury yields are currently at the highest in the month of April. The two- year Treasury rose 8.8bps over the week to reach 0.822%. The 10-year Treasury yield soared 13.4bps over the week to finish at 1.889%. While the 30-year Treasury finished the week up 12.1bps to reach 2.708%.





What's next and key earnings

On Monday, the housing market index was released. It remained unchanged at 58, which continues to point to confidence among home builders. Continued sentiment among home builders has further added to the selling of Treasurys. Meanwhile, it was released, on Tuesday, that housing starts in March plummeted 8.8%. Although, the year-on-year rates are still fundamental strength in housing start-ups. On Wednesday, it came out that existing home sales rose more than anticipated during March but remain weak year-on-year. The median price for an existing home is lower than a year ago were higher prices help encourage more homes into the market. However, realtors still remain optimistic. The EIA petroleum status report was also released, on Wednesday. A rise of 2.1 million barrels last week in crude oil inventories to reach 538.6 million barrels. Product inventories declined as a result of gasoline down 0.1 million barrels and distillates down 3.6 million. Demand for gasoline is up 3.65% higher than last year, while demand for distillates is slightly down. This was an optimistic report in comparison of this winters. On Thursday, jobless claims were released for last week. Labor markets remain confident, although claims fell lower than expected. The 4 week average for jobless claims fell 4,500 to 260,500 from 265,000. Thus, this report is still optimistic as employers hold onto their employees. On Friday, the PMI manufacturing index flash came out giving early inclinations that April's factory conditions are unchanged. Indications of monthly growth are still present with a PMI reading over 50, at 50.8. Although, there is a slowing in growth in outputs, hiring, and new orders. While it was released that the energy sector's outlook remains pessimistic. Backlogs are down signalling operating slack, a negative for hiring. Inventories remain down as manufacture's stocks of purchases are falling sharply. Lastly, it states that it is still too early to realize gains from this year's depreciation in the dollar and gains for oil.

Abbott Laboratories.

NYSE:ABT

Analyst: Patrick Donovan
Sector: Healthcare

BUY

Price Target: $49.16

Key Statistics as of 4/23/16

Market Price:	$44.08
Industry:	Healthcare Equipment and Supplies
Market Cap:	$64.94B
52-Week Range:	$36.00-51.74
Beta:	.78

Thesis Points:

- Acquisition of Alere will create synergies that will significantly improve Abbott's bottom line.
- MitraClip is taking the market by storm and, along with other top products, will continue to see unprecedented growth and improving margins.
- Aging population is increasing demand for healthcare products, especially point-of-care, Abbott is poised to take great advantage of this.

Company Description:

Abbott is a top manufacturer of medical devices, diabetes management products, both pediatric and adult nutritional products and many diagnostic products and equipment. Products include stents, catheters, nutritional beverages, vascular health devices and optical aids such as contact lenses. The firm generates the majority of its sales, about sixty percent, outside the United States. Headquartered in Chicago, Illinois and founded in 1888 the company has been delivering high quality, innovative products for generations. With an impressive track record in acquisitions, the company continues to grow and expand vertically and horizontally. Below Abbott is compared to the S&P 500 healthcare index and Agilent Technologies (purple), a similarly valued competitor.

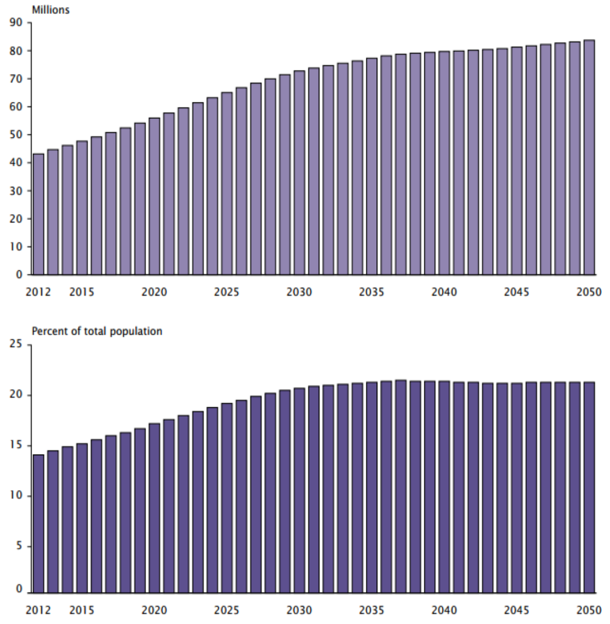
Thesis

Since 2001 Abbott has made 18 acquisitions, some of which the firm has since re-sold to other businesses. The variation in these arrangements is a testament to the management team's commitment to improving the company's market share in many fields but also to innovation. The management team is willing to make bold moves that place Abbott in advantageous positions within the healthcare marketplace. Abbott is currently in talks with Alere Incorporated to acquire the point-of-care giant. This move would not only improve shareholder value for both firms immediately, it will also set Abbott up for significant synergies in the coming years. As the population in the united states moves towards an older average age, the demand for point-of-care diagnostics and services is going to continue to rise. Abbott will be poised to take full advantage of this with their current POC products and the addition of Alere's. The acquisition would make Abbott the leader in American point-of-care products. In regards to the company's product lines, MitraClip was approved by the FDA in October of 2013, since hitting the market in 2015 the product has helped to more than quadruple the value of Abbott's Other Coronary Products segment. Abbott has been able to tap into many international markets with MitraClip and is pushing for further approval in emerging markets. Along with this quickly growing product, Abbott has a series of devices that are rapidly expanding in sales as well. Absorb GT1 is the world's first Bioresorbable Vascular Scaffold, meaning it can be used to hold open a clogged artery for many months until it has healed and regains strength, then the product will simply dissolve. Popularity in the GT1 is growing at a fast pace thanks to incredible reduction in complications post heart surgery, due primarily to the complex construction of the biological scaffold, which is minimally invasive to the body and immune system. With all of the products that Abbott has they have been able to expand their research and development to more efficiently bring about innovative products and refresh existing lines. In 2012 the company had $20 billion in debt, in 2013 the firm paid off almost $14 billion. In comparison to many of their competitors Abbott is particularly well versed in managing debt levels and maintains traditionally lower amount in the capital structure. This being said, Abbott has been using cash effectively outside of paying debts down. The firm has been acquiring competitors and firms that can contribute to the business for more than a decade, and has perfectly positioned itself to take full advantage of the rapidly ageing population in the U.S. and globally. Life expectancies for the entire world are on the rise thanks to improvements in education, healthcare, and aid programs; this means more medical care and therefore more market leading products from Abbott will be demanded in the future.

Industry Outlook

As was briefly mentioned above, the healthcare industry as a whole has a very positive outlook in the coming years. The number of people aged 65 and older in the United States and globally is projected to rise significantly over the next decades. Below is a chart from the United States census bureau demonstrating this very projection, it shows the total percentage of the population that will be aged 65 or older from 2012 to 2050. As you can see, the percentage is estimated to increase from roughly 14 to 21 percent during this time period. According to the Carlyle research company and data provided by the world bank, over the next decade the ageing world population should increase average healthcare spending as a percentage of GDP by about 1.2 percentage points. While that may seem insignificant, to put that into dollar terms, the United States would spend an additional $217.2 billion annually on the healthcare industry.

Figure 1.
Population Aged 65 and Over for the United States: 2012 to 2050



Source: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections.

Specifically addressing Abbott's product lines, the expectations for many of the company's cornerstone products are extremely promising. According to the most recent earnings call (4/20/16) the firm anticipates continued double digit growth in sales within India, which comprises 20% of the Established Pharmaceuticals segment for Abbott. The call also highlighted significant growth in demand for branded generics in emerging markets and growing economies. All in all, the variety in devices and products that Abbott features in its portfolio will provide the backbone for improvements in revenues and margins in the coming years.

Acquisition of Alere

Alere is priced similarly to Abbott, as of 4/23 the company's shares sell for $43.36. While the share prices are similar, Alere has a market cap of roughly $3.75 billion. Abbott has a decent point-of-care business now, but according to Reuters, the acquisition would make Abbott the leader in point-of-care in the United States. Alere operates through to main segments, Professional Diagnostics and Consumer Diagnostics. Synergies will exist immediately amongst research and development, sales and marketing, and of course the distribution and production of both firms' products. The market has been anticipating this acquisition on multiple occasions only to find out that some sort of delay has been announced. Alere has been slow or uncooperative to provide certain documentation to the SEC in regards to the transaction and thusly has slowed the process with Abbott. According to the earnings call on April 20th, the firm is strongly considering the acquisition but cannot currently comment due to the missing documentation. Other analysts agree that Alere will provide a great addition to Abbott's product line and business model. The market looks favorably upon the deal as false announcements have twice already raised the share price of both firms then subsequently returned to their appropriate levels when a corrected announcement was released. Pending any unusual circumstances or some discovery of foul play within the missing documentation from Alere, the acquisition should take place within the next few months, significantly boosting the projections for earnings and shareholder value for 2016.

Financials

Abbott has been on a mission to improve efficiency, margins, and generate new sources of growth. In the past two years the firm has completed projects to open lower-cost production facilities in China and India, which has been a major contributor to improvements in margins in those markets. Since 2014 the company wide ROIC/WACC ratio has been improved from 1.37 to 4.02, displaying the already impressive growth that Abbott has experienced since the introduction of their most recent innovative product lines. The valuation of the firm within the Proforma analysis was done by changing some of the expectations for future financial results. The firms non-adjusted revenue growth will be converging towards the industry average in 10 years of 8% per annum. Operating costs will also be reduced slightly over the same period to 73%, slightly above the industry average. Several measures will remain similar if not equal to their current percentages. The most significant improvement to Abbott's operations will be the reduction of NPPE as a percentage of revenue. The firm expects to continue its movement of production facilities to less expensive locations, and by doing so will improve the usage of NPPE to generate revenue. Gross profit margin has improved by roughly 3 percentage points since 2012. EBITDA, operating, and net income margin have all been steadily increasing since 2013 as well, this can be attributed to great management techniques and improved sales.

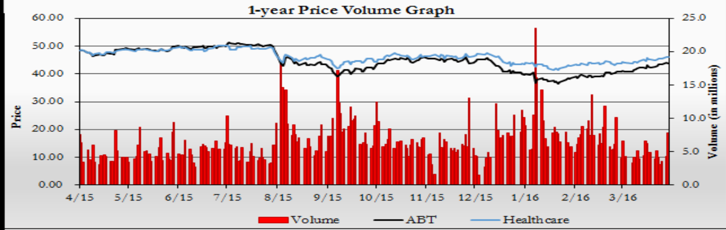
Conclusion

To summarize, Abbott Laboratories is already an industry leader with generations of experience in the field. The firm has made a tremendous priority of acquisitions in order to generate growth, along with serious improvements in cost management. Recent innovations in their product lines have begun to generate new growth and a significant increase in sales in several markets. The healthcare industry as a whole has a very positive outlook and the demand for devices and point-of-care services will be increasing in the coming years. Abbott can take advantage of this through the firm's current business, however. The proposed acquisition of Alere Technologies would generate tremendous value for shareholders. All of this being said and using the Proforma valuation program created by Dr. Girard, I have targeted a value of $49.16 for one year and am recommending a buy.

CENTER FOR GLOBAL FINANCIAL STUDIES

Abbott Laboratories (ABT) — **NEUTRAL**

Analysis by Patrick Donovan	Current Price:	$43.93	Intrinsic Value	$44.60	Target 1 year Return: 14.01%
4/23/2016	Divident Yield:	2.1%	Target Price	$49.16	Probability of Price Increase: 90%



Description

Abbott Laboratories manufactures and sells health care products worldwide.

General Information

Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	November 3, 2015
Next earnings date	July 13, 2016
Estimated Country Risk Premium	6.02%
Effective Tax rate	31%
Effective Operating Tax rate	29%

Market Data

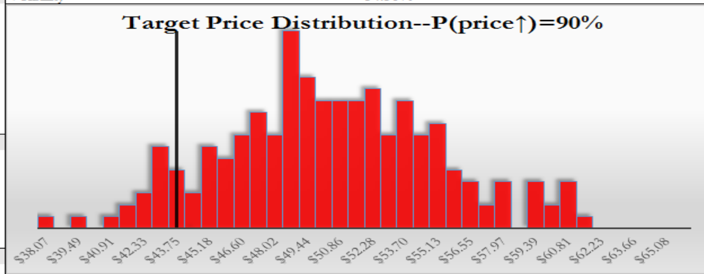
Market Capitalization	$64,645.85
Daily volume (mil)	1.86
Shares outstanding (mil)	1473.24
Diluted shares outstanding (mil)	1498.00
% shares held by institutions	78%
% shares held by investments Managers	61%
% shares held by hedge funds	1%
% shares held by insiders	0.29%
Short interest	0.86%
Days to cover short interest	1.81
52 week high	$51.74
52-week low	$36.00
Levered Beta	0.67
Volatility	34.30%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
3/31/2015	0.12%	-14.35%
6/30/2015	-0.81%	-22.36%
9/30/2015	-1.27%	-13.47%
12/31/2015	-4.13%	-13.18%
3/31/2016	0.51%	0.52%
Mean	-1.11%	-12.57%
Standard error	0.8%	3.7%

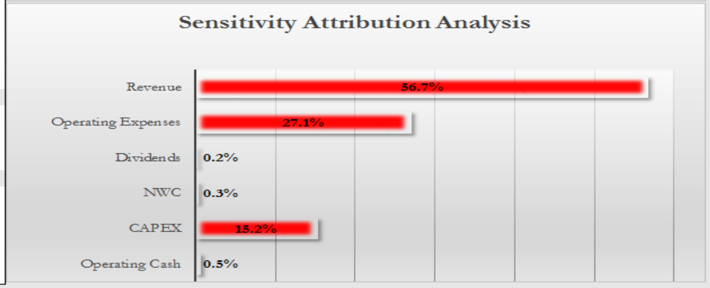
Peers

Baxter International Inc.
Boston Scientific Corporation
Stryker Corporation
Becton, Dickinson and Company
St. Jude Medical Inc.
Medtronic plc
Johnson & Johnson
Edwards Lifesciences Corp.

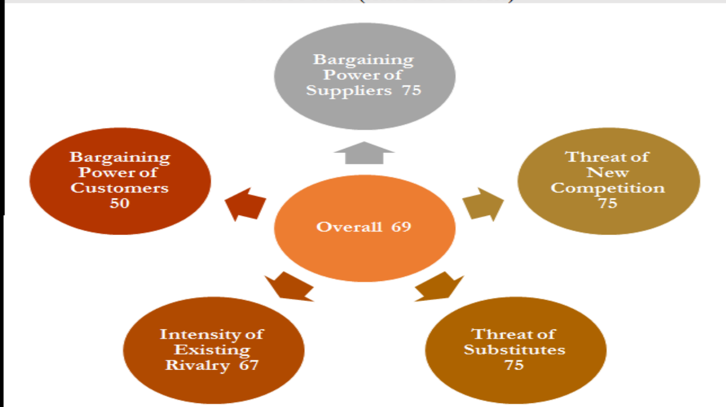


Management	Position	Total compensations growth	Total return to shareholders
White, Miles	Chairman, Chief Executive Of	-5.37% per annum over 5y	4.18% per annum over 5y
Yoor, Brian	Chief Financial Officer and	N/M	0% per annum over 0y
Freyman, Thomas	Executive Vice President of	-8.71% per annum over 5y	4.18% per annum over 5y
Capek, John	Executive Vice President of	-0.88% per annum over 1y	2.07% per annum over 1y
Warmuth, Michael	Executive Vice President of	N/M	0% per annum over 0y
Blaser, Brian	Executive Vice President of	5.58% per annum over 2y	10.65% per annum over 2y

Profitability	ABT (LTM)	ABT (5 years historical average)	Industry (LTM)
ROIC	12.6%	9.26%	9.41%
NOPAT Margin	14%	16.31%	16.4%
Revenue/Invested Capital	0.88	0.57	0.58
ROE	11.4%	9.11%	10.87%
Adjusted net margin	14%	15.53%	13.9%
Revenue/Adjusted Book Value	0.83	0.59	0.78
Invested Funds	**ABT (LTM)**	**ABT (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	23.3%	26.2%	23%
Estimated Operating Cash/Total Capital	19.0%	15.2%	N/A
Non-cash working Capital/Total Capital	0.0%	9.9%	8%
Invested Capital/Total Capital	81.6%	83.9%	72%
Capital Structure	**ABT (LTM)**	**ABT (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.13	0.12	0.21
Cost of Existing Debt	2.56%	2.09%	3.72%
Estimated Cost of new Borrowing	3.77%	3.61%	3.72%
CGFS Risk Rating	BB	BB	B
Unlevered Beta (LTM)	0.62	0.34	0.77
WACC	5.58%	3.85%	6.58%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	0.0%	14.3%	2.26
3/31/2017	1.8%	16.8%	2.89
3/31/2018	4.3%	17.7%	2.71
3/31/2019	5.4%	18.4%	2.62
3/31/2020	4.4%	18.3%	2.40
3/31/2021	5.6%	18.5%	2.31
3/31/2022	5.0%	18.7%	2.19
3/31/2023	4.5%	18.7%	2.07
3/31/2024	3.9%	18.8%	1.97
3/31/2025	3.3%	18.8%	1.88
3/31/2026	2.7%	18.9%	1.80
Continuing Period	2.1%	18.9%	1.72

Period	Invested Capital	Net Claims	Price per share
Base Year	$35,306.10	$3,343.70	$45.29
3/31/2017	$31,818.04	$295.00	$49.80
3/31/2018	$25,541.91	-$1,819.47	$53.39
3/31/2019	$26,251.54	-$3,994.05	$57.19
3/31/2020	$23,166.09	-$6,536.60	$61.20
3/31/2021	$21,458.74	-$9,403.98	$65.67
3/31/2022	$24,663.31	-$12,263.82	$70.10
3/31/2023	$27,461.88	-$15,505.19	$74.76
3/31/2024	$30,634.89	-$19,135.85	$79.63
3/31/2025	$33,613.06	-$23,161.56	$84.72
3/31/2026	$36,987.25	-$27,581.53	$90.05
Continuing Period			

Gilead Sciences, Inc.

NASDAQ:GILD

Analyst: Pierre Gouesclou
Sector: Healthcare

BUY

Price Target: $114.83

Key Statistics as of 4/23/2016

Market Price:	$101.93
Industry:	Biotechnology
Market Cap:	$138.08 B
52-Week Range:	$81.89 - $123.37
Beta:	0.92

Thesis Points:

- Strong financial data.
- Efficient product pipeline.
- Switch in capital structure to generate more value.
- Seek potential Acquisitions.

Company Description:

Gilead sciences, Inc., one of the Biotechnology Industry leader with a market cap of $134.4 Billion has been developing and commercializing products since their creation in the 80's. In 1987 the company went public with a stock price of $0.5 per share and is valued at a little less than $100 today. With their important pipeline the company was able to expand their revenue segment to various type of disorders. Since 2015 the stock price has acknowledged an increase in value due to Political movements regarding drug price limitations in the United-States. This decrease in value can become an investment opportunity.

Thesis

In the past years, Gilead Sciences (NASDAQ:GILD) has outperformed most of the earnings estimate due to their increasing revenue streams and efficient pipeline. Currently, the company has several products under Phase 3 that will soon be introduced in the market in order to strengthen their revenue. Furthermore, the company has shown stable financial results and has efficiently managed their important debt. As a sign of confidence to the investors, Gilead Sciences' management has triggered a vast wealth distribution to shareholders composed of a dividend payout and a stock repurchase program. As the leader of the biotechnology industry, Gilead was not spared by the political environment of the last years. With the threat of a regulation on drug prices, the firm has suffered an important fall in their stock value until recently due to the fear of a reduction of their margins. Gilead Sciences has a strong customer base and a healthy product pipeline that might generate an increase in stock price in the next year.

Industry Outlook

The Biotechnology industry is currently suffering due to the upcoming presidential elections. All candidates running for the White House have been discussing the importance of regulating the price of drugs and biotechnological products in the future. Given these discussions the markets have been severely sanctioning the stocks of these biotechnology companies. In addition to these sanctions the industry has been suffering from increases in regulations issues. The most recent example is the annulation of the merger deal between Pfizer and Allergan a few months ago. This “Healthcare bashing” can prove to be an interesting investment opportunity for investors.

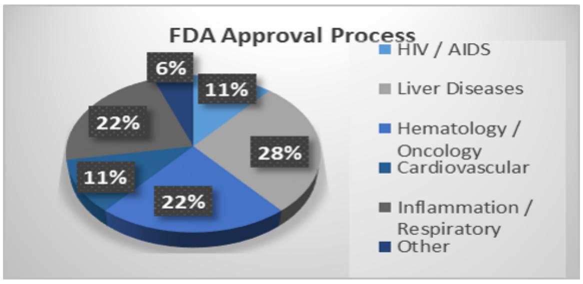
Pipeline

Current products: At this point in time, Gilead produces and sells 21 products made to deal with HIV, cardiovascular, respiratory and other health issues. The cash cows of the company are their treatments for HIV, which accounts for 58.6% of their total product sales. This phenomenon is increasing through the year as their other product percentage of sales is reducing drastically. This focus on HIV treatments can be seen as a lack of diversity and can become a possible weakness for the company in the future. Given this possible weakness, the company started researching and developing an important amount of products in other fields than HIV.

In Millions of USD except Per Share	FY 2012		FY 2013		FY 2014		FY 2015	
12 Months Ending	12/31/2012		12/31/2013		12/31/2014		12/31/2015	
Product Sales	9,271.4	96.8%	10,804.0	96.4%	24,474.0	98.3%	32,151.0	98.5%
Antiviral Products	8,141.8	85.0%	9,342.0	83.4%	22,791.0	91.6%	30,207.0	92.5%
HCV Franchise	–		139.0	1.2%	12,410.0	49.9%	19,140.0	58.6%
Truvada	3,181.1	33.2%	3,136.0	28.0%	3,340.0	13.4%	3,459.0	10.6%
Atripla	3,574.5	37.3%	3,648.0	32.6%	3,470.0	13.9%	3,134.0	9.6%
Stribild	57.5	0.6%	539.0	4.8%	1,197.0	4.8%	1,825.0	5.6%
Complera	342.2	3.6%	810.0	7.2%	1,228.0	4.9%	1,427.0	4.4%
Viread	848.7	8.9%	959.0	8.6%	1,058.0	4.3%	1,108.0	3.4%
Other Antiviral	–		111.0	1.0%	88.0	0.4%	69.0	0.2%
Genvoya	–		–		–		45.0	0.1%
Emtriva	29.4	0.3%	–		–		–	
Hepsera	108.3	1.1%	–		–		–	
Other Products	–		1,462.0	13.1%	1,683.0	6.8%	1,944.0	6.0%
Letairis	410.1	4.3%	520.0	4.6%	595.0	2.4%	700.0	2.1%
Ranexa	372.9	3.9%	449.0	4.0%	510.0	2.0%	588.0	1.8%
AmBisome	346.6	3.6%	352.0	3.1%	388.0	1.6%	350.0	1.1%
Other Product	126.9	1.3%	141.0	1.3%	167.0	0.7%	174.0	0.5%
Zydelig	–		0.0		23.0	0.1%	132.0	0.4%
Cayston	–		–		–		–	

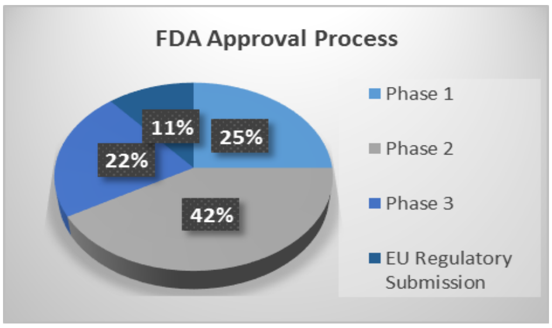
(Source: Bloomberg.)

Products in development: Gilead Sciences has an important pool of products in development for several types of diseases. Out of 36 products, only 4 are undertaken with a focus on HIV, which represents only 11% of the research portfolio. The firm is attempting to enhance the efficiency of their other existing segments and create new sources of revenues. Gilead Sciences has an important amount of their development Portfolio placed into prototypes for liver diseases, inflammations and hematology. This focus on new segments may prove profitable for Gilead Sciences' stock price in the near future.



(Source: Corporate Website)

According to the Corporate Website of Gilead Sciences, most of their products in development (42%) are under Phase 2 of testing against 33% that are in Phase 3 or waiting for the EU Regulatory Submission. Their wide pipeline is a real advantage for the company in case of a test failure or a rejection by the FDA.



(Source: Corporate Website)

Wealth distribution

On the 2nd of February, Gilead announced a buyback program of $3.1 billion and paid a dividend of $627 million to its shareholders. Due to an important operating cash flow of $4.1, Gilead decided to return wealth to its investors in order to boost the attractiveness of the share. Since this announcement, the company acknowledged an increase in stock price. Below is an extract of the last earnings call of the company regarding the composition of the stock repurchase program.

~77% of free cash flow was returned (inclusive of dividend and warrant settlements) during the period from January 2010 through September 2015

	Type of Activity	Dollar Amount (In Millions)	Shares / Warrants	Average Purchase Price
Q1 2015	Open Market Share Repurchase*	$3,000	29,593,030	$101.38
Q2 2015	Open Market Share Repurchase*	$900	8,811,676	$102.14
Q2 2015	Warrant Repurchase**	$3,865	46,000,000	$113.96
Q3 2015	Open Market Share Repurchase*	$3,050	27,570,455	$110.63

(Source: Corporate earning calls)

One of the reasons for this repurchase program might also be related to the assumption that the stock is undervalued and that the company could repurchase it in order to sell it with a profit later. In both cases, this wealth distribution is a positive sign on behalf of management that can afford spending important amounts of liquidity on benefits for the investors.

Recurrent beating of estimates

In the past quarters, Gilead had a tendency to beat most of the analyst estimates during their earnings. In the Bloomberg extract below, we can observe that the company had outperformed the estimates due to their outstanding sales and their very conservative forecasts. Furthermore, their sales in Europe and Asia are expected to acknowledge an important growth in the next year. The company is also enhancing their product pipeline, allowing additional revenue streams. Given these expectations, we can assume that Gilead will keep beating the estimates in the future.

(Source: Bloomberg.)

Financials

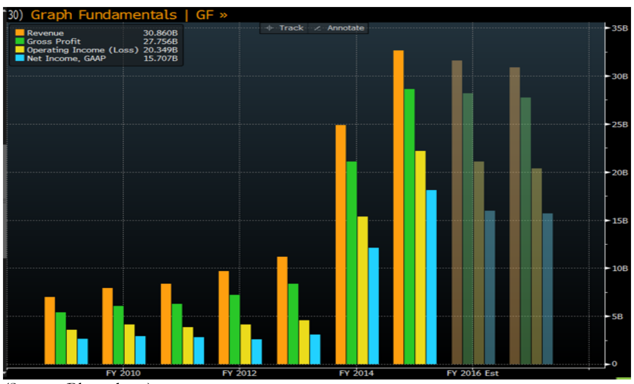
Margin management: Gilead Sciences has acknowledged important growth in revenues during the prior fiscal years, soaring to 21.7% in 2015. In addition to this growth, the company has acknowledged increases in gross profit margins, EBITDA margins and net income margins between 2014 and 2015 of respectively 3%, 5% and 7%. This implies that the company has an efficient cost management policy and constantly generates more and more value through their operations. Below are the data extracts from Capital IQ underlining this effect.

	2010	2011	2012	2013	2014	2015
Revenue	7,949.4	8,385.4	9,702.0	11,202.0	24,890.0	32,639.0
Growth	-	5%	16%	15%	122%	31%
Gross Profit	6,079.5	6,261.0	7,231.0	8,343.0	21,102.0	28,633.0
% Margin	76%	75%	75%	74%	85%	88%
EBITDA	3,962.2	3,818.3	4,299.0	4,524.0	15,615.0	22,193.0
% Margin	50%	46%	44%	40%	63%	68%
Net Income	2,901.3	2,803.6	2,592.0	3,075.0	12,101.0	18,108.0
% Margin	36%	33%	27%	27%	49%	55%

(Source: Capital IQ)

Income Statement: Between 2010 and 2015, Gilead was able to be more efficient on their activities with a net income growth of 524% for a revenue growth of 311%. As mentioned below, the company was able to efficiently manage their costs without minimizing their expenses related to expansions translated by SG&A and R&D. From 2014 to 2015, Gilead Sciences increased their R&D by 20% and their SG&A by 15.

As a biotechnology company, Gilead has acknowledged the importance of research and development in order to enhance revenue streams. Due to their capital structure and sensitivity to debt, the company is suffering from a steep increase in interest expenses. Between 2014 and 2015, interest expenses increased by 67% following the enhancement of the long-term debt of Gilead. Despite several increases in expenses, Gilead managed to land an increase of net income of 50% from 2014 to 2015. On an operational aspect, Gilead Sciences remains very efficient overall.



(Source: Bloomberg)

Cash Flow: Since 2010, Gilead Sciences has had only 2 negative net changes in cash (2010 and 2012). The negative net change in cash for 2012 was mostly due to their important cash acquisitions. In the last two years, the company had an important positive change in cash generated by their operations and their borrowing policy. The company issued notes with a principal of $10.00 billion in 2015 and $8.00 billion in 2014. These notes were issued for corporate purposes such as debt repayment (over their past acquisitions in 2012), working capital efficiency enhancement and their dividend/stock repurchase policy.

In 2015, their repurchase program had an expense of $10.00 billion for the firm, in that aspect, we can understand the issuance of such an important debt. The company was able to generate positive net changes in cash but increased their sensitivity to debt in the process.

ROIC/WACC: From 2010 to 2013, the company has acknowledged an important increase in WACC. In order to resist this negative trend, the company started to take over long-term debt in 2014. We can observe that after this decision, the WACC decreased to 9.7% in 2015. Their WACC will be set at 9% for the continuing period. Gilead Sciences has benefited from an impressive ROIC for the past years. Although it has been slightly decreasing during the years, it will remain consequently impressive for the years to come with a continuing period value of 39%.

	2010	2011	2012	2013	2014	2015	Continuing
WACC	7.2%	7.2%	7.3%	11.4%	8.7%	9.7%	9%
ROIC	55.9%	55.9%	41.4%	21.7%	52.4%	49.5%	39%
ROIC/WACC	7.76	7.76	5.71	1.90	6.01	5.11	4.17

(Source: Pro Forma.)

The ROIC/WACC ratio shows a strong correlation between the capital structure and the value creation of the company overall. From 2010 to 2013, Gilead Sciences went through a period of decrease for this ratio. This implied that the company was still creating a value amount but this value was lesser than the past years. Since the contraction of debt and the shifting of the capital structure, the firm has begun creating more value and is currently stabilizing at a rate of 4.17 in the continuing period. By rebalancing this ratio, I believe that the company will start being attractive to the investors.

Acquisitions

Gilead Sciences has acknowledged a small but interesting acquisitions history in the last years. Its most recent acquisition was Galapagos NV (NASDAQ:GLPG) where the company planned to pay $725 million to acquire a stake in the drug maker. Galapagos NV had already been approached by AbbVie Inc. (NYSE:ABBV) a few months before due to an experimental drug the company was developing. After the announcement of the acquisition of Galapagos on the 8th of December 2015 for a purchase on the 19th January 2016, Gilead's stock price decreased heavily in response.

(Source: Bloomberg.)

More recently this year, the company announced the acquisition of Nimbus Therapeutics for a price of $400 million and an additional $800 million in their R&D. This company is working on preclinical ACC inhibitors and non-alcoholic steatohepatitis. Through such acquisitions, Gilead Sciences is attempting to expand their activities and therefore lower their operational risk related to the small size of their segments. Even today, there are many rumors on the markets regarding possible additional acquisition targets for Gilead. With their increase in revenue and the macroeconomic environment in the healthcare industry, the company is able to purchase smaller companies for a very affordable price.

Conclusion

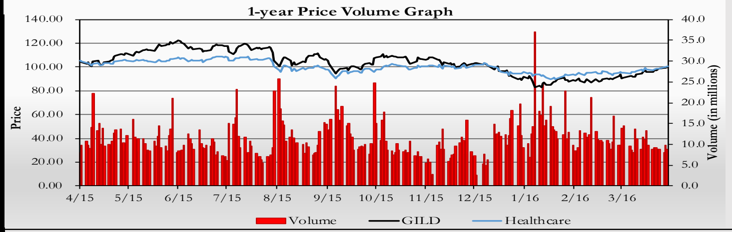
Gilead Sciences has acknowledged an interesting increase in their financial statements in the past years. In addition, the company benefits from its position as the leader of the industry and its impressive pipeline of current and developing products. Furthermore, the company is currently taking debt in order to finance their activities and reduce their WACC. Therefore, I would recommend a buy on Gilead Sciences with a 1-year target of $114.93, which implies an increase of 13.78% compared to the current price. The probability of a price increase of 96.1%.

Gilead Sciences Inc. (GILD)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Pierre Gouesclou	Current Price:	$101.93	Intrinsic Value	$103.93	Target 1 year Return: 13.78%
4/23/2016	Divident Yield:	1.1%	Target Price	$114.83	Probability of Price Increase: 96.1%



Description

Gilead Sciences, Inc., a research-based biopharmaceutical company, discovers, develops, and commercializes medicines in areas of unmet medical needs in North America, South America, Europe, and the Asia-Pacific.

General Information

Sector	Healthcare
Industry	Biotechnology
Last Guidance	November 3, 2015
Next earnings date	April 28, 2016
Estimated Country Risk Premium	6.86%
Effective Tax rate	34%
Effective Operating Tax rate	35%

Market Data

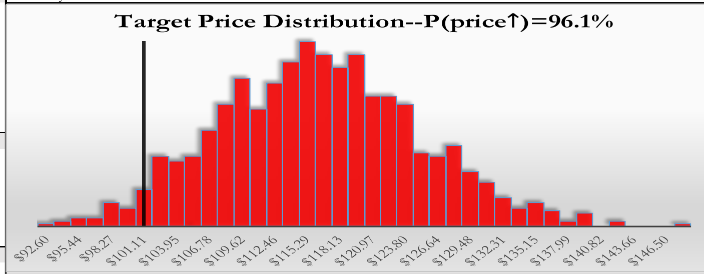
Market Capitalization	$138,078.64
Daily volume (mil)	10.30
Shares outstanding (mil)	1354.64
Diluted shares outstanding (mil)	1521.00
% shares held by institutions	78%
% shares held by investments Managers	74%
% shares held by hedge funds	2%
% shares held by insiders	0.67%
Short interest	2.15%
Days to cover short interest	2.36
52 week high	$123.37
52-week low	$81.89
Levered Beta	0.92
Volatility	28.44%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	-5.53%	8.71%
3/31/2015	-4.02%	9.37%
6/30/2015	-1.63%	4.66%
9/30/2015	-0.24%	5.31%
12/31/2015	-3.65%	N/A
Mean	-3.01%	7.01%
Standard error	0.9%	1.2%

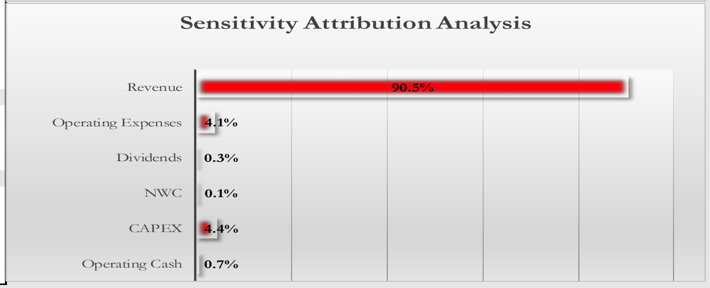
Peers

Amgen Inc.
Biogen Inc.
Celgene Corporation
AbbVie Inc.
Regeneron Pharmaceuticals, Inc.
Pfizer Inc.
Eli Lilly and Company
Bristol-Myers Squibb Company

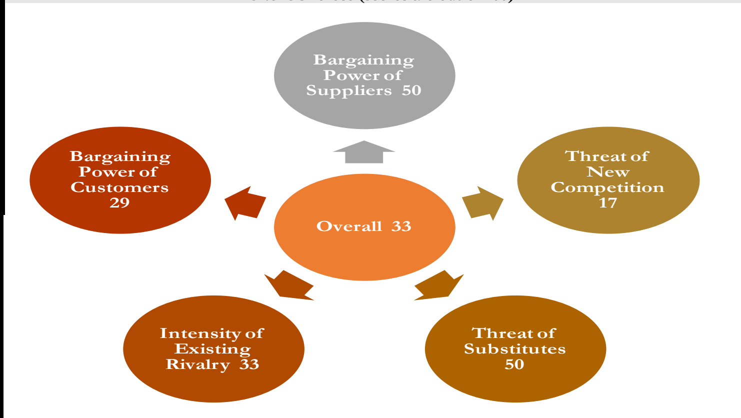


Management	Position	Total compensations growth	Total return to shareholders
Martin, John	Executive Chairman	4.17% per annum over 6y	-1.8% per annum over 6y
Milligan, John	Chief Executive Officer, Pre	2.97% per annum over 6y	-1.8% per annum over 6y
Washington, Robin	Chief Financial Officer and	7.9% per annum over 6y	-1.8% per annum over 6y
Bischofberger, Norbert	Chief Scientific Officer and	8.76% per annum over 6y	-1.8% per annum over 6y
Alton, Gregg	Executive Vice President of	-100% per annum over 3y	33.77% per annum over 3y
Pletcher, Brett	Executive Vice President, Ge	N/M	N/M

Profitability	GILD (LTM)	GILD (5 years historical average)	Industry (LTM)
ROIC	45.5%	42.60%	12.70%
NOPAT Margin	49%	42.64%	21.7%
Revenue/Invested Capital	0.92	1.00	0.59
ROE	47.4%	35.04%	13.90%
Adjusted net margin	48%	41.02%	19.0%
Revenue/Adjusted Book Value	0.99	0.85	0.73
Invested Funds	**GILD (LTM)**	**GILD (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	28.2%	25.3%	30%
Estimated Operating Cash/Total Capital	24.8%	19.7%	N/A
Non-cash working Capital/Total Capital	2.4%	4.9%	7%
Invested Capital/Total Capital	75.4%	86.0%	63%
Capital Structure	**GILD (LTM)**	**GILD (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.16	0.14	0.15
Cost of Existing Debt	5.11%	4.93%	7.10%
Estimated Cost of new Borrowing	0.97%	2.39%	7.10%
CGFS Risk Rating	AAA	A	B
Unlevered Beta (LTM)	0.87	0.51	0.90
WACC	9.88%	7.25%	9.85%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	31.1%	49.5%	4.61
12/31/2016	-6.4%	47.8%	3.93
12/31/2017	-4.2%	45.9%	3.68
12/31/2018	-13.4%	44.4%	3.24
12/31/2019	-6.3%	59.8%	4.68
12/31/2020	-0.2%	57.9%	4.93
12/31/2021	0.2%	56.7%	5.03
12/31/2022	-7.3%	54.6%	4.63
12/31/2023	2.4%	53.5%	5.08
12/31/2024	3.4%	52.2%	5.18
12/31/2025	3.9%	50.7%	5.21
Continuing Period	2.1%	49.0%	5.13

Period	Invested Capital	Net Claims	Price per share
Base Year	$6,651.58	$12,643.25	$101.25
12/31/2016	$10,648.08	-$2,799.08	$112.11
12/31/2017	$21,643.70	-$17,082.33	$121.96
12/31/2018	$24,355.30	-$31,512.28	$131.50
12/31/2019	$35,488.49	-$47,005.80	$140.91
12/31/2020	$39,067.91	-$60,548.60	$150.24
12/31/2021	$38,914.19	-$73,638.16	$159.59
12/31/2022	$37,307.21	-$89,861.65	$170.86
12/31/2023	$32,984.08	-$101,048.84	$180.18
12/31/2024	$30,480.77	-$111,929.62	$189.57
12/31/2025	$29,585.64	-$122,607.37	$198.99
Continuing Period			

Siena Market Line
4th week of April 2016

Kratos Defense & Security Solutions

NASDAQ: KTOS

Analyst: Michael Post
Sector: Aerospace / Defense

BUY

Price Target: $7.53

Key Statistics as of 4/20/2016

Market Price:	$5.39
Industry:	Defense & Security
Market Cap:	$301 M
52-Week Range:	$7.12 – 2.80
Beta:	.62

Thesis Points:

1. KTOS is equipped with a strong backlog and series of new contracts which will provide higher profit margin sales in 2016.
2. Government support and ceased budget cuts will help the industry and KTOS especially.
3. KTOS may beat analyst's estimates for the year because management only gave "Kratos' Base Case 2016" conservative forward guidance.

Company Description:

Kratos Defense & Security Solutions, Inc. was founded in 1994 and is headquartered in California. The company operates out of 3 segments and provides mission critical products, solutions, and services primarily for the Government and commercial customers. The Kratos Government Solutions segment offers microwave electronic products, satellite communications, training solutions, modular systems, and defense and rocket support services. The Unmanned Systems segment provides unmanned aerial, ground, seaborne, command control, and communications systems. The Public Safety & Security segment offers integrated solutions for homeland security, public safety, critical infrastructure, and security surveillance systems.

Industry Review- KTOS

The North American defense industry is highly complex and manipulated by decisions of the U.S. Department of Defense. The Department of Defense (DoD) has recently requested that defense companies undergo a strategic shift to reinvent war-fighting capabilities with a focus on affordability. From that moment forward, future success for defense companies is dependent on their ability to embrace an affordable culture, adopt commercial capabilities, and strategically focus on growing defense segments while simultaneously exiting unprofitable ones.

Kratos Defense & Security Solutions (KTOS) is successfully restructuring its business model to make these essential changes. Kratos made the decision to make satellite communications, microwave electronics, and unmanned systems the primary focus for the future of the company. KTOS' unmanned systems segment is quickly growing and experiencing increasing government and private contractual interests. Management recognized the growing demand and acted by investing a greater effort on improving the products associated with this segment. With great success, KTOS created a newer model unmanned combat aerial system known as the UTAP-22. Kratos' UTAP-22 has been field tested, is low-cost, capable of reaching speeds of Mach .96, has manned fighter-like performance, and is ready for commercial sale in 2016.

Since 2011, the budget control act has put an increasing amount of pressure on many small and mid-cap defense companies like Kratos. Over the past several years, Kratos has seen its government services business contract go from approximately $300 million in revenue at its peak to less than $100 million today. This services business decrease is primarily responsible for Kratos' declining revenues over the past several years. However, in December of 2015, Congress released the 2016 and 2017 Omnibus Spending Bill and the President signed the Federal 2016 Budget. The Spending Bill and 2016 Defense Budget both provide the defense industry some relief from the Budget Control Act spending limitations. More importantly, the budget request specifically included Unmanned Systems, Satellite Communications, and Electronic Warfare and Missile Defense, which are all strategic focus areas for Kratos.

Thesis Point 1 – Backlog + Contracts

Kratos ended quarter 4 of 2015 with an impressive $914 million in backlog orders, contributed by organic growth of 41.8% in the microwave products business, 16% in the modular systems business, 9.6% in the satellite communications business, 4% in the defense and rocket support business, and 16.6% in the public safety business. The increased backlog enables Kratos to return manufacturing to full capacity and eliminate an approximate 1 million dollars of unabsorbed manufacturing overhead costs as stated in the 2015 10K. The increased production of unmanned systems alone is expected to contribute an additional $100 million per year of revenue once at max capacity. Additionally, redesigned products in most of these business segments have lower associated cost, in order to satisfy the affordable request made by the U.S. Department of Defense. Fortunately, Kratos was able to achieve this mandatory strategic shift and it helped Kratos project improving operating margins in 2016 from 2015. Furthermore, by complying with the requested strategy of the U.S. Department of Defense, Kratos was rewarded with a number of new contracts for 2016.

Contracts and Achievements in the 4th quarter of 2015

1) Kratos completed a test flight with the Navy for its new unmanned system called UTAP-22. The test included multiple strategic missions involving 2 or more unmanned aircrafts cooperating together to complete tasks of different difficulties. For competitive reason, further details of the test flights were not able to be disclosed, however management stated they were encouraged by the interest that the product received from both private and congressional entities. Unfortunately, management was not willing to disclose any specific potential customer activity for competitive reasons at this time. Investors were told to wait till later in 2016 for finalized contracts available for publication.

2) Kratos completed private testing of its newest unmanned aerial target drone system called BQM-177A. BQM-177A is designed to deliver longer range, lower cruising altitudes, and greater maneuverability. The test results were reviewed by the Navy and the product is scheduled for low rate production by the end of 2016. The purpose of this product is to eventually replace the old existing BQM-74E and BQM-34S Firebee Targets that customers are currently using.

3) Kratos was awarded a $44 million contract for weapons systems sustainment. The contract assumes a period of approximately two years, and the $44 million potential value of the contract has increased over the previously received award. Kratos has performed this work since 2005, and has unique qualifications and capabilities related to the weapon systems covered by this contract.

4) Kratos received a $9.1 million contract award for Oriole

Rocket Systems from the U.S. Naval Surface Warfare Center, Port Hueneme Division. Under this contract award, Kratos will deliver Oriole solid propellant rocket motors and related rocket system hardware to support ongoing experimental and test support missions.
5) Kratos received a $3.8 million task order from U.S. Army Targets Management Office (TMO) to provide High Speed Aerial Target Plus unmanned aerial targets under its TMO Aerial Target Support prime contract.

Thesis Point 2 – Government Support

As mentioned before, the budget control act of 2011 significantly impacted Kratos' government service business segment for the past several years. The decline in sales impacted operations and caused higher operating costs associated with lower revenues. However, in December of 2015, Congress released the 2016 and 2017 Omnibus Spending Bill and the President signed the Federal 2016 Budget. The Bill provided relief of further budget cuts for the defense industry and highlighted increased spending in three of Kratos' focus segments; Unmanned Systems, Satellite Communications, and Electronic Warfare and Missile Defense. Now that the defense budget hit its trough in 2014/2015, management has a better viewpoint on the macro environment and foresees continued growth in these segments as the Department of Defense begins increasing spending over the next few years. This factor is a key driver that once plagued Kratos to lose value for five consecutive years but will now foster growth for years to come.

Thesis Point 3- Beating Expectations

Kratos' management has set the bar very low for 2016 by what they are calling the "Kratos' Base Case". This guidance was highlighted in the q4 earnings call and projects revenue and adjusted EBITDA to be approximately the same as 2015 with similar quarterly trajectories as well. The base case also includes guidance of improved cash flows from 2015 to 2016 but without detailed specifications.

Interestingly, Kratos' management later shared that the "Kratos' Base Case" did not include any considerations for the very large and strategic tactical unmanned systems opportunity that Kratos is pursuing, and it does not include any revenue related to Kratos' new product, the UTAP-22 initiative. Additionally, the base case excluded all cost reductions from reorganizations that may or may not be pursued by management in 2016 depending on strategic opportunities.

The conservative 2016 Kratos' Base Case, which excludes a few valuable key driving factors, positions Kratos to beat analysts' expectations in the coming quarters of 2016. The value derived from the UTAP 22 could not be estimated by management and therefore was not included in their forward projections to investors. This decision underestimates the expected incoming revenue growth from the unmanned systems segment, and also ignores the low cost and higher profit component associated with the UTAP-22.

The Base Case, can be considered conservative because of all the great achievements KTOS accomplished by the end of 2015. Mr. DeMarco (CFO) stated, "As we begin 2016 we believe that major areas of our Company are well positioned for growth, including Unmanned Systems, Satellite Communications, Missile Defense and Microwave Electronics, driven by specific program opportunities Kratos is involved in and under contract on, and an improving overall U.S. DoD budgetary environment". He continued by detailing a number of new satellite communication products entering the market, several new large contract awards for microwave products designed on several new platforms, and a few new large opportunities in Kratos' Unmanned Systems area. These comments lead me to believe Kratos will return to organic growth in 2016, and will outperform the base case guidance provided by management at the end of 2015.

Conclusion

Kratos has the necessary demand and proper business strategy to begin an upward trend as a growing company with a more affordable focus. Macroeconomic factors are positively boosting the potential for the defense industry and Kratos is focused on the correct war-fighting capabilities most recently requested by the United States Department of Defense. Kratos will experience organic growth in many of its business segments and has set expectations really low for 2016 in an effort to remain conservative. When evaluating the company, I factored a slightly higher revenue estimate of 1% growth for 2016, in an attempt to conservatively estimate the effects of UTAP-22 sales. Keeping everything else the same, I calculated an intrinsic value of $6.13 and price target of $7.53 which signifies the stock is currently undervalued and represent a roughly 40% return based on the current price of $5.39. The catalyst that changed the future of this company was the increased spending outlook by the Department of Defense (DoD). Budget cuts are no longer punishing this company and increased spending will only foster strong growth for years to come.

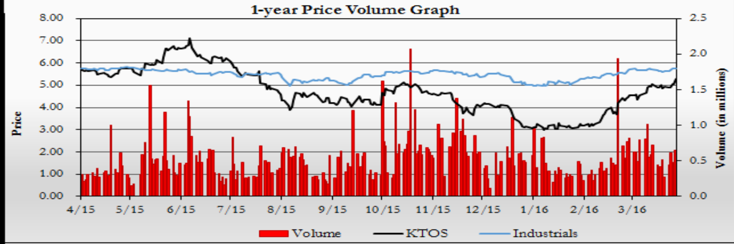
Kratos Defense & Security Solutions, Inc. (KTOS)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by P.C. Principal	Current Price:	$5.39	Intrinsic Value	$6.14
4/20/2016	Divident Yield:	0.0%	Target Price	$7.53

Target 1 year Return: 39.78%
Probability of Price Increase: 93%



Description

Kratos Defense & Security Solutions, Inc. provides mission critical products, solutions, and services primarily for the Government and commercial customers.

General Information

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	November 3, 2015
Next earnings date	May 9, 2016
Estimated Country Risk Premium	6.21%
Effective Tax rate	38%
Effective Operating Tax rate	6%

Market Data

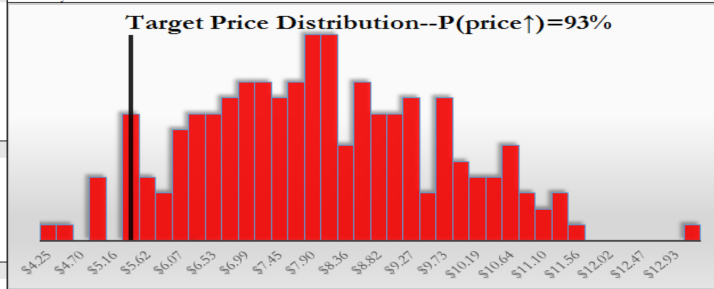
Market Capitalization	$321.16
Daily volume (mil)	0.39
Shares outstanding (mil)	59.58
Diluted shares outstanding (mil)	58.70
% shares held by institutions	48%
% shares held by investments Managers	39%
% shares held by hedge funds	6%
% shares held by insiders	3.33%
Short interest	12.97%
Days to cover short interest	15.58
52 week high	$7.12
52-week low	$2.80
Levered Beta	1.61
Volatility	46.31%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/28/2014	-18.50%	-38.90%
3/29/2015	-16.94%	-52.17%
6/28/2015	-15.08%	-91.01%
9/27/2015	-11.64%	-47.33%
12/27/2015	5.65%	-55.20%
Mean	-11.30%	-56.92%
Standard error	4.4%	9.0%

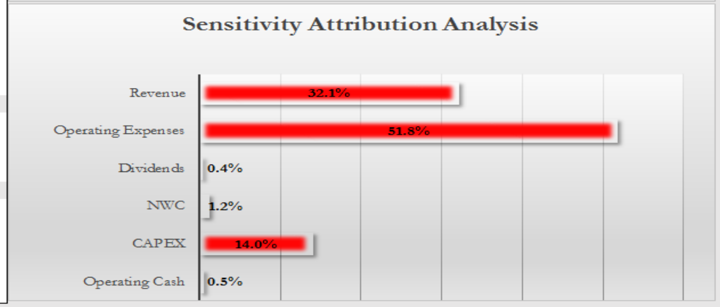
Peers

Ducommun Inc.
Ciber, Inc.
DigitalGlobe, Inc.
HEICO Corporation
Esterline Technologies Corp.
Teledyne Technologies Inc.
Sparton Corp.
TransDigm Group Incorporated

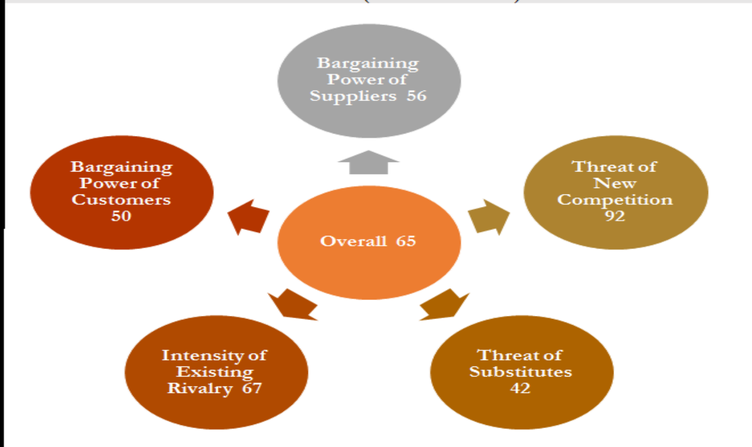


Management	Position	Total compensations growth	Total return to shareholders
DeMarco, Eric	Chief Executive Officer, Pre	6.82% per annum over 6y	0.68% per annum over 6y
Lund, Deanna	Chief Financial Officer and	3.41% per annum over 6y	0.68% per annum over 6y
Carrai, Philip	President of Technology & Tr	6.38% per annum over 5y	-13.78% per annum over 5y
Beaman, Gerald	President of Unmanned System	68.55% per annum over 2y	-23.8% per annum over 2y
Adelman, Yonah	President of Microwave Elect	N/M	N/M
Duckworth, Richard	Principal Accounting Officer	N/M	N/M

Profitability	KTOS (LTM)	KTOS (5 years historical average)	Industry (LTM)
ROIC	2.9%	6.59%	14.57%
NOPAT Margin	6%	6.30%	8.1%
Revenue/Invested Capital	0.51	1.05	1.79
ROE	0.9%	4.39%	16.95%
Adjusted net margin	2%	2.31%	7.5%
Revenue/Adjusted Book Value	0.53	1.90	2.25
Invested Funds	**KTOS (LTM)**	**KTOS (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	2.6%	3.9%	20%
Estimated Operating Cash/Total Capital	2.6%	3.3%	N/A
Non-cash working Capital/Total Capital	10.8%	10.3%	13%
Invested Capital/Total Capital	100.1%	99.5%	79%
Capital Structure	**KTOS (LTM)**	**KTOS (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	2.35	2.59	0.20
Cost of Existing Debt	5.95%	11.22%	4.20%
Estimated Cost of new Borrowing	4.80%	5.86%	4.20%
CGFS Risk Rating	CC	D	BBB
Unlevered Beta (LTM)	0.62	0.63	0.87
WACC	6.59%	9.84%	8.85%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-13.9%	5.8%	0.44
12/27/2016	1.0%	4.8%	0.41
12/27/2017	7.0%	6.7%	0.58
12/27/2018	6.0%	7.3%	0.64
12/27/2019	5.0%	8.1%	0.72
12/27/2020	4.0%	8.8%	0.80
12/27/2021	3.0%	9.4%	0.86
12/27/2022	3.0%	10.0%	0.93
12/27/2023	3.0%	10.0%	0.95
12/27/2024	3.0%	10.1%	0.95
12/27/2025	3.0%	10.1%	0.96
Continuing Period	2.1%	10.1%	0.97

Period	Invested Capital	Net Claims	Price per share
Base Year	$461.16	$580.73	$6.05
12/27/2016	$1,040.53	$551.46	$7.44
12/27/2017	$1,324.27	$532.85	$8.73
12/27/2018	$1,305.64	$498.57	$10.11
12/27/2019	$1,299.45	$444.32	$11.59
12/27/2020	$1,112.75	$384.57	$13.12
12/27/2021	$1,131.12	$309.15	$14.69
12/27/2022	$1,163.70	$224.80	$16.28
12/27/2023	$1,188.62	$140.33	$17.89
12/27/2024	$1,203.76	$50.33	$19.52
12/27/2025	$1,222.25	-$42.43	$21.17
Continuing Period			

Malibu Boats Inc.

NASDAQ:MBUU

Analyst: Andrew Varone
Sector: Consumer Discretionary

BUY

Price Target:$23.06

Key Statistics as of 4/21/2016

Market Price:	$17.20
Industry:	Leisure Products
Market Cap:	$309.52M
52-Week Range:	$11.97-$23.72
Beta:	0.42

Thesis Points:

- The increased age of registered boats and the ability for Malibu Boats to gain market share will be key drivers for revenues
- Entering the premium luxury segment through the M235 series will help improve margins
- Improving market conditions as well as the Fed wanting to raise interest rates will help promote boat sales in the next quarter

Company Description:

Malibu Boats, Inc. is a designer, manufacturer and marketer of performance sport boats. The Company's boats are used for water sports, including water skiing, wakeboarding and wake surfing, as well as general recreational boating. The Company sells its boats under two brands: Malibu and Axis. Its flagship Malibu brand boats are designed for consumers seeking a premium boating experience. The Company's Axis brand of boats are designed to appeal to consumers who desire a more affordable product but still demand high performance, functional simplicity and the option to upgrade key features. The Company's boats are constructed of fiberglass, equipped with inboard propulsion systems and available in a range of sizes and hull designs.

Thesis

Malibu Boats Inc. is a designer, manufacture and marketer of performance sports boats. Malibu Boats in the best of its class of any of the boat manufacture companies. With 32% market share in 2014, Malibu Boats has successfully been able to take market share away from its competitors. This has been done through better boat quality as well as personalization through the extensive technology that they possess. Malibu Boats is looking to gain market share as they aim to enter the premium luxury segment of boats with their M235 series. Though the boat industry took a huge hit during the recession, it has been picking up steam of late. This along with the Federal Reserve wanting to raise interest rates will be key drivers in individuals buying more boats. At the price of $17.20, Malibu Boats is considered a BUY. With a 1-year target of $23.06, Malibu Boats has an upside potential of 25%.

Porter's 5 Forces

Bargaining Power of Suppliers: Low
The bargaining power of suppliers is low due to different automation companies constructing the framing and mechanical parts of the part. Also through interchangeable parts, Malibu Boats can easily substitute their parts further lowering the bargaining power of suppliers. The company itself also designs manufacturers and markets their boats. Meaning the only real input will be the raw materials needed to construct boats such as fiberglass.

Bargaining Power of Customers: Neutral
With any big ticket item, the customer will have the ability to haggle down a price on these luxury boats. For Malibu Boats itself, they have the best boats on the markets with the best warranty plans an individual can get.

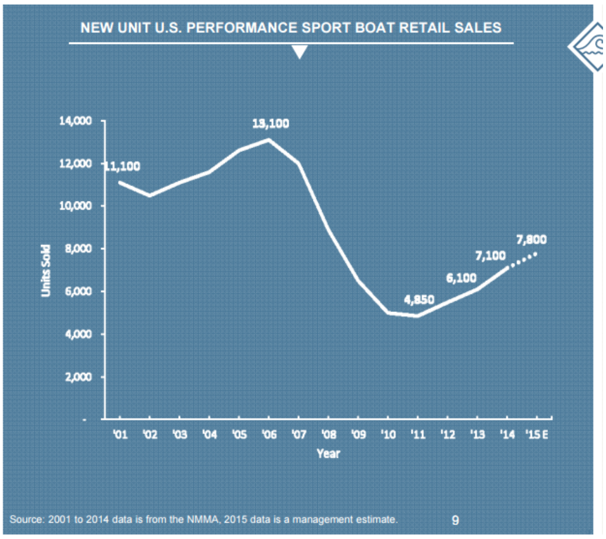
Threat of Substitutes: Low-Neutral
For most people, a boat is an extreme luxury expense. They will decide to go for a more affordable option for water recreation such as a jet ski. Malibu boats has the top of class luxury boats. They have two division, one for luxury boats and one for affordable brand boats. Lastly, they sell other recreational water machinery such as a jet skis. This means that any substitute products on the market Malibu Boats sells.

Competitive Rivalry: Neutral
There are currently four boat companies that own 82% of the market share in the U.S. Lessor known brands have a tough time competing for market share. Lastly, the top four companies fight over market share at the top and try to be the best positioned for boat buyers in a strengthening economy.

Threat to New Entrants: Low
There is a brand name that is needed for customers to buy the boat. Lessor known boating manufactures have a tough time entering the market and selling the boat that they have in their inventory. This can be problematic as there can be high holding cost for boats and the lack of sales could force a company out of business.

Industry Overview

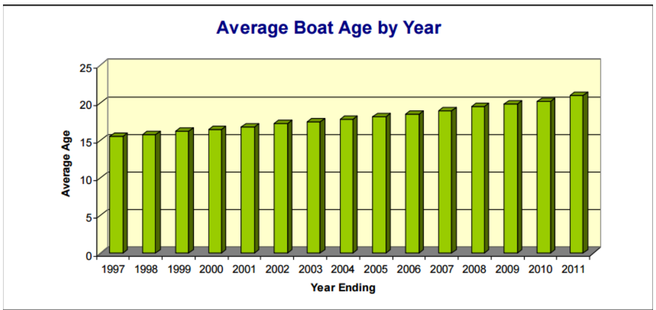
There is a positive outlook for the economy going into 2016. This fairs well for the boating industry as they are selling a luxury product that fairs better in a good economic environment. Since a boat is a luxury big ticket item, the Great Recession hit the boating industry hard. So hard that it has yet to recover from the recession that occurred in 2008.



As this graph shows, the number of units sold pre-recession was over 13,000 a year. At its lowest point after the recession, only 4,800 new units were sold in 2011. The amount of boats sold, like the economy, has been recovering with each passing year. Despite this recovery, boat sales after the recession are just above half that of pre-recession numbers. The number of boats purchased every year is expected to continue to improve. This means that Malibu Boats should see improving revenues due to the growth that is within the industry.

Boating Boom

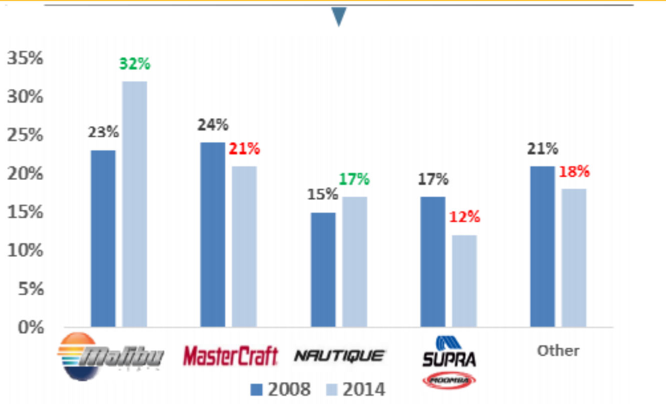
There was a boating boom in the United States from the 1970s to the 1990s. During this time, the amount of registered boats doubled from 6 million in 1972 to almost 12 million by time the 90s hit. Since the 1990s, the number of registered boats remained stagnant. Starting in 1990, there was a boom in other recreational water equipment. This includes water items such as canoes, water skis and jet skis. With this low entry of new boat registrations into the market, the average age of boats has been pushed up.



The average age of boats has increased by 5 years. From 15 years old in 1997 to 20 years old in 2011. This means that boats today are more likely to need service as they have been in service longer. Also, this may mean boat owners will be looking to get new boats if their old boat needs services that will be beyond the worth of repairing.

Taking Away Market Share

As discussed earlier, Malibu is the leader in the boating industry with 32% market share. The next competitor is MasterCraft and they only have 21% market share. After that Nautique has 17% market share. And the last major competitor, Supra, has 12% market share. All other boat manufactures combine for the last 18% of market share. Though Malibu is leading the industry with dominated market share, this was not always the case.



As seen from this graph, Malibu has fared the best after the recession in the boat industry. Despite a low amount of sales in the boat manufacturing industry, Malibu has been able to take away customers from their competitors with their market share growing from 23% to 32%. The rest of the industry saw a decline in their market share except for Nautique whose market share increased by 2%. This ability to continue to get customers despite low growth post-recession will prove to be key for Malibu in the upcoming years.

Diversification of Sales

Malibu Boats has two main companies that sell boats. The first is Malibu boats, which are known for their high performance/high class luxury boats and their tournament quality skit boats. The high class boats that they sell range from $60,000-$180,000 and have eight different models. The have three different ski boats that they sell and range from $40,000 to $75,000. The other company that they own, Axis, is known for their affordable boats. Axis has five models of boats that cost $45,000-$85,000. Lastly, Malibu Boats sells a wide variety of jet skis and other recreational water equipment. A key component that Malibu offers is the ability to build your own boat as well as customization with a wide variety of technology that the company possesses. With a wide range of boats that the company sells, they are able to suit any market that is looking to buy a boat for the upcoming summer months.

M235

For 2016, Malibu Boating has introduced four new models under their M235 series. These new boats are in the premium luxury segment, a segment that Malibu currently has 0% market share. Penetrating this new segment will allow Malibu to grow margins as higher luxury; higher cost boats have better margins than their substitutes. Malibu, with its name and its already captured market share in other segments, is optimistic they can capture a significant market share in the premium luxury segment. Their target is 18% market share for boats 20/21 feet, up to 37% market share for boats over 24 feet.

Economic Conditions

Depending on an individual's geographical location, boating is an activity that can be very cyclical. With the weather getting nicer and the summer months upcoming, boat owners will be looking to dock their boats at their local ports. When they do a test run, they might find issues with their boat which will generate revenues for Malibu Boat if that is where they got their boat. Also, with a recovering economy and the retirement of the baby boomers, the market for boats could be heating up. With Federal Funds Rate at its target of 0.25%-0.50%, this is still the ideal time buy a boat. With the Federal Reserve choosing to only raise interest rates twice a year, those seeking a loan to purchase a boat will try and do so soon. This is due to the Federal Reserve wanting to raise interest rates at their next meeting in June.

Financials

In the sensitivity analysis that is below, it can be seen that leading driver for the stock price of Malibu Boats is revenues. With a rebounding economy and MBUU ability to gain market share, the stock price should continue to increase due to increasing revenues that are foreseen for Malibu Boats.

For revenues, they have beaten analyst estimates on four of the last five quarters. There is not great variation which means there is not much surprise and future revenues are reasonable to forecast. Contrary, Malibu has missed EBITDA every quarter for the last five quarters. There has been great deviation from the estimates due to the inability to forecast what type of boats will be the most popular. More affordable boats have been driving sales which result in worse margins. Over the next year, Malibu should be closer to their target on their EBITDA margins during earnings call. This is because they have entered the premium luxury segment which produces the highest margins.

Conclusion

At a price of $17.20, Malibu Boats is considered a BUY with an upside potential of 25%. Revenues is the main driver for value creation through economies of scale for the stock price. With the economy rebounding as well as the summer months upcoming, those looking to buy boats will be soon in the market. With the Federal Reserve raising interest rates, they will try sooner than later. Lastly, with Malibu Boats extensive market share as well as their coverage of different segments will attract boat buyers to Malibu.

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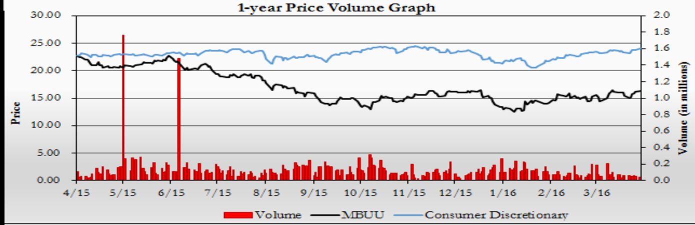
Malibu Boats, Inc. (MBUU) — **BULLISH**

Analysis by Andrew Varone	Current Price:	$17.26	Intrinsic Value	$20.39	Target 1 year Return: 33.59%
4/21/2016	Divident Yield:	0.0%	Target Price	$23.06	Probability of Price Increase: 100%

1-year Price Volume Graph



Description

Malibu Boats, Inc. designs, manufactures, markets, distributes, and sells sport boats.

General Information

Sector	Consumer Discretionary
Industry	Leisure Products
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.06%
Effective Tax rate	40%
Effective Operating Tax rate	36%

Market Data

Market Capitalization	$303.22
Daily volume (mil)	0.05
Shares outstanding (mil)	17.97
Diluted shares outstanding (mil)	17.15
% shares held by institutions	78%
% shares held by investments Managers	94%
% shares held by hedge funds	8%
% shares held by insiders	0.96%
Short interest	4.05%
Days to cover short interest	7.47
52 week high	$23.72
52-week low	$11.97
Levered Beta	1.00
Volatility	0.00%

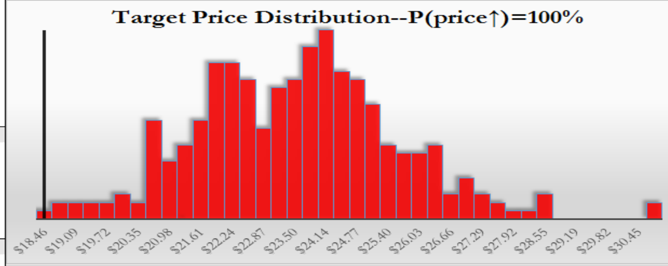
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	1.99%	-11.12%
3/31/2015	0.28%	-20.12%
6/30/2015	3.72%	-0.16%
9/30/2015	-0.97%	-12.33%
12/31/2015	1.01%	-21.11%
Mean	1.21%	-12.97%
Standard error	0.8%	3.8%

Peers

Marine Products Corp.
MCBC Holdings Inc.
Nautilus Inc.
Brunswick Corporation
Callaway Golf Co.
Arctic Cat Inc.
Polaris Industries Inc.
Hasbro Inc.

Target Price Distribution--P(price↑)=100%



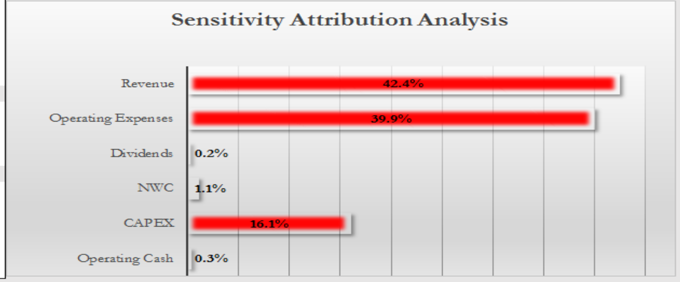
Management	Position	Total compensations growth	Total return to shareholders
Springer, Jack	Chief Executive Officer and	8.84% per annum over 4y	N/M
Wilson, Wayne	Chief Financial Officer and	8.98% per annum over 4y	N/M
Anderson, Ritchie	Chief Operating Officer	0.53% per annum over 4y	N/M
Alkema, Robert	President	N/M	N/M
Noblett, Tim	Co-Owner	N/M	N/M
Noblett, Kimberly	Co-Owner	N/M	N/M

Profitability	MBUU (LTM)	MBUU (5 years historical average)	Industry (LTM)
ROIC	46.7%	-2.83%	10.15%
NOPAT Margin	12%	-9.49%	8.4%
Revenue/Invested Capital	4.03	0.30	1.20
ROE	78.7%	-8.66%	11.31%
Adjusted net margin	11%	-10.29%	7.7%
Revenue/Adjusted Book Value	7.26	0.84	1.48

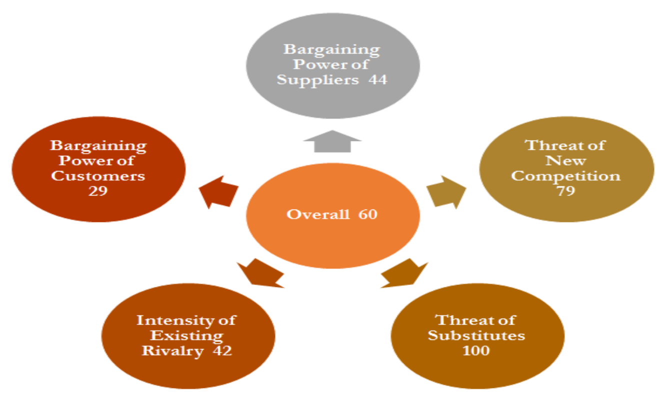
Invested Funds	MBUU (LTM)	MBUU (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	20.1%	17.0%	23%
Estimated Operating Cash/Total Capital	20.1%	14.0%	N/A
Non-cash working Capital/Total Capital	8.5%	-3.5%	21%
Invested Capital/Total Capital	105.7%	104.4%	77%

Capital Structure	MBUU (LTM)	MBUU (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.32	0.08	0.17
Cost of Existing Debt	4.02%	8.70%	5.32%
Estimated Cost of new Borrowing	3.37%	3.13%	5.32%
CGFS Risk Rating	BBB	BBB	BB
Unlevered Beta (LTM)	0.86	1.09	0.90
WACC	8.59%	10.59%	8.98%

Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	17.6%	11.6%	5.44
12/31/2016	9.0%	18.4%	6.85
12/31/2017	7.4%	18.2%	5.87
12/31/2018	6.8%	17.6%	4.89
12/31/2019	6.3%	16.9%	4.20
12/31/2020	5.7%	16.3%	3.62
12/31/2021	5.1%	15.8%	3.18
12/31/2022	4.5%	15.3%	2.77
12/31/2023	3.9%	14.9%	2.43
12/31/2024	3.3%	14.4%	2.15
12/31/2025	2.7%	14.0%	1.90
Continuing Period	2.1%	13.6%	1.70

Period	Invested Capital	Net Claims	Price per share
Base Year	$18.79	$96.61	$19.91
12/31/2016	$75.76	$58.08	$22.68
12/31/2017	$97.25	$20.98	$25.43
12/31/2018	$94.48	-$17.62	$28.27
12/31/2019	$60.29	-$55.59	$31.19
12/31/2020	$78.43	-$94.15	$34.21
12/31/2021	$96.32	-$130.40	$37.33
12/31/2022	$117.28	-$165.74	$40.58
12/31/2023	$138.15	-$200.13	$43.98
12/31/2024	$160.96	-$233.57	$47.54
12/31/2025	$184.01	-$266.90	$51.30
Continuing Period			

The Michaels Companies, INC.

MIK

Analyst: Richard Acheson
Sector: Consumer Discretionary

BUY

Price Target: $48.08

Key Statistics as of 4/21/16

Market Price:	$28.28
Industry:	Specialty Retail
Market Cap:	$5.9B
52-Week Range:	$19.46 - $29.56
Beta:	1.00

Thesis Points:

- The acquisition of Lamrite West will add value to Michaels.
- Michaels shows that it has enough consistent growth in order to pay off its high amount of debt.

Company Description:

The Michaels Companies is a specialty retailer that sells arts and crafts to its consumers. It is currently based in North America, having 91% of sales coming from the U.S. and 9% from Canada. Michaels sells good and services that consists of art supplies, baking, knitting, custom made frames, floral decorations, and wedding decorations. Unlike the rest of the retail industry, the transition from brick and mortar stores to online purchasing does not seem to be affecting Michaels. For this sector, consumers need to tangibly see what they are purchasing because they do not necessarily trust what they see online and feel more comfortable with buying a product they can physically see.

Thesis

In the beginning of February 2016, Michaels acquired Lamrite West. Lamrite West is a wholesaler in the arts and crafts industry. The acquisition was for $150 million. The market reacted very well to the announcement of the event. Since the acquisition, the stock price increase from $22.08 all the way to its 52 week high of $29.56. Investors believe that there is a lot of value to be created from acquiring Lamrite West. Michaels has effectively cut out a link in the supply chain and should be able to show improved margins in the near future.

One aspect of the company that has investors worried is their high amount of debt. They currently have about $2.7 billion in debt which is fairly large considering that their revenue is $4.9 billion in comparison. On the positive note, they have shown consistent improvements within the last two years. In 2014, the amount of debt was totaled at $3.6 billion and in just two years they have been able to shrink their debt by 25%.

Porter's Five Forces

Bargaining power of suppliers: **MEDIUM – 38**

With the acquisition, Michaels is now going to be directly dealing with the manufacturers of their products. So this is currently going through a transition. For arts and crafts, Michaels is the biggest retailer in that specific sector. That should give them some bargaining power when it comes to the manufacturers.

Bargaining power of customers: **MEDIUM – 57**

Consumers that want specific arts and crafts Michaels is the most well-known choice for supplies of that matter. They are the only publically traded arts and crafts specialty retailer, so other options for these products will mainly be small local businesses.

Threat of substitutes: **LOW – 75**

There is very little threat of substitutes from the high quality products that Michaels offers. If they want these materials or decorations then there is very little that they can do to find a replacement.

Existing rivalry: **MEDIUM – 50**

As previously stated, Michaels is the only publically traded arts and crafts specialty retailer. So there is no major group of competitors. However, this is an industry where small businesses can be successful. Small business can sometimes be well known in local areas and be troubling for Michaels.

Threat of new competition: **HIGH – 29**

This is an industry where small businesses can be successful in local area. It does not require a large amount of capital in order to start an arts and crafts retailer. Once a small business can establish a good relationship with a supplier and can obtain a good location, they can show to be very successful.

Margins

Michaels' margins are fairly basic for any retailer but most importantly they are consistent. Revenue growth has been constant at 3.7% for the past three years. This isn't a rate that is considered extremely high compared to some others, but it is a rate that can be sustained over a long period of time. Gross margins have remained constant at 40% since 2013. EBITDA and net margins have seen a solid increase within the last year, increasing to 17.1% from 15.7%. Net margins have also increased from 5.7% to 7.5%.

In Millions of USD	FY 2013	FY 2014	FY 2015	FY 2016	Current/LTM	FY 2017 Est	FY 2018 Est
12 Months Ending	02/02/2013	02/01/2014	01/31/2015	01/30/2016	01/30/2016	01/31/2017	01/31/2018
Market Capitalization	–	–	5,309.7	4,556.1	5,898.5		
- Cash & Equivalents	56.0	239.0	378.3	409.4	409.4		
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0		
+ Total Debt	3,041.0	3,694.0	3,114.7	2,769.8	2,769.8		
Enterprise Value	–	–	8,046.1	6,916.6	8,259.0		
Revenue, Adj	4,408.0	4,570.0	4,738.1	4,912.8	4,912.8	5,340.6	5,590.1
Growth %, YoY	4.7	3.7	3.7	3.7	3.7	8.7	4.7
Gross Profit, Adj	1,765.0	1,822.0	1,901.2	1,968.4	1,968.4	2,131.5	2,243.5
Margin %	40.0	39.9	40.1	40.1	40.1	39.9	40.1
EBITDA, Adj	700.0	728.0	745.7	838.1	838.1	896.3	972.0
Margin %	15.9	15.9	15.7	17.1	17.1	16.8	17.4
Net Income, Adj	228.6	259.9	271.1	370.2	370.2	409.0	460.4
Margin %	5.2	5.7	5.7	7.5	7.5	7.7	8.2
EPS, Adj	–	1.45	1.31	1.75	1.76	1.95	2.20
Growth %, YoY	–	–	-10.0	34.0	30.7	11.0	12.8
Cash from Operations	299.0	449.0	442.0	504.0	504.0		
Capital Expenditures	-124.0	-112.0	-137.8	-123.9	-123.9	-131.0	-132.5
Free Cash Flow	175.0	337.0	304.2	380.1	380.1	386.7	488.3

Lamrite West Acquisition

On February 2nd, Michaels announced their acquisition of Lamrite West, a wholesaler within their industry. The acquisition price was for $150 million. This will help Michaels improves their already consistent margins. It's difficult to put a direct value on it though. Management has not specifically stated an exact number that operating costs will decrease by. There is no doubt that this should be by a fairly high amount. We are talking about taking a whole link out of the supply chain. All of the margins that used to be part of Lamrite are now a part of Michaels. This vertical acquisition will give Michaels a lot of additional value in the future.

Debt

As consistent as Michaels has been in the past, investors are clearly still worried about their high level of debt. Their debt is currently more than half of their revenue from last year at $2.7 billion. It has given them a very high cost of debt as well as a lower credit rating. However, this has improved from previous years. In 2014, their debt totaled at roughly $3.6 billion. So they have shown the ability to pay this down. There have been improvements shown in their credit ratios as well. For example, their total debt to EBITDA has decreased from 5.16 to 3.32. Also their EBITDA to interest expense has been increasing ever since 2011, going from 2.14 to almost 6. Their debt might make investors hesitant but there are showing the ability to manage it.

In Millions of USD except Per Share	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	01/29/2011	01/28/2012	02/02/2013	02/01/2014	01/31/2015	01/30/2016
Total Debt	–	3,490.0	3,041.0	3,694.0	3,114.7	2,769.8
Short-Term Debt	–	127.0	150.0	16.0	24.9	24.9
Long Term Debt	–	3,363.0	2,891.0	3,678.0	3,089.8	2,744.9
Total Debt/T12M EBITDA	–	5.46	4.41	5.16	4.22	3.32
Net Debt/EBITDA	–	4.88	4.33	4.83	3.71	2.83
Total Debt/EBIT	–	6.49	5.14	6.06	4.97	3.84
Net Debt/EBIT	–	5.80	5.04	5.66	4.37	3.28
EBITDA to Interest Expense	2.14	2.52	2.81	3.33	3.72	5.99
EBITDA-CapEx/Interest Expense	1.85	2.09	2.31	2.81	3.02	5.10
EBIT to Interest Expense	1.77	2.12	2.42	2.84	3.16	5.17
EBITDA/Cash Interest Paid	9.23	7.43	6.38	3.91	3.15	6.46
EBITDA-CapEx/Cash Interest Paid	7.97	6.16	5.23	3.30	2.56	5.50
EBIT/Cash Interest Paid	7.63	6.26	5.48	3.33	2.67	5.57
Cash Interest Paid	64.0	86.0	108.0	183.0	234.3	129.3
Interest Expense	276.0	254.0	245.0	215.0	198.4	139.4

Not only that, but Michaels is going to be executing a share repurchase in the near future. During their most recent earnings call, they said they were going to do a share repurchase that would total up to $200 million. This proves that management believes that their stock is underpriced as well. When the repurchase is executed, it will increase the value of the stock by decreasing the amount of shares available on the open market.

Valuation

The valuation gave Michaels an intrinsic value of $41.97 with a one year target price of $48.08. The inputs used to get these value were very conservative. The growth rate for the explicit period was 3% which is consistent with their 3.7% growth rate for the past few years. For operating costs, management has not been able to give an exact impact that the Lamrite West acquisition will make on operating margins. Their last reported operating costs were 83.6% of revenue. 82% was used for the continuing period, but it would not be a surprise if it dropped lower than that. Cost of debt for the explicit period is 8%. On the companies' 10k, most of their debt was rated at around that value. It is high but fair considering the amount of debt they carry as well as their credit rating. With these inputs, it shows that Michaels is clearly undervalued and is a great target for a buy.

Conclusion

There is a great opportunity for a buy here. Michaels is putting themselves in a position to succeed in the future. They have some room for improvement with a decrease in their debt as well as their recent vertical acquisition. The Lamrite West acquisition gives them a huge chance to improve on their margins in 2016. This increase in profits can help them cut down their debt level even faster than they currently are. As previously stated, there is a high amount of debt here but they do have the ability to pay it off. These are the two main reasons that the valuation has calculated an intrinsic value of $41.97 with a one year target price of $48.08. With a current stock price of $28.45 there is a huge chance for a high return here.

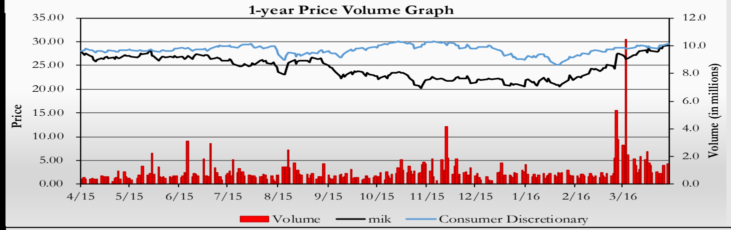
Siena Market Line
4th week of April 2016

The Michaels Companies, Inc. (mik)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Richard Acheson	Current Price:	$28.28	Intrinsic Value	$41.90	Target 1 year Return: 70.03%
4/21/2016	Divident Yield:	0.0%	Target Price	$48.08	Probability of Price Increase: 100%



Description

The Michaels Companies, Inc. owns and operates a chain of arts and crafts specialty retail stores under the Michaels and Aaron Brothers names in North America.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	May 29, 2016
Estimated Country Risk Premium	7.00%
Effective Tax rate	36%
Effective Operating Tax rate	36%

Market Data

Market Capitalization	$5,869.48
Daily volume (mil)	0.98
Shares outstanding (mil)	207.55
Diluted shares outstanding (mil)	209.35
% shares held by institutions	117%
% shares held by investments Managers	33%
% shares held by hedge funds	33%
% shares held by insiders	0.32%
Short interest	1.18%
Days to cover short interest	2.00
52 week high	$29.56
52-week low	$19.46
Levered Beta	1.00
Volatility	0.00%

Past Earning Surprises

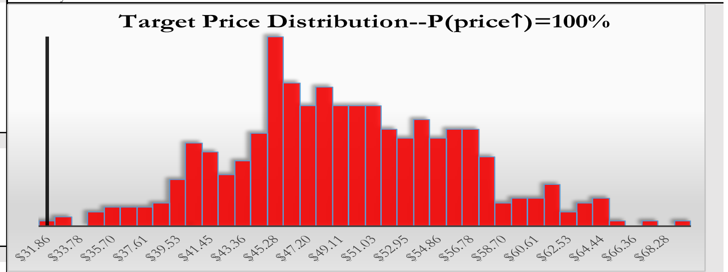
Quarter ending	Revenue	EBITDA
1/31/2015	0.00%	-3.78%
5/2/2015	-1.52%	-7.37%
8/1/2015	-0.98%	-3.42%
10/31/2015	-1.71%	-5.47%
1/30/2016	1.06%	-1.08%
Mean	-0.63%	-4.22%
Standard error	0.5%	1.1%

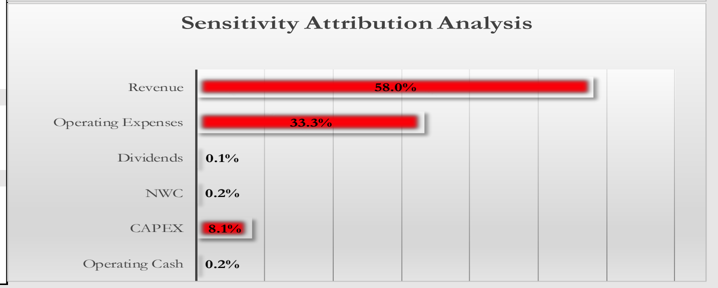
Peers

Williams-Sonoma Inc.
Tractor Supply Company
Dick's Sporting Goods Inc.
Cabela's Incorporated
ULTA Salon, Cosmetics & Fragrance, Inc.
Bed Bath & Beyond Inc.
Best Buy Co., Inc.
Party City Holdco Inc.

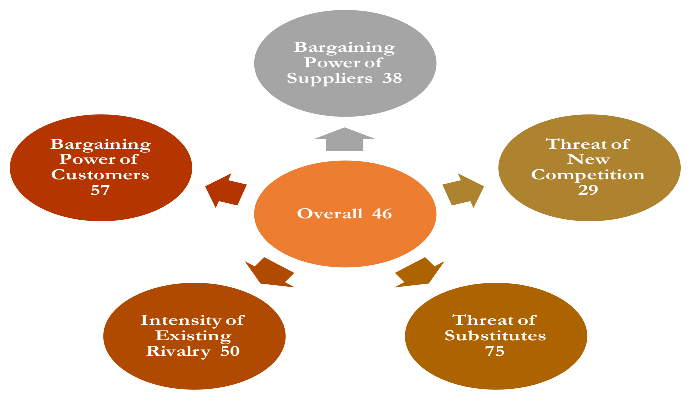
Management	Position	Total compensations growth	Total return to shareholders
Rubin, Carl	Chairman, Chief Executive Of	-47.87% per annum over 2y	N/M
Sonsteby, Charles	Chief Financial Officer and	-10.32% per annum over 5y	N/M
Carlotti, Stephen	Executive Vice President of	-44.14% per annum over 1y	N/M
Pappas, Philo	Executive Vice President of	15.51% per annum over 5y	N/M
Mullahy, Dennis	Executive Vice President of	35.42% per annum over 1y	N/M
Sullivan, James	Chief Accounting Officer, Vi	N/M	N/M

Profitability	mik (LTM)	mik (5 years historical average)	Industry (LTM)
ROIC	17.0%	25.55%	21.09%
NOPAT Margin	14%	13.45%	7.3%
Revenue/Invested Capital	1.25	1.90	2.90
ROE	30.3%	25.25%	24.53%
Adjusted net margin	10%	8.43%	6.9%
Revenue/Adjusted Book Value	2.94	3.00	3.56
Invested Funds	**mik (LTM)**	**mik (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	9.4%	8.0%	19%
Estimated Operating Cash/Total Capital	5.6%	5.4%	N/A
Non-cash working Capital/Total Capital	4.8%	6.3%	18%
Invested Capital/Total Capital	96.2%	97.4%	82%
Capital Structure	**mik (LTM)**	**mik (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	1.16	0.26	0.21
Cost of Existing Debt	4.59%	13.94%	7.01%
Estimated Cost of new Borrowing	4.80%	11.35%	7.01%
CGFS Risk Rating	CC	D	A
Unlevered Beta (LTM)	0.60	1.00	0.89
WACC	6.96%	11.14%	9.80%





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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	3.7%	13.6%	2.44
1/30/2017	8.2%	13.7%	2.47
1/30/2018	3.8%	13.8%	2.40
1/30/2019	3.6%	14.0%	2.41
1/30/2020	7.9%	15.2%	2.62
1/30/2021	10.3%	15.4%	2.78
1/30/2022	8.9%	15.3%	2.70
1/30/2023	7.6%	15.3%	2.62
1/30/2024	6.2%	15.0%	2.46
1/30/2025	4.8%	14.8%	2.33
1/30/2026	3.5%	14.6%	2.21
Continuing Period	2.1%	14.4%	2.09

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,501.73	$5,156.83	$41.36
1/30/2017	$2,500.92	$4,366.08	$47.25
1/30/2018	$3,279.86	$3,522.28	$53.41
1/30/2019	$3,725.35	$2,735.69	$59.73
1/30/2020	$3,933.55	$1,765.73	$66.33
1/30/2021	$4,186.75	$920.29	$73.17
1/30/2022	$4,385.99	$28.44	$80.31
1/30/2023	$4,561.68	-$875.38	$87.70
1/30/2024	$4,826.78	-$1,930.14	$95.37
1/30/2025	$5,044.50	-$3,058.08	$103.25
1/30/2026	$5,509.62	-$4,252.24	$111.32
Continuing Period			

Rockwell Collins, Inc.

NYSE:COL

Analyst: Pierre Riffard
Sector: Industrials

BUY

Price Target: $108

Key Statistics as of 04/22/2016

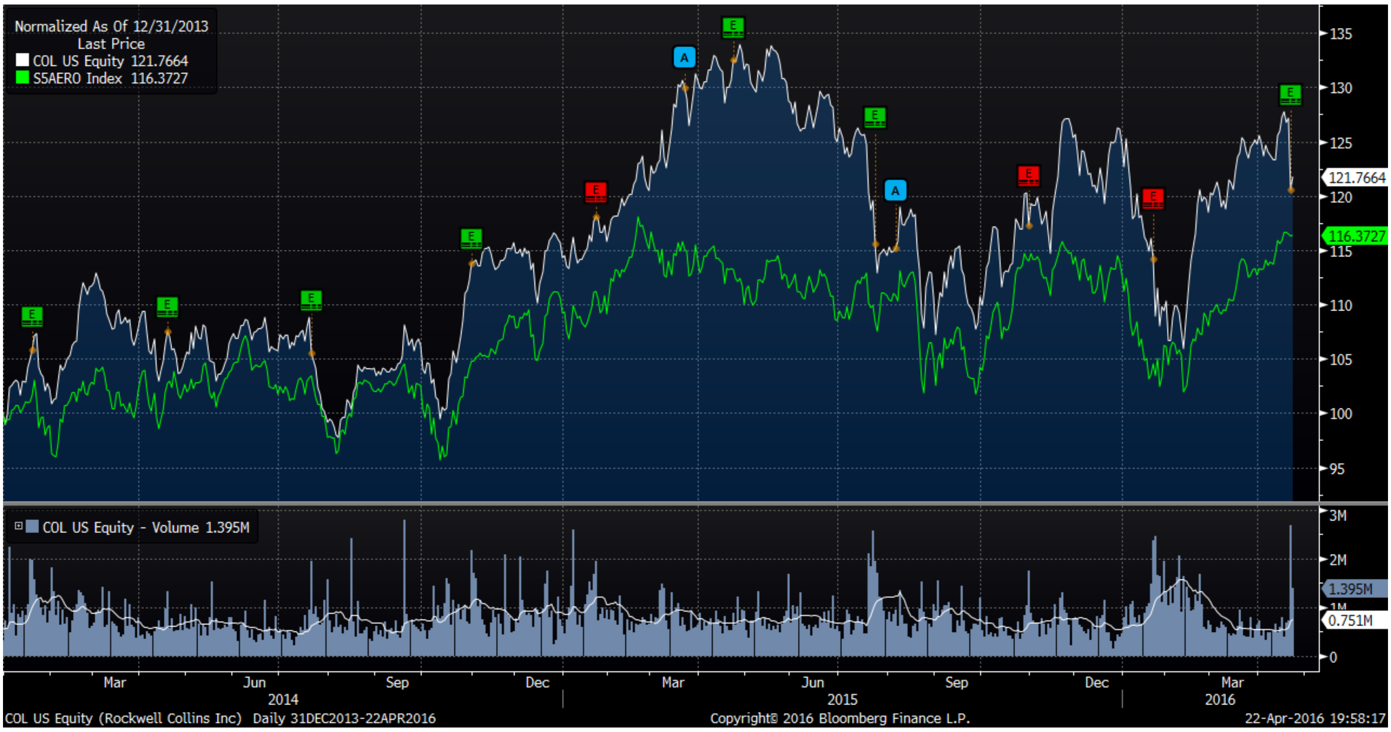
Market Price:	$90.01
Industry:	Aerospace & Defense
Market Cap:	$11.719B
52-Week Range:	$76.03 - $99.37
Beta:	0.63

Thesis Points:

- Strong outlook will provide opportunities to the future growth of the company.
- The top performer of the industry in terms of profitability.
- Several growth investments to maintain future growth above the industry average.

Company Description:

Rockwell Collins, Inc. (NYSE:COL) is a global Aerospace & Defense company, headquartered in Cedar Rapids, Iowa. The company designs, produces and supports communication and aviation systems for commercial and military customers and provides information management services through voice and data communication networks and solutions worldwide. COL is one of the largest supplier to governments, aircraft & defense companies, and airports. The company employed an average of 19,500 during FY2015. The company has offices worldwide including Canada, Mexico, Brazil, France, Germany, UK, Russia, Saudi Arabia, UAE, Australia, China, India, and Singapore. Through large R&D investments and some key acquisitions, the company has succeeded to develop its product portfolio to one of the broader currently available on the market, allowing the company to better respond to customers, and to better react to industry and technological changes.

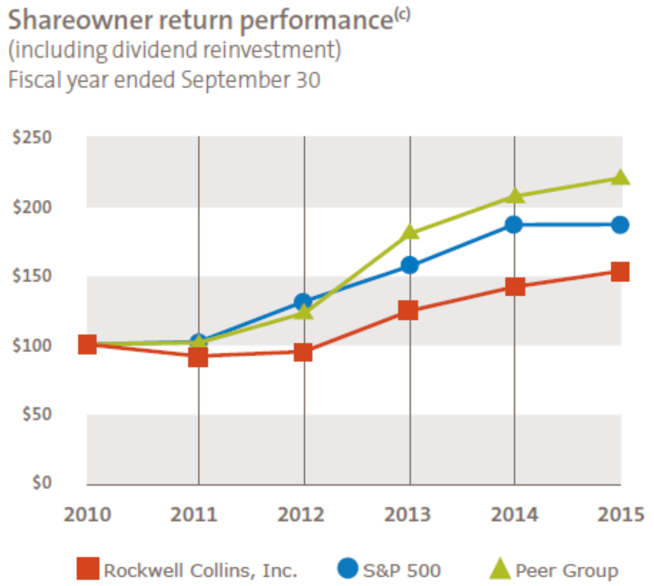


Thesis

Rockwell Collins' fundamentals are in the top range of its industry. The company is showing strong and improving margins over the years with strong expectations over the next ten years, especially regarding the growth rate. While competitors are expected to grow at 3% over the next years, COL is expected to grow between 3% and 5%. The very large portfolio of the company is offering a great diversification of customers and risks, and give the company more potential for growth in the long run. The outlook for the overall industry is offering better growth rates than the forecast global GDP growth rate, which is going to improve the top-line growth of the company.

On 4/21/16, the company reported mixed quarterly results. Revenue missed estimates by 1.38%, Net Income beat by 0.77%, and EPS beat by 1.90%. The stock went down by 5%, which seems to me like an overreaction from investors who were having some doubts about growth forecast for the company, even if the CEO stated he left its full-year outlook unchanged. Based on its excellent fundamentals, plus its large portfolio and R&D investments, the company is still better prepared than competitors for future growth, and better margins.

Based on the stock chart analysis, the company is also offering a positive alpha compared to the aerospace & defense industry. The 5% drop will soon be erased as it offers an opportunity to buy the stock at a cheap price, and may be able to pass the $100 barrier over the next months.



Product Portfolio

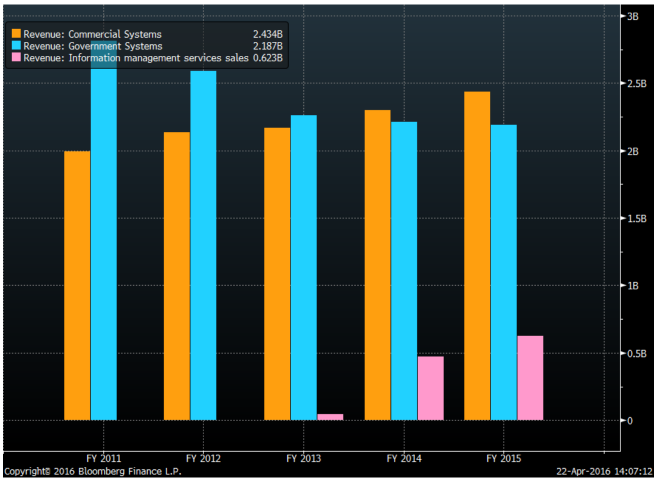
The activity of COL is divided into three segments and serves a worldwide customer base including the US Department of Defense, US Coast Guard, civil agencies, civil airports, defense contractors, foreign ministries of defense, manufacturers of commercial air transport, business and regional aircraft, commercial airlines, business jet operators, the FAA (Federal Aviation Administration), critical infrastructure operators and major passenger and freight railroads.

The first segment of COL is *Commercial Systems*. It accounted for 46.4% of FY2015 total sales. This segment supplies aviation electronics systems, products and services. This segment has the highest operating margin of the three segments at 22.8% in 2015.

The second most important segment is *Government Systems*. It accounted for 41.7% of FY2015 total sales. It provides a large range of electronic products, systems, and services to the US government, federal agencies, foreign ministries of defense, and defense contractors. It supplies defense-related products such as communication systems, navigation products and systems, avionics sub-systems, precision targeting, electronic warfare and range and training systems, simulation systems, and maintenance and repair services. The operating margin of the segment was 20.9% in 2015.

The last segment is *Information Management Services*. It accounted for 11.9% of FY2015 sales. It provides communications services, systems integration and security solutions across the aviation, airport, rail, transit and nuclear security markets. This segment was created in December 2013, following the acquisition of ARINC Inc., which was a leader in communications and information processing solutions for the commercial aviation industry. The operating income of that segment is the lowest at 15.2%, but is in line with the industry ratio of 15.9%. The Monte Carlo simulation of the pro-forma shows that the price is more sensitive to the revenue than to the operating costs and that segment is showing very strong growth rates with a YoY growth rate at 32%.

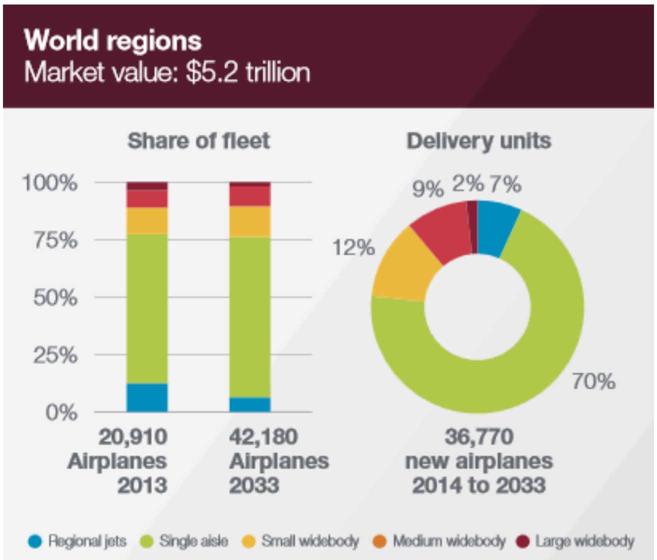
Government Systems sales stayed flat over the last three years due to the defense budget restriction. The growth of the defense industry is now expected to return to a 3% growth in 2016 following several global challenges like the rise in defense expenditures from non-ally states, and the recent resurgence of global threats. Even if the next American president is not willing to boost the defense budget, he or she will not be able to reduce it. Even if that particular segment will not have strong growth rates in the near future, it guarantees a certain level of sales over the next years, and cannot be impacted by recession or financial crisis.



Industry Outlook

The core activity of COL is dependent on the defense industry and the commercial airplanes industry. As explained earlier, the defense outlook is looking strong as it will provide safe sales over the long-run, the US defense budget is likely to increase, and it is not vulnerable in case of economic downturn.

According to Boeing [1] (NYSE:BA), The long-term demand (2013-2033) for new airplanes comprises 36,770 aircrafts valued at $5.2 trillion. Around 42% of the new airplanes will replace older and less efficient airplanes. The 3% forecast global GDP growth will be a key contributor to the aviation industry growth that is expected to grow at 5%, and to the cargo traffic industry to grow at 4.7%. The growing middle-class worldwide will also support that growth. Fast-growing low-cost carriers will be in need to replace aging airplanes. The demand will also be strong in emerging countries, especially China where the company has offices.



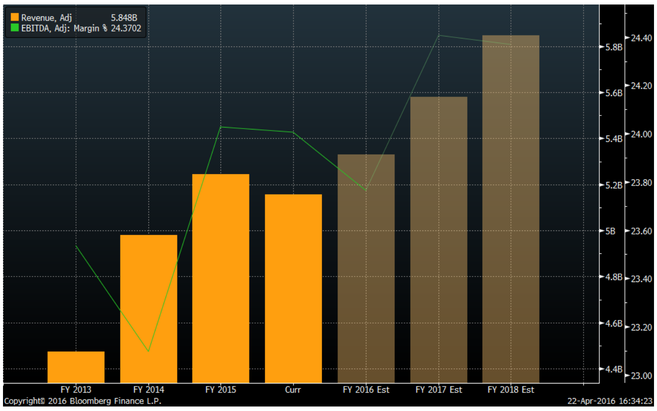
The defense and aviation industry are driven by technological improvements, and key developments will continue to be essential for growth. Security and communication are also extremely important and highly regulated. The company is one of the leader in developing sophisticated electronic systems for aircrafts and airports to improve communication, data management and safety. The FY2015 Research & Development accounted for $850 million or 16.2% of total sales. 32% of R&D are company-funded, and total R&D went up by 10% YoY. Such expenses are making the company ahead of the competition in terms of technological improvements.

Since one year, lots of small and large companies announced they are working on new designs for commercial supersonic, and military supersonic/hypersonic aircrafts, which will required brand-new and high-end electronic systems. This new market will create an opportunity for the company by securing key contracts with manufacturers.

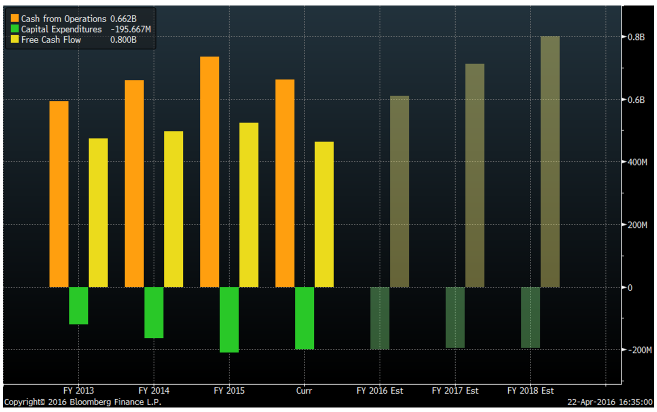
[1] http://www.boeing.com/assets/pdf/commercial/cmo/pdf/Boeing_Current_Market_Outlook_2014.pdf

Fundamentals & Competitors

In 2015, the company reached a record sales at $5.244 billion which represents a 5% YoY growth. *Commercial Systems* sales grew by 6%, *Information Management Services* went up by 32%, and *Government Systems* went down by 1% primarily due to a negative currency impact related to the strong USD. The operating-costs-to-revenue ratio were 77.2%, which is in line with its historic ratio of 77.3%, and well above the peers' at 84.9%. The operating-costs-to-revenue ratio is expected to decline to 74% in 2019. The revenue are expected to reach $6.331 billion in 2020, which corresponds to a CAGR of 4% over five years. The EBITDA margin, currently at 24% is expected to gradually improve to reach 25% in 2019. The profit margin is expected to gain 1% to 14% in 2019. Free Cash Flow is also expected to increase by 66.5% over the next five years.



When compared to the overall industry and to competitors, we can see COL is outperforming every competitors. The EBITDA margin is 8% higher than the industry average, and the profit margin is 5.4% higher at 12.5%. The sales per employees at $269k is above the industry average and among the best of the industry. The EV/EBITDA is lower than peers' at 10.06. The Free Cash Flow margin is 2.5% higher than the industry. Capital expenditures are expected to stay around 2015 level at $200 million.



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	Name (BI Peers)	EBITDA to Net Sales:Y	Sl/Empl:Y	PM:Y	EV / EBITDA Adj:Y	EV/Sales T12M:D-1	Dvd Yld:Y	FCF Margin
	Average	15.91%	239.09k	7.10%	11.13	2.04	1.40%	7.55%
100)	ROCKWELL COLLINS INC	24.03%	268.92k	12.51%	10.06	2.68	1.54%	10.01%
101)	CAE INC	23.23%	--	8.27%	9.87	2.02	1.83%	5.54%
102)	ULTRA ELECTRONICS HL...	16.04%	229.20k	8.62%	12.15	2.14	2.33%	6.71%
103)	THALES SA	10.74%	252.40k	5.69%	8.23	1.02	1.64%	7.07%
104)	L-3 COMMUNICATIONS ...	6.55%	275.42k	5.66%	11.32	1.16	2.18%	8.61%
105)	MEGGITT PLC	23.59%	211.09k	12.37%	9.53	2.60	3.84%	20.01%
106)	HEICO CORP	23.35%	258.40k	11.22%	13.99	3.52	0.28%	13.01%
107)	SAFRAN SA	16.32%	289.88k	0.44%	7.41	1.53	2.18%	11.02%
108)	ESTERLINE TECHNOLOGI...	17.54%	159.33k	8.85%	10.85	--	0.00%	8.32%
109)	ZODIAC AEROSPACE	10.36%	183.99k	3.77%	17.74	1.40	1.18%	0.69%

(Accounting adjustments: Adjusted for abnormal items, when applicable) 10) Analyze List

Growth Investments

The company has developed several new products, and had been awarded several contracts that are going to bring important revenue streams in the future.

Boeing (NYSE:BA) selected Rockwell Collins to provide avionics for the 777X, which makes the company the supplier of flight decks for Boeing's entire fleet of next-generation airplanes. The Pro Line Fusion integrated flight deck is a segment leader gaining lots of interests by defense contractors and airplane manufacturers like Airbus, Textron, Sikorsky, Embraer and Dassault.

The key partnership with Boeing is becoming more and more important. The development of the 787 Dreamliner made COL to develop the most advanced systems ever deployed. The company is a key supplier for the development of the 737MAX and the 777X that will enter service in 2017 and 2020 respectively. COL is anticipating significant revenue into the next decade from its partnership with Boeing.

In 2015, the company secured three important long-term contracts to provide advanced airborne software-defined radios to Naval Air Systems Command, avionics and mission equipment to Sikorsky, and oceanic data link services to the FAA.

The company introduced in 2015 TruNet, a brand new communication system for military customers ensuring secure connectivity between ground and airborne elements. This system gives armed forces a complete control of communications across the battlefields. It also introduced FireStorm, which is an integrated targeting system with digital connectivity to the battlespace.

The R&D expenses were close to $1 billion in FY2015 and are expected to be close to $1 billion in FY2016. The company employs around 6,100 engineers. Such investment is essential for the firm to stand out within the industry, to continue to develop the best products, systems and services for the defense and aviation industry, especially when precision, communication, and safety are more important than ever.

Conclusion

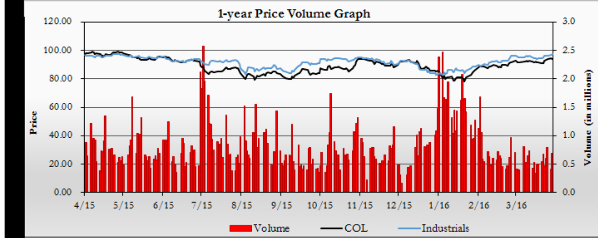
Rockwell Collins is a well-established company serving worldwide customers with reliable products and services. The company is not entirely dependent on defense contracts or on the American government to grow, and its very large and complete portfolio is opening lots of doors for further improvements in top- and bottom-line growth. Its focus on R&D is a competitive advantage compared to competitors as the company is in good position to always develop the most advanced products. Based on fundamentals, the company succeeded to have much better margins, and better growths than competitors. It secured many contracts and key partnerships that will bring important revenues over the next years. Expectations in revenue growth, EBITDA, and Free Cash Flow are better than competitors, and can even be better due to the industry outlook, and the R&D investments. Currently the stock is not performing as well as its peers or as the market. The last mixed earnings call made investors to doubt about the strong expectations of the company, and the stock dropped by 5%. Due to the market position of the company, and as its full-year outlook remained unchanged, I think investors overreacted, which created this temporary but good opportunity to buy the stock near $90. I am expecting to see the stock to catch up with the industry and to pass the $100 barrier over the next three to nine months.

Rockwell Collins Inc. (COL)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Pierre Riffard	Current Price:	$90.01	Intrinsic Value	$92.59	Target 1 year Return: 22.53%
4/22/2016	Divident Yield:	1.5%	Target Price	$108.96	Probability of Price Increase: 98.5%



Description

Rockwell Collins, Inc. designs, produces, and supports communications and aviation systems worldwide.

General Information

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	November 3, 2015
Next earnings date	July 21, 2016
Estimated Country Risk Premium	7.53%
Effective Tax rate	27%
Effective Operating Tax rate	18%

Market Data

Market Capitalization	$11,718.78
Daily volume (mil)	1.35
Shares outstanding (mil)	130.19
Diluted shares outstanding (mil)	133.00
% shares held by institutions	80%
% shares held by investments Managers	72%
% shares held by hedge funds	2%
% shares held by insiders	0.30%
Short interest	4.05%
Days to cover short interest	5.85
52 week high	$99.37
52-week low	$76.03
Levered Beta	0.69
Volatility	20.32%

Past Earning Surprises

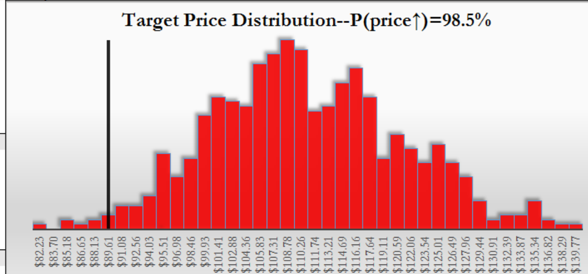
Quarter ending	Revenue	EBITDA
3/31/2015	1.24%	-3.38%
6/30/2015	-4.93%	-7.48%
9/30/2015	-3.42%	-12.36%
12/31/2015	-6.26%	-11.93%
3/31/2016	-4.40%	-8.28%
Mean	-3.55%	-8.68%
Standard error	1.3%	1.6%

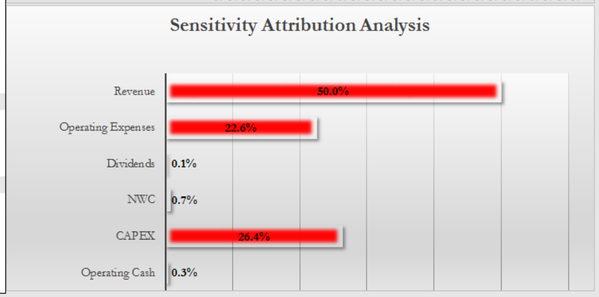
Peers

- Spirit AeroSystems Holdings, Inc.
- Triumph Group, Inc.
- Raytheon Company
- General Dynamics Corporation
- L-3 Communications Holdings Inc.
- B/E Aerospace Inc.
- Huntington Ingalls Industries, Inc.
- TransDigm Group Incorporated

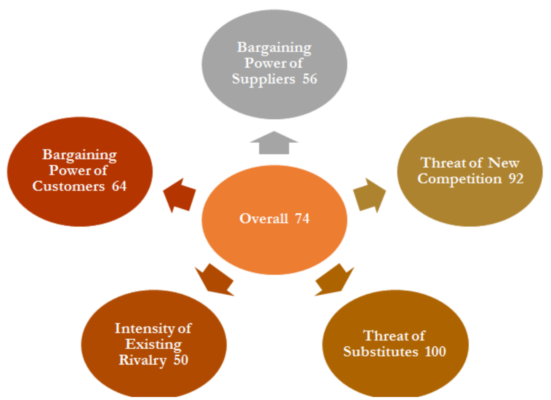
Management	Position	Total compensations growth	Total return to shareholders
Ortberg, Robert	Chairman, President and Chai	29.14% per annum over 5y	-0.82% per annum over 5y
Allen, Patrick	Chief Financial Officer and	6.19% per annum over 5y	-0.82% per annum over 5y
MacLauchlan, Jeffrey	Senior Vice President of Cor	N/M	0% per annum over 0y
Statler, Kent	Chief Operating Officer of C	9.81% per annum over 5y	-0.82% per annum over 5y
Jasper, Philip	Chief Operating Officer of G	6.36% per annum over 2y	11.54% per annum over 2y
King, Bruce	Senior Vice President of Ope	N/M	N/M

Profitability	COL (LTM)	COL (5 years historical average)	Industry (LTM)
ROIC	20.5%	48.60%	16.98%
NOPAT Margin	28%	28.69%	9.7%
Revenue/Invested Capital	0.74	1.69	1.76
ROE	25.0%	47.18%	19.92%
Adjusted net margin	26%	27.94%	8.9%
Revenue/Adjusted Book Value	0.94	1.69	2.24
Invested Funds	**COL (LTM)**	**COL (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	3.7%	5.4%	19%
Estimated Operating Cash/Total Capital	3.7%	5.2%	N/A
Non-cash working Capital/Total Capital	21.2%	21.5%	13%
Invested Capital/Total Capital	99.5%	99.3%	80%
Capital Structure	**COL (LTM)**	**COL (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.16	0.11	0.21
Cost of Existing Debt	4.71%	-16.78%	4.20%
Estimated Cost of new Borrowing	3.76%	2.69%	4.20%
CGFS Risk Rating	BB	A	BBB
Unlevered Beta (LTM)	0.63	0.93	0.84
WACC	8.63%	11.63%	9.90%





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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-1.5%	27.6%	2.37
3/31/2017	1.9%	23.9%	1.77
3/31/2018	3.3%	23.5%	1.67
3/31/2019	5.5%	23.5%	1.65
3/31/2020	5.7%	23.7%	1.65
3/31/2021	5.3%	22.7%	1.56
3/31/2022	5.0%	22.6%	1.55
3/31/2023	4.6%	22.4%	1.53
3/31/2024	4.2%	22.1%	1.50
3/31/2025	3.8%	21.8%	1.45
3/31/2026	3.4%	21.4%	1.41
Continuing Period	3.0%	21.0%	1.38

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,887.94	$2,054.71	$92.68
3/31/2017	$2,831.91	$489.84	$108.75
3/31/2018	$4,681.45	-$1,153.80	$124.68
3/31/2019	$6,844.21	-$2,762.15	$140.60
3/31/2020	$6,970.85	-$4,409.20	$156.48
3/31/2021	$8,158.13	-$6,051.95	$172.23
3/31/2022	$8,737.77	-$7,857.58	$189.13
3/31/2023	$9,180.00	-$9,575.02	$205.53
3/31/2024	$9,664.95	-$11,304.76	$222.09
3/31/2025	$10,128.65	-$13,030.50	$238.70

Siena Market Line
4th week of April 2016

Williams-Sonoma, Inc.

NYSE:WSM

Analyst: Florent Polito
Sector: Consumer Disc.

BUY

Price Target: $68.96

Key Statistics as of 04/22/2016

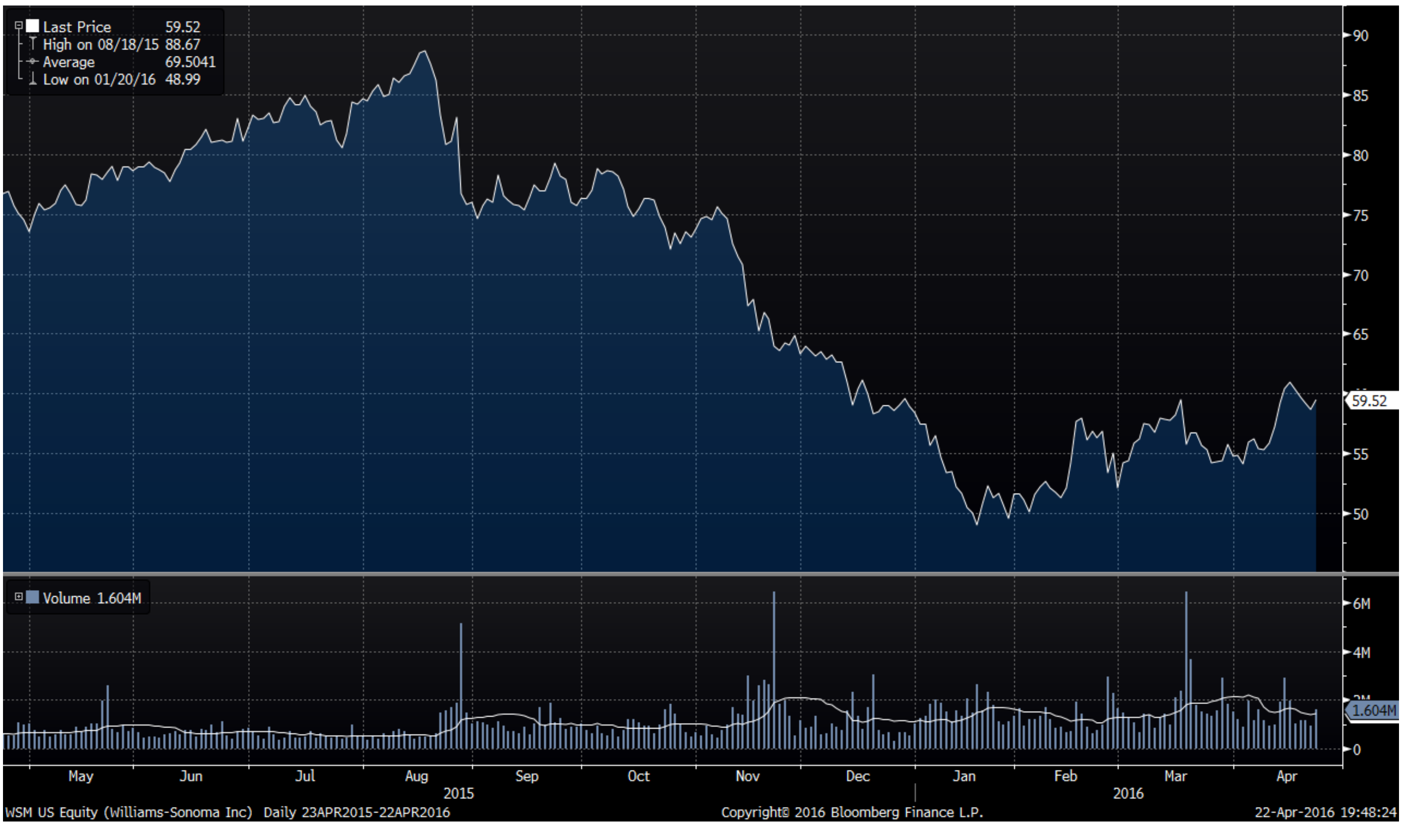
Market Price:	$59.52
Industry:	Specialty Retail
Market Cap:	$5.31B
52-Week Range:	$48.99-$88.67
Beta:	0.78

Thesis Points:

- Expectations of slowing growth may be proven wrong due to refocalized strategy
- The bullish housing market will drive revenues up
- The diversification of WSM products is a strength the company will benefit from in 2016

Company Description:

Williams-Sonoma Inc. is a consumer retail company that sells kitchenwares, home furnishings and food. Most of its products are French inspired. The company is mostly established in the United States but has a presence in North America, Europe, Middle East and is expanding in South Africa and the Philippines, through both company owned stores and franchises. The company operates more than 600 stores with 26,800 employees for a total revenue of $4.4 Billion.

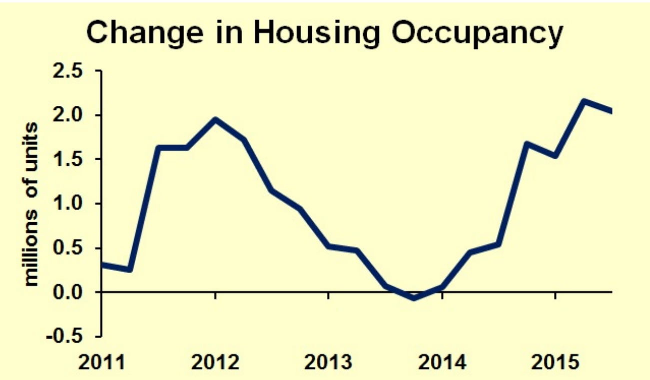


Thesis

WSM is a company with an increasing presence inside and outside the USA. Due to a weak 2015 growth, expectations have been lowered for the company, but chances are those expectations are actually wrong. The company can benefit from the diversification and quality of its products as well as its partnerships and a bullish housing market to secure a higher growth than forecasted. While 2015 have shown different WSM problems such as the distribution of their products, the company has made the necessary changes that will drive its growth in 2016 and 2017.

Industry Outlook

WSM revenues may directly be impacted by the housing market growth, in effect as a seller of mostly indoor and outdoor home furniture, it has a tie with the housing market. While interest rates are not expected to increase tremendously during 2016, there has been a noted tendency of an increase in housing occupancy which means more and more persons get a house, and this trend is forecasted to keep growing in 2016 and 2017, along a slight expected increase in home price. 2016 and 2017 should therefore have a positive impact on WSM sales. Moreover the strong actual dollar coupled with low oil prices have increased consumer confidence, with an expected consequences of an increase in their spending.



Management

The company is focused on delivering outstanding quality products with big added value, WSM is also implied in offering fair wages and working conditions in its factories and stores. Because the company does not have agents and vendor and distribution type of relations, it can eliminate several layers of cost and offer lower price compared to the competition. The company is focused on providing a safe and caring work environment as its people are mostly those that create the experience to the customers and will drive the sales. The company has been rated 3.9 stars out of 5 on the website Indeed by 700 different employees which highlights that the company has and shows overall a positive image.

Products

The company operate several brands and offers a wide range of products under different names which are Williams-Sonoma, Williams-Sonoma Home, Pottery Barn, Pottery Barn Kids, PBTeen, Rejuvenation, and Mark and Graham. Those products includes home and kitchen furnishings, modern housewares, personalized gifts for both children, young adults, and families. The company is targeting a wide range of age demographics in order to keep a strong brand name and keep its loyal customers as they evolve with time. Those products are offered with best-in-class services, and WSM values timeless designs and superior quality at a compelling value. The diversity of its products and the quality of services coupled to skilled labor gives an edge and a sort of personalized experience to customers that can only benefit the company.

Company Strategy

With its direct sourcing, the company has an edge over conventional retailers, and help the company afford consistent high level of quality for both food and furnitures from construction to engineered packaging. The company is planning on expanding internationally through franchises. The company is implanted in 9 countries outside the US with 69 stores and plans to have a presence in 35 countries within 10 years, and is already developing its company-owned businesses in the UK and in Australia. WSM also has partners in the Middle East, Mexico, the UK and the Philippines, and recently developed a partnership in South Africa with Ram Brands.
To lower more its costs WSM is starting to regionalize its supply chain. The company has opened a new distribution center in the state of Georgia to offer faster and lower-cost deliveries. Several other distribution centers are planned to be opened on the West Coast, the Midwest, the Southeast and on the East Coast.
Furthermore WSM is planning on closing stores which costs are deemed too high to focus on retail stores that offer a high valuable experience to the customers in

strategic points. WSM is presently expanding its West Elm presence with the opening of 18 stores in 2015 and plan to open 13 stores in 2016

Financials

WSH has had a relatively weak 2015 year with its gross margin lowered by 120 points from 38.3% to 37.1% which impacted the EBITDA margin and the Net Income margin. Those numbers must have been those dragging the stock down as the investors had foreseen during the year that the company had had an increase in its operating cost. At the same time, the earnings call last month has been the occasion for WSM to show that the company was about to cut costs thus it is to be expected that the company will have better margins for the coming year, thanks for example to the development of distribution centers, capital expenditures in 2016 will amount 200 million of dollars. There is still some indicators that the company is doing well, the dividend payaout ratio has been increased from 40.59% to 42.02%, and the return on Equity has increased from 24.90% to 25.59% while the ROIC has increased from 24.09% to 24.64% showing that the company even with weaker results than impacted is still profitable.

Conclusion

To conclude, forecasts are merely pessismistic on WSM due to a poor performance in 2015 but the company has what it takes to show growth in 2016 and 2017, the company does not have any indicators that would suggest that it gets worse on that time, therefore it seems logical that the stock price can only increase. Through a valuation of the company with discounting its cash flows, WSM has presently an intrinsic value of $62.50 and a target price at $68.96, a 18.3% return over a year.

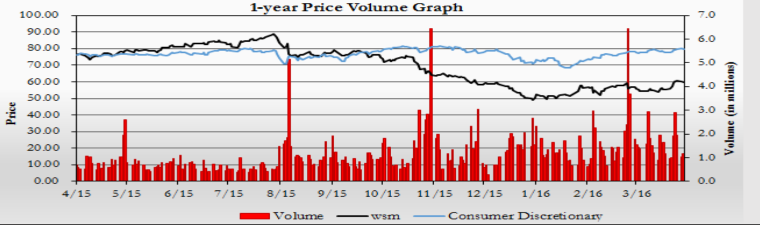
Williams-Sonoma Inc. (wsm)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Florent POLITO	Current Price:	$59.52	Intrinsic Value	$62.50	Target 1 year Return: 18.3%
4/22/2016	Divident Yield:	2.4%	Target Price	$68.96	Probability of Price Increase: 93.33%

1-year Price Volume Graph



Description

Williams-Sonoma, Inc. operates as a multi-channel specialty retailer of various products for home.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	May 20, 2016
Estimated Country Risk Premium	6.22%
Effective Tax rate	39%
Effective Operating Tax rate	58%

Market Data

Market Capitalization	$5,238.96
Daily volume (mil)	1.60
Shares outstanding (mil)	89.25
Diluted shares outstanding (mil)	92.10
% shares held by institutions	55%
% shares held by investments Managers	79%
% shares held by hedge funds	9%
% shares held by insiders	8.26%
Short interest	11.62%
Days to cover short interest	6.80
52 week high	$89.38
52-week low	$47.33
Levered Beta	1.13
Volatility	28.55%

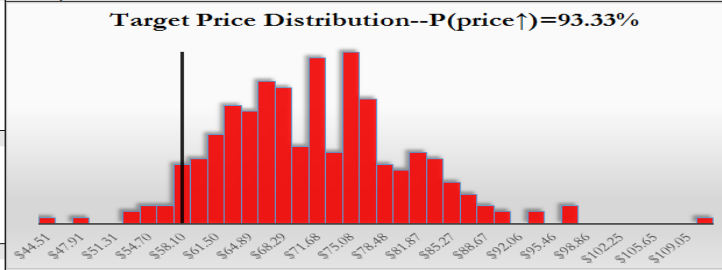
Past Earning Surprises

Quarter ending	Revenue	EBITDA
2/1/2015	-1.89%	0.35%
5/3/2015	2.09%	4.90%
8/2/2015	1.75%	-4.62%
11/1/2015	1.38%	-0.44%
1/31/2016	-1.96%	-6.48%
Mean	0.28%	-1.26%
Standard error	0.9%	2.0%

Peers

Bed Bath & Beyond Inc.
Tractor Supply Company
Pier 1 Imports, Inc.
Restoration Hardware Holdings, Inc.
The Home Depot, Inc.
Mattress Firm Holding Corp.
Lowe's Companies, Inc.
Best Buy Co., Inc.

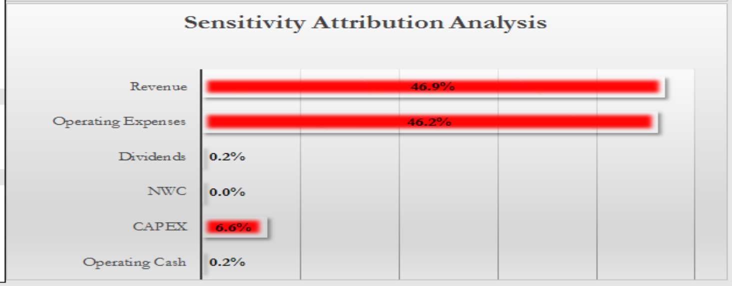
Target Price Distribution--P(price↑)=93.33%



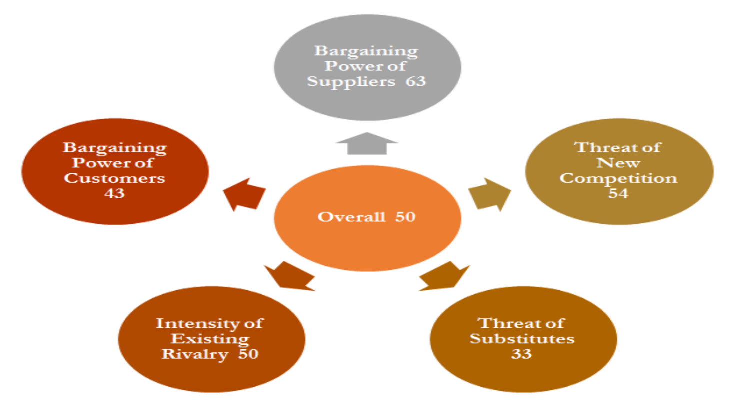
Management	Position	Total compensations growth	Total return to shareholders
Alber, Laura	Chief Executive Officer, Pre	0.64% per annum over 5y	13.32% per annum over 5y
Whalen, Julie	Chief Financial Officer and	-0.24% per annum over 3y	20.67% per annum over 3y
Stangl, Sandra	President of Pottery Barn, P	14.3% per annum over 4y	7.66% per annum over 4y
Hayes, Janet	President of the Williams-So	10.26% per annum over 2y	34.45% per annum over 2y
Brett, James	President of West ELM Brand	N/M	0% per annum over 0y
Miller, Dean	Chief Operating Officer and	N/M	N/M

Profitability	wsm (LTM)	wsm (5 years historical average)	Industry (LTM)
ROIC	5.4%	16.31%	20.37%
NOPAT Margin	3%	9.59%	6.9%
Revenue/Invested Capital	1.63	1.70	2.96
ROE	6.4%	19.30%	24.53%
Adjusted net margin	3%	9.15%	6.5%
Revenue/Adjusted Book Value	2.27	2.11	3.75
Invested Funds	**wsm (LTM)**	**wsm (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	6.5%	11.5%	17%
Estimated Operating Cash/Total Capital	6.5%	7.3%	N/A
Non-cash working Capital/Total Capital	4.9%	7.6%	14%
Invested Capital/Total Capital	100.0%	95.8%	84%
Capital Structure	**wsm (LTM)**	**wsm (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.39	0.32	0.23
Cost of Existing Debt	2.46%	2.50%	4.79%
Estimated Cost of new Borrowing	2.98%	2.53%	3.93%
CGFS Risk Rating	2.46%	AA	AA
Unlevered Beta (LTM)	0.00%	1.30	0.92
WACC	8.37%	9.93%	8.21%

Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	5.9%	3.3%	0.65
1/31/2017	4.8%	9.4%	2.02
1/31/2018	5.0%	9.6%	2.10
1/31/2019	5.3%	9.7%	2.06
1/31/2020	3.4%	9.8%	2.03
1/31/2021	2.1%	9.9%	1.99
1/31/2022	2.3%	9.8%	1.94
1/31/2023	2.4%	9.7%	1.91
1/31/2024	2.6%	9.6%	1.88
1/31/2025	2.7%	9.5%	1.86
1/31/2026	2.9%	9.4%	1.83
Continuing Period	3.0%	9.3%	1.80

Period	Invested Capital	Net Claims	Price per share
Base Year	$2,214.89	$1,813.77	$62.55
1/31/2017	$2,385.11	$1,508.12	$68.89
1/31/2018	$2,699.29	$1,248.35	$75.64
1/31/2019	$2,815.26	$900.03	$82.62
1/31/2020	$3,052.67	$523.84	$89.80
1/31/2021	$2,978.93	$82.80	$97.18
1/31/2022	$3,130.98	-$381.65	$104.69
1/31/2023	$3,391.67	-$841.65	$112.36
1/31/2024	$3,587.07	-$1,298.33	$120.19
1/31/2025	$3,772.51	-$1,751.76	$128.22
1/31/2026	$3,908.12	-$2,202.00	$136.44
Continuing Period			

Weight Watchers International Inc.

NYSE: WTW

Analyst: Senan Lonergan
Sector: Consumer Disc.

Short

Price Target: $6.20

Key Statistics as of 4/22/2016

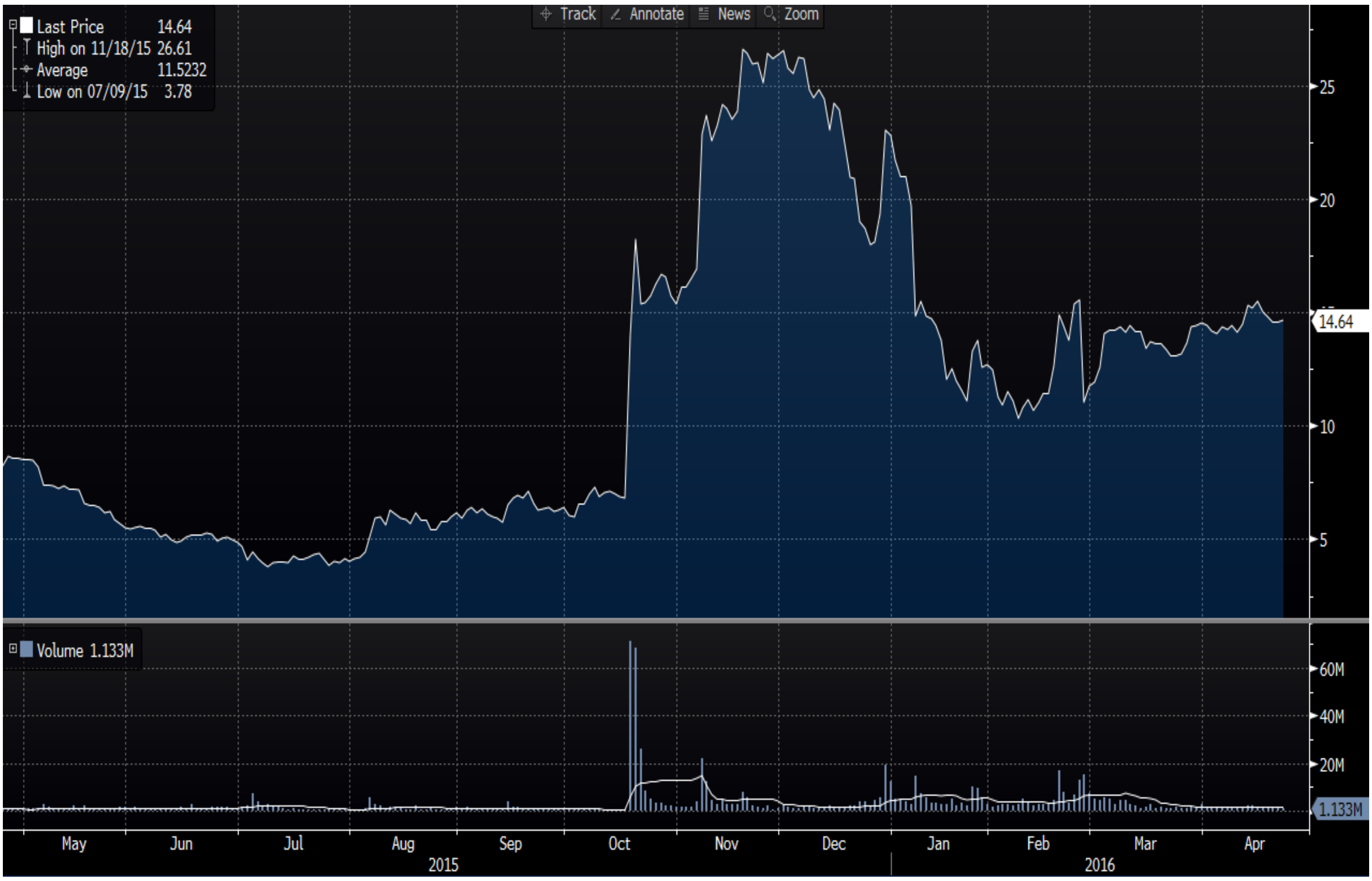
Market Price:	$14.62
Industry:	Personal Services
Market Cap:	$930.81M
52-Week Range:	$3.67-28..05
Beta:	1.69

Thesis Points:

- Consistent revenue declines
- Overvalued stock as a result of Oprah Winfrey's 10% ownership
- Increased competition will continue to eat away at WTW's current market share

Company Description:

Weight Watchers International, Inc. is the world's leading commercial provider of weight management services, operating globally through a network of Company-owned and franchise operations. Weight Watchers holds more than 32,000 meetings each week where members receive group support and learn about healthy eating patterns, behavior modification and physical activity. Weight Watchers provides innovative, digital weight management products through its websites, mobile sites and apps. Weight Watchers is the leading provider of paid digital subscription weight management products in the world. In addition, Weight Watchers offers a wide range of products, publications and programs for those interested in weight loss and weight control.



Thesis

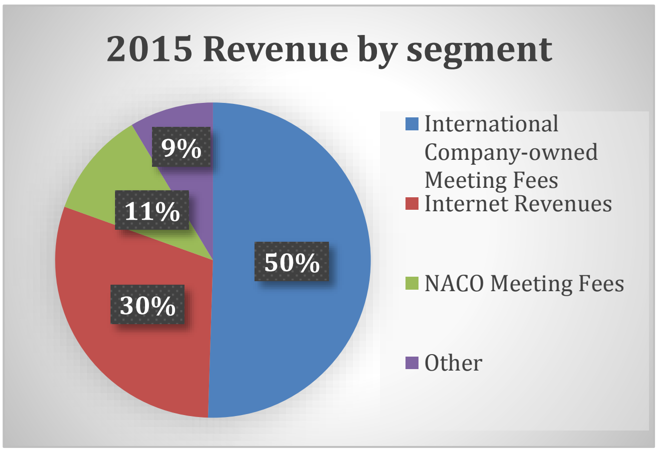
Although Weight Watchers still holds the largest market share in the weight loss services industry, WTW has consistently been declining in revenue, and will soon lose its hold as the industry's leader. The industry outlook is favorable in the sense of obesity and population metrics, however, increased competition is a serious threat. In addition to growing companies such as Nutrisystem, Medifast, and GNC, advancements in technology, such as phone applications, are making Weight Watchers less appealing. The partnership of Oprah Winfrey has driven the stock price up, but Q4 financials have indicated that she is not effecting growth, and as a result, the stock is largely overvalued.

Industry Outlook

The Weight Loss Services industry has declined over the last five years, but analysts expect it to rebound in the coming five years. As more health-conscious individuals become aware of how weight loss plays an integral role in health and overall wellness, industry revenue will grow. Over the five years to 2021, industry revenue is forecast to grow at an annualized rate of 2.6% to $2.6 billion. However, with this demand for health and fitness products and services comes increased competition. The Weight Loss Services industry is already saturated with companies such as Weight Watchers, Medifast, Nutrisystem, and many others, and the low barriers to entry in this industry will allow competition to continue increasing. Furthermore, advancements in technology, such as calorie-counting applications available on smart phones, poses as serious competition to WTW.

Business Model

Weight Watchers has several services and products that it offers to members, including weight management plans, meetings, nutritional products, a weightwatchers.com subscription and mobile services. Its weight management plans are offered through the company's PointsPlus and ProPoints plans. The PointsPlus system assigns specific point values to food, based on its protein, carbohydrate, and fat and dietary fiber content. Under the PointsPlus program, consumers are taught various techniques on how to lose weight by eating foods that are healthier and more satisfying. The ProPoints program was launched in Europe at the end of 2009 and, at the end of 2010, the company introduced the PointsPlus program in the United States and Canada. Additionally, Weight Watchers offers weekly meetings so that members can support one another and discuss experiences with weight-management challenges. In 2015, the company acquired Weilos, a California-based company that developed a mobile platform for health and weight loss. The company also sells a range of products, including protein bars, snacks and cookbooks, as well as food and restaurant guides. Weight Watchers additionally has two internet subscription offerings, Weight Watchers Online and Weight Watchers eTools. Weight Watchers Online provides personalized resources so clients can follow weight-management plans via the internet. The following graph breaks down their revenue by segment, which has remained fairly consistent over the last few years. It is also important to note that Product Sales and Royalties were discontinued in 2013.



Financials

When compared to its publicly traded competitors, Nutrisystem (NTRI), GNC Holdings (GNC), and Medifast (MED), Weight Watchers Inc. poses as a short sell position. WTW's WAAC has remained relatively stable, and similar to its competitors, but its return on invested capital is now inferior, and has significantly declined over recent years. When breaking down the cost structure and margins of these companies, it is clear that the severe revenue declines has driven the devaluation of WTW. Historically, Weight Watchers has recorded 6.36 ROIC/WAAC, but has declined to 1.99 last fiscal year. Its competitors, on the other hand, have improved from 2.09 to 2.46 over the same time period. Revenue for WTW had declined each of the last three years, with -6.27% in 2013, -14.16% in 2014, and -

21.32% in 2015. Moreover, greater declines in operation income growth have occurred, with -9.8% in 2013, -35.04% in 2014, and -43.85% in 2015. While operating margins have improved as of late, it is crucial for companies in this space to continue growth in new customers, as well as customer retention, so that it can retain its brand recognition. The overarching factors attributing to this substantial decline with both growth and profitability is largely due to the increased competition previously discussed, but also an overall decrease in demand for Weight Watchers specifically. Other services have become more attractive, and cost effective, for consumers, and WTW is now losing loyal customers. Lastly, the discontinuation of its product segment has now limited Weight Watchers to strictly a services oriented company. The business model revolves around internet revenue, and meeting fees, while pre-maid meals are no longer distributed to members. The company has lost the little proprietary value that it once had, and is now a company that simply advises customers through meetings, forums, and other methods of marketing and media. This lack of innovation has discouraged customers and has allowed them to explore other weight loss methods.

Oprah Winfrey Q4 2015 Earnings

In an effort to revamp growth, WTW has partnered with famous icon, Oprah Winfrey. Oprah invested $43 million for a 10% stake last October at $6.79 per share, which included a seat on the board. The excitement of Oprah's ownership allowed the stock value to peak last November at $28.05 per share. Oprah's investment involves active involvement in pitching Weight Watchers television ads, but Q4 earnings has demonstrated that the impact of Oprah's brand may not be as valuable as management perceived it would be. Weight Watchers' sales fell to $259.2 million in the fourth quarter ended Jan. 2, from $327.8 million in Q4 a year earlier. Additionally, active subscriber numbers, a key metric used by the company, fell 4.8 percent to 2.39 million and WTW recorded a net loss of $11.3 million, or 18 cents per share, compared with net income of $4.4 million, or 8 cents per share, seen in the prior year. The quarter four earnings report has brought the stock price back down to a more realistic value currently at $14.62. However, the nearly 27% short interest, with 11.2 average days to cover, expresses investors pessimistic outlook for 2016.

Q1 2016 Earnings

Investors and management have made the argument that Oprah's effect on revenue growth has not been realized fully, as she partnered with WTW mid-way through Q4. WTW's Q1 report will be released on May 5th, and what all analysts will be excited to see is whether or not revenue expectations have been met, if Oprah's contribution to the company will be seen in the top line, and whether or not 2016 will be staged for a growth year for 2016. Q1 earnings are especially important for health, fitness, and weight management companies, as many consumer demand increases when headed to the warmer spring and summer months. Analysts estimate that revenue will decrease YOY from 322.1M to 309M, another decline of 4.1%. While there is the possibility of an earnings beat, in which Oprah's contribution to Weight Watchers improves revenue, I believe that downside far exceeds the upside.

Conclusion

Using the analysts low estimates, and taking an optimistic approach in terms of revenue growth, WTW is still overvalued. Prior to the addition of Oprah Winfrey, WTW was fairly valued at around $7 a share. Currently, the stock trades at $14.62 with little justification to this 100% increase. Q4 earnings have indicated that the value to be added by Oprah Winfrey's advertisements was largely overstated. The proforma attached values WTW at $6.20 a share, and a short sell position is my recommendation. While the downside to a short position is that Oprah's contribution will be recognized in the Q1 earnings report, many other analysts and I believe that the Oprah effect should have been seen last quarter. Ultimately, the upside of short selling Weight Watchers far exceeds the downside.

Weight Watchers International, Inc. (WTW)

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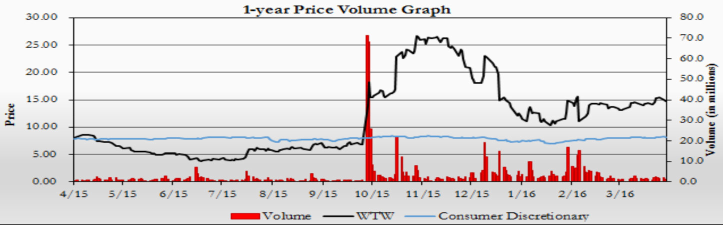
Analysis by Senan Lonergan	Current Price:	$14.65	Intrinsic Value	$6.20	Target 1 year Return: -40.89%
4/22/2016	Divident Yield:	0.0%	Target Price	$8.66	Probability of Price Increase: 2.5%



Description

Weight Watchers International, Inc. provides weight management services worldwide.

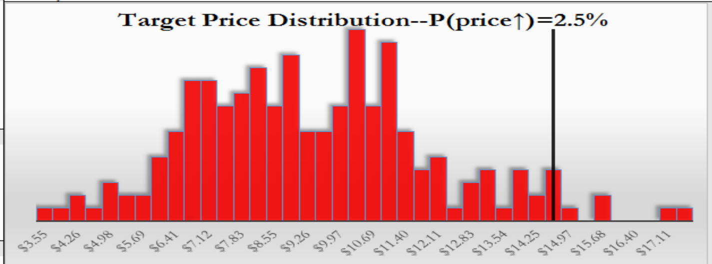
General Information	
Sector	Consumer Discretionary
Industry	Diversified Consumer Services
Last Guidance	November 3, 2015
Next earnings date	May 4, 2016
Estimated Country Risk Premium	4.92%
Effective Tax rate	28%
Effective Operating Tax rate	37%

Market Data	
Market Capitalization	$929.90
Daily volume (mil)	1.10
Shares outstanding (mil)	63.65
Diluted shares outstanding (mil)	58.97
% shares held by institutions	78%
% shares held by investments Managers	26%
% shares held by hedge funds	14%
% shares held by insiders	10.93%
Short interest	29.74%
Days to cover short interest	5.27
52 week high	$28.05
52-week low	$3.67
Levered Beta	1.69
Volatility	78.75%

Past Earning Surprises

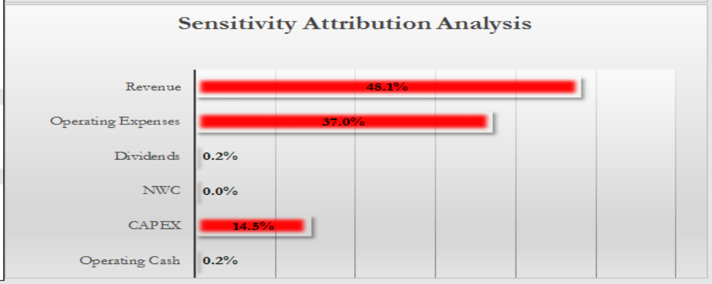
Quarter ending	Revenue	EBITDA
1/3/2015	-6.34%	9.72%
4/4/2015	-2.39%	14.36%
7/4/2015	-2.72%	0.68%
10/3/2015	1.91%	1.60%
1/2/2016	0.48%	-7.04%
Mean	-1.81%	3.86%
Standard error	1.4%	3.7%

Peers
Elizabeth Arden, Inc.
Dunkin' Brands Group, Inc.
Nutrisystem, Inc.
The Estée Lauder Companies Inc.
Domino's Pizza, Inc.
GNC Holdings Inc.
Nautilus Inc.
Nature's Sunshine Products Inc.

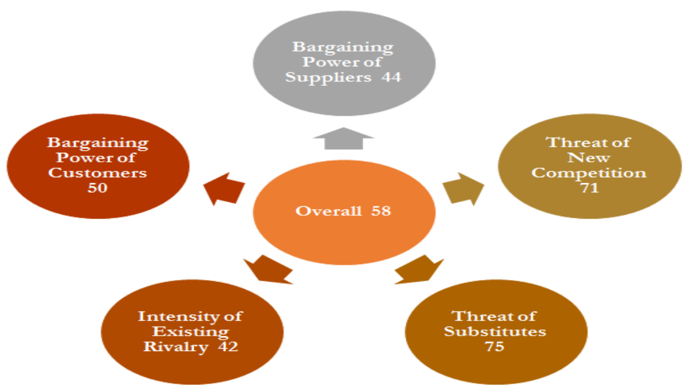


Management	Position	Total compensations growth	Total return to shareholders
Chambers, James	Chief Executive Officer, Pre	-52.49% per annum over 1y	-34.2% per annum over 1y
Hotchkin, Nicholas	Chief Financial Officer	2.11% per annum over 2y	-34.28% per annum over 2y
Colosi, Michael	General Counsel and Secretar	N/M	0% per annum over 0y
Pollier-Bousquet, Corinne	President of International	N/M	0% per annum over 0y
Kossover, Amy	Senior Vice President of Cor	N/M	N/M
Crowe, Byron	Chief Technology Officer	N/M	N/M

Profitability	WTW (LTM)	WTW (5 years historical average)	Industry (LTM)
ROIC	5.6%	35.30%	23.71%
NOPAT Margin	9%	27.53%	17.7%
Revenue/Invested Capital	0.61	1.28	1.34
ROE	8.7%	56.26%	33.19%
Adjusted net margin	1%	23.13%	14.7%
Revenue/Adjusted Book Value	14.42	2.43	2.26
Invested Funds	**WTW (LTM)**	**WTW (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	12.6%	9.5%	9%
Estimated Operating Cash/Total Capital	6.7%	6.8%	N/A
Non-cash working Capital/Total Capital	-6.7%	-9.6%	21%
Invested Capital/Total Capital	94.3%	97.4%	91%
Capital Structure	**WTW (LTM)**	**WTW (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	1.77	1.23	0.48
Cost of Existing Debt	5.14%	5.03%	5.56%
Estimated Cost of new Borrowing	15.29%	12.99%	5.56%
CGFS Risk Rating	F	D	CC
Unlevered Beta (LTM)	0.65	0.76	0.57
WACC	6.42%	7.25%	6.46%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-21.3%	9.1%	0.86
1/2/2017	1.9%	11.4%	1.05
1/2/2018	2.7%	15.7%	1.70
1/2/2019	0.5%	15.6%	1.56
1/2/2020	0.7%	15.1%	1.53
1/2/2021	0.9%	14.8%	1.51
1/2/2022	1.1%	14.5%	1.50
1/2/2023	1.3%	14.2%	1.49
1/2/2024	1.5%	13.9%	1.48
1/2/2025	1.7%	13.6%	1.46
1/2/2026	1.9%	13.3%	1.45
Continuing Period	2.1%	13.0%	1.45

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,251.66	$2,526.12	$6.02
1/2/2017	$1,422.82	$2,371.91	$8.22
1/2/2018	$1,609.63	$2,363.76	$10.40
1/2/2019	$1,867.00	$2,244.01	$12.61
1/2/2020	$1,904.12	$2,082.77	$15.49
1/2/2021	$1,813.04	$1,975.83	$17.54
1/2/2022	$1,719.12	$1,874.60	$19.57
1/2/2023	$1,844.17	$1,778.92	$21.61
1/2/2024	$1,848.26	$1,688.69	$23.64
1/2/2025	$1,845.98	$1,603.81	$25.67
1/2/2026	$1,846.42	$1,524.22	$27.71
Continuing Period			