Macroeconomic Overview

U.S. Markets

Index	Weekly % Change	YTD % Change
S&P 500	+2.64%	-2.15%
Dow Jones Industrial	+2.2%	-2.4%
NASDAQ Composite	+2.76%	-5.8%
Russell 2000	+4.27%	-4.75%
VIX	-17.35%	-7.41%

U.S markets had another good week, as a rebound in oil prices and positive economic data gave investors a much needed confidence boost. The week was off to a bad start, with February pending home sales coming in below estimates, as well as a Chicago PMI reading of 47.6, much lower than the consensus at 52.9. This caused the S&P 500 to lose 0.83% on Monday and record its third consecutive monthly loss, which was very modest at -0.41%. On Tuesday, the trend reversed and set the mood for the rest of the week, thanks in part to a satisfying reading in the manufacturing PMI and strong growth in construction spending. Later in the week, positive employment data fueled the rally further and allowed the major indices to record four days of consecutive gains. As a result, the S&P 500 rose 2.64%, bringing its 3-week return to 6.31%, and volatility as measured by the VIX fell by 17.35%. The NASDAQ Composite slightly outperformed the S&P 500, with a weekly gain of 2.74% mostly fueled by banks and financials. Small cap stocks also staged a strong comeback, especially energy stocks which caused the Russell 2000 to spike 4.27%. The Dow Jones Industrial Average recorded the lowest gain of the week, rising 2.2% to close above 17,000 for the first time since January. The rally is also partly attributable to the rebound in oil prices, which are starting to reflect the slowdown in supply due in part to shale oil production cuts in the U.S. As a result, crude oil had one of its strongest weeks, and the price of WTI jumped above $35 for the first time since January (+10.43%) while Brent gained 10.76%. Most commodities recorded gains last week, which were reflected in the Bloomberg Commodity Index's 3.21% weekly gain. Gold, which usually has an inverse correlation with equity markets, recorded a surprising 2.03% gain and hit levels not seen in over a year, while silver also followed the same path with an even bigger weekly gain of 4.77%. The week ahead is unusually light in macroeconomic releases, and investors will have little information to digest apart from the usual EIA report on Wednesday and jobless claims on Thursday.

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

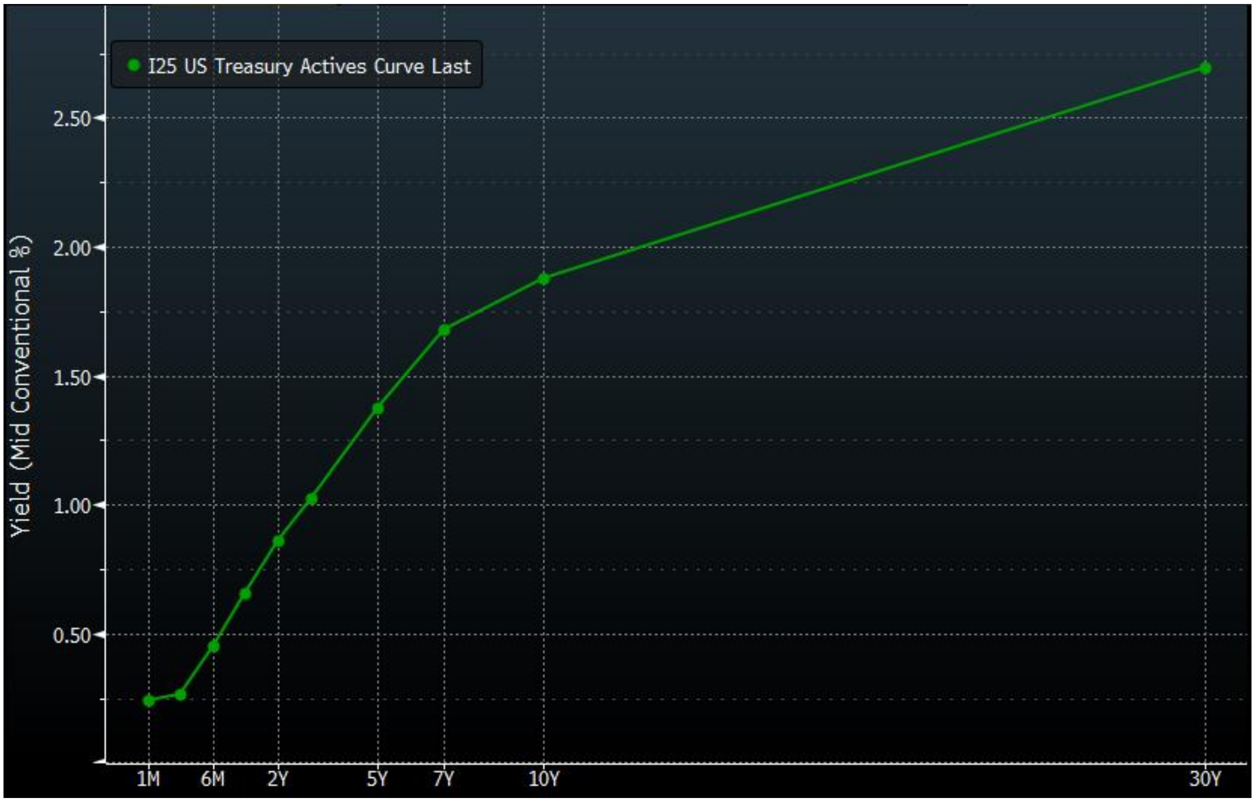
International Markets

Index	Weekly % Change	YTD % Change
BE 500	+3.08%	-6.9%
Stoxx Europe 600	+3.09%	-6.56%
DAX	+3.27%	-8.55%
FTSE 100	+1.7%	-0.69%
CAC 40	+3.29%	-3.89%
Nikkei 225	+5.1%	-10.61%
Shanghai Composite	+3.86%	-18.79%
Shenzhen Composite	-1.7%	-26.07%

Abroad, most equity markets also benefitted from the rebound in oil prices and most indices recorded a third consecutive positive week. In Europe, financials and energy stocks were the main drivers of the rally that pushed the BE500 up 3.08% and the Stoxx Europe 600 up 3.09%. European markets were also helped by the negative inflation figures that indicate more stimulus is on the way by the ECB. The tendency was even across Europe, with the French CAC gaining 3.29% while the German DAX rose 3.27%. The picture was less bright in the U.K, where concerns about the state of the economy increasingly weigh on British stocks, on top of renewed talks of a "Brexit". As aresult, the FTSE 100 recorded a more modest gain of 1.7% for the week. In Asia, the Nikkei finally put a halt to its free fall, after hitting a multi-year low in February. The Japanese benchmark rallied 5.1% to close back above 17,000 for the first time in a month, but is still down over 10% year to date. Japan also made history last week when the government issued negative interest rate for the first time on Tuesday. The ¥2.2T ($19.3B) auction of 10-year notes was offered at an average yield of -0.024%, and was oversubscribed by more than three times. In China, the equity markets almost recovered from last week's losses despite plunging on Monday, but still remain far in the red year to date. This translated into a gain of 3.86% for the Shanghai Composite rose 3.86% while the Shenzhen Composite fell 1.7% mainly because of IT stocks.

Bond Report

This week, The US Treasury yields climbed to their highest level in a month because of strong economic data. Indeed, Tuesday's strong stock market pushed yields up since investors were selling their Treasuries to invest in riskier assets. The equity market rally, mostly driven by stronger than expected data on both construction and U.S. manufacturing, as well as rising oil prices, pushed investors to harshly sell off their U.S. Treasuries in favour of riskier assets. On Wednesday, the selloff of Treasuries continued because of a stronger than expected job report. Because of a strong labor market and a rising inflation rate, investors start to believe that the FED could raise its interest rate later this year. These two consecutive days of selloff pushed yields to their highest level in a month. The yield on the 10-year note reached a level of 1.85%, its highest level since February 4. However, Treasury yields decreased on Thursday as many economic report pointed a slowing U.S. growth. The Treasury market was muted on Thursday as many investors were waiting for Friday's employment report. Indeed, this report will be determinant to anticipate the future FED's moves. The yield on 10-year Treasury note decrease about 1.7 bps to 1.83% a reasonable level as recent economic data are robust enough to stay at the 1.8% level. On Friday, The Labor Department stated that 242,000 new jobs were created in February, beating analysts' estimates of 198,000. Following that news, Treasury yields rose to their highest level in a month, as the probability to see a rate hike increased for the year 2016. Overall, the two-year note gained 7.6 bps over the week with 3.2 bps only on Friday, and finish the week at a 0.87% level. The 10-year note gained 11.7 bps over the week with 5.2 bps on Friday, to reach 1.88%, its highest level since the beginning of February. Among longer maturities, the yield on the 30-year bond gained 7.3 bps over the week, with 1.5 bps on Friday and finish the week at 2.7%.



What's next and key earnings

No special report are expected for this week.

Gamestop Corp.

GME

Analyst: Richard Acheson
Sector: Consumer Disc.

BUY

Price Target: $68.67

Key Statistics as of 3/4/16

Market Price:	$31.23
Industry:	Specialty Retail
Market Cap:	$3.3B
52-Week Range:	$24.33 - $47.83
Beta:	.69

Thesis Points:

- Gamestop is undervalued due to the recent market crash in late 2015 and early 2016
- Showing diversification with their new acquisition of Technology Brands
- The company creates great value, particularly reselling pre-owned games and consoles.

Company Description:

Gamestop Corp. is a retailer that specializes in selling new and pre-owned video game consoles, games for each console, as well as accessories for all of their consumers gaming needs. They are currently the largest video game retailer in the world owning 4,138 stores domestically as well as 6,690 stores worldwide. Gamestop is also the issuer of *Game Informer* which is the world's largest publication of video game review, strategic tips for current games, and also a look into games that will be coming out in the near future. Despite the recent tank in stock price, Gamestop continue to create value within the company and will create value to future shareholders.

Thesis

Gamestop is currently priced at $32.19. In the beginning of November 2015, they were priced at roughly $47 per share. The decrease was due to a crash within the entire market with nothing specifically applying to Gamestop. After reaching a low of $25 per share in January, Gamestop is starting to make up for the loss, making this a perfect time to buy.

Not only is the price historically low, but the company is also diversifying its revenue streams in order to become more flexible using their newly acquisitioned Technology Brands segment. This include the sales of new pre-paid phone, tablets and other electronics. This helps them diversify their revenue stream that way they are not completely dependent on their suppliers to constantly come out with new games and consoles.

Lastly, Gamestop gets an extremely high amount of their value from purchasing pre-owned games a high discount and then reselling those games or consoles to a new consumer at a much higher rate. This segment contributed 41% of their gross profit in 2015 and 2014.

Porter's Five Forces

Bargaining power of suppliers: **HIGH**

Gamestop is completely dependent on their suppliers' ability to be able to make new games and consoles. The entire industry is based on new releases and new games and consoles that consumers have to buy. If there were no new games coming out the entire industry would fail

Bargaining power of customers: **LOW**

Consumers have very little bargaining power if any at all. Not only Gamestop, but every retailer prices new games and consoles evenly. Not only that, but Gamestop is able to buy used hardware at a high discount because customers don't have anyone else to sell their used games and consoles too.

Threat of substitutes: **MEDIUM**

There are some alternatives for gamers to pursue. Games on consumers mobile devices have recently become popular and cold be a potential threat, but these games do not nearly include the same amount of detail that comes from purchasing a console.

Existing rivalry: **MEDIUM**

Existing rivals to Gamestop mainly include major retailers like Walmart and Target. Neither one of these retailers specifically sells video games and therefore does not carry the amount of detail in their inventory the Gamestop does, leaving Gamestop as still the best choice for consumers gaming needs.

Barriers to Entry: **HIGH**

Gamestop has established themselves as the leading retailer in the gaming industry. It would require a substantial amount a capital for a new competitor to emerge and be able to compete with Gamestop on a high level. If Gamestop continues to expand and make themselves available to consumers it's hard to image a threat emerging anytime soon in the future.

Technology Brands

Technology Brands is a recent acquisition by Gamestop in an attempt to diversify their revenue stream by offering more products that are not directly video game related. This includes companies like:

Simply Mac: Licensed to sell a full line of Apple products like Macbooks, iPhones, and iPads. They currently have 60 stores.

Spring Mobile: Sells post-paid AT&T service plans and products. Currently have 358 AT&T branded stores.

Cricket Wireless: A new brand of AT&T selling pre-paid plans and wireless services. This segment has 63 stores throughout the nation.

This segment of Gamestop's operations is still in the growing stage and will continue to expand over the years. This past year Technology Brands contributed for $328 million in revenue which is only .04% percent of revenue currently

Pre-owned Segment

The pre-owned segment of Gamestop is where a lot of their value is created. The profit margins on selling pre-owned games and consoles are extremely high this segments accounted for 41% of their gross profit in 2015 as well as 25% of their net sales.

	52 Weeks Ended January 31, 2015	
	Gross Profit	Gross Profit Percent
Gross Profit:		
New video game hardware[1]	$ 196.6	9.7%
New video game software	716.9	23.2
Pre-owned and value video game products	1,146.3	48.0
Video game accessories	246.1	37.7
Digital	152.0	70.3
Mobile and consumer electronics	186.7	36.0
Other[2]	131.3	32.8
Total	$ 2,775.9	29.9%

Risk Associated

As with any other company, there is a certain degree of risk with investing in Gamestop. The biggest risks are as follows:

Strictly tied to economic condition: many consumers consider gaming a luxury rather than a necessity. So if the nation is going through a recession where they have a reduction in their discretionary income, these luxury items are typically the first to go. The state of the economy have a huge effect on sales.

Dependence on suppliers: Gamestop has to constantly depend on their suppliers to release new games and consoles that consumers will enjoy. If there supplier lose the ability to produce new products, sales will surely suffer.

Electronic game industry is cyclical: This industry is very dependable on its ability to constantly come out with new software and hardware in order to keep its consumers entertained. Even when this is done successfully sales tend to suffer because consumers tend to not buy games or consoles of the current generation when the next generation of consoles is only a year away. This became apparent in 2012 and 2013 when sales went from $9.5B down to $8.8B. Late 2013 was the release of the new generation of consoles, the Xbox One and PS4. So consumers tend to wait for the next generation to release and purchase that rather than purchase the current generation that will only remain current for one more year.

Valuation

Even with a very conservative approach, the valuation was from the proforma was able to obtain a target price of $68.67 and an intrinsic value of $62.57. According to the sensitivity analysis, Gamestop's stock price is mostly sensitive to operating cost and revenue. For a growth rate in revenue, a standard 2% was used for the explicit period and well as the continuing period. Operating cost for the base year was calculated as the same as last reported, 91.2% and the continuing period was 93%. The company does a very good job of creating value, having an ROIC/WACC ratio of 2.15 for the year 2.15 and it has remained that high for many years. Revenue growth has been consistent with the exception of the end of the console cycle in 2013.

Conclusion

Considering the conservation approach that was taken and the large spread between the current price of $31.23 and the target price that was calculated of $68.67, Gamestop is extremely undervalued. They've already been steadily increasing since January after their low of $25. They show signs of stability and also looks to significantly increase their price in the very near future.

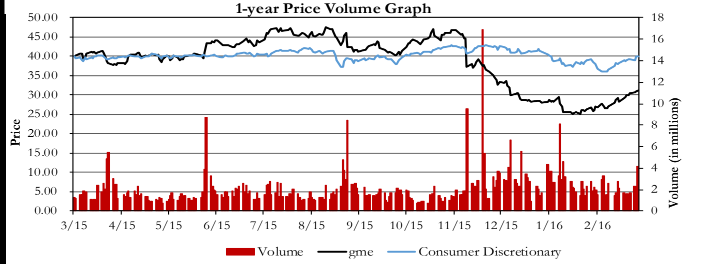
Siena Market Line
2nd week of March 2016

CENTER FOR GLOBAL FINANCIAL STUDIES

GameStop Corp. (gme) — **BULLISH**

Analysis by Richard Acheson	Current Price:	$31.23	Intrinsic Value	$62.57	Target 1 year Return: 124.47%
3/5/2016	Divident Yield:	4.6%	Target Price	$68.67	Probability of Price Increase: 99.34%

1-year Price Volume Graph



Description

GameStop Corp. operates as a multichannel video game retailer.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	March 24, 2016
Estimated Country Risk Premium	6.54%
Effective Tax rate	35%
Effective Operating Tax rate	35%

Market Data

Market Capitalization	$3,268.85
Daily volume (mil)	2.53
Shares outstanding (mil)	104.67
Diluted shares outstanding (mil)	107.80
% shares held by institutions	138%
% shares held by investments Managers	116%
% shares held by hedge funds	9%
% shares held by insiders	2.19%
Short interest	37.66%
Days to cover short interest	14.80
52 week high	$47.83
52-week low	$24.33
Levered Beta	1.09
Volatility	38.86%

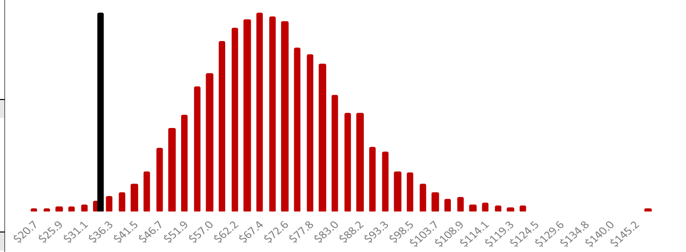
Past Earning Surprises

Quarter ending	Revenue	EBITDA
11/1/2014	-5.32%	-16.80%
1/31/2015	-3.04%	2.04%
5/2/2015	2.51%	11.12%
8/1/2015	1.54%	13.47%
10/31/2015	-5.59%	-12.49%
Mean	-1.98%	-0.53%
Standard error	1.7%	6.1%

Peers

Activision Blizzard, Inc.
AutoZone, Inc.
Electronic Arts Inc.
Best Buy Co., Inc.
Staples, Inc.
hhgregg, Inc.
Zynga, Inc.
Systemax Inc.

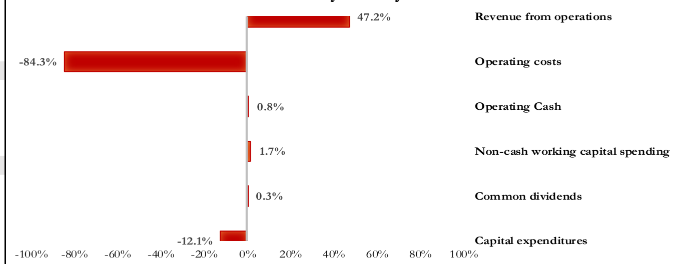
Target Price Distribution--Prob(Price Increase)= 99%



Management	Position	Total compensations growth	Total return to shareholders
DeMatteo, Daniel	Executive Chairman	-100% per annum over 4y	6.09% per annum over 4y
Raines, J.	Chief Executive Officer and	-100% per annum over 4y	6.09% per annum over 4y
Lloyd, Robert	Chief Financial Officer and	-100% per annum over 4y	6.09% per annum over 4y
Bartel, Tony	Chief Operating Officer	-100% per annum over 4y	6.09% per annum over 4y
Mauler, Michael	Executive Vice President and	-100% per annum over 3y	9.3% per annum over 3y
Crawford, Troy	Chief Accounting Officer and	N/M	N/M

Profitability	gme (LTM)	gme (5 years historical average)	Industry (LTM)
ROIC	13.9%	17.02%	21.73%
NOPAT Margin	7%	7.73%	7.4%
Revenue/Invested Capital	1.95	2.20	2.95
ROE	24.0%	30.80%	25.93%
Adjusted net margin	6%	7.10%	7.0%
Revenue/Adjusted Book Value	3.83	4.34	3.72
Invested Funds	**gme (LTM)**	**gme (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	2.9%	7.4%	15%
Estimated Operating Cash/Total Capital	1.0%	4.8%	N/A
Non-cash working Capital/Total Capital	-1.0%	-2.9%	18%
Invested Capital/Total Capital	70.7%	69.9%	86%
Capital Structure	**gme (LTM)**	**gme (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.68	0.88	0.22
Cost of Existing Debt	3.78%	3.39%	4.39%
Estimated Cost of new Borrowing	3.45%	3.19%	4.39%
CGFS Risk Rating	BBB	A	A
Unlevered Beta (LTM)	0.69	0.73	0.92
WACC	6.53%	6.40%	8.57%

Sensitivity Analysis



Valuation

Period	Revenue growth	ROIC/WACC	Invested Capital	Net Claims	Price per share
Base Year			$3,857.87	$3,210.04	$61.35
10/31/2016	2.0%	2.14	$3,999.65	$3,030.91	$67.42
10/31/2017	2.0%	1.95	$4,453.03	$2,485.26	$73.77
10/31/2018	2.0%	1.93	$4,523.02	$2,034.40	$80.19
10/31/2019	2.0%	1.85	$4,783.60	$1,488.86	$86.60
10/31/2020	2.0%	1.82	$4,569.57	$946.49	$92.98
10/31/2021	2.0%	1.77	$5,042.12	$320.98	$99.16
10/31/2022	2.0%	1.78	$5,150.44	-$190.58	$105.20
10/31/2023	2.0%	1.79	$5,358.39	-$596.78	$111.22
10/31/2024	2.0%	1.71	$5,453.65	-$1,205.33	$117.06
10/31/2025	2.0%	1.74	$5,539.57	-$1,693.46	$122.71
Continuing Period	2.0%	1.73			

GlobalSCAPE, Inc
NASDAQ: GSB

Analyst: Mark Gruber
Sector: Technology

BUY on GSB

Price Target: $4.82

Key Statistics as of 3/5/2016

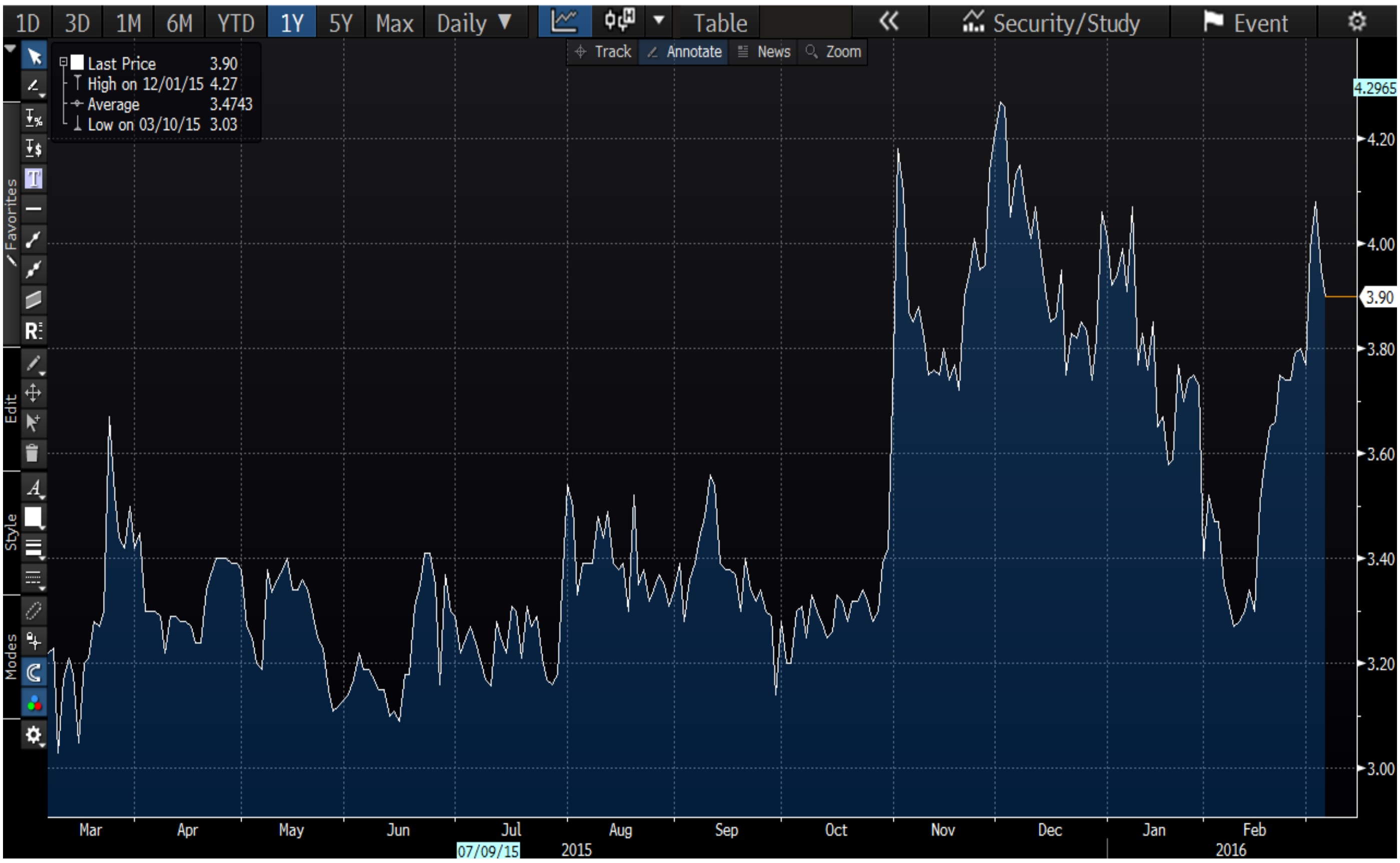
Market Price:	$3.97
Industry:	Application Software
Market Cap:	$84.64M
52-Week Range:	$3.01-4.33
1 Year Beta:	1.07

Thesis Points:

- Increasing Cyber Attacks will lead to more demand for safely transferring files
- Consistent Revenue Growth with no signs of slowing down
- Undervalued stock because of the small market cap with very little downside

Company Description:

GlobalSCAPE safely transfers critical information over the internet. The products and services help businesses protect their important information safely and efficiently. They also protect information for businesses that use file sharing that centralizes data storage. Information that GlobalSCAPE transfers includes sensitive data and intellectual property critical to their business. They work with companies of all sizes around the world from small family run businesses to fortune 500 companies. Some major corporations they do business with include Apple, Cisco, Google, and Microsoft. They were founded in 1996 in San Antonio, Texas and went public on March 1, 2004. They reached 30.8 million revenue in 2015, which is their highest yearly revenue to date.



Thesis

GlobalSCAPE manages file transfers for businesses with crucial information. Demand has been increasing with no signs of slowing down as technology evolves and more and more people rely on the internet to transfer their critical information. The industry as a whole will see increased demand, as more and more businesses have to protect their data from hackers. As the business grows they will be able to decrease their operating costs which will lead to increased cash that they can reinvest in the business or pay dividends out to their current shareholders. They have also been showing positive revenue growth that they should be able to continue with a very high floor due to the nature of the industry, and the growing demand within the industry. They also will rely on more third party marketing which will let the GlobalSCAPE team focus more on product development and enhancing their current products.

Industry Outlook

Data transferring has seen steady growing demand over the past several years, and shows no signs of slowing down. This is due to the increasing popularity of the internet, which will lead to almost all businesses having to use the internet to transfer their files. Cybercrime has also been increasing over the last few years which will lead to even more demand for businesses protecting their crucial information. The recent hackings of Sony and Target will lead more people to see how important safely transferring files is to your business and will lead to even more demand in the industry. There are also many rules and regulations in place that businesses have to follow that will keep adding increased demand to the industry.

Financials

GlobalSCAPE has continued to see their revenue increase year after year. In 2013 they recorded revenues of $24,339,000 followed by 2014 where they saw revenues increase to $26,770,000 followed by $30,800,000 of total revenue in 2015, which equates to a 21% revenue increase in two years. They also recorded 4th quarter revenue of 8.2 million in 2015 which is an 8% increase from last year's 4th quarter revenue.

Management

GlobalSCAPE is led by President and CEO James Bindseil. He was awarded this position in 2013, after he was Vice President and grew maintenance and support revenue by over 75% during his three-year tenure. The Chief Operating Officer of GlobalSCAPE is Matthew Goulet. He has been in this position for the last few years, and has seen steady revenue growth since he took over. The Chief Financial Officer, Jim Albrecht, joined GlobalSCAPE in 2012. Prior to working at GlobalSCAPE he was Chief Financial Officer at Introgen Therapeutics where he was in charge of the security offerings and product development. He then moved on to Express Digital Graphics where he was CEO/CFO before coming to GlobalSCAPE. Greg Hoffer, Vice President of Engineering is in charge of the product development team. Before this role Hoffer was the senior director of engineering where he led the Enhanced File Transfer product to numerous awards. Vice President of Product Strategy and Technology Alliances, Peter Merkulov leads and overseas product marketing and product strategy. He has over 14 years of experience in the IT industry.

Porters Five Forces

Data transferring has a very low barrier to enter. It revolves around having a secure network that keeps out hackers. It is currently a very competitive industry and there are always possibilities of new entrants. Threat of substitutes is low due to the trust level that each company has to have in order to do business in this industry. Bargaining Power of customers is medium because although there are many competitors in the industry trust and a proven track record are very important and there are only a few proven businesses that have been in the industry for many years.

Future

GlobalSCAPE plans on using more third parry sellers in the future. This allows the company to focus more on their products and enhancing them rather than trying to sell and market their products. They also plan on enhancing their prized product, Enhanced File Transfer with more add-ons while being cost efficient. The management team has listed three pillars as their main goals in the future. The first pillar is to continue innovating their current products especially the Enhanced File Transfer. The next pillar is the expansion and creation of emerging technologies. The last pillar is to continually evolve their enhanced demand generation, including market, for which they will rely more on third parties.

Awards

GlobalSCAPE has won many awards over the last few years, which should help their credibility within the industry. In 2015 they were named on of San Antonio's top 50 places to work, which should help them attract the best workers in the industry. They have also won this award 4 out of the last 5 years. They have also received the San Antonio Business Journal Fast Track Award in 2012, 2013, and 2015which is given to the fastest growing companies in San Antonio. GlobalSCAPE also received the CRN 2015 Partner Program Guide 5 Star Rating, which is given to the best channel partner programs in the market. In 2015 they also won the Deloitte Technology Fast500, Software Magazine award along with many other awards solidifying them as of the best companies in the industry.

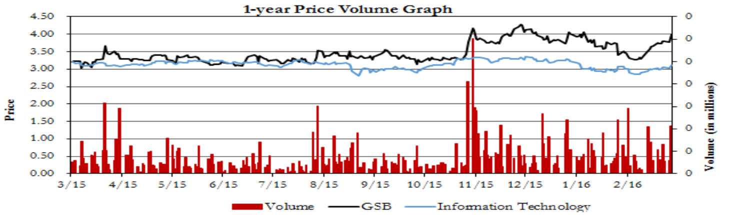
Conclusion

Currently GlobalSCAPE stock is underpriced. The biggest reason for this is because not many people know about the stock and there is not many analysts currently valuing the stock. They have a market share of only $84 million. In the future we should the stock rise to around $5 at the end of 2016 to upwards of $10 in the near future. This will be due to the increased demand in the industry along with GlobalSCAPE getting more and more experience in the industry.

GlobalSCAPE, Inc. (GSB) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by Mark Gruber	Current Price:	$3.98	Intrinsic Value	$4.56	Target 1 year Return: 22.34%
3/5/2016	Divident Yield:	1.2%	Target Price	$4.82	Probability of Price Increase: 98.8%

1-year Price Volume Graph



Description

GlobalSCAPE, Inc., together with its subsidiaries, develops and distributes software, delivers managed and hosted solutions, and provides associated services for secure information exchange for enterprises and consumers worldwide.

General Information

Sector	Information Technology
Industry	Software
Last Guidance	November 3, 2015
Next earnings date	April 30, 2016
Estimated Country Risk Premium	6.21%
Effective Tax rate	35%
Effective Operating Tax rate	44%

Market Data

Market Capitalization	$83.01
Daily volume (mil)	0.04
Shares outstanding (mil)	21.01
Diluted shares outstanding (mil)	21.37
% shares held by institutions	16%
% shares held by investments Managers	18%
% shares held by hedge funds	4%
% shares held by insiders	35.20%
Short interest	0.09%
Days to cover short interest	0.42
52 week high	$4.33
52-week low	$3.01
Levered Beta	1.14
Volatility	47.59%

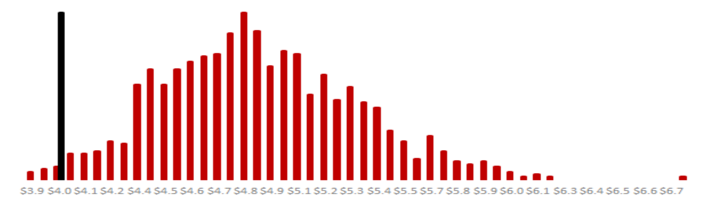
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	N/A	N/A
3/31/2015	N/A	N/A
6/30/2015	N/A	N/A
9/30/2015	N/A	N/A
12/31/2015	-2.91%	-34.97%
Mean	-2.91%	-34.97%
Standard error	#DIV/0!	#DIV/0!

Peers

Attunity, Ltd.
Cisco Systems, Inc.
eFuture Holding Inc.

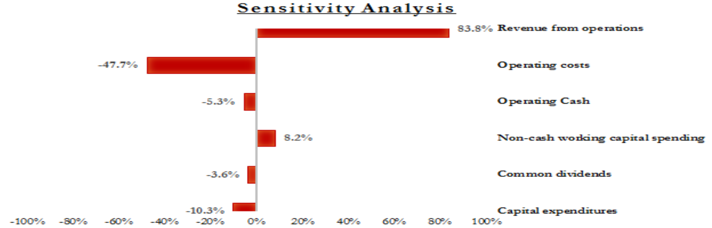
Target Price Distribution--Prob(Price Increase)= 99%



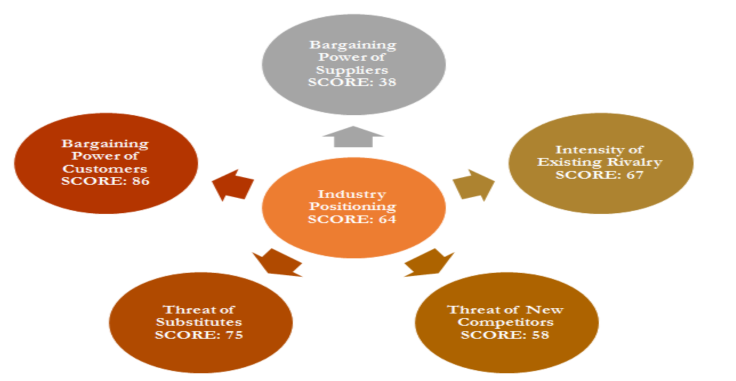
Management	Position	Total compensations growth	Total return to shareholders
Bindseil, James	Chief Executive Officer, Pre	34.01% per annum over 2y	27.34% per annum over 2y
Albrecht, James	Chief Financial Officer	14.49% per annum over 2y	27.34% per annum over 2y
Goulet, Matthew	Chief Operating Officer	188.14% per annum over 1y	-2.58% per annum over 1y
Farmer, Andrea	Vice President of Human Reso	N/M	N/M
Hoffer, Gregory	Vice President of Engineerin	N/M	N/M
Cleary, Chris	Senior Director of Channel S	N/M	N/M

Profitability	GSB (LTM)	GSB (5 years historical average)	Industry (LTM)
ROIC	12.4%	15.79%	12.15%
NOPAT Margin	11%	11.96%	14.1%
Revenue/Invested Capital	1.17	1.32	0.86
ROE	10.6%	13.04%	13.20%
Adjusted net margin	11%	11.43%	12.7%
Revenue/Adjusted Book Value	1.01	1.14	1.04
Invested Funds	**GSB (LTM)**	**GSB (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	46.9%	34.6%	46%
Estimated Operating Cash/Total Capital	32.4%	23.9%	N/A
Non-cash working Capital/Total Capital	-19.6%	-20.8%	-21%
Invested Capital/Total Capital	78.2%	78.9%	63%
Capital Structure	**GSB (LTM)**	**GSB (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.05	0.23	0.11
Cost of Existing Debt	1.29%	3.08%	3.82%
Estimated Cost of new Borrowing	1.19%	1.19%	3.82%
CGFS Risk Rating	1.29%	AAA	CC
Unlevered Beta (LTM)	0.00%	0.57	1.18
WACC	1.29%	6.05%	10.06%

Sensitivity Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	15.2%	10.6%	1.34
12/31/2016	12.7%	20.1%	2.31
12/31/2017	12.4%	21.1%	2.49
12/31/2018	10.7%	20.1%	2.33
12/31/2019	10.0%	19.4%	2.24
12/31/2020	8.0%	18.7%	2.12
12/31/2021	6.0%	18.0%	1.99
12/31/2022	6.0%	17.4%	1.91
12/31/2023	5.0%	16.8%	1.82
12/31/2024	4.5%	16.2%	1.75
12/31/2025	4.3%	15.7%	1.68
Continuing Period	4.0%	15.2%	1.62

Period	Invested Capital	Net Claims	Price per share
Base Year	$13.81	-$4.78	$4.55
1/0/1900	$22.22	-$4.75	$4.79
1/0/1900	$23.76	-$8.59	$5.22
1/0/1900	$25.34	-$12.61	$5.66
1/0/1900	$26.31	-$16.85	$6.11
1/0/1900	$31.90	-$21.55	$6.58
1/0/1900	$35.17	-$26.77	$7.05
1/0/1900	$39.61	-$31.96	$7.54
1/0/1900	$43.97	-$37.34	$8.03
1/0/1900	$48.48	-$42.79	$8.54
1/0/1900	$52.68	-$48.18	$9.07
1/0/1900			

Kate Spade & Co.

NYSE:KATE

Analyst: Andrew Varone
Sector: Consumer Discretionary

BUY

Price Target: $29.82

Key Statistics as of 3/3/2016

Market Price:	$23.07
Industry:	Apparel & Textile Products
Market Cap:	$2.95B
52-Week Range:	$15.10-$35.23
Beta:	1.11

Thesis Points:

- Gaining market share in a competitive industry by making products geared towards consumer taste
- Partnerships with Everpurse and bar bags will help increase same store sales
- Positioning themselves to beat competitors will help create value

Company Description:

Kate Spade & Company designs and markets branded women's and men's apparel, accessories and fragrance products. The company's portfolio of brands include most apparel and non-apparel categories.

Thesis

KATE has positioned itself in a competitive industry to gain market share by giving the consumers what they want. They have paid close attention to consumer taste and have been rewarded for it based on their fourth quarter increase in their share price. The company has made key partnerships over the year which have taken away some of the R&D burden that comes with trying to innovate their handbags. This innovation will keep customers coming back and build up their same store sales. Their main competitor, Michael Kors, has seen continuous decline in same store sales and in sales per square footage. Whereas Kate Spade has continuously been improving these numbers, an area vital for retail. KATE is a recommended a buy with a target price of $29.82. This is a one-year return of around 29%.

Porter's 5 Forces

The competitive rivalry within the industry is high. There are a multitude of handbags sellers that are within the industry. These handbags sellers compete with each other for market share as there is little growth in handbag sales.

The bargaining power of customers is low to medium. Most of the sales come from their own stores and do not go through other retail distribution channels. This means that they do not have to sell their product at a discount to these other distribution channels. Lastly, Kate Spade has been suited to the taste of young adults which has made customers prefer their luxury handbags to their competitors.

The threat of new entrants is low. This is because there is high amount of capital that need to be raised in order to open the stores and for branding. Also, there is a need for brand recognition when it comes to luxury handbags. Consumers want to have handbags that are recognizable by others to show a status about them. It can take years before the handbag builds up any level of brand recognition.

The bargaining power of suppliers is low. There is a multitude of places where the handbags are crafted. If it gets too expensive in one place, then there factories are outsourced to another country. All of these suppliers have them competing against each other to provide the lowest cost.

The threat of substitute products is low to medium. There are counterfeits that people sell that resemble the real product. Also, the rise of online sales has made it easier to compare products and to find the best deals and styles when shopping in stores.

Position in Industry

The handbag industry has faced tough times as same store sales have declined industry wide. This is good news as this is macro level issue, where every handbag company is facing seeing their same store sales decline. On a micro level, KATE has been gaining market share because of consumer taste for their handbags. The current trend is handbags that are smaller. This possess a problem as smaller handbags are cheaper and carry less profits than the big handbags on the market. KATE has been cutting down on their promotions to help keep up the profits and revenues on their handbags. The popularity of KATE can be seen in Q4 sales, where the company was the leading seller of handbags for the Christmas season.

What has allowed KATE to see such recent success? They have been following trends of selling smaller handbags at the same time being able to push other bigger handbags onto their customers. Their Kate Spade logo that is present is smaller than their competitors such as Michael Kors or Coach. These competitors have larger and more in your face logos on their bags. Customer taste has preferred these smaller logos of late and that has led to their success.

Going Forward

KATE got rid of their labels such as Juicy Couture in 2013. This has helped the company to focus on its main brand of Kate Spade New York. This focus on Kate Spade New York has allowed the company to be more aggressive with their handbag sales and allow them to gain market share in the industry. Moving away from these other clothing lines and pursuing more on the bags side has allowed to create value to the company as seen is its rise in stock price.

Partnerships

KATE has been continuously to partner with companies to improve their handbags and make getting new ones a necessary to their customers. Their latest partnerships include everpurse and bar bags. Everpurse comes with a charger that is built within the purse, specifically for iPhones. With 25% of the population owning iPhones, this seems like a move that will grow revenues as they have created a need for their handbags. People will look to buy a new handbag and see the convenience of having one with phone charging capabilities.

Another partnership that the company has is with bar bags. This allows the person to have a bar on the go. Though there are may not seem like much of a demand for this, young adults who is there target market will enjoy this addition when they go out on the town.

Financials

The company has seen a recent spike in its price based on the increase of same store sales that it had seen in Q4. The same store sales was at 14%, 4% higher than they previously have had. This also beats out competitors such as Michael Kors who only have same store sales at 13%.

The sales per square foot was 2,701.57 (in millions USD) for the past year. This was an increase from 1,990.56 from just a year ago. This was the highest sales that the company had ever seen. This is less than one of their major competitors, KORS, who saw 3,788.88 in the past fiscal year. Despite being higher than KATE, KORS has been seeing a decrease with only 4,021.85 sales per square foot last year.

Lastly, the company has been working to cut down on their operating cost which is a key driver for their pricing. And they have an ROIC/WACC that is currently 1.14 which means that they are currently creating value.

Conclusion

Kate Spade is a recommended buy based on their ability to turn around the company. They have positioned themselves where they can be seen as the top handbag seller in the upcoming years. Because of this, KATE is seemed as a growth potential stock as they continue to increase their brand of Kate Spade New York.

Siena Market Line
2nd week of March 2015

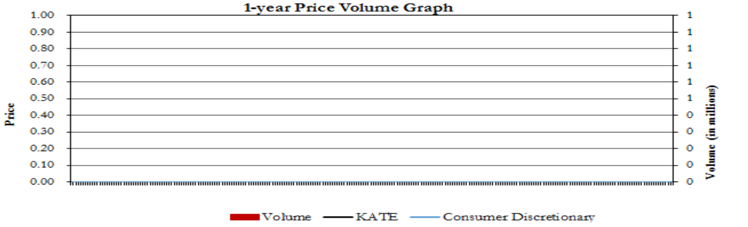
Kate Spade & Company (KATE)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Andrew Varone	Current Price:	$23.76	Intrinsic Value	$26.63	Target 1 year Return: 25.53%
3/5/2016	Divident Yield:	0.0%	Target Price	$29.82	Probability of Price Increase: 92.87%

1-year Price Volume Graph



Description

Kate Spade & Company, together with its subsidiaries, designs and markets apparel and accessories.

General Information

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	May 4, 2016
Estimated Country Risk Premium	8.19%
Effective Tax rate	38%
Effective Operating Tax rate	37%

Market Data

Market Capitalization	$2,955.43
Daily volume (mil)	1.32
Shares outstanding (mil)	128.11
Diluted shares outstanding (mil)	128.22
% shares held by institutions	107%
% shares held by investments Managers	82%
% shares held by hedge funds	15%
% shares held by insiders	0.31%
Short interest	10.26%
Days to cover short interest	4.64
52 week high	$35.23
52-week low	$15.10
Levered Beta	1.08
Volatility	49.70%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
1/3/2015	2.00%	49.24%
4/4/2015	2.86%	-200.98%
7/4/2015	-3.88%	-25.85%
10/3/2015	-0.85%	10.25%
1/2/2016	-2.84%	-4.34%
Mean	-0.54%	-34.33%
Standard error	1.3%	43.4%

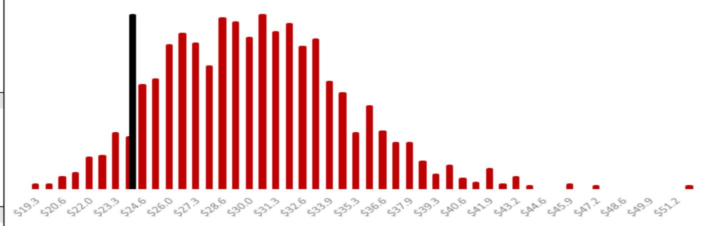
Peers

Coach, Inc.
Oxford Industries Inc.
Fossil Group, Inc.
Lululemon Athletica Inc.
Vera Bradley, Inc.
Aéropostale, Inc.
The Children's Place, Inc.
Michael Kors Holdings Limited

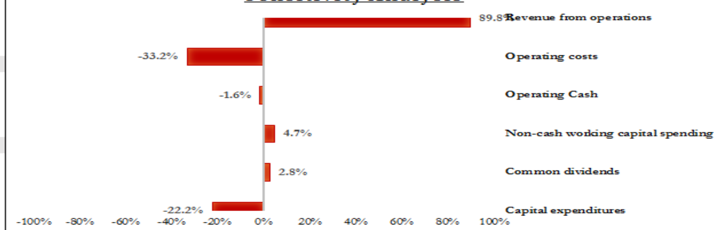
Management	Position	Total compensations growth	Total return to shareholders
Leavitt, Craig	Chief Executive Officer and	N/M	N/M
Carrara, George	President and Chief Operatin	-100% per annum over 1y	1.58% per annum over 1y
Linko, Thomas	Chief Financial Officer and	N/M	N/M
Yanussi, Linda	Chief Information Officer an	N/M	0% per annum over 0y
Lloyd, Deborah	Chief Creative Officer and D	N/M	N/M
Rinaldo, Michael	Chief Accounting Officer, Vi	N/M	N/M

Profitability	KATE (LTM)	KATE (5 years historical average)	Industry (LTM)
ROIC	11.9%	2.59%	#DIV/0!
NOPAT Margin	14%	3.70%	#DIV/0!
Revenue/Invested Capital	0.83	0.70	#DIV/0!
ROE	13.0%	-4.87%	#DIV/0!
Adjusted net margin	13%	-1.81%	#DIV/0!
Revenue/Adjusted Book Value	1.03	2.68	#DIV/0!
Invested Funds	**KATE (LTM)**	**KATE (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	14.5%	10.6%	#DIV/0!
Estimated Operating Cash/Total Capital	6.7%	5.9%	N/A
Non-cash working Capital/Total Capital	3.0%	2.5%	#DIV/0!
Invested Capital/Total Capital	91.4%	95.1%	#DIV/0!
Capital Structure	**KATE (LTM)**	**KATE (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.44	0.58	#DIV/0!
Cost of Existing Debt	4.75%	8.67%	#DIV/0!
Estimated Cost of new Borrowing	4.72%	10.37%	#DIV/0!
CGFS Risk Rating	4.75%	#DIV/0!	#DIV/0!
Unlevered Beta (LTM)	4.72%	1.06	#DIV/0!
WACC	4.75%	11.57%	#DIV/0!

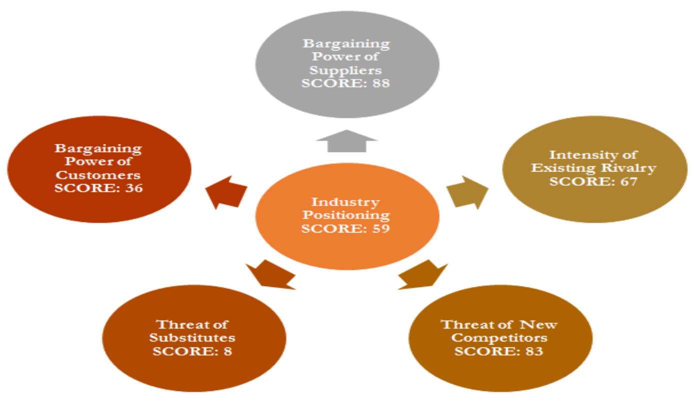
Target Price Distribution--Prob(Price Increase)= 93%



Sensitivity Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	9.1%	14.4%	1.13
1/2/2017	12.8%	16.4%	1.25
1/2/2018	13.3%	19.3%	1.65
1/2/2019	12.1%	19.0%	1.48
1/2/2020	11.0%	18.5%	1.48
1/2/2021	9.8%	18.1%	1.48
1/2/2022	8.7%	17.6%	1.48
1/2/2023	7.6%	17.2%	1.47
1/2/2024	6.4%	16.7%	1.46
1/2/2025	5.3%	16.2%	1.45
1/2/2026	4.1%	15.7%	1.43
Continuing Period	3.0%	15.2%	1.42

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,768.20	$831.71	$26.09
1/0/1900	$1,700.00	$790.36	$29.13
1/0/1900	$1,457.10	$948.74	$33.04
1/0/1900	$1,093.18	$810.52	$37.28
1/0/1900	$1,496.45	$643.74	$41.72
1/0/1900	$1,884.21	$460.61	$46.22
1/0/1900	$2,053.54	$251.52	$50.81
1/0/1900	$2,610.82	$15.05	$55.47
1/0/1900	$2,900.71	-$249.68	$60.16
1/0/1900	$3,192.58	-$542.96	$64.84
1/0/1900	$3,481.14	-$864.33	$69.48
1/0/1900			

Herbalife LTD

HLF: NYSE

Analyst: Peter Ostrowski
Sector: Consumer Staples

Short

Price Target: $33

Key Statistics as of 3/6/2016

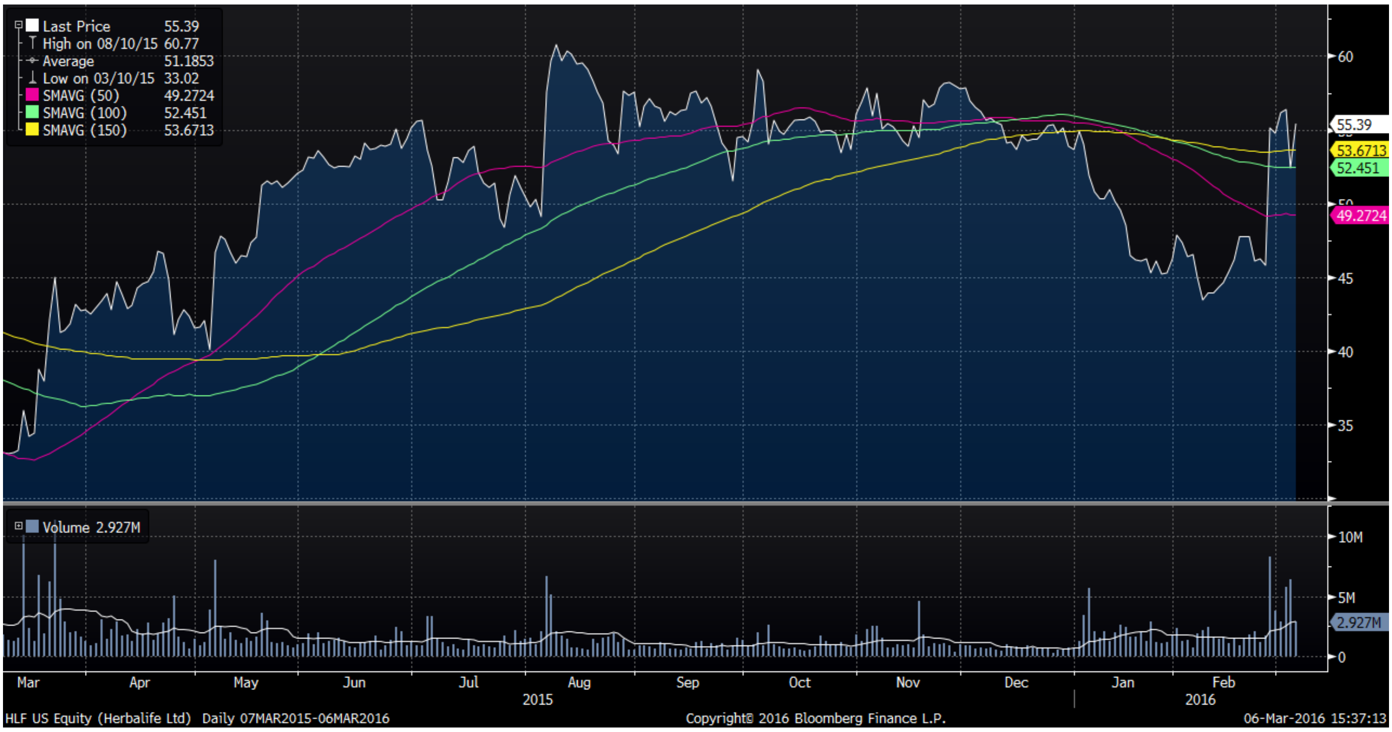
Market Price:	$55.39
Industry:	Health
Market Cap:	$1.06B
52-Week Range:	$33.02-$60.77
Beta:	1.1

Thesis Points:

- Constant legal troubles leave future of uncertainty
- Back to back years of negative earnings leave company with capital structure of 103.4% debt
- Credit facility requires HLF to comply with strict contingencies; hindering key value drivers
- Business plan cannot sustain long-term growth

Company Description:

Herbalife Ltd. is a global nutrition company that sells weight management, healthy meals and snacks, sports and fitness, energy and targeted nutritional products as well as personal care products. The Company distributes and sells its products through a network of independent distributors, using the direct selling channel.



Thesis

HLF has been masking their highly sophisticated Ponzi scheme for over 30 years with the sale of health products. Recently, HLF has been receiving complaints and are now under multiple litigations based on a plethora of allegations. This has been destroying value to the company as each year more expenses are accrued because of constant legal trouble. This legal trouble will not disappear and HLF does very little to notify the public about potential losses as they believe that their business is entirely ethical. The financial trouble that they consistently get into has resulted in very strict contingencies with the credit facility.

Multilevel Marketing

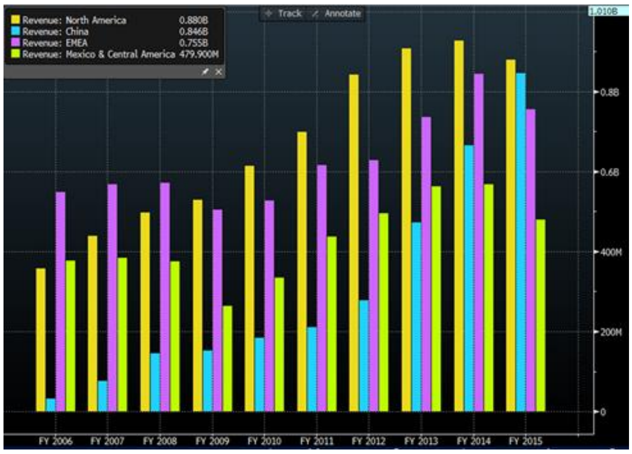
It is important to note the recent legal troubles that companies who also practice multilevel marketing have received. Vemma verve was ruled a Ponzi Scheme in August 2015. This company used energy drinks as a cover for their pyramid scheme. The issue with this company is that they did not market their products. Vemma would target college kids with promises of large amounts of money as well as cars. The FTC was not a fan of this organization:

"Rather than focusing on selling products, Vemma uses false promises of high income potential to convince consumers to pay money to join their organization," Jessica Rich, director of the FTC's Bureau of Consumer Protection

This business was raided and forced to cease operations. Another company that used these practices was Burnlounge. Burnlounge had roughly 30,000 members and used online music as a cover for their pyramid scheme. Once the FTC can confirm that the business primarily receives their revenue from recruitment instead of sales of goods; operations will be stopped.

The main issue with multilevel marketing is that is cannot sustain the Earth's population.

Ponzi Schemes work great when they are not being investigated. Most do not last long enough to understand the actual risks associated with long term growth opportunities. Since Herbalife went public they have been targeting low income/unemployed individuals and have been expanding into the world's poorest countries as a result. Herbalife operates a "pop and drop" plan where they come into a new region and try to get as many individuals to become members as fast as possible. The main problem they are beginning to run into is the lack of new expansion opportunities.



This chart demonstrates the initial growth that Herbalife has in regions and then the decline and stagnation after the initial increase. EMEA represents this perfectly, it increased up until 2014 and is now beginning to descend. North America and Mexico represent the longer term effects as Herbalife has been operating in these areas for at least 10 years. This is why there is no growth. China is the newest player which is why the growth rates were so high in the past year. It is necessary to note that Herbalife lied about Asian growth rates between 2014 and 2015. This report came out on the third in the 8-k. Not only did they lie about Asian growth rates but they significantly inflated North American rates as well. They reported active members in North America was up 33% when they actually only increased 1.8%. Asian countries excluding China reported 21% increases YoY when they only increased 8.7%. This shows the little trust one can put in Herbalife's reporting. This report will next show the other legal issues Herbalife has.

Unsustainable Growth

Legal Troubles

The abnormal losses section on Herbalife's Income Statement shows the danger and risks associated with this kind of business.

In Millions of USD except Per Share	FY 2013	FY 2014	FY 2015
12 Months Ending	12/31/2013	12/31/2014	12/31/2015
Pretax Income (Loss), Adjusted	781.4	823.9	569.2
- Abnormal Losses (Gains)	64.7	402.6	82.8
+ Early Extinguishment of Debt	–	–	–
+ Asset Write-Down	–	236.9	–
+ Legal Settlement	29.1	40.1	22.0
+ Restructuring	–	–	–
+ Other Abnormal Items	35.5	125.6	60.8
Pretax Income (Loss), GAAP	716.7	421.3	486.4

The 3 key things to look at are the Asset Write-Down, Legal Settlements and Other Abnormal Items; because they include many of the same legal issues. They are simply written down as something else. The $236.9M expense in 2014 is in relation to the exchange rate scheme Herbalife was running in Venezuela. Because Herbalife had 3 different exchange rates it was very easy for the business to capitalize on arbitrage. Distributors could simply buy the goods at black market prices (which have their own exchange rate in Venezuela) and sell them at the national rate. Distributors could essentially sell the products at a price 10X higher than the purchase price.

When this scheme was discovered Herbalife was crushed with expenses that continue to accrue. The expenses from this one also issue include the legal settlement from 2013 and the other abnormal items section from 2014 and 2015. The legal settlements are from the current investigation with the FTC. They have also had to make legal settlement fees in response to Bill Ackman's accusation that Herbalife is a Ponzi scheme. Ackman also has a $1billion dollar short on Herbalife as he firmly believes that their business is illegal.

Capital Structure and Contingencies

Herbalife is entirely financed by debt which increases the chances of bankruptcy substantially. They also have very strict contingencies with their credit facility which creates an overbearing restrain on potential value creation opportunities. Currently Herbalife must maintain a cash balance of at least $200M and is only allotted $233M for dividends and stock repurchases. They are also given a heavy incentive not to give dividends or repurchase shares as for every dollar repurchased or paid in dividends; the borrowing capacity is decreased by $2. The credit facility also has restrictions and limitations on Herbalife's ability to incur liens, indebtedness, investments and every other area that includes financing. These contingencies restrict Herbalife substantially. It is also important to note that interest rates will be increasing on these loans between 2% and 5%. This is important to note as currently the increase in indebtedness in only included in the notes on the 10k and is listed as issuance costs.

Conclusion

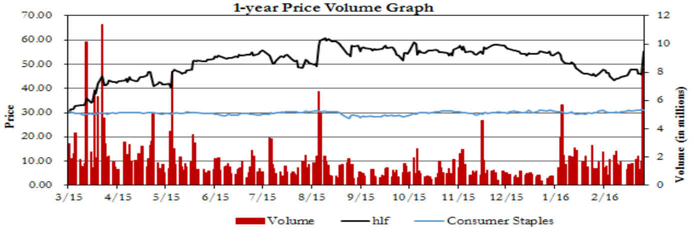
I recommend a sell for HLF. This is based on the unsustainable growth that is not included in analysts' estimates. The risk of this kind of business is much higher than the benefits. With constant litigations and the recent discovery of inflated growth rates; HLF will have very high abnormal losses for the upcoming years. Multi-level marketing companies have also been targeted by the FTC and Herbalife is not the exception. The only thing that HLF guarantees is a future of uncertainty.

SIENA college

Herbalife Ltd. (hlf) — CENTER FOR GLOBAL FINANCIAL STUDIES — BEARISH

Analysis by Peter Ostrowski	Current Price:	$56.40	Intrinsic Value	$33.90	Target 1 year Return: -24.26%
3/6/2016	Divident Yield:	0.6%	Target Price	$42.39	Probability of Price Increase: 2%

1-year Price Volume Graph



Description

Herbalife Ltd., a nutrition company, develops and sells weight management, healthy meals and snacks, sports and fitness, energy and targeted nutritional products, and personal care products.

General Information

Sector	Consumer Staples
Industry	Personal Products
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	9.56%
Effective Tax rate	27%
Effective Operating Tax rate	29%

Market Data

Market Capitalization	$5,073.88
Daily volume (mil)	1.76
Shares outstanding (mil)	92.67
Diluted shares outstanding (mil)	85.30
% shares held by institutions	16%
% shares held by investments Managers	48%
% shares held by hedge funds	19%
% shares held by insiders	6.98%
Short interest	23.63%
Days to cover short interest	14.09
52 week high	$61.95
52-week low	$30.27
Levered Beta	0.80
Volatility	53.92%

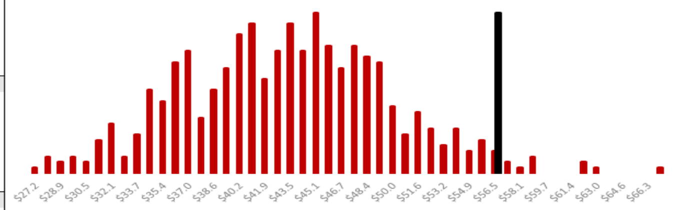
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	-2.53%	-1.76%
3/31/2015	1.81%	-0.08%
6/30/2015	1.52%	-4.35%
9/30/2015	-3.67%	7.80%
12/31/2015	3.27%	6.43%
Mean	0.08%	1.61%
Standard error	1.3%	2.4%

Peers

- Avon Products Inc.
- Nu Skin Enterprises Inc.
- Coty Inc.
- The Estée Lauder Companies Inc.
- Lifevantage Corporation
- Elizabeth Arden, Inc.
- USANA Health Sciences Inc.
- Mannatech, Incorporated

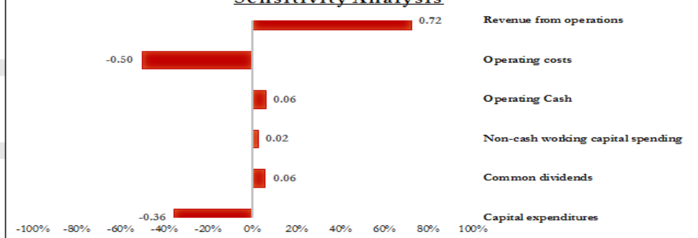
Target Price Distribution--Prob(Price Increase)= 2%



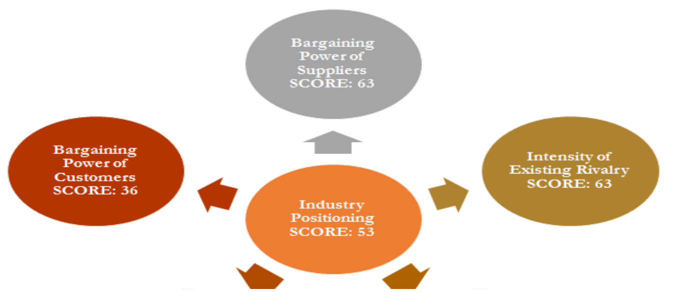
Management	Position	Total compensations growth	Total return to shareholders
Johnson, Michael	Chairman and Chief Executive	1.1% per annum over 5y	13.09% per annum over 5y
Walsh, Desmond	President	7.64% per annum over 5y	13.09% per annum over 5y
DeSimone, John	Chief Financial Officer	-4.02% per annum over 4y	8.2% per annum over 4y
Goudis, Richard	Chief Operating Officer	9.23% per annum over 5y	13.09% per annum over 5y
Hoffman, Alan	Executive Vice President of	N/M	0% per annum over 0y
Peterson, Susan	Founder	N/M	N/M

Profitability	hlf (LTM)	hlf (5 years historical average)	Industry (LTM)
ROIC	12.3%	41.38%	22.50%
NOPAT Margin	12%	24.81%	11.4%
Revenue/Invested Capital	1.02	1.67	1.98
ROE	16.5%	43.28%	23.65%
Adjusted net margin	10%	24.09%	10.9%
Revenue/Adjusted Book Value	1.63	1.80	2.16
Invested Funds	**hlf (LTM)**	**hlf (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	18.4%	16.0%	25%
Estimated Operating Cash/Total Capital	7.4%	7.8%	N/A
Non-cash working Capital/Total Capital	-2.4%	-2.1%	17%
Invested Capital/Total Capital	89.6%	92.3%	61%
Capital Structure	**hlf (LTM)**	**hlf (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.40	0.28	0.06
Cost of Existing Debt	5.62%	5.97%	3.82%
Estimated Cost of new Borrowing	1.19%	1.19%	3.82%
CGFS Risk Rating	5.62%	AAA	BBB
Unlevered Beta (LTM)	5.89%	1.40	0.92
WACC	5.62%	14.84%	11.60%

Sensitivity Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-9.9%	12.1%	1.51
12/31/2016	1.4%	11.2%	1.37
12/31/2017	4.6%	12.0%	1.42
12/31/2018	0.2%	12.2%	1.35
12/31/2019	1.1%	11.8%	1.24
12/31/2020	1.2%	11.4%	1.15
12/31/2021	1.5%	11.4%	1.11
12/31/2022	1.8%	11.4%	1.07
12/31/2023	2.1%	11.4%	1.03
12/31/2024	2.4%	11.4%	0.99
12/31/2025	2.7%	11.4%	0.96
Continuing Period	3.0%	11.4%	0.93

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,789.64	$1,856.94	$33.58
1/0/1900	$2,378.31	$1,190.55	$42.01
1/0/1900	$3,183.60	$371.92	$50.87
1/0/1900	$3,648.32	-$482.66	$60.11

Herbalife Ltd

NYSE:HLF

Analyst: Pierre Gouesclou
Sector: Retail/Drug Store

Sell

Price Target: $27.32

Key Statistics as of 03/01/2016

Market Price:	$56.35
Industry:	Retail/Drug Store
Market Cap:	$5.07B
52-Week Range:	$30.27-61.95.
Leverage Beta:	0.8

Thesis Points:

- Herbalife is a complex Ponzi-Pyramid scheme.
- The firm has more debt than the total value.
- Had several inquiries regarding their products compositions.
- The company struggles to manage their costs
- The Company is overvalued.

Company Description:

Herbalife Ltd is a global network marketing company proposing a range of nutritional supplements and personal care products to lose weight. Incorporated in the Cayman Islands (George Town) Herbalife went public with its IPO in 2004 by issuing 14,500,000 share at $14 per share. The total value amount was estimated at $203,000,000 after the IPO. The company's sells were composed of 5 segments in 2014: Weight Management (64.1%), targeted Nutrition (22.3%), Sports & fitness (5.3%), Outer Nutrition (3.6%) and Literature & Promotional other products (4.7%). Nutritional additives represented over 95.3% of the company's revenues and is a risky bet given the amount of law suits triggered by such high risk health products. Herbalife Ltd operates in 95 countries and employs 7,800 people across the globe in addition to their 4.0 million independent "members". The company mostly owns distribution centers in order to dispatch their products to their "members" around the world and do not own any brick and stone shops. In 2014 Herbalife generated a negative cash flow of $-389.5 Million in repurchasing Capital stock from the markets.

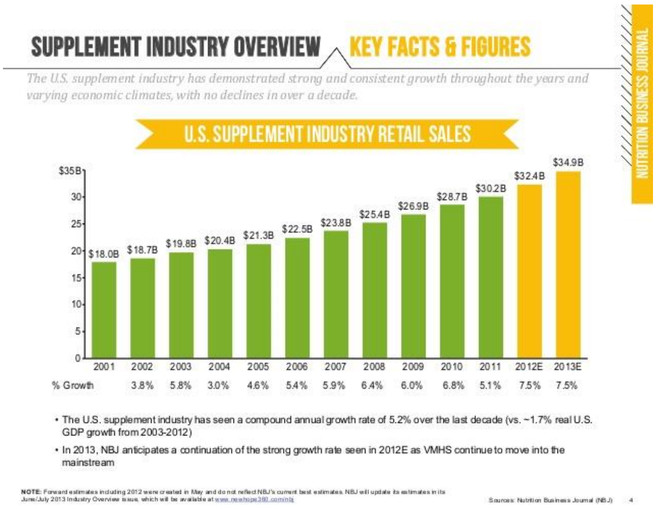
Thesis

Herbalife ltd is a leading company in his segment but has several financial weaknesses and flaws. On the 30th September 2015, the company had a Debt to Total Value of 1.05. In 2014, Herbalife launched a $1 Billion dollars repurchase program and was planning on taking $1.5 Billion dollars of debt in order to finance this project. Due to this repurchase of stock; the company generated a negative cash flow of $327.6 million dollars in 2014 when they purchased stocks worth $1,291.9 million dollars. In addition to these alarming signals the company announced a negative retained earnings of 665.4 million dollars despite a net income of $308.7 million. We have also observed a massive shortfall in their stock price from $83 (at most) to $38.5. During the period the company ceased purchasing their common stock by fear of financial difficulty. This phase of high instability within the financial structure of the firm creates a tempting breach to short a stock that is surely overvalued and on the decline.

Industry Outlook

The nutritional supplement market has known an impressive increase worldwide in the past years. The increasing amount of over-weighted individual has reached a record high in certain countries triggering a boost of sales of such products by individuals eager to watch over their health. The industry is expected to show a growth rate of 6% to 7% in the upcoming years in emerging and developed markets. Another aspect to take in consideration is the growing sales of these types of company in the emerging markets. As the middle class increases in countries such as China the population is starting to give more importance to their health and well-being rather than their primary needs. Furthermore as a new growing segment this industry is draining the attention of consumer good companies such as P&G. These big companies are trying to gain new market shares by purchasing smaller nutritional supplement companies through M&As.

The real threat for these companies is the creation or tightening of regulations related to the content of the products. These regulations are a real issue for the companies since they often lead to important lawsuits that can easily bring a company to bankruptcy. Pursuing business in a global scale enhances the difficulties brought by these regulations and can quickly become a legal burden for companies who are required to dose their products according to each country's legislation.



Business Model

Herbalife ltd's major strength relies on their "members". As the founding stone of the company, these members are expected to promote and sell products or services to new members of Herbalife. This is the most attractive aspect of the business as they are not considered as employees and are not paid as such by the company. As a consequence most of the company's expenses are directed towards the purchase of products from third party companies (25% of their products) or the distribution of their products across the globe. This direct sale strategy allows the firm to perceive comfortable resources without investing important amounts in the process. The success of their strategy is underlined by their impressive ROIC of 45% and WACC of 9% in 2015. On the other hand this strategy can also become a weakness for the company if members stop promoting Herbalife products. In that aspect the company is highly reliant on their customers in order to pursue business. In addition, a company that uses a client-distributor pyramid system will undeniably encounter a limit of growth once the potential customer pool has been dried out. The combination of both of these aspects underlines a high probability of an upcoming value creation.

People

Michael O. Johnson leads Herbalife ltd since his appointment in 2003 after the death of the company's founder Mark Hughes three years before. Michael O. Johnson previously worked for The Walt Disney Company since 1986 where he worked as the president of Buena Vista Home Entertainment. Recently Michael O. Johnson was sanctioned with a salary reduction of

36% caused by the reduction of revenue generated by the company. Michael is assisted by Brett R. Chapman, Strategic Advisor to Chairman and C.E.O. since 2003. Brett is an important asset for Herbalife regarding his strong law background gained during 13 years from his experience at The Walt Disney Company.

Product Differentiation

As opposed to their other competitors Herbalife focuses on a more direct approach of the customer. In order to obtain sales the company attracts their customers through free fitness events hosted by their trained coaches. Once the client is interested by the concept the coach offers the potential customer to join the community. The main product differentiation of the company relies on their pyramidal sales strategy. In Herbalife the customers are encouraged to promote the products in exchange of advantages and offers. As opposed to most of their competitors which sale their products directly to the retailers for commercialization, Herbalife focuses more on creating a vivid community. As a result, the risk of the company is increased as they rely on customer-distributors to sell their products.

Corporate Responsibility

Herbalife is very contradictory in their corporate responsibilities and doubts may rise on their goals. I believe that a company producing and selling complex nutritional supplements should have more ties and responsibilities towards their costumers and distributors. The business plan itself is in opposition with this aspect of the corporation. Herbalife is registered in the Cayman Island and has no strong ties with their members who are responsible of the majority of the company's sales. This corporate detachment will most likely backfire on Herbalife and have a negative blow on their sales and revenues one a decrease in new memberships will occur. Herbalife recently started to invest in social and green actions across the globe in order to enhance their brand image. The Herbalife Family Foundation (HFF) is focusing on improving the lives of children around the world by providing $2.6 million in funding in order to bring nutrition to 100,000 children in 50 countries. The foundation itself received several private awards but the procedures and content of this foundation remains globally unclear regarding its spectrum and range.

Financials

For the year ended 2014 the company announced an increase in their sales of $133.3 million dollars which represents an increase of 2.76% overall. Despite higher sales the company encountered a strong downfall in their net income of $218.8 million dollars, which represents a decrease of 41.48% of their net income. This decrease of revenue is due to a skyrocket of their Selling, general & administrative expenses which increased by 22.22% in 2014. Between 2012 and 2014 the percentage of net income from sales went from 11.4% to 6.2% and implies that the company is struggling in their cost management is unable to create as much value as it used to. In addition to this decrease of net income the cash flow for 2014 has been -$389.5 due to their massive repurchases of Common stock worth $1,291.9 million. This repurchase was barely covered by their issuance of debt issued through Interest baring Notes. This repurchasing strategy ended in 2015 when the company suddenly halted buying back their shares due to their disastrous cash flow. In 2015 the company's Debt to total value ratio was 1.14 against 0.77 in 2013. This ratio implies that the company holds more debt than the overall Enterprise Value of the structure. Although this increase is mostly due to their increase of debt; their retained earnings of -$665.4 is one of the biggest driver of this ratio. The company can be considered as a highly unstable debt hazard and can be at risk if their net income fails to cover the newly contracted debt of the company.

Conclusion

Herbalife Ltd's unstable financial situation provides an interesting short opportunity for investors. The company's financial statements clearly raise's red flags on their cost management and debt borrowing in the past years. In addition, Herbalife has been in the spot light for several years due to their business model and product quality. This undesired attention can prove to become a real handicap for a company who already acknowledged a downfall in their price from $61.95 to $56.35 in a period of 52 weeks (-9.03%). Furthermore I believe that the increase of 25% on their stock price following the earning call is a sign of overvaluation of the company's true value and will soon be corrected. In accordance with these data I rate HLF a short with a 12-month target price of $27.32, which implies a downfall of -67.72%.

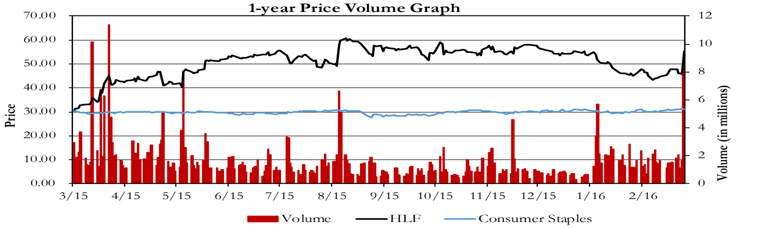
Siena Market Line
2nd week of March 2016

CENTER FOR GLOBAL FINANCIAL STUDIES

Herbalife Ltd. (HLF) — **BEARISH**

Analysis by Pierre Gouesclou	Current Price:	$56.35	Intrinsic Value	$25.44	Target 1 year Return: -50.86%
3/1/2016	Divident Yield:	0.7%	Target Price	$27.32	Probability of Price Increase: 0%

1-year Price Volume Graph



Description

Herbalife Ltd., a nutrition company, develops and sells weight management, healthy meals and snacks, sports and fitness, energy and targeted nutritional products, and personal care products.

General Information

Sector	Consumer Staples
Industry	Personal Products
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	5.61%
Effective Tax rate	22%
Effective Operating Tax rate	24%

Market Data

Market Capitalization	$5,073.88
Daily volume (mil)	1.87
Shares outstanding (mil)	92.67
Diluted shares outstanding (mil)	85.30
% shares held by institutions	16%
% shares held by investments Managers	48%
% shares held by hedge funds	19%
% shares held by insiders	6.98%
Short interest	23.63%
Days to cover short interest	14.09
52 week high	$61.95
52-week low	$30.27
Levered Beta	0.80
Volatility	53.92%

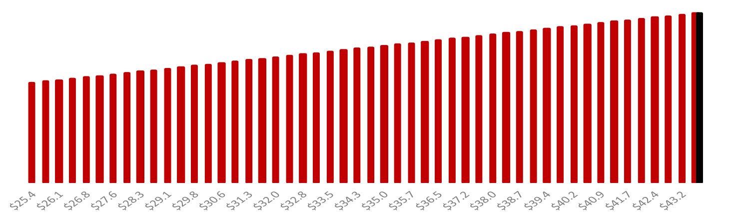
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	-2.53%	-1.76%
3/31/2015	1.81%	-0.08%
6/30/2015	1.52%	-4.35%
9/30/2015	-3.67%	7.80%
12/31/2015	3.27%	6.43%
Mean	0.08%	1.61%
Standard error	1.3%	2.4%

Peers

Avon Products Inc.
Nu Skin Enterprises Inc.
Coty Inc.
The Estée Lauder Companies Inc.
Lifevantage Corporation
Elizabeth Arden, Inc.
USANA Health Sciences Inc.
Mannatech, Incorporated

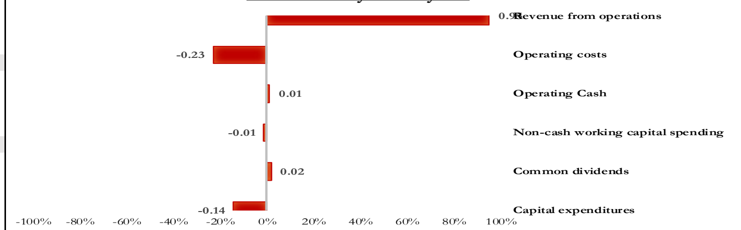
Target Price Distribution--Prob(Price Increase)= 0%



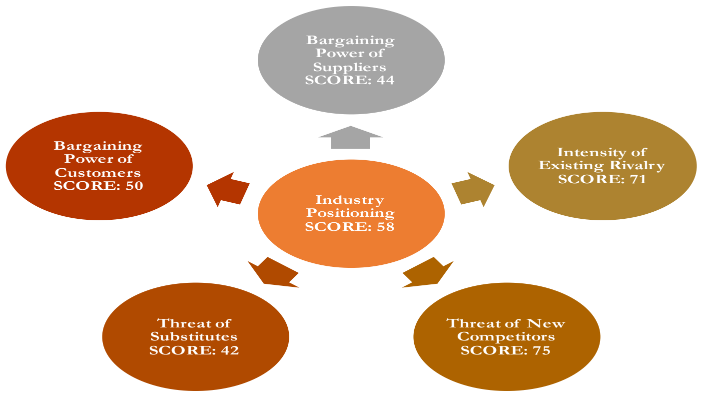
Management	Position	Total compensations growth	Total return to shareholders
Johnson, Michael	Chairman and Chief Executive	1.1% per annum over 5y	13.09% per annum over 5y
Walsh, Desmond	President	7.64% per annum over 5y	13.09% per annum over 5y
DeSimone, John	Chief Financial Officer	-4.02% per annum over 4y	8.2% per annum over 4y
Goudis, Richard	Chief Operating Officer	9.23% per annum over 5y	13.09% per annum over 5y
Hoffman, Alan	Executive Vice President of	N/M	0% per annum over 0y
Peterson, Susan	Founder	N/M	N/M

Profitability	HLF (LTM)	HLF (5 years historical average)	Industry (LTM)
ROIC	25.6%	50.49%	24.11%
NOPAT Margin	11%	12.47%	12.2%
Revenue/Invested Capital	2.34	4.05	1.98
ROE	38.2%	47.80%	25.36%
Adjusted net margin	9%	11.71%	11.7%
Revenue/Adjusted Book Value	4.31	4.08	2.16
Invested Funds	**HLF (LTM)**	**HLF (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	42.3%	36.3%	25%
Estimated Operating Cash/Total Capital	25.5%	21.1%	N/A
Non-cash working Capital/Total Capital	-5.6%	-4.9%	17%
Invested Capital/Total Capital	84.7%	86.0%	61%
Capital Structure	**HLF (LTM)**	**HLF (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.40	0.28	0.06
Cost of Existing Debt	5.62%	5.97%	3.82%
Estimated Cost of new Borrowing	2.32%	1.41%	3.82%
CGFS Risk Rating	5.62%	AAA	BBB
Unlevered Beta (LTM)	5.89%	1.39	0.91
WACC	5.62%	10.06%	8.00%

Sensitivity Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-9.9%	11.0%	4.05
12/31/2016	1.4%	12.5%	5.11
12/31/2017	4.6%	12.8%	4.90
12/31/2018	0.2%	11.9%	4.18
12/31/2019	1.1%	11.0%	3.71
12/31/2020	1.2%	10.2%	3.28
12/31/2021	1.5%	9.4%	2.89
12/31/2022	1.8%	8.5%	2.53
12/31/2023	2.1%	7.7%	2.20
12/31/2024	2.4%	6.9%	1.90
12/31/2025	2.7%	6.0%	1.61
Continuing Period	3.0%	5.2%	1.35

Period	Invested Capital	Net Claims	Price per share
Base Year	$919.93	$2,122.17	$38.31
1/0/1900	$960.64	$1,622.54	$43.83
1/0/1900	$1,075.11	$1,019.88	$49.67
1/0/1900	$1,623.28	$419.26	$55.44
1/0/1900	$1,912.93	-$151.52	$61.10
1/0/1900	$1,781.65	-$676.26	$66.67
1/0/1900	$1,984.46	-$1,537.96	$76.66
1/0/1900	$2,152.31	-$1,967.36	$82.10
1/0/1900	$2,278.47	-$2,352.64	$87.59
1/0/1900	$2,397.76	-$2,692.62	$93.18
1/0/1900	$2,525.23	-$2,985.46	$98.90
1/0/1900			

Siena Market Line
2nd week of March 2016

Medifast Inc.

NYSE: MED

Analyst: Annie Staudt
Sector: Consumer Staples

BUY on MED

Price Target: $39.93

Key Statistics as of 3/6/2016

Market Price:	$30.52
Industry:	Personal Products
Market Cap:	$358.88M
52-Week Range:	$26.14-$33.56
Unlevered Beta:	0.83

Thesis Points:

- Increasing health-awareness trend demonstrates positive industry outlook
- Investment in Take Shape for Life program is beginning to realize deferred benefits
- Consistent value creation and improving margins

Company Description:

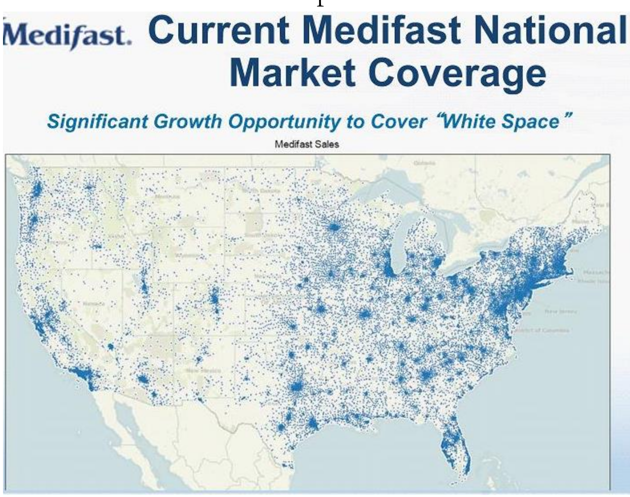
Medifast Inc. (Medifast) is engaged in the production, distribution, and sale of consumable health, diet, and weight loss and management products. The company combines physician-supervised weight loss programs with nutritional supplements and multidisciplinary patient education programs. It helps customers achieve their healthy living goals through personal coaching, clinics, working with physicians, meal replacements, and a nutrition support team. The company operates its business in two segments: Medifast and MWCC & Wholesale. Revenues come from sales from Medifast Direct marketing, franchise weight control centers, its Take Shape for Life coaching program, Medifast wholesale physicians, and international sales. The company was founded in 1980 and is headquartered in Owings Mills, Maryland. It is listed on the NYSE as MED.

Thesis

Medifast has been a leading provider of weight loss and maintenance products and programs for many years. The increasing heath-awareness trend paired with American's ever quickening on-the-go lifestyle provide Medifast with substantial growth potential.

Additionally, throughout the last year, Medifast invested heavily in the development, growth, and simplification of their largest business, Take Shape for Life, which accounts for 75.7% of their business. Quarter three 2015 earnings demonstrated tangible results from the actions taken throughout the year, signaling a positive improvement within Take Shape to Life. The program realized both health coach growth and increasing coach productivity, both of which bolstered revenues generated by TSL.

Lastly, Medifast has demonstrated consistent value creation and improving margins. According to their Q3 2015 earnings call, gross margin expanded 110 basis points and Medifast was able to effectively manage their expenses, resulting in earnings per share exceeding expectations. Additionally, the implied continuing period ROIC/WACC is 2, signifying long term value creation. Medifast's years of experience in this industry along with their commitment to growth and evolving with the changing market make Medifast an attractive investment, and its current undervaluation due to deferred realized revenues pose an opportune time for investors to buy. This report includes an analysis and forecast of the MED stock price.

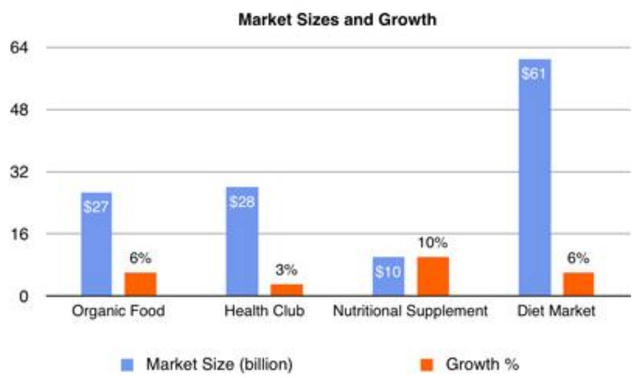


Industry Outlook

Both the personal care and diet/weight-loss industries have experienced steady growth over last few years. They continued to expand even during economic recession, when other sectors were negatively affected. Personal care and weight loss markets are expected to grow strongly due to rising awareness of health issues among consumers.

Health and fitness have always been major concerns and are something that consumers spend a lot of time and money on, particularly in recent years. Increasing overweight and obesity rates have drawn a lot of attention and resources towards getting people to adjust their eating habits and live heathier lifestyles. These increasing levels of awareness amongst calorie-conscious consumers in North America have opened new avenues for the weight management industry. The North American weight loss/obesity management market was worth $104 billion in 2012.

The North America weight loss and management market witnesses a growing preference for low-calorie diet food and beverages, which is precisely what Medifast Direct, a prepared foods business, provides its customers. The U.S. is the largest market for weight loss/obesity management market, followed by Canada, a country to which Medifast recently expanded in 2014. Additionally, weight loss diets and services make up the largest portions of the North American weight loss and obesity management markets, which are the sectors in which Medifast conducts business. Nutritional supplements are growing at 10%, another large portion of Medifast's sales.



Product Differentiation

Medifast prides itself on its differentiation and wide variety of product offerings in a relatively saturated market. Medifast food, unlike that of competitors such as Nutrisystem, was developed by doctors, and is fortified with around 24 vitamins and minerals as well as protein and fiber. Medifast uses a unique, multi-channel structure with four support and distribution channels: Medifast Direct, Take Shape for Life, Medifast Weight Control Centers, and Medical providers. Medifast Direct is geared towards the independent consumer who is looking for self-guided weight loss and weight management with the convenience of online ordering and tools. Take Shape for Life provides clients with a personal health coach to guide them through their weight-loss journey.

Medifast Weight Control Centers provide clinically-focused, one-on-one counseling. Medifast Medical Providers is a physician-directed weight loss and weight management that allows healthcare professionals to offer the Medifast program to their patients. Medifast Medical Providers, which allows health professionals to offer the program to their patients.

Competitive Advantage

Medifast is a vertically integrated company. All of its manufacturing and distribution operations are owned and operated by Medifast. This greatly reduces their expenses and therefor produces industry leading gross margins.

Valuation

The valuation of Medifast Inc. is computed using a return on invested capital valuation approach on a pro forma. Attached is an overview of the proforma containing the relevant financials of Medifast as well as pertinent industry information and projections for the future. MED is currently trading at $30.52 and after a conservative but reasonable return on invested capital valuation approach, an intrinsic value of $36.73 has been calculated.

Conclusion

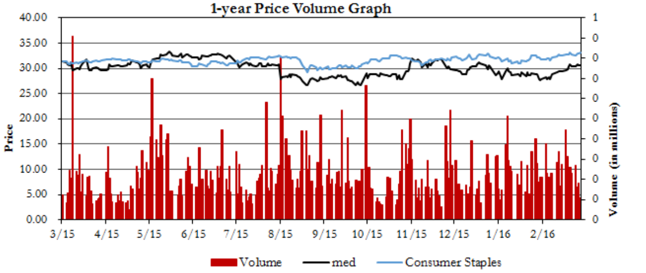
I recommend a buy on Medifast, Inc. Currently priced at $30.52, I believe Medifast is undervalued and is actually worth over $36/share. With a 12-month target price of $39.93/share, the investment presents a 30.83% upside.

Medifast has been a leading competitor in the personal care and weight loss sectors for decades. The positive outlook for this industry along with the company realigning its focus on strengthening its programs indicate a positive future for the corporation. Medifast is a value creating company, and with earnings per share from continuing operations at $0.45, $.02 above the high end of expectations and operating costs expected to fall, it will continue to create value for its shareholders in the future. The growing revenue from Take Shape for Life along with their commitment to investing in the continued development of their product offerings to improve quality and profitability demonstrate enormous growth potential.

Medifast Inc. (med) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by Marianne Staudt	Current Price:	$30.52	Intrinsic Value	$36.73	Target 1 year Return: 30.83%
3/6/2016	Divident Yield:	0.0%	Target Price	$39.93	Probability of Price Increase: 98%

1-year Price Volume Graph



Description

Medifast, Inc. engages in the production, distribution, and sale of weight loss and weight management products and other consumable health and diet products.

General Information

Sector	Consumer Staples
Industry	Personal Products
Last Guidance	November 3, 2015
Next earnings date	March 10, 2016
Estimated Country Risk Premium	6.00%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data

Market Capitalization	$358.88
Daily volume (mil)	0.08
Shares outstanding (mil)	11.76
Diluted shares outstanding (mil)	12.14
% shares held by institutions	62%
% shares held by investments Managers	52%
% shares held by hedge funds	29%
% shares held by insiders	8.01%
Short interest	6.57%
Days to cover short interest	6.81
52 week high	$33.56
52-week low	$26.14
Levered Beta	0.84
Volatility	39.40%

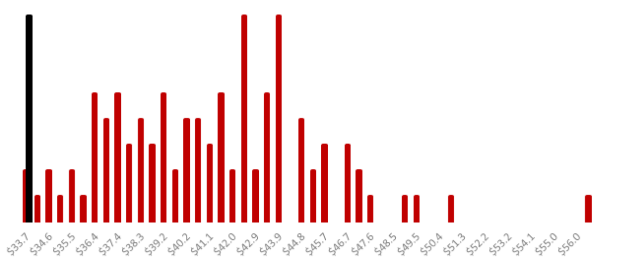
Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/30/2014	-9.25%	14.44%
12/31/2014	-9.38%	-23.90%
3/31/2015	3.70%	24.58%
6/30/2015	-0.86%	3.45%
9/30/2015	-1.59%	4.02%
Mean	-3.48%	4.52%
Standard error	2.5%	8.1%

Peers

Everyday Health, Inc.
USANA Health Sciences Inc.
Nutrisystem, Inc.
Weight Watchers International, Inc.
Synutra International Inc.
Herbalife Ltd.

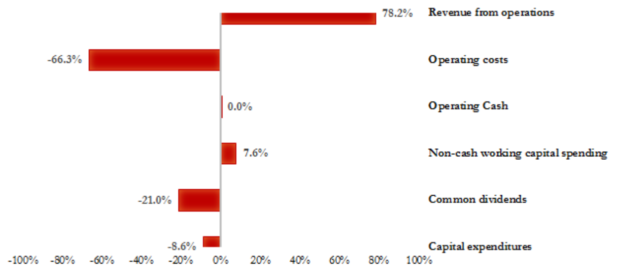
Target Price Distribution--Prob(Price Increase)= 98%



Management	Position	Total compensations growth	Total return to shareholders
MacDonald, Michael	Chairman, Chief Executive Of	160.75% per annum over 5y	-3.51% per annum over 5y
MacDonald-Sheetz, Margaret	President and Chief Operatin	-2.33% per annum over 5y	-3.51% per annum over 5y
Robinson, Timothy	Chief Financial Officer	-39.17% per annum over 1y	28.4% per annum over 1y
Arterburn, Linda	Vice President of Scientific	N/M	N/M
Groves, Jason	Executive Vice President, Ge	-100% per annum over 2y	12.75% per annum over 2y
Kelleman, Joseph	Vice President of Finance an	-100% per annum over 1y	28.4% per annum over 1y

Profitability	med (LTM)	med (5 years historical average)	Industry (LTM)
ROIC	23.9%	28.25%	18.56%
NOPAT Margin	8%	9.37%	9.4%
Revenue/Invested Capital	2.99	3.01	1.98
ROE	24.6%	29.88%	19.51%
Adjusted net margin	8%	9.33%	9.1%
Revenue/Adjusted Book Value	3.09	3.20	2.14
Invested Funds	**med (LTM)**	**med (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	53.0%	41.0%	25%
Estimated Operating Cash/Total Capital	19.6%	17.7%	N/A
Non-cash working Capital/Total Capital	-2.4%	1.2%	17%
Invested Capital/Total Capital	66.6%	76.7%	61%
Capital Structure	**med (LTM)**	**med (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.04	0.07	0.06
Cost of Existing Debt	1.32%	1.12%	3.82%
Estimated Cost of new Borrowing	1.37%	1.37%	3.82%
CGFS Risk Rating	AAA	AAA	AA
Unlevered Beta (LTM)	0.83	1.64	0.92
WACC	7.84%	12.71%	8.29%

Sensitivity Analysis



Valuation

Period	Revenue growth	ROIC/WACC	Invested Capital	Net Claims	Price per share
Base Year			$94.53	-$27.74	$36.65
9/30/2016	1.7%	3.04	$108.65	-$52.91	$39.89
9/30/2017	8.1%	3.41	$132.17	-$77.60	$43.31
9/30/2018	7.5%	3.46	$109.68	-$103.57	$46.88
9/30/2019	6.9%	3.42	$91.69	-$131.36	$50.58
9/30/2020	6.4%	3.39	$83.62	-$160.99	$54.39
9/30/2021	5.8%	3.37	$84.79	-$192.48	$58.32
9/30/2022	5.3%	3.36	$90.22	-$225.83	$62.34
9/30/2023	4.7%	3.37	$96.57	-$261.02	$66.44
9/30/2024	4.1%	3.39	$102.55	-$298.31	$70.65
9/30/2025	3.6%	3.43	$107.97	-$336.82	$74.89
Continuing Period	3.0%	3.49			

Investor Relations

Since 1980, our company has been dedicated to helping customers become healthier, happier, and more hopeful through safe, simple, medically formulated meal replacement products for weight loss and maintenance. We create, produce and distribute these products through four support and distribution channels: Medifast Direct, for the independent customer who prefers online ordering and tools; Take Shape for Life, for those who prefer to work with a Health Coach; Medifast Weight Control Centers, located in retail and business centers providing clinically-focused, one-on-one counseling; and Medifast Medical Providers, which allows health professionals to offer the program to their patients. Medifast's wholly owned subsidiaries include Jason Pharmaceuticals; Jason Properties; Jason Enterprises; and Take Shape for Life, Inc. Medifast, Inc. is listed on the NYSE as MED.

http://www.fool.com/quote/nyse/medifast-inc/med
http://www.bloomberg.com/quote/MED:US

Medifast, Inc. combines physician-supervised weight loss programs with nutritional supplements and multidisciplinary patient education programs. The Company provides an Internet-based physician and medical practitioner network to consumers. Medifast also provides a corporate wellness program for large corporations, associations, and their health insurance carriers.

http://finance.yahoo.com/q?s=MED
http://seekingalpha.com/article/3663276-medifasts-med-ceo-michael-macdonald-q3-2015-results-earnings-call-transcript?page=2
http://filecache.drivetheweb.com/mr5ir_medifastdiet/142/CO-0071_DOC_Ecosystem+%283%29.pdf
https://ir.medifastnow.com/index

Huntington Ingalls Industries, Inc.

NYSE:HII

Analyst: Pierre Riffard
Sector: Industrials

BUY

Price Target: $157

Key Statistics as of 03/02/2016

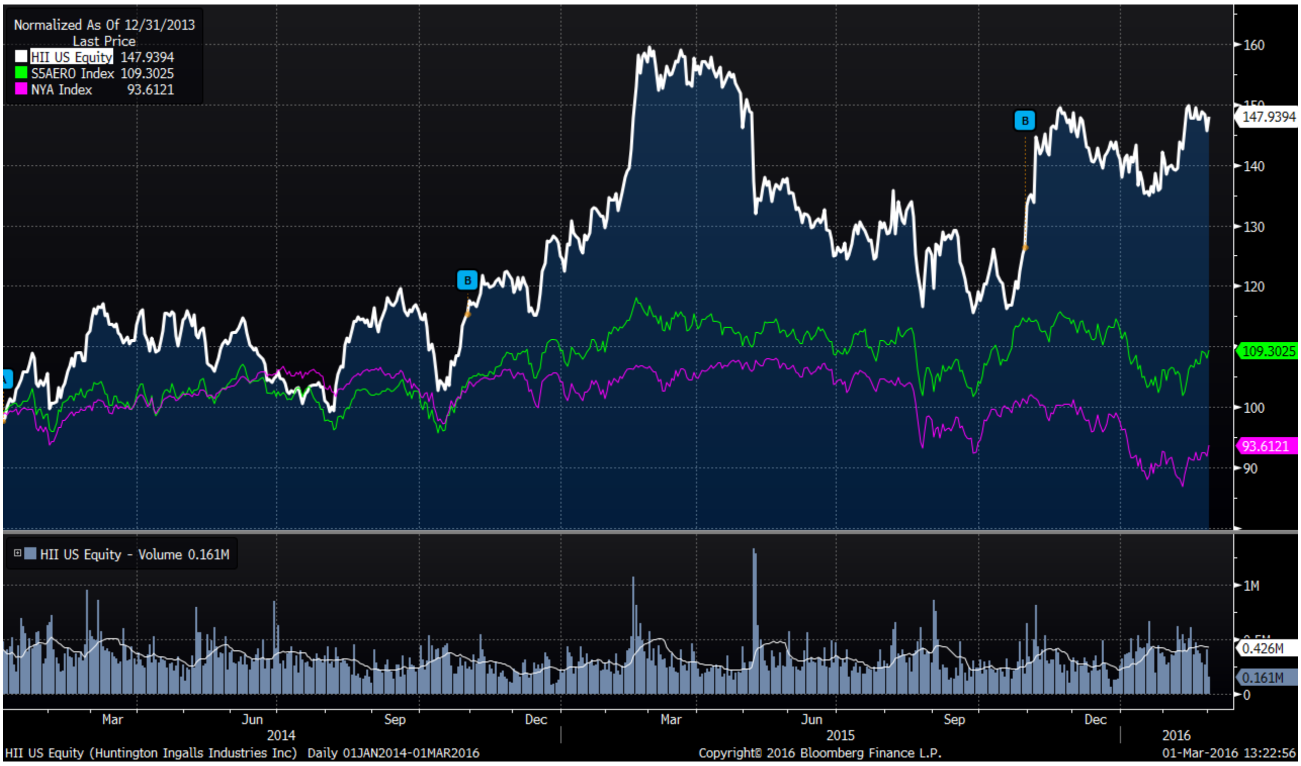
Market Price:	$131.47
Industry:	Aerospace & Defense
Market Cap:	$6.155B
52-Week Range:	$102.76 - $144.00
Beta:	1.16

Thesis Points:

- Huge improvement on capital structure and profitability.
- Its market position made the company one of the less risky of the overall industry.
- Recent acquisitions will help revenue to grow in the long-run.
- A strong cash generation that initiates a large stock repurchase program and a noticeable increase in dividends for the long run.

Company Description:

Huntington Ingalls Industries, Inc. engages in designing, manufacturing, overhauling, and repairing ships primarily for the U.S. Navy and the U.S. Coast Guard. HII became an independent and publicly-owned company on March 31, 2011, after its spin-off from Northtrop Grumman (NYSE:NOC). It benefits from 130 years of experience and is America's largest military shipbuilding company, which has built more than 70% of the world's largest Navy fleet. The company is the sole designer and manufacturer of all America's past, present and future aircraft carriers, and one of the two nuclear-powered submarine manufacturers. HII is providing the U.S. Armed Forces with non-nuclear-powered submarines, amphibious assault ships, amphibious transport dock ships, destroyers, and National Security cutters. In addition, the company is also providing military and commercial ship repairs, nuclear operations, environmental services, and manufacturing, engineering and management services for the energy and oil & gas markets. The company's main units are based in the United States, and the company's divisions are based in the United States, United Kingdom, Venezuela, Japan, and Taiwan.


Normalized As Of 12/31/2013
Last Price
HII US Equity 147.9394
S5AERO Index 109.3025
NYA Index 93.6121
HII US Equity - Volume 0.161M
HII US Equity (Huntington Ingalls Industries Inc) Daily 01JAN2014-01MAR2016
Copyright© 2016 Bloomberg Finance L.P.
01-Mar-2016 13:22:56

Thesis

In 2011, Northtrop Grumman (NYSE:NOC) decided to spin-off its shipbuilding unit. The activity was struggling due to a slowdown in shipbuilding contracts, low margins (compared to the other activities of NOC like aerospace and electronics), and huge debt. Taking into accounts that the new publicly traded company will start with relatively high debt, weak revenue growth and low earnings, the stock was not attractive.

Over the four next years, due to several new contracts with the U.S. government and a priority to improve the capital structure and to reach a minimum of 9% operating margin, the company had achieved, after only five years formidable improvements. The level of debt is now well below the industry average, and the operating margin only went up since 2011 to reach more than 11% in 2015, thanks to the closing and consolidation of an unused shipyard's activity, constant performance improvement on brand new ships, and cost reductions.

One of the competitive advantage of the company is that it does not need huge capital expenditures as the current capacity is large enough to sustain the future companies' operations. As a result, HII has a strong and sustainable cash generation. The company started a stock repurchase program of $150 million in 2012. Since then, the program has been increased to $600 million. In addition, the company announced during its Q4 2015 Earnings Call that dividends will increase by 10% annually until at least 2020 to return some of its free cash flow to shareholders. Such strategies show a strong confidence in the future performance of the company.

In addition, HII has an exceptional market position. The company is a monopoly within the U.S. aircraft carriers market, and a duopoly within the U.S. Navy shipbuilding companies with General Dynamics (NYSE:GD). Such a position is bringing huge and constant revenues and will be granted several contracts by default. Its formidable position gives the company advantageous contract terms with the U.S. government. The recent acquisitions is bringing some diversification to the nuclear energy, and oil & gas industry and might be able to add some crucial growth to a current lower-than-average revenue growth due to recent defense budget cuts. Even if currently the acquisition is not bringing enough revenues as the oil market is in crisis, it may become a very strong source of revenue and earnings in the long-run.

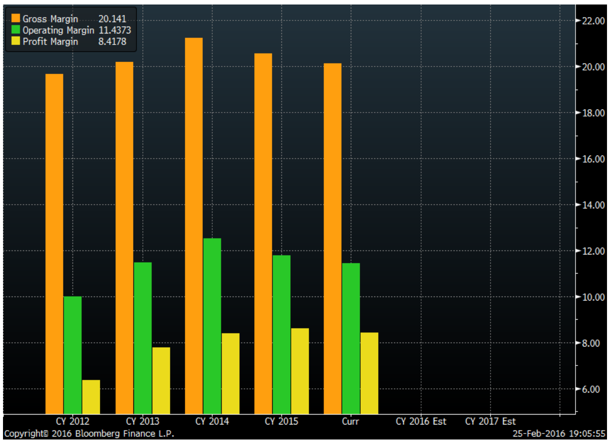
Given those reasons, I think the company's current valuation is still suffering from its spin-off from Northtrop Grumman and the fact the shipbuilding activity is not as profitable as IT, electronics, or aerospace activities. The current stock price near $133, associated with a market capitalization of only $6.22 billion appears to be undervalued considering its exceptional market position and savoir-faire, its considerable performance improvement, and its relatively sustainable and riskless sales.

Industry Outlook

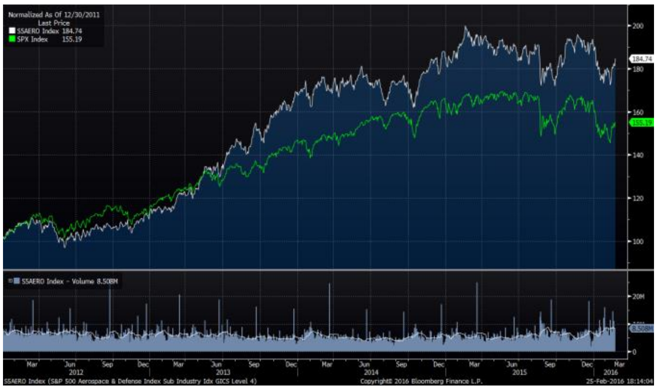
The Aerospace & Defense industry designs, manufactures, and services any type of aircrafts, and military assets including commercial planes, jet fighters, helicopters, space shuttles, tanks, armored vehicles, unmanned aircrafts, military ships, submarines, aircraft carriers, satellites, electronics, communications, softwares, missiles and any other kind of military products and commercial aircrafts or space products. Two of the specificities of the industry is the relatively high unit price of completed products that can range to several millions to several billions of USD, and the fact that the most important customers are nothing less than the world's governments. Indeed, the largest customer is the U.S. government with a Defense budget of $573 billion for fiscal 2016. Of course the size of this budget is decided by the president and the Congress of the United States and so is dependent of either the majority is republican or democrat. One of the biggest advantage of this industry is that, even if there is an economic crisis, governments from the entire world and especially the American one, will keep on expanding, modernizing, repairing, and inactivating military equipments. In other words, it is an industry that will never reach maturity.

Since 2012, the industry is showing a strong performance. Even if, due to several defense budget cuts, revenues were steady and even tended to decrease since 2014, operating margin, and profit margin improved.

Focusing on the warships market, the 2015 U.S. Navy Shipbuilding Plan anticipates a fleet of 306 ships until 2044, comprised of 12 ballistic missile submarines, 11 nuclear-powered aircraft carriers, 48 nuclear-powered attack submarines, 88 large multi-mission surface combatants, 52 small multi-role surface combatants, 33 amphibious landing ships, 29 combat logistics force ships, and 33 support vessels[1].



Concerning the stock performance, we can clearly see that it used to outperform the S&P500 Aerospace & Defense sub-index. What is important to notice is that the industry is particularly resistant to periods of correction or slowdown in the financial markets and in economic growth. Since the beginning of 2016 during the market sell-off, the Aerospace & Defense industry outperformed the market with some companies' stock staying steady or even rising like HII. Indeed Huntington Ingalls even rose by 5% YTD, whereas the S&P500 was down by 6% YTD.



Given the current geopolitical situation, and the future American presidential election, we know for sure that military expenditures will either stay steady or increase. According to Deloitte, the industry is expected to return to growth in 2016 to reach 3% due to the resurgence of global security threats, growth in defense budgets of key nations and the increase in the U.S. Defense budget[2].

Porter's Five Forces

<u>Bargaining Power of Customers: **LOW**</u>

The most important customers of HII is the U.S. Navy. At first, we might think the largest government of the world might have some bargaining power over a $6 billion company, but on the other side the U.S. Navy is in need of everything HII is providing and it concerns national and even international security. Then, as the company has 70% of the shipbuilding market share, is the only aircraft manufacturer, and as the largest customer of the world also has the largest budget of the world, it gave HII some leverage to negotiate better contract terms than other same-size companies within the industry. In fact 90% of the negotiated contracts with the U.S. governments are Fixed Price Incentive or FPI that give the obligation to the Department of Defense to cover any excess incurred costs up to a ceiling price typically 125-135% of the target price.

<u>Bargaining Power of Suppliers: **MEDIUM**</u>

As a result of consolidation in the defense industry, only one supplier exists for some specific components HII needs to acquire. Then, as the shipbuilding activity is quite specialized and limited to two large companies, HII is continuing research and development with few key suppliers. Here, both suppliers and manufacturers are in the same boat.

<u>Existing Rivalry: **INEXISTENT to MEDIUM**</u>

Within the aircraft carrier activity, HII is a monopolist. Within the shipbuilding activity, HII is engaged in a duopoly with General Dynamics (NYSE:GD). Lockheed Martin (NYSE:LMT) is the only other company engaged in manufacturing Navy ships but is limited to only one class: the Littoral Combat Ships (LCS), which is not in competition with either HII or GD. As the two duopolists are the only one capable of manufacturing nuclear-powered submarines, HII and GD made a teaming agreement in 1997 to build the attack nuclear submarines cooperatively. In 2008, the team was awarded the largest contract ever of the Navy history ($17.8 billion) to design and manufacture ten Virginia-class submarines.

[1] 2014 Huntington Ingalls Industries Annual Report

[2] http://www2.deloitte.com/global/en/pages/manufacturing/articles/global-a-and-d-outlook.html

Barriers to Entry: **HIGH**

The probability of new entrants into the aircraft carrier and nuclear submarines is inexistent as it is requiring huge capital, very high-skilled engineers, designers, and workers, huge research & development costs (especially with no prior experience), as well as long periods of tests and building relationships with suppliers. Most important, new entrants would lack more than a century of expertise and experience. Concerning the other military ships, the probability of new entrants is higher. Lockheed Martin is now building Littoral Combat Ships for the U.S. Navy, but here again it requires lots of investment and high-skilled labor, and most important the new entrants would face a duopoly, where more than 70% of the active Navy fleet had been built by one company: Huntington Ingalls Industries.

Threat of Substitutes: **VERY LOW**

Such threats are not even relevant as there is currently no substitutes to Navy ships. We may think about unmanned ships but the companies who will be the most capable to builds such new type of naval vessels are the current shipbuilding companies. In September 2014, the DARPA (the official military agency responsible for the development of emerging technologies for use by the military) started the manufacturing of the first unmanned naval vessel prototype.

Product Portfolio

Huntington Ingalls Industries is divided into two divisions that represent its core activity of designing, manufacturing, repairing, overhauling, refueling, and inactivating Navy ships, and into several subsidiaries specialized in different key areas.

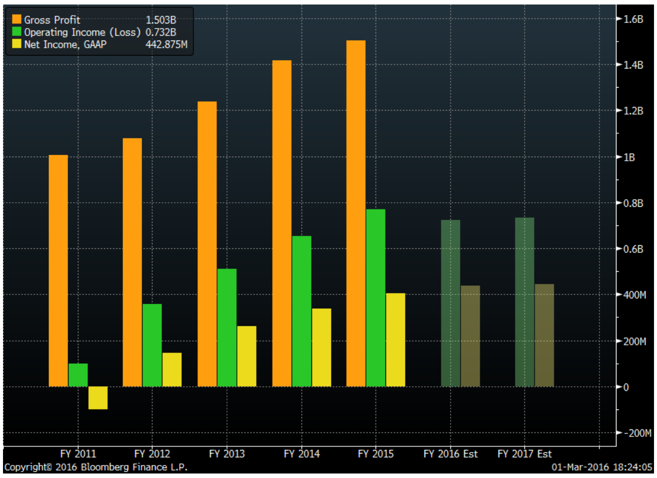
Ingalls Shipbulding, located in Pascagoula, Mississippi, is engaged in the development and production of technologically advanced and highly capable warships for the Navy, the U.S. Marine Corps, the U.S. Coast Guard, and foreign and commercial customers. It is the largest employer in Mississippi with 11,000 employees and is a major driver to the economic growth of the State.

Newport News Shipbuilding, located in Newport News, Virginia is the sole designer, builder, and refueler of the U.S. Navy nuclear aircraft carriers and one of the two providers of U.S. Navy submarines. It is the largest employer in Virginia with 20,000 employees and the largest shipyards of the United States.

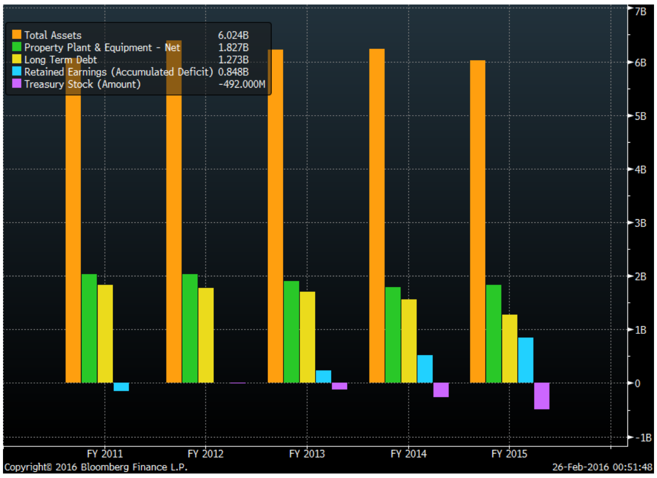
HII is currently operating six subsidiaries. *AMSEC* is a full service supplier to the Navy and commercial maritime industry, providing naval architecture, engineering, ship systems assessments, maintenance engineering, waterfront support and acquisition program support. *Continental Maritime of San Diego* is a certified Master Ship Repair Contractor for the U.S. Navy. *Undersea Solutions Group* develops and manufactures specialized manned and unmanned undersea vehicles for military customers. *Newport News Industrial* provides construction, equipment repair, technical services and innovative products to the energy and petrochemical industries, the U.S. Department of Defense and Energy clients, and NASA. *Stoller Newport News* Nuclear is a full-service nuclear operations and environmental services company with the U.S. Department of Defense and Energy as principal customers. *UniversalPegasus International* provides world class expertise, efficiency and value in project management, engineering and construction management for the oil & gas industry.

Financials

Since the spin-off, the financial condition of HII remarkably improved thanks to efficient managers who put the priority of the company on improving the capital structure, the operating margin, and the cash generation. Between 2011 and 2015, the D/E ratio went from 0.72 to 0.11, which is well below the 0.22 industry average. The profit margin of the shipbuilding unit of NOC was within the 3% to 5% range. In 2014, after only three years, HII achieved the minimum 9% operating margin and reached 11% in 2015 (versus 11.4% for the industry) and the profit margin reached 6.1%. The Gross profit went from 15% in 2011 to 21.41% in 2015 with a 20.60% industry average. Given the fact that HII's activity is supposed to be less profitable than other activities within the industry, it is quite exceptional it succeeded in only four years to reach a better gross margin and a slightly lower operating margin than the industry. The ROIC soared to 15.1% in 2015, so slightly better than the industry, even if its 7.5% NOPAT margin is slightly lower than the industry, and a higher cost of capital. This confirms a better revenue-to-invested capital (2.01 vs industry of 1.83). Plus, as the capital structure greatly improved with relatively low debt, the cost on new debt is likely to decrease, which will reduce the cost of capital to further improve its ROIC. In other words, HII will be able to widen the positive gap of value creation over competitors the company initiated in recent years.



During Q4 2015, the company was able to pay off $40 million of ten-year notes, which is going to significantly reduce interest expense and so increase the profit margin. Even with $1.8 billion in debt when the company went public, thanks to strong cash inflows, and no capital expansion, the company was able to reduce its debt by more than 30% over only four years. The Equity portion of the Balance Sheet is getting more and more weight even if the Treasury Stocks keep growing thanks to the $600 million stock repurchase program.

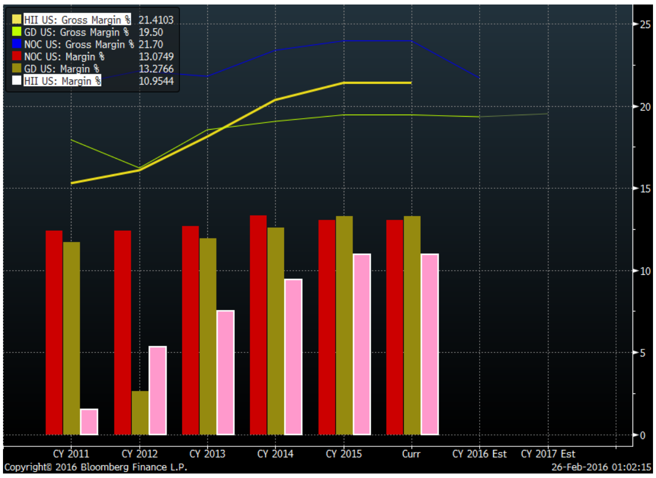


The company is committed to performance improvement. As HII is gaining experience on every brand new ship completion, the company is able to reduce costs and labor, improve workers' and engineers' efficiency, with substantially fewer man-hours required to complete warships. Furthermore, the company has closed one of its shipyard that is being consolidated to *Ingalls Shipbuilding*. This operation reduced overall costs by increasing efficiency at *Ingalls Shipbuilding* and addressed the overcapacity issue. The company is currently in talks for the sale of the now closed shipyard.

Competitors

When compared to the main competitor General Dynamics (NYSE:GD) and its former parent company Northrop Grumman (NYSE:NOC), we can see HII is doing pretty well, especially when taking into account the fact that both companies are very well diversified.

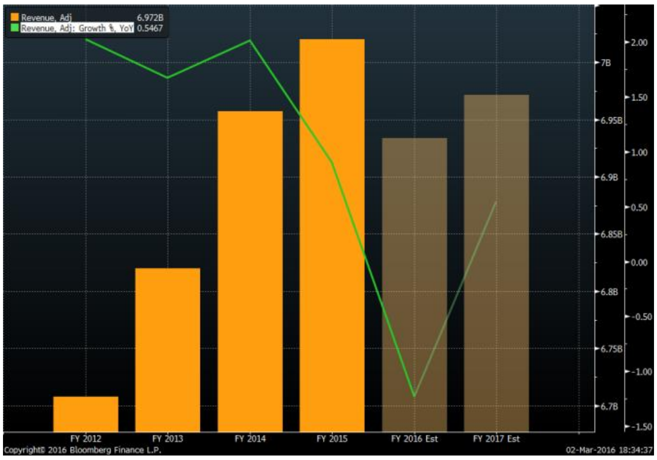
On the profitability aspect over four years, the gross profit and the EBIT margin improved much better than both competitors, even reaching a better gross profit than General Dynamics. The EBIT margin went from 1.5% in 2011 to 11.1% in 2015, which is quite close to the two more profitable companies whose EBIT increased at a very slow pace. The operating margin of General Dynamics, which is the most comparable competitor is 2.0% higher, which gives HII some potential to continue its profitability improvement, especially on the Selling, General & Administrative expenses. We can notice that HII had to record a $75 million impairment on goodwill loss in 2015. This loss was the result of the recent drop in oil prices that negatively impacted the fair value of the recent oil & gas company acquisition in beginning 2014. The profit margin without the loss would have been 6.8%, which will be one of the item where the company will improve its profit margin.

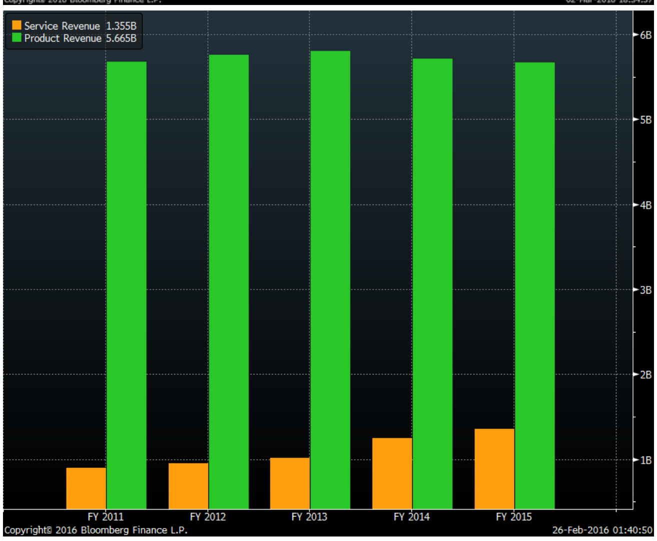


On the financial leverage aspect, it is the same story. While HII managed to decrease its debt by 30% over four years, the long-term debt of General Dynamics decreased by 13.5%, and Northrop Grumman's increased by 62.5% given that fact that the total assets of General Dynamics decreased by 8%, and Norhrtop Grumman's decreased by 4% since 2011.

Recent Acquisitions

In 2014, HII acquired UniversalPegasus International and Stoller Newport News Nuclear to expand in the nuclear energy, and oil & gas markets. Those acquisitions were the result of the company's strategy to use its engineering and energy related expertise to expand its position in the energy marketplace. Even if currently the oil & gas industry is in crisis and companies cannot afford to lose money on engineering, project, or construction management services, this acquisitions can create a great opportunity of growth to a company that is facing limited growth potential. Since 2011, the service revenue grew each year, which is not the case for the product revenue. Service revenue went up by 22% the year of the acquisition and grew by 9% between 2014 and 2015 representing more and more weight of the total revenue. With an oil & gas industry that is globally expanding, especially with new technologies and new fracking methods, and with current extremely low price, the future can only be brighter.

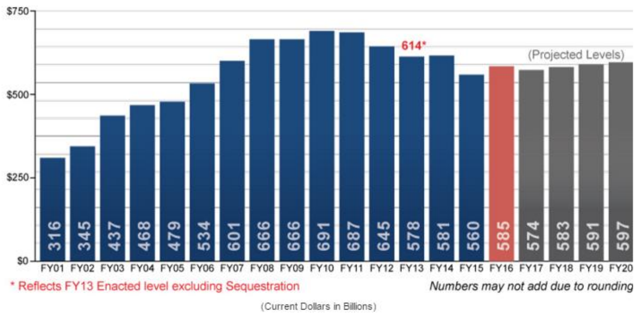




Defense Budget

A very important driver of the sales of the company is the U.S. Defense budget, which is decided by the president and passed by the Congress. The recent years were marked by several budget cuts imposed by the Obama administration and impacted the Aerospace & Defense industry with very limited growth. Since 2010, the military budget went from $691 billion to $560 billion in 2015, that represents a 19% drop. It is important to notice that even with such a decline, the Aerospace & Defense companies succeeded to maintain steady or slow growth in their activity.

DoD Topline, FY 2001 - 2020



Given the recent increase in global threat, the Defense budget is expected to return to expansion with a $585 billion budget for fiscal 2016. During the latest earnings call of the company, CEO C. Michael Petters highlighted that the President's fiscal year 2017 budget request marks the beginning of the process for Congress to consider shipbuilding priorities and investment for the next fiscal year, giving de facto a competitive advantage to HII.

The latest contracts made with the government includes the construction of two nuclear submarines, seven destroyers, two next-generation large-deck amphibious warships, three amphibious transport dock ships, one next generation fleet oiler, three National Security cutters and one new Coast Guard ice breaker over the next five years. Moreover, as HII is the only America's aircraft carrier provider, it benefits from a large, complex and very expansive market. In addition to having the exclusivity of the most expansive ship ever, the Congress passed a law in 2012 requiring that there be eleven active aircraft carriers at all times. HII has just delivered the first next-generation Ford-class super-aircraft carriers to the U.S. Navy, and has started the construction of the next one. Huntington Ingalls Industries will build one aircraft carrier every five years until all of the eleven aircraft carriers have been completed. The unit cost is estimated to be around $13 billion guarantying at least $130 billion in product sales over the next fifty years, which would represent around $2.6 billion per year or 45% of the current product sales. In addition to be in charge of the complete renewal of the U.S. Navy aircraft carriers fleet, HII is in charge of the refueling of seven aircraft carriers between 2014 and 2042. The company will also inactivate four fifty-year-old aircraft carriers starting in 2020 and ending in 2042.

Valuation

To value the company, we need to put several assumptions on the future (or continuing period). First we would assume the growth in revenue would be close to 3% following the average trend of the GDP growth. Even if in the recent years, the growth was lower than 3%, considering the fact the company is aggressively expanding into the energy, oil & gas markets, and as the budget defense is expected to return to growth, the activity of HII should positively increase over the long-run. The operating-cost-to-revenue ratio, currently at 86.3%, which already greatly improved, should continue to slightly decrease due to the performance improvement and cost reduction strategy, and stay steady towards 85%, which corresponds to the industry average. The depreciation would remain stable at 8.6%, which is well lower than the industry due to longer asset life of the shipbuilding activity. The new strategy of the company is to increase dividends as a result of a strong and sustainable cash generation. The dividends-to-revenue ration is expected to be higher than the industry. The amount of NPPE should slightly decrease as a result of performance improvement and elimination of the overcapacity, but will remain well higher than the industry due to the large needed capital. The cost of debt would decrease as the company is constantly decreasing its leverage, and already reached a D/E ratio well better than the industry. Given those assumptions, the one-year target is close to $160, that is an increase of 21% from recent range.

Conclusion

Huntington Ingalls Industries is benefitting from an excellent market position. It owns the entire aircraft carrier market, it is sharing the construction of nuclear submarines with General Dynamics, and has a 70% market share of the Navy shipbuilding Activity. Given the fact the major customer of the company is also the world's largest customer, not only capable but also required to buy for several hundreds of billions of dollars worth of military equipment every year, the long-term sales of the company is guaranteed by the world's safest government.

The company already achieved considerable improvement in profitability and leverage, which made its margins in line with the industry even if its activity is supposed to be less profitable than the other Aerospace & Defense activities, which was the reason of its spin-off from Northtrop Grumman in 2011. The company will continue its strategy of performance improvement, cost reduction, consolidation of operations and disposal of overcapacity.

The strong and sustainable cash generation incited the company to continue its constant dividend increase. Since 2012, the company is constantly increasing its stock repurchase program from $150 million to $600 million, giving investors strong confidence into the future of the company.

In order to address the slow revenue growth, the company is using its expertise in the energy sector to expand into the nuclear energy and oil & gas markets. Such acquisitions and expansion can bring more growth to the company in the long-run and can also increase its profitability.

The company is still negatively impacted by the spin-off with Northtrop Grumman, and the lack of strong growth may keep investors from buying the stocks. Nevertheless, the new strategies put in place by the company, and its recent very strong resistant to the 2016 market sell-off, make the stock a formidable opportunity to buy and to hold on the medium to long-run.

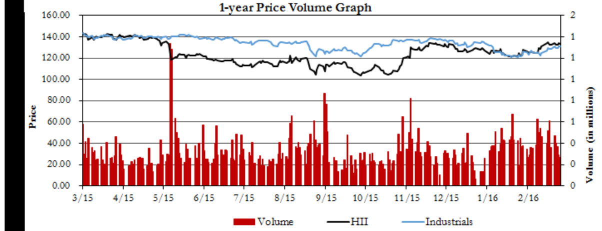
CENTER FOR GLOBAL FINANCIAL STUDIES

Huntington Ingalls Industries, Inc. (HII)

BULLISH

Analysis by Pierre Riffard	Current Price:	$131.47	Intrinsic Value	$138.71	Target 1 year Return: 20.81%
3/5/2016	Divident Yield:	1.4%	Target Price	$156.93	Probability of Price Increase: 96.03%

1-year Price Volume Graph



Description

Huntington Ingalls Industries, Inc. engages in designing, building, overhauling, and repairing ships primarily for the U.S. Navy and the U.S. Coast Guard.

General Information

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.00%
Effective Tax rate	40%
Effective Operating Tax rate	39%

Market Data

Market Capitalization	$6,154.74
Daily volume (mil)	0.39
Shares outstanding (mil)	46.81
Diluted shares outstanding (mil)	48.30
% shares held by institutions	92%
% shares held by investments Managers	77%
% shares held by hedge funds	7%
% shares held by insiders	1.76%
Short interest	1.72%
Days to cover short interest	2.29
52 week high	$144.00
52-week low	$102.76
Levered Beta	1.28
Volatility	0.00%

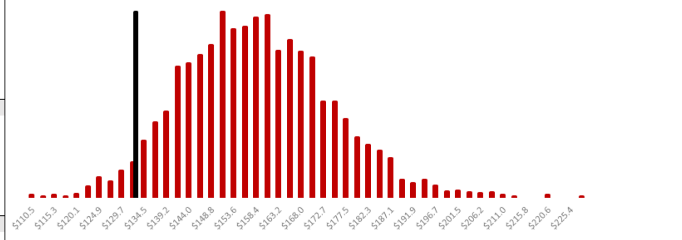
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	1.84%	5.77%
3/31/2015	-4.93%	-4.12%
6/30/2015	-0.16%	73.42%
9/30/2015	5.18%	15.15%
12/31/2015	1.50%	1.08%
Mean	0.69%	18.26%
Standard error	1.7%	14.2%

Peers

Rockwell Collins Inc.
Spirit AeroSystems Holdings, Inc.
L-3 Communications Holdings Inc.
Raytheon Company
Lockheed Martin Corporation
Textron Inc.
Northrop Grumman Corporation
General Dynamics Corporation

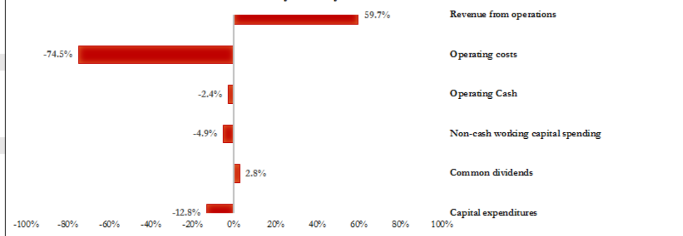
Target Price Distribution--Prob(Price Increase)= 96%



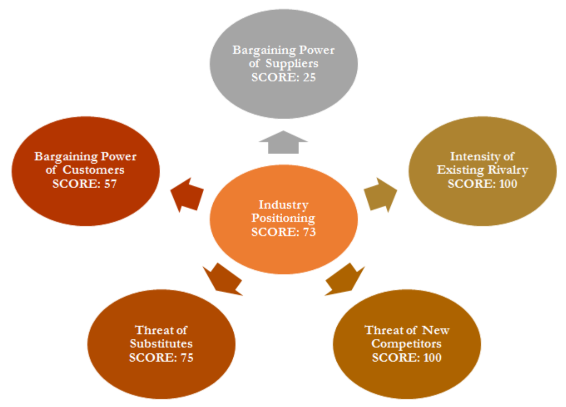
Management	Position	Total compensations growth	Total return to shareholders
Petters, C.	Chief Executive Officer, Pre	27.89% per annum over 5y	N/M
Mulherin, Matthew	Corporate Vice President and	16.64% per annum over 5y	N/M
Cuccias, Brian	Corporate Vice President and	N/M	0% per annum over 0y
Kastner, Christopher	Chief Financial Officer and	N/M	N/M
Schuck, Nicolas	Chief Accounting Officer, Co	N/M	N/M
Blake, Dwayne	Corporate Vice President of	N/M	N/M

Profitability	HII (LTM)	HII (5 years historical average)	Industry (LTM)
ROIC	20.3%	9.39%	14.42%
NOPAT Margin	7.8%	2.60%	7.9%
Revenue/Invested Capital	2.62	3.62	1.83
ROE	21.1%	10.27%	17.00%
Adjusted net margin	6.4%	1.53%	7.4%
Revenue/Adjusted Book Value	3.32	6.71	2.31
Invested Funds	**HII (LTM)**	**HII (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	33.4%	36.7%	20%
Estimated Operating Cash/Total Capital	31.1%	30.3%	N/A
Non-cash working Capital/Total Capital	4.3%	5.7%	13%
Invested Capital/Total Capital	99.8%	95.0%	79%
Capital Structure	**HII (LTM)**	**HII (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.11	0.39	0.22
Cost of Existing Debt	17.28%	16.74%	4.18%
Estimated Cost of new Borrowing	1.25%	1.91%	4.18%
CGFS Risk Rating	AAA	AA	A
Unlevered Beta (LTM)	1.16	0.99	0.88
WACC	10.65%	8.94%	7.72%

Sensitivity Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	0.9%	7.8%	1.91
12/31/2016	-0.4%	9.5%	2.34
12/31/2017	-0.3%	9.7%	2.11
12/31/2018	2.9%	9.7%	2.12
12/31/2019	3.3%	8.5%	1.82
12/31/2020	3.7%	8.4%	1.76
12/31/2021	3.6%	8.7%	1.78
12/31/2022	3.5%	9.0%	1.81
12/31/2023	3.3%	9.3%	1.83
12/31/2024	3.2%	9.5%	1.86
12/31/2025	3.1%	9.8%	1.90
Continuing Period	3.0%	10.1%	1.94

Period	Invested Capital	Net Claims	Price per share
Base Year	$2,111.35	$723.21	$136.59
12/31/2016	$2,312.82	$393.79	$155.39
12/31/2017	$1,517.08	-$144.32	$170.93
12/31/2018	$3,514.97	-$555.42	$186.38
12/31/2019	$2,677.48	-$854.41	$201.93
12/31/2020	$2,666.65	-$1,136.14	$217.77
12/31/2021	$3,130.49	-$1,438.66	$233.96
12/31/2022	$3,211.24	-$1,764.98	$250.47
12/31/2023	$3,411.95	-$2,115.82	$267.24
12/31/2024	$3,635.51	-$2,491.85	$284.22
12/31/2025	$3,867.55	-$2,893.61	$301.35
Continuing Period			

Rio Tinto Plc (ADR)

NYSE:RIO

Analyst: Patrick Donovan
Sector: Materials

BUY

Price Target: $35.76

Key Statistics as of 03/05/16

Market Price:	$30.32
Industry:	Metals and Mining
Market Cap:	$55.4bil
52-Week Range:	$21.88-47.37
Beta:	.77

Thesis Points:

- Rio Tinto is a leader in the mining industry.
- Above-average assets and variety of products allows profitability throughout commodity cycle.
- Trouble among peers and shifts in the Chinese market have cleared a path for significant growth in the 2016 fiscal year.

Company Description:

Rio Tinto is one of the largest mining companies in the world. The company has the majority of assets in Australia and North America, but performs operations all over the world. The company has a portfolio of assets with great variety in comparison to competitors. Rio's operations include, but are not limited to, the mining of aluminum, coal, diamonds, gold, iron ore and even uranium. The firm's operating costs have consistently been lower than the industry average allowing for greater margins. Rio has also proven over the past decade that it can support greater assets as a percentage of revenue than any of its competitors. Rio Tinto is a member of the New York Stock Exchange.

Thesis

Rio Tinto is a world leader in mining operations, and unlike many pure-play firms, Rio has an impressive diversification of assets. The company has its hands on virtually everything that can be extracted via mining. While Iron ore makes up the majority of the company's business, the cost to extract and sell the ore is the lowest in the industry for Rio. Changes in the market for iron are occurring rapidly as the Chinese boom appears to be peaking. Iron ore is forecasted to drop in price by up to 35% through 2020. Pure-play operators and miners with less diversified portfolios will likely suffer significant losses in the coming 5 years because of this. Rio's asset base and low-cost production of iron should allow them to maintain healthy profits even as the price of iron decreases. As competitors begin to fail Rio will continue to benefit from greater market share. Another significant challenge for pure-play miners is the cyclical nature of the commodity market. Rio avoids the downfalls associated with this because of its greatly diversified portfolio. Along with combatting cyclical trends Rio Tinto's portfolio will also allow it to take full advantage of the changes occurring the Chinese market in terms of both supply and demand, and shifts in the performance of competitors such as Vale. Chinese state-backed steel production has been cut significantly in the fourth quarter of 2015 and the trend is continuing in fiscal 2016. This, along with increased demand for other materials as the Chinese continue to develop industrially will help to increase the return on invested capital and improve shareholder value at Rio.

Industry Outlook

As a general rule the cyclical nature of the commodities market can make investing in mining firms a risky endeavor. In the last quarter of 2015 China began to experience a serious glut in their steel and coal industries. Over-saturated markets have led officials to announce a cut in crude steel production within the nation by 100-150 million tons. This announcement came in late January 2016, prompting investors and analysts alike to consider that the boom in China's market may be reaching its peak. With China showing no signs of slowing down its industrial construction and renovation projects, the country will likely remain a large consumer of many of the products Rio Tinto brings to market. One of the major concerns for all mining companies in the coming year will be the estimated drop in value for iron ore. From the February 2016 average, analysts at Morningstar and BATS have estimated a decline in value by the end of 2020 of 35%. Pure-play operators and many of the low-volume, higher-cost miners will be unable to cope with the steep change in price. If not for Rio's extensively diverse portfolio of assets, the company too would be in a dangerous place. Thanks to investments in technology and distribution, Rio should be able to continue producing iron ore at the lowest cost in the industry and thus push through the price cuts this year, and steadily increase market share as competitors are forced to close their doors or sell.

Business Model

Rio's primary objective is to create and preserve value by investing in long-life, low-cost expandable operations. A commitment to a high standard of sustainable development helps Rio maintain value creating operations through each phase of the development cycle. From exploration all the way though to close-out and restoration, Rio prides itself on the lowest costs in the industry. The savings that Rio generates by performing business in this way are translated to the shareholder directly through the use of prudent balance sheet management and above-average dividends for the industry. Rio utilizes a highly diversified portfolio of assets with low operating costs in order to reduce risk and increase profit. The firm handles many facets of the production of finished goods not only the mining of resources, this increases value to the customer and the shareholder. Finally, Rio tends to promote from within when looking for new executive officers. Although they have looked to other talent pools in the past, employee job security and a true sense of opportunity for career growth are key elements of the business model.

Mine of the Future

Launched in 2008, the Mine of the Future project is an extensive company-wide initiative to expand operations, reduce costs, and improve safety as well as environmental impact. The project includes new additions to the already impressive suite of assets Rio has established in the past 10 years. Since 2006 the company has tripled its asset base. State of the art command centers, like the one already built in Perth, Australia, are allowing Rio to control dozens of mines and all of their operations from one location. The Mine of the Future project boasts impressive control over the rail systems, automated mining equipment, transportation methods and even the port loading mechanisms. The technology being developed by Rio is impressive to say the least, and unlike their competitors Rio has proven that it can remain consistent in delivering the most relevant technology to the field, faster and at lower cost than most operators. The benefit to the shareholder can be derived from multiple facets of the MOF project. Rio continues to cut costs as effectively as possible, this is reflected in the company's financials. The improvement of extraction machinery and automation allows the company to more rapidly meet demand and prepare for changes in the market place. The updated control capabilities of one central command location are allowing Rio to greatly improve the distribution system and reduce costs further. It is important to note that Australia is only one of the testing grounds for new technology within the firm. Rio plans on unveiling and rolling out new technology along with these improvements in the next 5 years as a part of both the MOF project and their social responsibility initiative.

Product Differentiation

As discussed above the company provides investors with the most varied portfolio of any mining operator. Rio Tinto uses a low-cost, high differentiation strategy to reduce risk and maximize exposure to as many markets as possible. By doing business in this way for an extended period of time, Rio has been able to build a corporate structure that extends to the furthest reaches of the planet and allows the firm to benefit from the relationships and experience that come along.

Financials

Rio Tinto has one of the most effective management teams in business let alone the mining industry. Analysts from many institutions regard the management of Rio as top-notch. The balance sheet and cost control methods utilized by the firm have proven over the past decade to benefit shareholder value. In comparison to industry averages Rio has been able to maintain net property, plant, and equipment assets as a percentage of revenues far above levels anywhere else in the industry. Last year Rio had 1.75 times revenue in assets, most of which are operated at the lowest cost in the industry. The company has also consistently delivered value to the shareholders with the highest dividend payouts in the industry over the past decade. In the first quarter of 2016 Rio announced a cut in dividends, the amount has yet to be disclosed, however this is likely a response to the sudden shift in the Chinese market. The benefits of an impressive management team, below-average costs, and above-average assets will allow Rio to continue to provide increased value to the shareholder in the coming year.

Conclusion

To summarize, the changes in the marketplace occurring at the end of 2015 and spilling into 2016 will vastly reshape the mining business. With China downsizing its production of steel the country will have to look elsewhere for building materials in the coming months. Troubles such as the legal battle competitor Vale is facing in Brazil will also allow Rio to increase market share and potentially further cut costs by expanding operations. Since the beginning of 2015 RIO has rallied past its 50 day moving average with surprising pace and looks to be steadily moving toward to the 200-day moving average. This can be attributed to the firms' impressive and diverse asset base, which has tripled since 2006, along with other factors. Low-cost, high-differentiation has allowed the firm to reduce the cyclical risk of the commodity market and spread the reach of its operations all around the globe. New technology, along with industry leading safety and automation measures are allowing the company to continue to reduce costs to levels no competitor can math. Based on the analysis performed and the valuation using the CAPM model, I am recommending a BUY on RIO.

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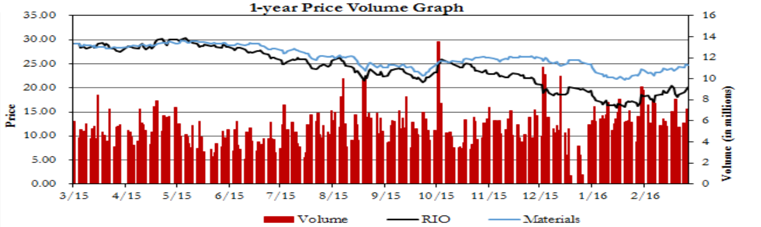
Rio Tinto plc (RIO) — **BULLISH**

Analysis by Patrick Donovan	Current Price:	$30.32	Intrinsic Value	$29.43	Target 1 year Return: 25.43%
3/6/2016	Divident Yield:	7.5%	Target Price	$35.76	Probability of Price Increase: 89.2%

1-year Price Volume Graph



Description

Rio Tinto plc, a mining and metals company, finds, mines, and processes mineral resources.

General Information

Sector	Materials
Industry	Metals and Mining
Last Guidance	November 3, 2015
Next earnings date	April 19, 2016
Estimated Country Risk Premium	7.37%
Effective Tax rate	27%
Effective Operating Tax rate	28%

Market Data

Market Capitalization	$38,308.38
Daily volume (mil)	7.32
Shares outstanding (mil)	1798.52
Diluted shares outstanding (mil)	1824.70
% shares held by institutions	58%
% shares held by investments Managers	52%
% shares held by hedge funds	-1%
% shares held by insiders	0.02%
Short interest	0.00%
Days to cover short interest	0.00
52 week high	$30.72
52-week low	$15.57
Levered Beta	1.21
Volatility	32.95%

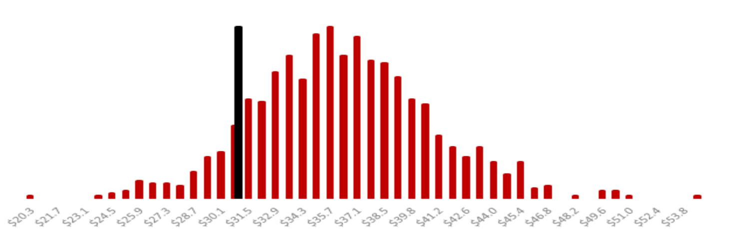
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	N/A	-55.98%
3/31/2015	N/A	N/A
6/30/2015	N/A	N/A
9/30/2015	N/A	N/A
12/31/2015	N/A	N/A
Mean	#DIV/0!	-55.98%
Standard error	#DIV/0!	#DIV/0!

Peers

Freeport-McMoRan Inc.

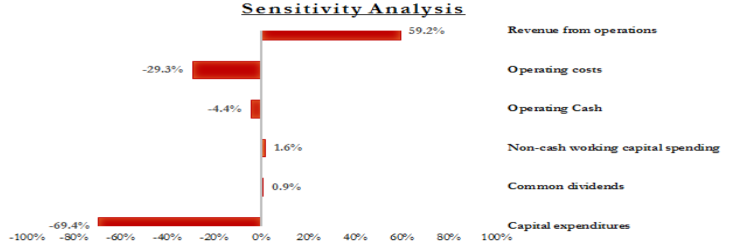
Target Price Distribution--Prob(Price Increase)= 89%



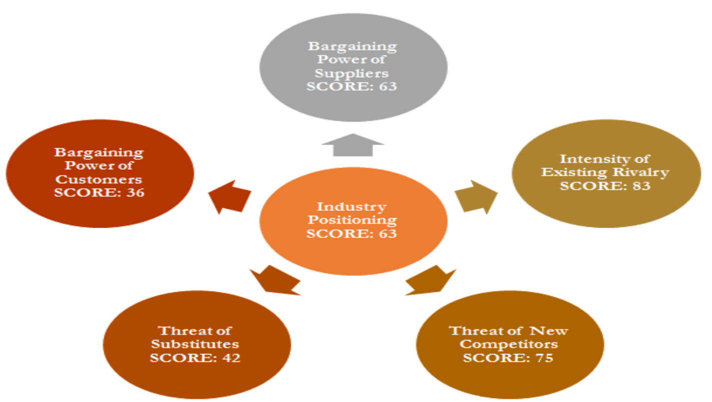
Management	Position	Total compensations growth	Total return to shareholders
Walsh, Sam	Chief Executive Officer, Exe	4.32% per annum over 6y	3.89% per annum over 6y
Lynch, Christopher	Chief Financial Officer, Exe	91.14% per annum over 4y	1.74% per annum over 4y
Valentine, Debra	Group Executive of Legal & R	6.3% per annum over 6y	3.89% per annum over 6y
Harding, Andrew	Chief Executive of Iron Ore	13.82% per annum over 6y	3.89% per annum over 6y
Davies, Alan	Chief Executive of Diamonds	38.4% per annum over 4y	1.74% per annum over 4y
Jacques, Jean-Sebastien	Chief Executive Officer of C	38.27% per annum over 2y	-19.66% per annum over 2y

Profitability	RIO (LTM)	RIO (5 years historical average)	Industry (LTM)
ROIC	3.6%	15.89%	4.77%
NOPAT Margin	13%	22.32%	6.9%
Revenue/Invested Capital	0.29	0.71	0.70
ROE	3.5%	17.76%	5.67%
Adjusted net margin	11%	21.67%	5.2%
Revenue/Adjusted Book Value	0.32	0.82	1.09
Invested Funds	**RIO (LTM)**	**RIO (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	8.8%	9.0%	10%
Estimated Operating Cash/Total Capital	6.0%	6.1%	N/A
Non-cash working Capital/Total Capital	-1.6%	-0.7%	10%
Invested Capital/Total Capital	98.2%	99.1%	86%
Capital Structure	**RIO (LTM)**	**RIO (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.61	0.39	0.79
Cost of Existing Debt	5.25%	5.13%	5.02%
Estimated Cost of new Borrowing	1.32%	1.32%	5.02%
CGFS Risk Rating	5.25%	AAA	BBB
Unlevered Beta (LTM)	3.08%	0.93	0.77
WACC	5.25%	9.82%	7.70%

Sensitivity Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-26.9%	12.5%	0.38
12/31/2016	3.0%	15.3%	0.58
12/31/2017	3.0%	16.1%	0.59
12/31/2018	3.0%	16.9%	0.61
12/31/2019	3.0%	17.7%	0.64
12/31/2020	3.0%	18.5%	0.66
12/31/2021	3.0%	19.5%	0.69
12/31/2022	3.0%	20.5%	0.73
12/31/2023	3.0%	21.7%	0.77
12/31/2024	3.0%	22.6%	0.80
12/31/2025	3.0%	23.5%	0.84
Continuing Period	3.0%	24.3%	0.88

Period	Invested Capital	Net Claims	Price per share
Base Year	$71,727.84	$19,802.63	$28.84
1/0/1900	$86,955.06	$13,891.85	$35.55
1/0/1900	$119,560.52	$11,732.38	$40.09
1/0/1900	$123,661.96	$9,241.65	$44.65
1/0/1900	$120,473.41	$6,401.48	$49.22
1/0/1900	$106,916.70	$3,192.84	$53.80
1/0/1900	$112,299.00	-$460.89	$58.40
1/0/1900	$117,334.13	-$4,638.70	$63.01
1/0/1900	$122,022.52	-$9,407.51	$67.66
1/0/1900	$126,364.56	-$14,714.06	$72.27
1/0/1900	$130,360.63	-$20,558.76	$76.79
1/0/1900			

Siena Market Line
2nd week of March 2016

National Beverage Corp.

NASDAQ: FIZZ

Analyst: Zach Collins
Sector: Consumer Disc.

BUY

Price Target: $41.91

Key Statistics

Market Price:
$38.44
Industry: Beverages
Market Cap: $1.86B
52 Week Range:
$19.98 - $48.01
5-Year Beta: 0.72

Thesis Points:

- Product differentiation from peers in the industry will allow NBC to build upon their market niche
- Revenue surprise of 29% in the last quarter of 2015
- Strategic Alliance Partnerships improve marketing efficiency for allied brands which enhances future growth potential

Company Description:

National Beverage Corp. is a holding company for subsidiaries that develop, manufacture, and sell a diverse portfolio of flavored beverage products. The National Beverage Corp. primary market focus is the United States, but their products are also distributed in Canada, Mexico, the Caribbean, Latin America, the Pacific Rim, Asia, and Europe. Opposed to most competitors in the beverage industry, the brands of the National Beverage Corp. consist of products geared toward the active and health-conscious consumer. The National Beverage Corp. began trading publicly on the NASDAQ in 1991.

Thesis

The National Beverage Corp. is a leader in the development, manufacturing, marketing, and sale of a diverse portfolio of flavored beverage products. As the beverage industry continues to become increasingly more competitive, a company's competitive advantage within the industry plays a key role in the future growth of the company. As consumer preferences in the beverage industry continue to shift towards healthier products, the National Beverage Corp. will continue to capture market share from bigger competitors as they continue to build upon their Power+ nutritional brands. The National Beverage Corp produces soft drinks for certain allied brand retailers, a strategic alliance which results in improved marketing efforts for the National Beverage Corp. without the use of much additional capital. The National Beverage Corp. has also continued to expand and market their line of energy drinks, which is one of the highest growing sectors within the beverage industry.

Industry Outlook

It is important to understand in recent years, the movement towards a healthier lifestyle for consumers within the United States. The beverage industry is one of the primary industries affected by this movement. The industry has been experiencing a change in the trend of customer preference toward healthier products. This is a trend that is likely continue in the coming years, and creates a high potential to capture additional market share for a company that has a competitive advantage that places emphasis on a healthier product mix.

The Coca Cola Company and PepsiCo Inc., the giants of the beverage industry, have experienced consecutive losses in total sales revenue in the last 3 years as a result of the change in consumer preferences. Analysts are predicting this trend to continue into 2016, as both companies are forecasted for lower sales revenue in 2016, despite an estimated 3.8% global growth for the beverage industry as a whole. This creates enormous potential for smaller companies within the industry to capture additional market share if they are able to capitalize on the changing preferences of the customers within the industry.

The energy drink segment of the beverage industry has also experienced fairly stable growth in recent years. With the majority of growth relative to more natural energy drinks, as opposed to traditional energy drinks with high sugar contents.

The movement of consumer preferences towards healthier products is impossible to ignore. This trend has been increasing in recent years and shows no signs of slowing down in the upcoming future. As the beverage industry continues to grow around this trend, The National Beverage Corp. has an opportunity for long term sustainable growth

Product Differentiation

Product differentiation is the catalyst behind the growth and competitive advantage of the National Beverage Corp. Over the years the National Beverage Corp. has developed their own market niche within the industry around a more health conscious group of consumers. While the majority of their competitors within the industry focus their business model around soft drinks and energy drinks with high sugar and calorie contents, which a more health sensible consumer will avoid. As the trend of healthier consumers within the beverage industry continues to expand, these larger companies will see a decline in sales if they cannot address the changing preferences of their customers.

The National Beverage Corp. focuses their business model around developing healthier and functional beverages in response to the global shift of consumer buying habits. In the last quarter of 2015, The National Beverage Corp. saw a revenue surprise of 29%. The majority of this growth can be attributed to a 25.3% growth of their Power+ Brands. The wide range of products and flavors for the different brands of the National Beverage Corp. provide the firm with a long lasting competitive advantage in a beverage industry controlled by cola giants focused on a product mix of unhealthy soft drinks.

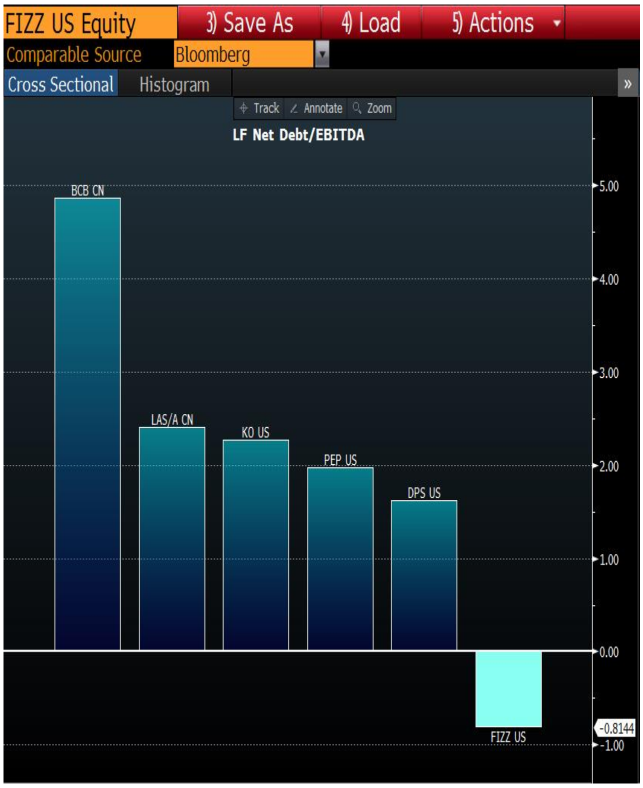
Strategic Alliances

Since the National Beverage Corp. does not have a level of capital to compare with the cola giants of the industry, they must market their products in a strategic manner. The National Beverage Corp. therefore produces soft drinks for certain retailers they consider allied brands. These retailers will endorse the strategic alliance concept of having their allied brands sold with the brands of the National Beverage Corp. This strategic alliance is utilized to improve the marketing efforts of both brands, as well as the allied brands, in an effort to enhance the growth of revenues and brand awareness of both parties. The strategic alliances the National Beverage Corp. has established as well as their own internal sales force will concentrate on a particular segment within their market, focusing on geographic territories, distribution channels, or certain product lines. This creates a versatile level of marketing efficiency that can be adjusted quickly to adapt to the changes within the industry.

Financials

The analysis of the financials for the National Beverage Corp. show a ROIC/WACC ratio that is significantly higher than that of their competitors. The 5 year ROIC for the National Beverage Corp. at 24.16% is significantly higher than the industry average of 11.2%. The result is a much higher ROIC/WACC ratio than their peers, which shows an investor that the National Beverage Corp. is efficiently utilizing their invested capital in a way that generates value to the firm.

The Net Debt/EBITDA ratio for the National Beverage Corp. shows how the company is creating long term value for the firm without absorbing the risk of taking on a significant amount of debt. The negative ratio tells us that the National Beverage Corp. has more cash than debt.



Conclusion

I recommend a buy on the National Beverage Corp. This is primarily based on the change in consumer preferences within the industry, along with the strong financial position of the firm. A high potential exists for the National Beverage Corp. in the beverage industry as their competitive advantage tailors to the changing preferences of consumers to a healthier line of products. The emphasis of value creation on little debt makes this company an attractive investment opportunity with a low level of associated risk.

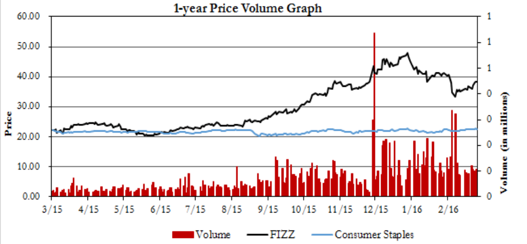
National Beverage Corp. (FIZZ)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Zach Collins	Current Price: $38.44	Intrinsic Value $38.12	Target 1 year Return: 7.34%
3/5/2016	Divident Yield: 0.0%	Target Price $41.26	Probability of Price Increase: 71.2%

1-year Price Volume Graph



Description

National Beverage Corp., through its subsidiaries, develops, manufactures, markets, and sells a portfolio of flavored beverage products primarily in the United States.

General Information

Sector	Consumer Staples
Industry	Beverages
Last Guidance	November 3, 2015
Next earnings date	March 13, 2016
Estimated Country Risk Premium	6.00%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data

Market Capitalization	$1,829.93
Daily volume (mil)	0.04
Shares outstanding (mil)	46.43
Diluted shares outstanding (mil)	46.60
% shares held by institutions	64%
% shares held by investments Managers	14%
% shares held by hedge funds	2%
% shares held by insiders	75.25%
Short interest	1.30%
Days to cover short interest	4.75
52 week high	$48.01
52-week low	$19.98
Levered Beta	0.66
Volatility	29.31%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
11/1/2014	11.63%	N/A
1/31/2015	-11.93%	N/A
5/2/2015	-4.50%	N/A
8/1/2015	10.02%	N/A
10/31/2015	29.02%	N/A
Mean	6.85%	#DIV/0!
Standard error	7.1%	#DIV/0!

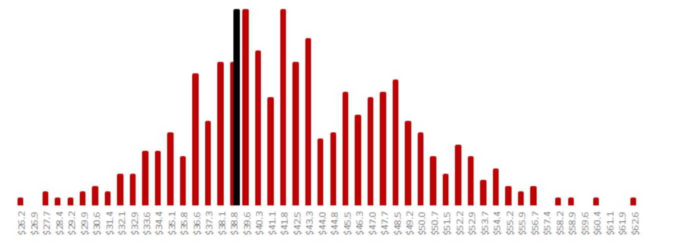
Peers

Farmer Brothers Co.
Coca-Cola Bottling Co. Consolidated
Monster Beverage Corporation
Primo Water Corporation
Coca-Cola Enterprises, Inc.
Crystal Rock Holdings, Inc.
REEDS, Inc.
Coffee Holding Company, Inc.

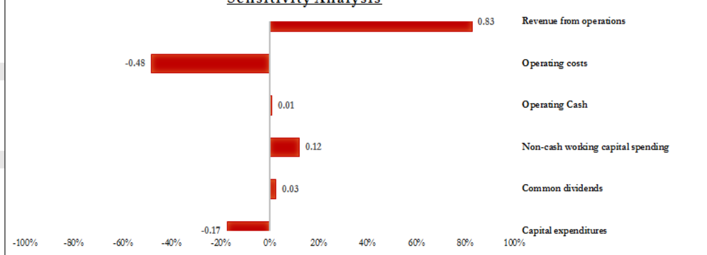
Management	Position	Total compensations growth	Total return to shareholders
Caporella, Nick	Chairman, Chief Executive Of	1.42% per annum over 6y	6.75% per annum over 6y
Caporella, Joseph	President and Director	8.05% per annum over 6y	6.75% per annum over 6y
Bracken, George	Principal Financial Officer	8.97% per annum over 6y	6.75% per annum over 6y
Cook, Gregory	Chief Accounting Officer, Vi	N/M	67.89% per annum over 1y
Thompson, Dennis	Executive Vice President of	N/M	N/M
	0 0	N/M	N/M

Profitability	FIZZ (LTM)	FIZZ (5 years historical average)	Industry (LTM)
ROIC	12.6%	24.16%	11.27%
NOPAT Margin	8%	12.35%	13.8%
Revenue/Invested Capital	1.64	1.96	0.81
ROE	13.6%	27.53%	13.02%
Adjusted net margin	8%	12.24%	11.5%
Revenue/Adjusted Book Value	1.79	2.25	1.13
Invested Funds	**FIZZ (LTM)**	**FIZZ (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	16.1%	10.1%	19%
Estimated Operating Cash/Total Capital	7.1%	6.9%	N/A
Non-cash working Capital/Total Capital	10.1%	10.9%	7%
Invested Capital/Total Capital	86.9%	92.2%	75%
Capital Structure	**FIZZ (LTM)**	**FIZZ (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.05	0.13	0.19
Cost of Existing Debt	1.33%	1.32%	3.31%
Estimated Cost of new Borrowing	1.16%	1.16%	3.24%
CGFS Risk Rating	AAA	AAA	B
Unlevered Beta (LTM)	0.63	0.72	0.61
WACC	6.52%	6.62%	6.47%

Target Price Distribution--Prob(Price Increase)= 71%



Sensitivity Analysis



Valuation

Period	Revenue growth	ROIC/WACC	Invested Capital	Net Claims	Price per share
Base Year			$263.56	$36.46	$37.63
10/31/2016	4.9%	2.04	$341.97	-$41.13	$40.86
10/31/2017	4.7%	2.21	$369.96	-$109.83	$43.97
10/31/2018	4.5%	2.33	$405.87	-$182.67	$47.18
10/31/2019	4.3%	2.43	$408.44	-$259.68	$50.47
10/31/2020	4.1%	2.49	$408.64	-$339.80	$53.83
10/31/2021	3.9%	2.51	$418.17	-$422.41	$57.25
10/31/2022	3.7%	2.54	$433.57	-$507.48	$60.72
10/31/2023	3.6%	2.56	$450.79	-$595.00	$64.24
10/31/2024	3.4%	2.58	$469.80	-$684.92	$67.81
10/31/2025	3.2%	2.58	$489.49	-$777.21	$71.44
Continuing Period	3.0%	2.58			

Choice Hotels International, Inc

NYSE:CHH

Analyst: Florent Polito
Sector: Consumer Disc.

SELL

Price Target: $32.28

Key Statistics as of 3/6/2016

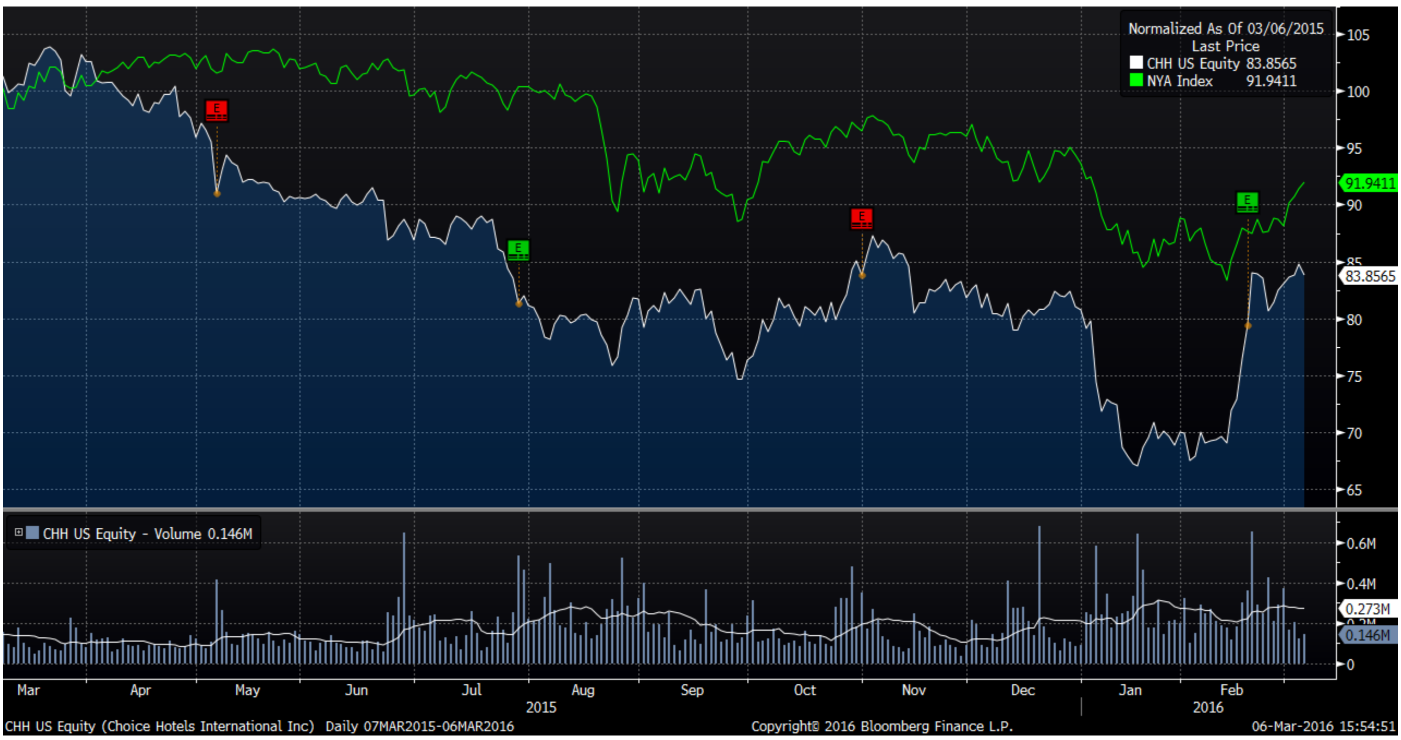
Market Price:	$52.36
Industry:	Hotels, Restaurants and Leisure
Market Cap:	$2,960M
52-Week Range:	$41.85-64.85
Beta:	0.65

Thesis Points:

- Choice Hotels non-existence of customized experience is going to handicap their mid-term growth
- The underestimated rise of platforms such as AirBnB challenges the whole industry to a numb future
- The unjustified overreaction of the market after the last earnings is very likely going to balance soon

Company Description:

Choice Hotels is one of the largest hotel franchisors in the world with 6,423 hotels open, they operate in two reportable segment: the hotel franchising business and SkyTouch Technology division. SkyTouch is a division of the company that develops and markets cloud-based technology products, including inventory management, pricing and connectivity to third party channels, to hoteliers not under franchise agreements with the company. SkyTouch represents less than 1% and 5% of the Company's total revenues and operating expenses, respectively, for the year ended December 31, 2015. The company operates mostly in North America. The brand names include Comfort Inn, Comfort Suites, Quality, Clarion, Ascend Hotel Collection, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites, Suburban Extended Stay Hotel and Cambria hotels & suites.



Thesis

Just like cell phones almost erased the existence of land lines or the apparition of smart phones with camera made useless the job of photographer, what happens to the hotel industry with the development of platform such as AirBnB is more likely to cause a severe crisis for this industry which will have to rethink how it brands itself. The rise of the power of Millenials is challenging hotels companies such as Choice Hotels, which does not bring the customized experience that this generation is looking for. While the decline on the long-term is definitely in action, Choice Hotels which has shown an increase in its revenue is not understanding and facing this challenge yet, which is more likely to drown it in the mid-term when it will see how important customization is.

Industry Outlook

The hospitality industry is one of the oldest industry of our time, and has evolved over the centuries; now it is no more a simple brick-and-mortar industry where one arrives at the night in a place and simply search for a hotel around. From an interview by Deloitte we can notice that emerging platforms such as AirBnB and Uber are gradually becoming mainstream and challenging established players. In the race of traditional vs. alternative, the winners will be those who can create value for customers that they can experience and measure. A part of what Millennials want is a customized experience. The hotels that are best able to provide a customized, differentiated experience to customers will be winners in 2015 and beyond. Hotels have to find the right combination of personalization, design, ambience and technology to build lasting loyalty with the Millennial customer.

Porter's Five Forces

Bargaining Power of Customers: HIGH
Customers easily have access to a wide range of low-differentiated hotel, and it does not cost them anything to switch to another brand; while the hotel brands are trying to build a loyal pack of customers, through rewards and discounts, it almost makes no difference for the biggest part of customers when it comes to make a choice. Moreover, as a non-necessary product and with the rise of AirBnB offering low price with customized experience, customers have become increasingly price sensitive regarding the hotel industry.

Bargaining Power of Suppliers: LOW
Most of supplies required for a hotel are either inexpensive or available easily, those expenses will comprise tissues, trashcans or food, that can be bought within a wide range of suppliers; actually the most significative need from suppliers would be labor, and most of hotel-related jobs require few skill and the labor is often cheap and abundant.

Existing Rivalry: HIGH
As said above, rivalry is high due to a poor product differentiation when it comes to hotel, and the development of online platform to facilitate the access to a wide range of different hotel while offering low prices increases the rivalry among competitors.

Barriers to entry: MEDIUM
Relatively few funds are required to enter in the hotel industry as it does not require an economy of scale to be profitable. Moreover the rarity of loyal customers makes it easy for a new entrant to grab a proportional share of the market, that is exactly what AirBnB has proven.

Threat of substitutes: MEDIUM
There is no real substitutes to getting a hotel room, except going to the camping, but AirBnB is offering a substitute significant enough where customers can benefit a fully customized stay.

What to remember from the last Earnings Call

Currently, the preoccupation of most investors concerns the profitability of SkyTouch which has been created in 2013, and has presently a negative EBITDA return, though it has been noticed to be close to 0%, this highlights how investors are not awaken to the fact that the present model of Choice Hotel is getting weakened by the development of AirBnB. This shows that Choice Hotel is overvalued for the moment. The company itself has not shown any concern with the development of the platform and its direct competitors, which shows that it is not going to revalue its model for a while.

Market overvaluation

CHH current price is $52.36, and the target price has been calculated following a proforma of $32.28. CHH stock price history shows that the recent increase in price has happened due to a positive surprise in the recent earnings; it is to be noticed that the previous positive earnings that has happened in August 2015 had led to a decrease of a stock, and the two negative surprise earnings had also led to a decrease of the stock price. As nothing really justifies the increase of the stock price because no significant news have been notified, we can expect that the market excitement has led to an increase of the stock price, which must be balanced within a few weeks. Moreover, the stock has underperformed the NYSE during the whole year.

Conclusion

Following the development of the hotel industry with its incoming crisis, and the instability of the actual model of CHH, added to the expectation of a market rebalancing of CHH stock price, CHH is definitely a short, which price is expected to decrease in the short-term. The table in the page below shows the valuation of the company, which shows no probability of a price increase.

SIENA college

Siena Market Line
2nd week of March 2015

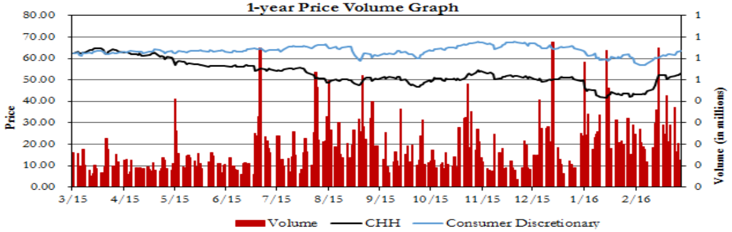
Choice Hotels International Inc. (CHH)

CENTER FOR GLOBAL FINANCIAL STUDIES

BEARISH

Analysis by Florent POLITO	Current Price:	$52.36	Intrinsic Value	$29.26	Target 1 year Return: -36.78%
3/6/2016	Divident Yield:	1.6%	Target Price	$32.28	Probability of Price Increase: 0%

1-year Price Volume Graph



Description

Choice Hotels International, Inc., together with its subsidiaries, operates as a hotel franchisor worldwide.

General Information

Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	November 3, 2015
Next earnings date	April 30, 2016
Estimated Country Risk Premium	6.22%
Effective Tax rate	39%
Effective Operating Tax rate	38%

Market Data

Market Capitalization	$2,949.78
Daily volume (mil)	0.15
Shares outstanding (mil)	56.34
Diluted shares outstanding (mil)	57.27
% shares held by institutions	65%
% shares held by investments Managers	61%
% shares held by hedge funds	2%
% shares held by insiders	24.00%
Short interest	3.66%
Days to cover short interest	8.36
52 week high	$65.31
52-week low	$40.78
Levered Beta	0.83
Volatility	28.07%

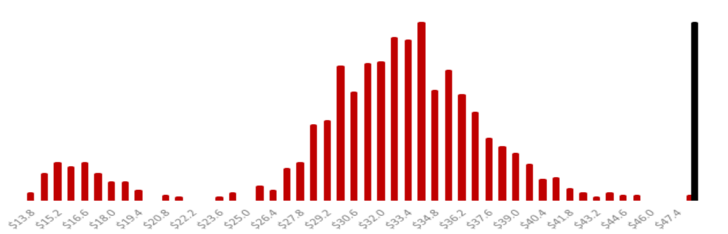
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	3.51%	6.73%
3/31/2015	5.44%	-1.76%
6/30/2015	11.15%	2.60%
9/30/2015	4.02%	2.95%
12/31/2015	7.98%	-5.14%
Mean	6.42%	1.08%
Standard error	1.4%	2.1%

Peers

- La Quinta Holdings Inc.
- Extended Stay America, Inc.
- Hyatt Hotels Corporation
- Marriott International, Inc.
- Starwood Hotels & Resorts Worldwide Inc.
- Diamond Resorts International, Inc.
- Hilton Worldwide Holdings Inc.
- Wyndham Worldwide Corporation

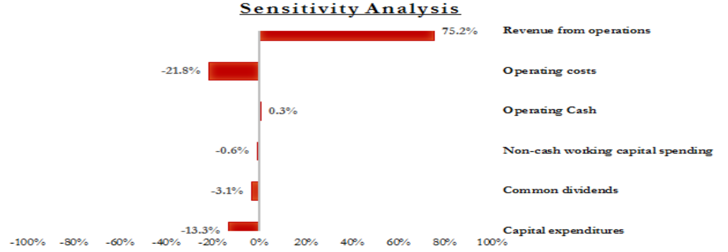
Target Price Distribution--Prob(Price Increase)= 0%



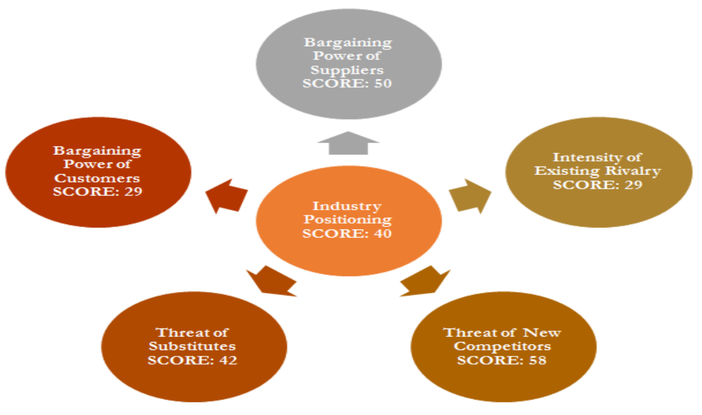
Management	Position	Total compensations growth	Total return to shareholders
Joyce, Stephen	Chief Executive Officer, Pre	8.67% per annum over 5y	4.63% per annum over 5y
White, David	Chief Financial Officer, Sen	15.23% per annum over 5y	4.63% per annum over 5y
Pacious, Patrick	Chief Operating Officer and	16.1% per annum over 4y	1.75% per annum over 4y
Wu, Simone	Chief Compliance Officer, Se	12.18% per annum over 2y	30.96% per annum over 2y
Pepper, David	Chief Development Officer	6.21% per annum over 5y	4.63% per annum over 5y
Hewitt, Eben	Chief Technology Officer	N/M	N/M

Profitability	CHH (LTM)	CHH (5 years historical average)	Industry (LTM)
ROIC	29.7%	39.35%	27.89%
NOPAT Margin	17%	22.91%	12.8%
Revenue/Invested Capital	1.71	1.72	2.17
ROE	29.5%	41.33%	35.75%
Adjusted net margin	14%	20.47%	11.1%
Revenue/Adjusted Book Value	2.10	2.02	3.21
Invested Funds	**CHH (LTM)**	**CHH (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	28.7%	27.9%	19%
Estimated Operating Cash/Total Capital	26.7%	20.8%	N/A
Non-cash working Capital/Total Capital	-13.3%	-10.8%	-41%
Invested Capital/Total Capital	86.3%	84.9%	85%
Capital Structure	**CHH (LTM)**	**CHH (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.30	0.29	0.31
Cost of Existing Debt	5.59%	6.32%	4.56%
Estimated Cost of new Borrowing	2.96%	2.60%	4.14%
CGFS Risk Rating	A	A	B
Unlevered Beta (LTM)	0.72	0.83	0.89
WACC	7.19%	8.07%	7.92%

Sensitivity Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	13.4%	17.4%	4.14
12/31/2016	4.7%	19.8%	4.20
12/31/2017	2.7%	20.6%	4.07
12/31/2018	2.7%	20.2%	3.83
12/31/2019	2.8%	19.9%	3.61
12/31/2020	2.8%	19.6%	3.44
12/31/2021	2.8%	19.4%	3.30
12/31/2022	2.9%	19.3%	3.17
12/31/2023	2.9%	19.1%	3.05
12/31/2024	2.9%	18.9%	2.93
12/31/2025	3.0%	18.8%	2.82
Continuing Period	3.0%	18.7%	2.72

Period	Invested Capital	Net Claims	Price per share
Base Year	$330.39	$808.33	$29.56
12/31/2016	$434.25	$678.69	$32.61
12/31/2017	$455.01	$516.01	$35.92
12/31/2018	$561.24	$356.27	$39.31
12/31/2019	$502.77	$175.02	$43.12
12/31/2020	$581.61	$19.24	$46.58
12/31/2021	$622.51	-$135.79	$50.15
12/31/2022	$648.80	-$290.05	$53.85
12/31/2023	$676.35	-$443.26	$57.67
12/31/2024	$699.64	-$595.37	$61.63
12/31/2025	$723.18	-$746.24	$65.76
Continuing Period			