Macroeconomic Overview

During this past trading week, all major U.S. indices decreased on a weekly basis. After showing gains during the start of the week, negative news from overseas caused sharp declines on Friday. In effect, the Dow Jones Industrial Average and the NASDAQ Composite decreased on a weekly basis by 1.28%, while the S&P 500 declined by 0.99% during the last week. Small cap stocks measured by the Russell 2000 index also experienced declines, yielding -1.02% throughout the week. The VIX week-to-date change of 10.41% indicates that volatility levels start to increase again, leading to a year-to-date change of -27.66%. The yield of the 10-year U.S. T-note decreased by 9 basis points to 1.87%. In addition, the price of oil increased throughout the week by 2.01% to a price of $55.74/bbl.

This week's market movements were primarily driven by events and news from overseas. After closing near all-time highs mid-week, all major U.S. indices declined at the end of the week primarily due to news that Greece might not be able to fulfill their debt obligations, being unable to make scheduled debt payments. This led once again to debates about the likelihood of Greece's exit from the Eurozone. As a result Standard & Poor's downgraded Greece's credit rating to CCC+ with regard to a negative future outlook. In addition to negative news from Europe, the Chinese economy showed signs of weakness again. During the first quarter of 2015 Chinas growth continued to slow down. The country reported GDP growth of 7% on an annual basis which is Chinas slowest growth rate in the past six years. In addition China's industrial output, retail sales and fixed asset investments slowed down and could not meet expectations.

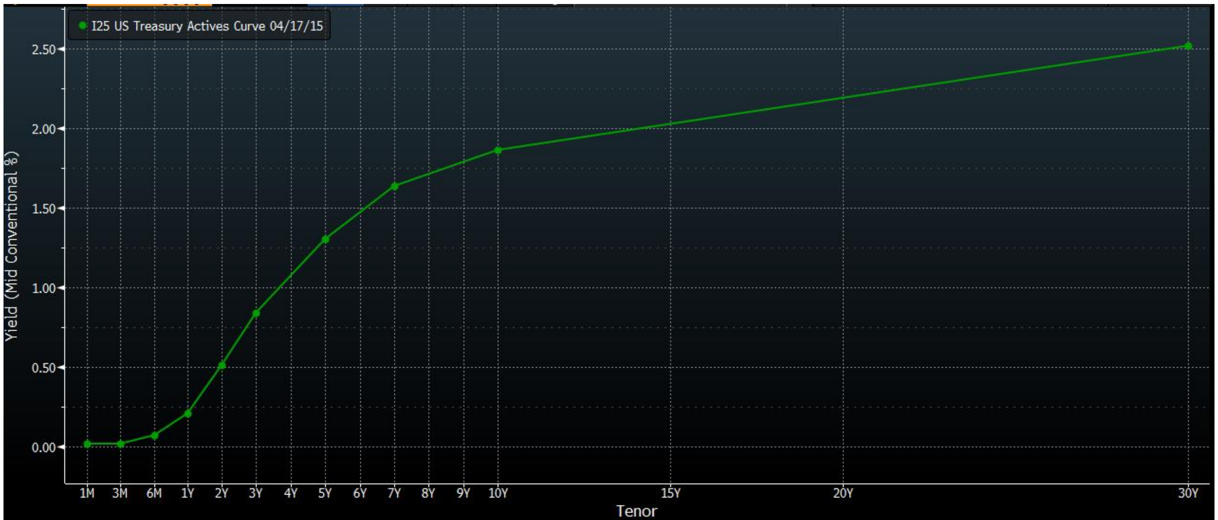
U.S. Stocks		
Index	**% Change Week-to-Date**	**% Change Year-to-Date**
DJIA	-1.28%	0.02%
S&P 500	-0.99%	1.08%
NASDAQ Composite	-1.28%	4.13%
Russell 2000	-1.02%	3.91%
VIX	10.41%	-27.66%

Except for a 0.6% decline in industrial output, U.S. economic data for the month of March was generally positive. U.S. retail sales improved by 0.9%, the highest monthly gain in over a year. U.S. housing starts rose 2.2% in March to an annual rate of 926,000 homes. News of a decline in U.S. oil production led to an increase in oil prices throughout the week, driving up the majority of oil and energy stocks.

Next week, investors will be looking forward to see data from different economic reports that will have an impact on the global markets. On Monday 20th, the Governor of the Bank of Canada will hold a press conference talking about short term interest rate outlooks. On Tuesday 21st, The German Zentrum für Europäische Wirtschaftsforschung (ZEW) will report on the country's economic sentiment index providing an outlook for the economy's performance in the upcoming months. On the same day, Australia will report on the country's Consumer Price Index (QoQ) (Q1). On Wednesday 22nd, the Bank of England will hold its Monetary Committee Policy Meeting Minutes. On the same day China will release data about their economy's HSBC Manufacturing PMI (Apr). On Thursday 23rd, Germany will report on their country's Manufacturing PMI (Apr). On the same day, England will release data about their country's retail sales (MoM) (Mar).

Bond Report

U.S. Treasury bonds have posted the longest "winning streak" in 3 months this past week. The rally lasted all week, with bonds hitting the mile stone on Thursday, March 16th, and continuing the streak on Friday and in to the weekend. The yield on benchmark 10-year treasury notes began the week on Monday at 1.94%, and continued to in to Friday closing out the weekend at 1.87%. Renewed concerns over Greece's potential default prompted the demand for less risky assets over the past week and a half. In addition, bond prices also received a boost from President Dennis Lockhart with the Federal Reserve Bank of Atlanta, who announced "unexpected economic weakness over the start of the year means the Fed can be patient in raising short-term interest rates." Bond prices did fall slightly during the morning session of Thursday as a result of Federal Reserve Vice Chairman, Stanley Fisher, announced that he "sees signs of wage pressure building and that the U.S. economy will regain momentum from the soft patch during the first quarter." Announcements such as this continue to cause bond prices and corresponding yields to remain extremely volatile. Investors are concerned that a rise in interest rates could shrink the value of outstanding bonds, but unfavorable economic announcements have created doubts about it happening in June. Stock markets around the world have struggled also sending German, U.K., and Japan's bonds lower as well.



Curve ID	3M	1Y	2Y	3Y	5Y	7Y	10Y	30Y
I25	0.018	0.206	0.510	0.842	1.307	1.636	1.866	2.520

What's Next & Key Earnings

On Wednesday, April 22nd, Existing Home Sales for March report will be released. Existing Home Sales measures the change in the annualized number of existing residential buildings that were sold during the previous month. This report helps to gauge the strength of the U.S. housing market and is a key indicator of overall economic strength.

On Thursday, April 23rd, New Home Sales report will be released for March. New Home Sales measures the annualized number of new single-family homes that were sold during the previous month. This report tends to have more impact when it's released ahead of Existing Home Sales because the reports are tightly correlated.

On Friday, April 24th, Core Durable Goods Orders for March will be released. Core Durable Goods Orders measures the change in the total value of new orders for long lasting manufactured goods, excluding transportation items. Because aircraft orders are very volatile, the core number gives a better gauge of ordering trends. A higher reading indicates increased manufacturing activity. Durable Goods Orders will also be released. Durable Goods Orders measures the change in the total value of new orders for long lasting manufactured goods, including transportation items.

Company	EPS	Forecast	Prev.	Imp.	Market Cap	Time
Monday, April 20, 2015						
Canadian Natio... (CNI)		0.84	1.03		65.32B	
Check Point (CHKP)		0.91	1.07		15.03B	
Halliburton (HAL)		0.37	1.19		39.84B	
Hasbro (HAS)		0.08	1.22		8.21B	
IBM (IBM)		2.8	5.81		158.81B	
Lam Research (LRCX)		1.3	1.19		11.26B	
M&T Bank (MTB)		1.76	1.92		16.06B	
Morgan Stanley (MS)		0.78	0.39		72.46B	
Rogers Commu... (RCI)		0.63	0.69		21.53B	
Royal Caribbea... (RCL)		-	-			
SunTrust Banks (STI)		0.72	0.72		21.73B	
Zions (ZION)		0.36	0.36		5.56B	

Tuesday, April 21, 2015			
Ace (**ACE**)	2.23	2.47	36.03B
Allegheny Techn... (**ATI**)	0.1	0.18	3.26B
Amgen (**AMGN**)	2.36	-	123.98B
Baker Hughes (**BHI**)	0.46	1.44	29.11B
Broadcom (**BRCM**)	0.6	0.90	26.11B
Canadian Pacifi... (**CP**)	2.14	2.68	38.15B
Chipotle Mexica... (**CMG**)	3.64	3.84	21.24B
Discover (**DFS**)	1.27	1.19	26.36B
Dover (**DOV**)	0.71	1.01	11.57B
DuPont (**DD**)	1.33	0.71	64.78B
FMC Technologies (**FTI**)	0.59	0.88	9.09B
Fifth Third (**FITB**)	0.37	0.43	15.41B
Gannett (**GCI**)	0.45	1.02	7.96B
Genuine Parts (**GPC**)	1.05	1.07	14.00B
Harley-Davidson (**HOG**)	1.25	0.35	12.79B
Illinois Tool Works (**ITW**)	1.17	1.18	35.79B
Illumina (**ILMN**)	0.72	0.87	27.53B
Intuitive Surgical (**ISRG**)	3.87	4.92	19.92B
Kansas City Sou... (**KSU**)	1.07	1.27	11.55B
Kimberly-Clark (**KMB**)	1.33	1.35	39.00B
Lockheed Martin (**LMT**)	2.5	3.01	61.62B
Navient Cor (**NAVI**)	0.5	0.53	8.12B

Northern Trust (**NTRS**)	0.87	0.94		16.31B	
Omnicom (**OMC**)	0.82	1.3		18.94B	
Pentair (**PNR**)	0.65	1.06		11.43B	
ProLogis (**PLD**)	0.12	0.81		22.35B	
Regions Financial (**RF**)	0.18	0.14		12.88B	
Stryker (**SYK**)	1.09	1.44		35.06B	
Teck Resources (**TCK**)	0.15	0.20		9.52B	
The Travelers (**TRV**)	2.55	3.07		33.62B	
Under Armour (**UA**)	0.05	-		18.34B	
United Rentals (**URI**)	1.16	2.19		9.34B	
United Technolo... (**UTX**)	1.44	1.62		104.57B	
Verizon (**VZ**)	0.95	0.71		199.13B	
Wipro (**WIT**)	-	8.88		1,361.07B	
Yahoo! (**YHOO**)	0.18	0.30		41.61B	
Yum! Brands (**YUM**)	0.72	0.61		34.56B	

Wednesday, April 22, 2015			
AT&T (T)	0.62	0.55	168.73B
Abbott Labs (ABT)	0.42	0.71	69.79B
Ameriprise Fina... (AMP)	2.33	2.3	23.55B
Amphenol (APH)	0.56	0.63	17.98B
Assurant (AIZ)	1.51	0.87	4.18B
AutoNation (AN)	0.89	1.03	7.22B
Bank of NY Mellon (BK)	0.59	0.59	45.14B
Boeing (BA)	1.83	2.31	104.70B
Citrix Systems (CTXS)	0.65	1.1	10.23B
Coca-Cola (KO)	0.43	0.44	176.05B
Crown Castle (CCI)	0.35	-0.11	28.65B
DR Horton (DHI)	0.38	0.39	10.33B
EMC (EMC)	0.36	0.69	52.60B
Equifax (EFX)	1.02	1.02	10.96B
F5 Networks (FFIV)	1.5	1.55	8.38B
Facebook (FB)	0.4	0.54	226.09B
Flowserve (FLS)	0.69	1.16	7.71B
GRUMA (GMK)	2.19	2.08	85.28B
Grupo Aeroportu... (ASR)	2.25	1.16	64.36B
Huntington Banc... (HBAN)	0.19	0.19	9.01B
McDonald`s (MCD)	1.06	1.13	91.00B
Nielsen (NLSN)	0.47	0.81	16.39B

Oreilly (**ORLY**)	1.93	1.76	21.79B
QUALCOMM (**QCOM**)	1.33	1.34	110.71B
Ryder System (**R**)	1	1.6	5.03B
SL Green (**SLG**)	0.42	0.55	12.49B
St Jude Medical (**STJ**)	0.91	1.03	18.98B
T Rowe (**TROW**)	1.14	1.18	21.48B
TE Connectivity (**TEL**)	1	0.98	28.35B
Texas Instruments (**TXN**)	0.62	0.76	61.16B
Thermo Fisher S... (**TMO**)	1.61	1.99	52.58B
Torchmark (**TMK**)	1.04	1	7.18B
Tractor Supply (**TSCO**)	0.41	0.81	11.87B
Xilinx (**XLNX**)	0.51	0.60	11.39B
eBay (**EBAY**)	0.58	0.90	67.65B
Thursday, April 23, 2015			
3M (**MMM**)	1.92	1.81	102.74B
AbbVie (**ABBV**)	0.85	0.89	99.17B
Alaska Air (**ALK**)	1.1	0.94	8.24B
Alexion (**ALXN**)	1.33	1.3	36.20B
Altera (**ALTR**)	0.32	0.36	13.05B
Altria (**MO**)	0.62	0.66	101.81B
Amazon.com (**AMZN**)	-0.12	0.45	174.40B
American Electri... (**AEP**)	1.03	0.48	27.29B

BB&T (**BBT**)	0.7	0.75		27.77B
Baxter (**BAX**)	0.88	1.34		38.00B
CMS Energy (**CMS**)	0.64	0.35		9.52B
CR Bard (**BCR**)	2.07	2.29		12.71B
Cameron (**CAM**)	0.7	1.34		9.60B
Capital One Fina... (**COF**)	1.88	1.73		45.06B
Caterpillar (**CAT**)	1.36	1.35		50.48B
Cemex SAB de CV (**CX**)	-0.11	-0.14		12.24B
Chubb (**CB**)	1.56	2.29		23.13B
Danaher (**DHR**)	0.93	1.04		59.55B
Dow Chemical (**DOW**)	0.76	0.85		57.21B
Dr Pepper Snapple (**DPS**)	0.76	0.88		14.84B
E-TRADE (**ETFC**)	0.23	0.26		7.99B
EQT (**EQT**)	0.61	0.96		13.27B
Edwards Lifesci... (**EW**)	1.04	1.06		15.05B
Eli Lilly (**LLY**)	0.76	0.75		80.51B
Fibria Celulose (**FBR**)	-1.08	-0.23		24.78B
Freeport-McMoran (**FCX**)	-0.07	0.25		21.49B
General Motors (**GM**)	0.96	1.19		59.00B
Google (**GOOGL**)	6.6	6.88		359.63B
Google Inc C (**GOOG**)	6.6	6.88		359.63B
Grupo Televisa (**TV**)	0.15	0.81		21.48B
Hanesbrands (**HBI**)	0.23	1.46		13.46B

Helmerich&Payne (HP)	0.8	1.7	7.93B
Hershey (HSY)	1.17	1.04	21.75B
Ingersoll-Rand (IR)	0.32	0.82	17.73B
Johnson Controls (JCI)	0.74	0.79	33.22B
Juniper (JNPR)	0.31	0.41	9.63B
KLA-Tencor (KLAC)	0.76	0.68	9.43B
Landstar (LSTR)	0.73	0.86	2.85B
Mead Johnson ... (MJN)	1.06	0.92	20.29B
Microsoft (MSFT)	0.51	0.75	345.87B
Newmont Mining (NEM)	0.23	0.17	11.76B
Nucor (NUE)	0.15	0.65	14.81B
PepsiCo (PEP)	0.79	1.12	142.02B
Petrobras Argent... (PZE)	-	-	18.27B
Principal (PFG)	1.04	1.09	14.96B
Procter&Gamble (PG)	0.92	1.06	222.87B
PulteGroup (PHM)	0.2	0.43	8.13B
Quest Diagnostics (DGX)	1.04	1.08	10.87B
Raytheon (RTN)	1.44	1.86	33.10B
Republic Services (RSG)	0.44	0.5	13.87B
Robert Half (RHI)	0.56	0.62	7.94B
Rockwell Collins (COL)	1.21	1.26	12.57B
SBA (SBAC)	0.11	0.00	15.49B
Sigma-Aldrich (SIAL)	1.08	1.14	16.53B
Snap-On (SNA)	1.82	1.97	8.52B
Southwest Airlines (LUV)	0.65	-	28.00B
Southwestern E... (SWN)	0.21	0.52	10.44B
Stanley Black&D... (SWK)	0.95	1.56	14.75B
Starbucks (SBUX)	0.33	0.40	71.41B
Stericycle (SRCL)	1.1	1.12	11.73B
The NASDAQ OMX (NDAQ)	0.77	0.75	8.24B
Union Pacific (UNP)	1.37	1.61	95.28B
United Continental (UAL)	1.44	1.2	23.63B
Universal Health... (UHS)	1.57	1.51	11.79B
VeriSign (VRSN)	0.75	0.7	7.69B

Friday, April 24, 2015				
America MovilB (AMX)	0.28	0.05		1,137.61B
American Airline... (AAL)	1.71	1.52		33.57B
Biogen Inc (BIIB)	3.91	4.09		98.41B
Cabot Oil&Gas (COG)	0.04	0.23		13.60B
DTE Energy (DTE)	1.49	1.17		14.47B
FLIR Systems (FLIR)	0.32	0.51		4.21B
HDFC Bank (HDB)	13.57	-		2,640.59B
Honda (HMC)	69.96	-		7,556.37B
Infosys (INFY)	-	28.44		2,382.45B
Interpublic of Co... (IPG)	-0.03	0.57		8.61B
LyondellBasell I... (LYB)	1.97	2.48		45.62B
Simon Property (SPG)	0.98	1.30		58.60B
State Street (STT)	1.05	1.37		31.15B
Tyco (TYC)	0.49	0.49		17.82B
VF (VFC)	0.67	0.98		31.38B
Ventas (VTR)	0.36	0.36		24.13B
Whirlpool (WHR)	2.41	3.52		14.88B
Xerox (XRX)	0.21	0.31		14.23B

Siena Market Line
3rd week of April 2015

AeroVironment, Inc

NASDAQ:AVAV

Analyst: Sofian Belhadj
Sector: Industrial

BUY

Price Target: $34.04

Key Statistics as of 4/18/2015

Market Price:	$25.98
Industry:	Aerospace and Defense
Market Cap:	$606.14 M
52-Week Range:	$24.73-36.97
Beta:	0.84

Thesis Points:

- An underestimated market segment
- R&D expansion with new clients portfolio
- A worldwide expansion

Company Description:

AeroVironment Inc. is a manufacturer of unmanned aircraft systems (UAS) and unmanned aerial vehicles, and energy systems. The Company supplies unmanned aircraft systems, tactical missile systems and related services to organizations within the United States Department of Defense (DoD). The Company also supplies charging systems and services for electric vehicles (EVs), and power cycling and test systems to commercial, consumer and government sectors. The Company operates through two segments: unmanned aircraft systems (UAS) and efficient energy systems (EES). The Company's UAS business segment focuses on the design, development, production, marketing, support and operation of UAS and tactical missile systems that provide situational awareness, multi-band communications, force protection, and other information and mission. The EES business segment addresses the electric transportation market with solutions for developing, manufacturing and charging electric vehicles. AeroVironment has over 40 years of working tenaciously to solve some of the biggest challenges of our day—from achieving the first human powered flight to deploying the most widely used portfolio of small unmanned aircraft systems; from developing ground breaking solar and electric powered cars to leading the charge in today's Electric Vehicle revolution. At AeroVironment, its long range thinking that is transforming the way we live, work, protect ourselves and preserve our planet.

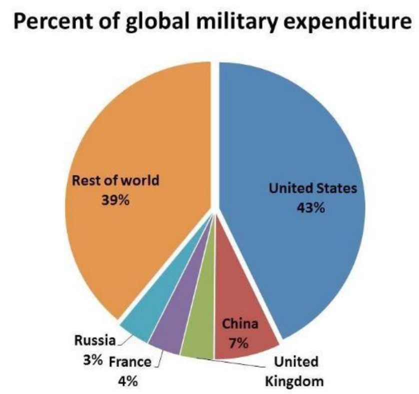
Thesis

AeroVironment is a multi-disciplinary technology innovator; currently the company provides 86% of all unmanned aircraft system (UAS) in U.S Department of Defense (DoD) also known in the general public as drone. AVAV is also a leader in the deployment of Electrical Vehicle charging systems in North America. The company vision is clear and is on the alignment of positive outlook trends in both of its segments. AeroVironment understood the customer's need for the long run by providing Networked Information and Communication with high quality innovative products and service to customers around the world. The company is also in a long run trend of providing alternative transportation fuel solutions, a segment that is in term of economic cycle in a trough time. The electrical vehicle are experimenting the starting point of the growth in term of industry life cycle. AVAV will increase its R&D by more than 50% in the coming year for their own internal research and continue to receive an increasing number of clients shared R&D financing by customers. The company works closely with the U.S DoD for a technology transfer with India; the Cheel is a joint project between AVAV and Dynamatic's an Indian engineering company to provide small UAS military equipment for the Indian army growing needs. The company will increase its internal funded R&D by over 50%. The company is in a moving phase when they have to allocate scarce resources to multiply high productivity activity. The cash position of the company is more than a third of its market capitalization and an increase number of international clients in AVAV portfolio makes the stock undervalued with the potential of increasing margin that are already at 43% and a guidance for the final year range between 250-270 million by the management. The next two-quarter would be surpassingly attractive in term of contracts and in technology advancement that would ultimately attract attention of individual investors and not only institutional investors. The investment represents a long-term investment because of the lack of exposure due to classified program that are not providing enough advancement in term of innovation and the current analyst that do not deliver guidance publicly

Macro overview AVAV market

In term of macro environment, the increase number of conflicts worldwide and governments protecting their citizen against terrorism for the past decade. The market for Unmanned Aircraft system would developed in this budget "creates a smaller, more agile, flexible joint force that will be prepared to defend U.S. national interests in a rapidly changing security environment."

The defense business expenditure worldwide is driven by the U.S budget that account for 43% that is decreasing on average but still remain very high. There is high competition worldwide but the market is well diversified and the possible number of contracts could potentially increase regarding other parts of the world accounting for 39% of the global expenditure.



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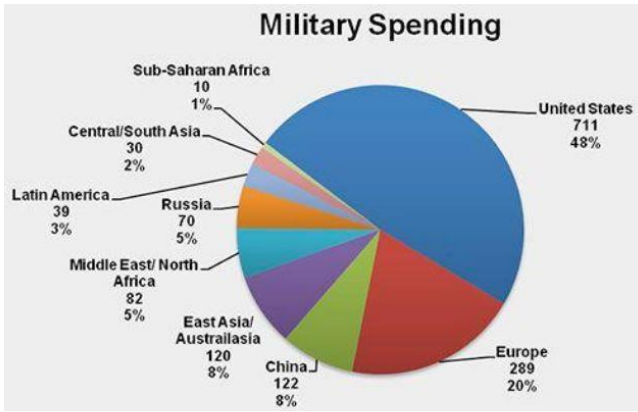
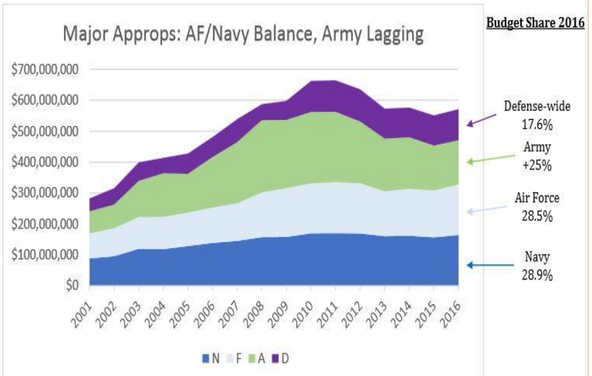
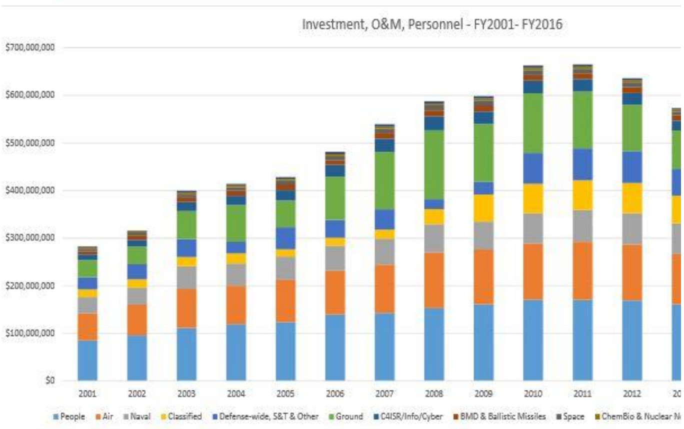
Howard Steven Friedman,, **5 Countries With the Highest Military Expenditure, Hjuffington Post,** Posted: 11/29/11 03:13 PM ET, http://www.huffingtonpost.com/howard-steven-friedman/military-spending-united-states_b_1118851.html, based on SIPRI data.



There is a shift to reducing the number of troops and risk linked to soldiers to unmanned aircraft systems. Presently AVAV had signed a contract with Navy and would represent 28.9% of the U.S budget share of 2016 with 147.7 billion.



The Aircraft and Naval segments outlooks are positive with a 2.3% increase in 2016. Unmanned aircraft are persistent, cost-effective platforms that will continue to be used for missions such as counter-terrorism and counter-insurgency, as well as new surveillance applications and communications relays. There is definitely increased interest in leveraging UAS to function as resilient nodes in airborne communication networks. Unmanned aircraft are modular platforms that enable multiple mission configurations with varying capabilities, so their future is strong with the defense.



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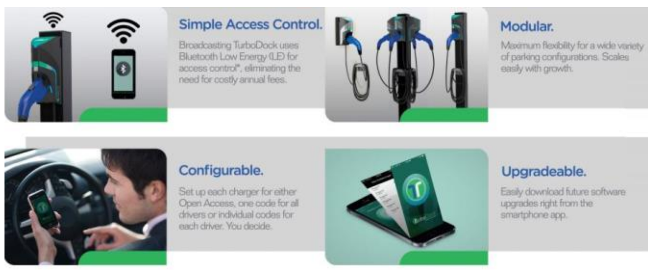
U.S army and its allies have a need for rapid identification for the accomplishment of their mission. The number of UAS mission is increasing worldwide with military (Army, Navy, Air Force, Marines, Reserve and National Guard units, and the Coast Guard), public (Departments of Homeland Security, Justice, Interior, Transportation, and FAA, the FBI, and others at the federal level. State police and militias are in this class, as are local law enforcement agencies. Environmental, public health, and other government services at all levels are in the class of public users), commercial and private. The objective of UAS and AVAV Company is to provide intelligence, surveillance and reconnaissance.

Ownership

Insider of the company held 14% of the stock and the sell and purchase of the stock activity has been reduced since 2014. Institutional investors own 62% of the firm including Vanguard Group with 5.82% and BlackRock with 5.41%, Dimensional Fund Advisors with 4.37 %, Bank of New York Mellon Corporation with 4.05% Goldman Sachs Group with 2.84%.

New products, innovation that is underestimated

The company segmentation is continuously developing their energy and environmental science with electrical vehicle. AVAV had introduced TurboDock, a residential vehicule solution that would help increase the rate of adoption for electrical car. The company had previously entered into partnership with Nissan, FIAT, and Ford to provide them complete charging station for their electrical car. AVAV is making huge progress into the electrical market with the introduction of this new feature, the charging time for the battery has been lowered thank to the research and development and is presently lower than four hours of charges which perfect for the introduction into commercial and workplaces, . In addition to that the company is bringing innovation to electrical car with smartphone App. It gives to drivers the ability to access charging stations through their smartphone with an easy to use, convenient, cost-effective and secure.



Despite the innovation proposed by the company and the scalability of the business plan throw the US, the company can already account 17% of its revenue in 2014 coming from the electric vehicle and is in line with what other company such as Tesla that is working on how to increase its car float. AVAV is able to provide a portable plug-in charger that increases range confidence, reduces costs to drivers, workplaces, businesses and governments. The TurboDock fits in palm of hand it could directly be plugs into electrical socket; no charger installation required; weighs less than five pounds, including 20-foot cord. The specificity of the TurboDocks operates on 120 or 240 volts; at 240 volts it charges nearly three times faster than standard cordsets – less than three hours for plug-in hybrids and less than four hours for full battery electrics.

The most important innovation is coming from UAS (Unmanned aircraft systems) with more than 25 years of experience as a prime contractor and supplier for the U.S Department of Defense. AeroVironment's family of small UAS includes Raven®, Wasp™, Puma™ and Shrike VTOL™.

These back packable/ man portable, hand-launched unmanned aircraft systems are carried and used by armed forces, who frequently operate across large geographic areas, often far removed from their bases and dependent mainly on what they can carry in their packs or vehicles deliver front-line, real-time situational awareness to increase combat effectiveness and force protection. The technology transmits live streaming in color or even infrared from on board cameras directly to a ground control system with color monitor. AeroVironment's UAS provide real-time information that helps U.S. and allied armed forces operate more safely and effectively.

The company began shipment to Navy and maritime contracts on the Q3 2015 that is expected to continue with the U.S defense sustain its technological edge contract with a positive outlook in Southeast Asia region with allies' countries.

Current Year performance

Revenue from Q3 2015 decrease by 0.8% compared to Q3 2014. The revenue per segment for UAS are increasing by 1% compared to last years and is due to a customer R&D that is increasing. The electrical vehicle have seen a decrease of 12% compared to last year, the oil price has impacted the number of products delivery due to a shift to substitutes with oil price low compared to last year. In term of gross margin the UAS operation increased by 4% for Q3 compared to last year that give the company comfortable margin with 43%. The gross margin for the electrical segment had decrease from 27% to 21% due to higher manufacturing cost and decline in sales. The SG&A have been steady year over year to account for 19% of the revenue. The company R&D had been increasing compared to last years to reach 13% compared to 8% a year ago. The operating margin are decrease from 12% of the revenue in 3Q 2014 to 8% for 3Q 2015

An increase of 50% of independent R&D

The company R&D had been divided into three sections to support the core business. AVAV continue its internally funded R&D to be in a strength position regarding the emerging market where the level of adoption of UAS is increasing. The second interesting approach of the company is its customer funded R&D that was increasing significantly over the two previous quarters is a possible sign for the company especially when company is creating tailored need for their customer. The company will increase its internal funded R&D by over 50%. The company is in a moving phase when they have to allocate scarce resources to multiply high productivity activity. The cash position of the company is more than a third of its market capitalization and an increase number of international clients in AVAV portfolio makes the stock undervalued with the potential of increasing margin that are already at 43% and a guidance for the final year range between 250-270 million by the management. The next two-quarter would be surpassingly attractive in term of contracts and in technology advancement that would ultimately attract attention of individual investors and not only institutional investors. The investment represents a long-term investment because of the lack of exposure due to classified program that are not providing enough advancement in term of innovation and the current analyst that do not deliver guidance publicly.

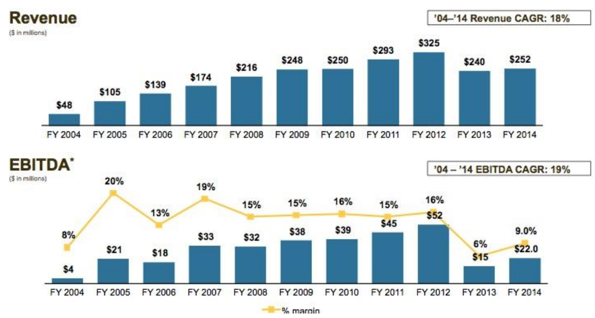
Strong accounting position

AVAV have currently $258 million in cash, short and long term investments and no debt makes the company to freely develop their R&D program and a potential share repurchase would send good signal to the market.

AeroVironment, Inc.
Consolidated Balance Sheets
(In thousands except share and per share data)

	January 31, 2015 (Unaudited)	April 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 125,977	$ 126,969
Short-term investments	77,581	70,639
Accounts receivable, net of allowance for doubtful accounts of $622 at January 31, 2015 and $791 at April 30, 2014	37,834	31,739
Unbilled receivables and retentions	8,345	10,929
Inventories, net	48,799	50,699
Income tax receivable	1,940	6,584
Deferred income taxes	5,217	5,038
Prepaid expenses and other current assets	4,203	4,260
Total current assets	309,896	306,857
Long-term investments	54,575	50,505
Property and equipment, net	16,143	19,997
Deferred income taxes	4,638	6,721
Other assets	1,219	874
Total assets	$ 386,471	$ 384,954
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 16,215	$ 13,906
Wages and related accruals	12,968	14,083
Customer advances	4,213	2,984
Other current liabilities	10,264	6,762
Total current liabilities	43,660	37,735
Deferred rent	1,336	1,239
Liability for uncertain tax positions	645	3,513
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value:		
Authorized shares — 10,000,000; none issued or outstanding	—	—
Common stock, $0.0001 par value:		
Authorized shares — 100,000,000		
Issued and outstanding shares — 23,330,876 at January 31, 2015 and 23,176,576 at April 30, 2014	2	2
Additional paid-in capital	147,374	143,648
Accumulated other comprehensive loss	(1,441)	(263)
Retained earnings	194,895	199,080
Total stockholders' equity	340,830	342,467
Total liabilities and stockholders' equity	$ 386,471	$ 384,954

AVAV had significant growth and profitability driven by technological innovation with consistent financial performance over the long-term, despite a turbulent environment



Government program award in 2016

A DARPA (Defense Advanced Research Projects Agency) program is intended to create the next generation of UAS. The TERN is a ship based with a vertical take-off and landing at medium altitude and a long endurance platform. Presently the company passed the phase 1 and was competing with five other companies and presently AVAV is competing with one company. The company is confident and has for objectives to be awarded for the phase III in 2016. The program develop new prototype military capabilities that create an asymmetric technological advantage and provide U.S. forces with decisive superiority and the ability to overwhelm their opponents. The objective is to provide or prevent strategic and tactical surprise with very high-payoff, high-risk development of revolutionary new platforms, weapons, critical technologies and systems, approaches addressing affordability, as well as rapid agile development. Currently AVAV is enrolled in the Phase III of DARPA program to fulfill its mission, the Agency relies on diverse performers to apply multi-disciplinary approaches to both advance knowledge through basic research and create innovative technologies that address current practical problems through applied research

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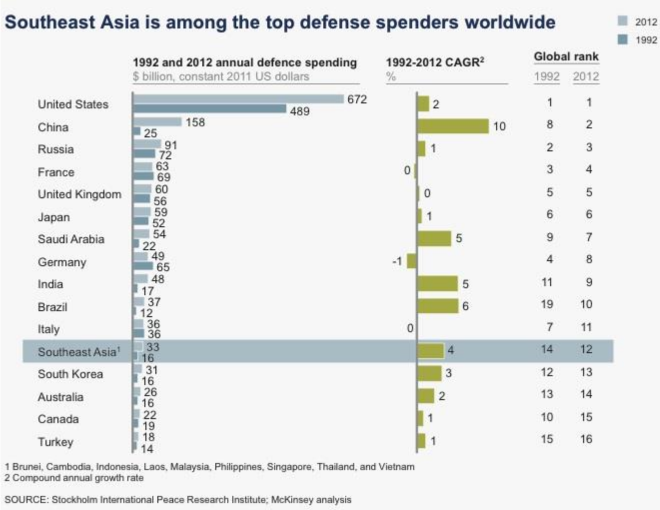
International market expansion

AeroVironment have more than 30 international UAS customers, most with additional procurement potential, and many other countries evaluating small UAS.

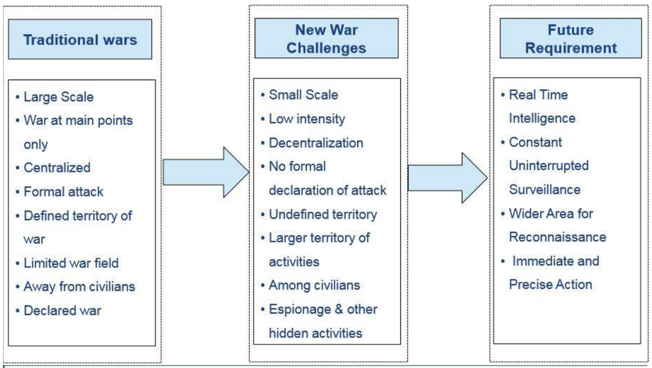
Despite McKinsey; the ongoing dynamic growth of economies in Southeast Asia presents defense companies with significant opportunities. Following a sustained period of positive growth, many Southeast Asian countries are building up military capabilities, with an eye toward better protection of their assets, especially the shipping lanes, ports and maritime boundaries that are critical to exports and supply chains. They also seek to defend their territorial integrity in the context of a fast changing security landscape. While defense spending for the region is growing, the scale and pace varies significantly from country to country. Indonesia, for instance, has more than doubled its spending in the past 5 years, whereas Cambodia and Laos are expanding their budgets more slowly.



The opportunity for AVAV are enormous in the South-east area, Given vast coastline, countries will likely require more aircrafts with special mission capabilities in marine patrol, airborne early warning systems, and, Unmanned aerial vehicle (UAV) units under consideration with a strong focus on modernization for customers.

The UAS market is underestimated

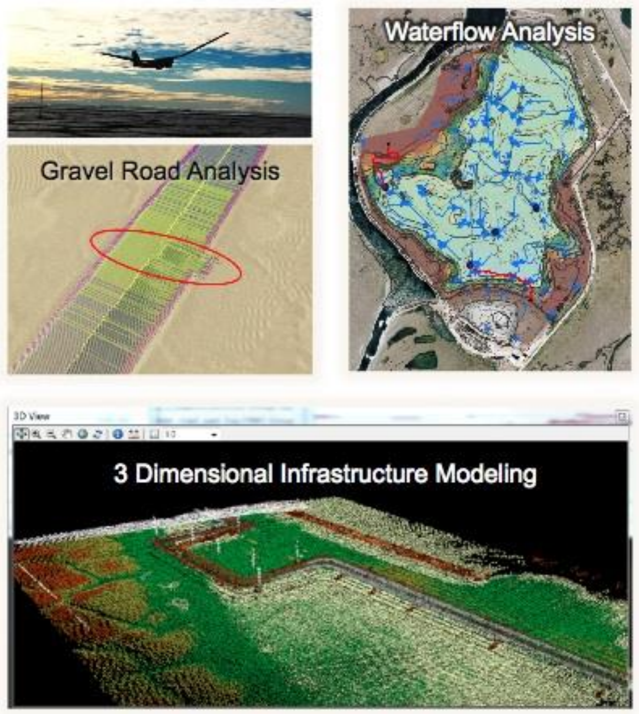
The UAS business is not exclusively for military purpose; army is using UAS for targeting and decoy, the objective is to provide ground and aerial gunnery a target. The reconnaissance is a primordial objective to provide battlefield intelligence. The combat would provide attack capability for high-risk mission. The opportunities in the defense are enormous especially when we take in account the new challenge of war and all the implication it create for troops.



Segments		USA	Europe	Mid East	Asia Pacific	Others
Civil	Natural Disasters/Humanitarian Relief	Medium	Low	Low	Low	Low
Commercial	Environment / Weather & Strom tracking	Medium	Low	Low	Low	Low
	Advertisement	Least	Least	Least	Least	Least
Military/ Security	Defense	High	Medium to High	Medium to High	Medium to High	Medium
Science	Wireless Communications	High	Medium to High	Medium to High	Medium to High	Medium
	Precision Agriculture/ Cargo Transport	Low	Low	Least	Least	Least

High · Medium to High · Medium · Low · Least

The demand for civilian use of UAS has been increasingly growing. Federal agency such as Customs and Border Patrol (CBP) use UAS for anti-terrorism through aiding in identification and interception of terrorist but also of cross border illegal activity. The potential of UAS for strip mall, office building, industrial complex, theater, train derailments has to be taken into account when evaluating the potential of the business. Within the commercial industry UAS could help meaningfully agriculture and conservation activity. The objectives are to monetize the soil erosion, crops and flood plain research. In the agriculture business UAS have the capacity to disperse insecticide and seeding. The other benefit would be to geo coded three dimensional mapping and topography analysis for precise land use and management. The Real Estate could benefit from UAS technology by creating high definition video and photo imagery for promotional purposes that ordinary use of cameras would not be able to mimic. Due to the flexibility of navigating a UAS, it is capable of capturing the intended target, which might otherwise require the costly operation and expertise of helicopter or imagery software.



Puma AE a AVAV products is the first and only FAA restricted type certified UAS for commercial operations over U.S. land. AeroVironment is providing first FAA approved commercial UAS services over American soil in Alaska for the petroleum company BP. There are market opportunities in oil & gas, agriculture, mining and other global industries. As both civil and commercial applications are expected to further develop UAS have the potential to become a major component of commercial aviation within the United States. Specifically for civil government and commercial operators, UAS are seen to be come great asset s to reduce work related risk s but also increase efficiency and effectiveness

Conclusion

The total UAV opportunity is expected to surpass US $7 billion over the next 10 years, driven by increasing UAV demand and UAV procurement. An increase in demand is expected in the HALE segment of UAV market. Degree of technical change will be very high in the UAS market in the coming years. Latest innovation: Solar powered UAV have endurance of more than 300 hours. UAVs are in development for a number of future roles that could greatly expand their numbers o Military uses will include the delivery of food, medicine and other supplies for troops o Short or vertical takeoff and landing UAVs will prove useful in humanitarian aid missions. North America continues to be leading global UAV market with 60% - 70% followed by Asia Pacific and Europe with 20% and 16% respectively there has been a significant increase in demand for UAVs from emerging countries, currently used in more than 50 countries. A substantial increase of new entrants in the UAV supply chain will occur over the next decade. UAS market is opening up many new opportunities from UAV pilots to electronics and cameras. AVAV is well aligned to deliver future growth performance focused on executing fiscal 2015 plan to drive long-term value with profitable growth through technology-based innovation; strong and balanced pipeline with multiple high-value market opportunities. The consistency of the financial performance, the differentiated solutions with industry leading positions across multiple markets and a solid track record of performance.

Valuation

The valuation of AVAV has been made using a proforma that is presented on the last page of this report.

Revenue growth for FY2015 has been estimated at -10%, FY2016 has been estimated at 10% in line with consensus estimations, and rapidly decremented by 2% year after year to a long term growth of 4% this growth is considered conservative regarding the company’s growth potential over next years and according to its business remodeling and Investments in new businesses.

Adjusted operating costs over revenues have been decreased from 92.4% for FY2014 to 80% by 0.5% increments. This increase is also conservative regarding the company’s initiatives put in place to gain in productivity and an increase in margin.

All these assumptions are considered conservative regarding company’s potential and leads to a 1 year target price of $34.04, representing an upside potential of 30.96% based on current market price.

SIENA college

Siena Market Line
3rd week of April 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

AeroVironment, Inc.	AVAV	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Sofian Belhadj	$25.98	$30.07	$34.02	0%	1-y Return: 30.96%	

General Info

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	Mar-03-2015
Next earnings date	6/25/2015

Market Data

Enterprise value	$402.41
Market Capitalization	$605.96
Daily volume	0.13
Shares outstanding	23.32
Diluted shares outstanding	22.82
% shares held by institutions	65.41%
% shares held by insiders	12.21%
Short interest	4.92%
Days to cover short interest	8.06
52 week high	$36.97
52-week low	$24.73
5y Beta	0.83
6-month volatility	29.76%

Peers	Market Cap.
Mercury Systems, Inc	$523.52
API Technologies Corp.	$110.79
Sparton Corp.	$262.83
The KEYW Holding Corporation	$369.04
Astronics Corporation	$1,608.85
LMI Aerospace Inc	$152.68
Sypris Solutions Inc	$26.73
American Science & Engineering Inc	$358.12

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	#DIV/0!
Interest Coverage	11.6x
Altman Z	11.62
Debt Rating	AAA
Levered Beta	1.12
WACC (based on market value weights)	8.82%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Conver, Timothy	Chairman, Chief Executive Officer	$1,199,872	$669,184	$1,985,334
Minson, Roy	Senior Vice President and General	$0	$954,179	$454,278
Nawabi, Wahid	Senior Vice President and General	$657,998	$970,280	$726,407
Covington, Teresa	Interim Chief Financial Officer	$0	$0	$0
Cline, Cathleen	Senior Vice President of Administ	$783,025	$0	$0
Gitlin, Steven	Vice President of Marketing Strateg	$0	$0	$0

Historical Median Performance

	AVAV	Peers	Industry	All U.S. firms
Growth	8.2%	7.8%	8.5%	7.4%
ROIC	9.3%	4.9%	14.9%	14.3%
NOPLAT Margin	14.2%	5.4%	9.6%	10.4%
Revenue/Invested Capital	0.66	0.92	1.55	1.37
Excess Cash/Rev.	62.9%	21.3%	13.5%	12.9%
Total Cash /Rev.	62.9%	21.3%	12.3%	15.2%
Unlevered Beta	0.23	1.12	1.02	0.95
TEV/REV	1.6x	1.2x	1.7x	2.5x
TEV/EBITA	6.7x	20.5x	10.7x	13.1x
PE (normalized and diluted EPS)	14.1x	27.5x	19.2x	23.5x
P/BV	1.0x	1.5x	1.9x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-1.8%	119.1%	66.7%
Last Quarter-1	-4.6%	NM	NM
Last Quarter -2	5.4%	NM	NM
Last Quarter -3	5.6%	17.1%	17.4%
Last Quarter -4	6.2%	31.6%	54.5%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Money market rate as of today	0.59%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to 1.12
Long term Unlevered Beta	1.12

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	4.8%	92.3%	$345.44	9%	5.9%	8.8%
NTM	10.0%	85.0%	$392.53	15%	11.8%	8.9%
NTM+1	10.0%	84.0%	$425.99	16%	11.8%	9.0%
NTM+2	9.3%	83.0%	$461.74	16%	12.3%	9.1%
NTM+3	9.2%	82.0%	$499.91	17%	12.9%	9.2%
NTM+4	9.1%	81.0%	$540.47	17%	13.4%	9.3%
NTM+5	9.1%	80.0%	$583.19	17%	13.6%	9.4%
NTM+6	9.0%	80.0%	$627.47	17%	13.7%	9.5%
NTM+7	8.9%	80.0%	$671.56	17%	13.8%	9.6%
NTM+8	8.8%	80.0%	$708.64	17%	13.9%	9.7%
Continuing Period	8.7%	80.0%	$963.87	5%	10.0%	9.8%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$0.00	-$228.66	23.32
NTM	$9.98	$0.00	-$262.89	23.32
NTM+1	$10.97	$0.00	-$280.49	23.32
NTM+2	$13.71	$0.00	-$301.52	23.32
NTM+3	$16.88	$0.00	-$326.44	23.32
NTM+4	$20.50	$0.00	-$356.36	23.32
NTM+5	$22.61	$0.00	-$392.71	23.32
NTM+6	$24.27	$0.00	-$431.32	23.32
NTM+7	$26.06	$0.00	-$471.93	23.32
NTM+8	$27.90	$0.00	-$517.33	23.32
Continuing Value	$9.13			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$31.03	$26.48	$30.22	$31.03
$34.77	$30.97	$34.24	$34.77
$36.98	$33.59	$36.50	$36.98
$39.47	$36.80	$38.96	$39.47
$42.12	$40.53	$41.57	$42.12
$45.04	$44.74	$44.33	$45.04
$47.85	$49.04	$47.25	$47.85
$50.78	$53.50	$50.19	$50.78
$53.61	$58.24	$53.07	$53.61
$55.67	$63.32	$55.67	$55.67

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Country Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	4%	N/A	3%	8%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$31.03	$34.77
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$30.07	$34.02
Current Price	$25.98	
Analysts' median est.		$30.71

Chesapeake Energy Corporation

NYSE:CHK

Analyst: Ryan Ahlers
Sector: Energy

BUY

Price Target: $20.20

Key Statistics as of 4/14/2015

Market Price:	$15.11
Industry:	Oil and Gas E&P
Market Cap:	$10,117.2 M
52-Week Range:	$29.92 - $13.38
Beta:	1.19

Thesis Points:

- Improving margins and efficiency
- Increased insider purchases
- Increase demand in natural gas will fuel growth
- Improving financials: Cash balance and Liquidity

Company Description:

Chesapeake Energy Corporation is an oil and gas company engaging in the acquisition, exploration and development of oil, natural gas and natural gas liquids from underground reservoirs in the United States. Chesapeake is the second largest producer of natural gas and the 11th largest producer of oil and natural gas liquids in the United States and holds oil, natural gas and natural gas liquids asset fields in Louisiana, Ohio, Oklahoma, Pennsylvania, Texas and Wyoming, totaling to approximately 45,100 oil and natural gas wells. The company was founded in 1989 and is headquartered in Oklahoma City, Oklahoma.

Thesis

Chesapeake Energy Corporation is a company that has been greatly oversold over the past year, bringing it to a very attractive price. Chesapeake intends to continue cutting cost in an effort to become more efficient, improving their margins. Recently, there has been a lot of insider activity with insiders increasing their positions within the company, implying Chesapeake may have reached its bottom. Data is showing an increase in demand for natural gas in the future which will fuel revenue growth and demand for Chesapeake's natural gas resources. The company also has improving financials with an increased cash balance and liquidity.

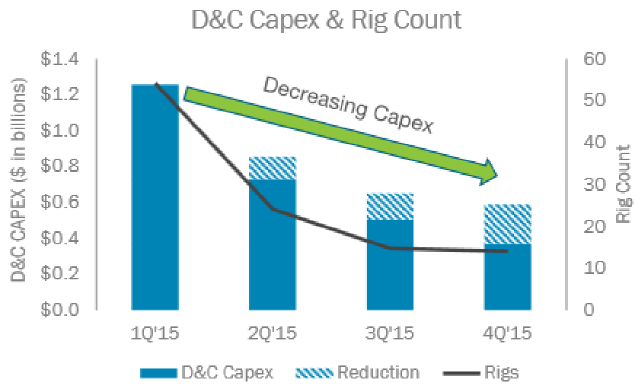
Industry Outlook

The energy sector and the industries within this sector are heavily influenced by the price of oil. Exploration and Production companies are most directly affected by commodity market prices. Over the past 9 months oil prices have plummeted from a high of about $100/barrel to a low of about $44/barrel and oil is at an approximate price of $55/barrel today. This volatility in the market and decrease in oil price puts stress on oil related companies, specifically companies that cannot pay their interest payments. Going forward, it is unclear whether oil prices will decrease further or if the floor has been hit and prices will continue to rebound. Below is the WTI Crude historical price chart starting in mid-2014.

Improving Margins and Efficiency

With the downturn in the commodity market Chesapeake Energy has had to reevaluate the way they operate in an attempt to improve margins and efficiency in the current price market.

Similar with most Exploration and Production companies, the first major step Chesapeake took was to decrease capital expenditure costs. Chesapeake, in total, decreased CAPEX spending by 18% in 2014 to approximately $4.54 billion when compared to 2013 and if acquisitions are excluded, capital expenditures were decreased by 23% when compared to 2013.

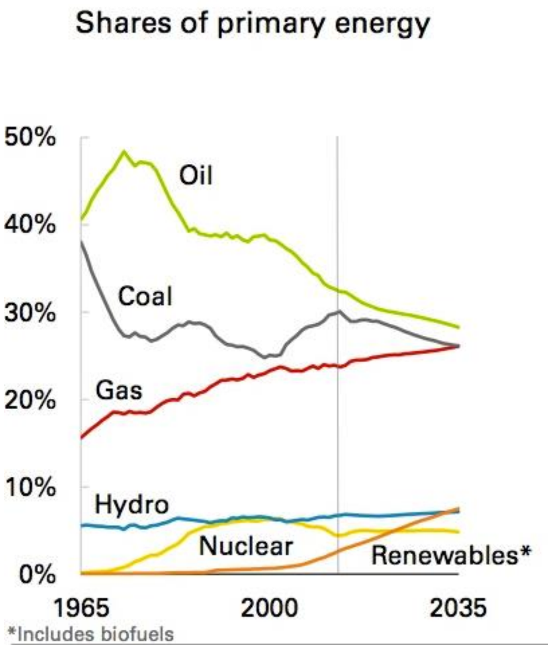


Along with CAPEX cuts, Chesapeake is implementing other cost saving techniques throughout the firm. For example, Executive Vice President and CFO Domenic J. Dell'Osso Jr. states, "As the year progresses, we believe that oilfield service cost reductions will become more apparent, and, as such, we are building in an estimate of around 10% in service cost savings for 2015 before any capital efficiency improvements by our operating teams." As well, Chesapeake's production expenses, production taxes, G&A expense and net interest expense decreased to 7.56 per boe in the fourth quarter of 2014, a decrease of 8% year-over-year.

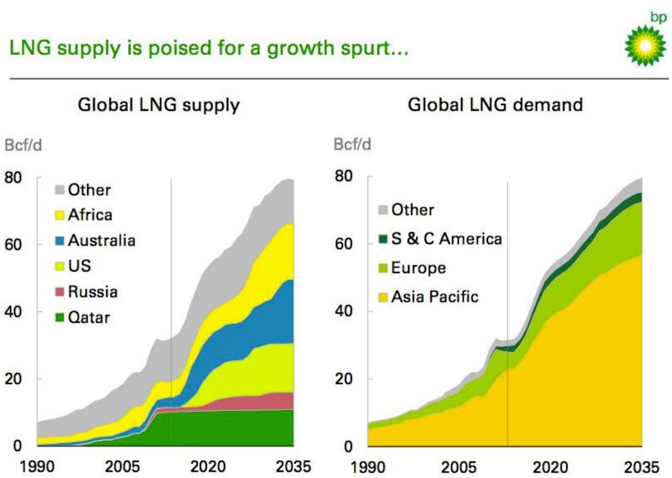
Chesapeake Energy is also implementing operating efficiencies into the company in an effort to perform better in the current pricing market. Since 2012, Chesapeake has improved their capital efficiency from 30% to 60% in each of their major operating areas, driving hundreds of millions out of their associated well costs. This increased focus on efficiency has reduced their drilling and completion expenditures by nearly $1 billion when comparing today's current levels to 2013 levels. The decrease in costs and increase in efficiency should result in Chesapeake's margins to increase, adding value to the firm and shareholders.

Increase Demand in Natural Gas

Chesapeake Energy is the second largest producer of natural gas in the United States. Natural gas is currently the fastest growing fossil fuel with a demand forecasted to increase at a rate of 1.9%/year over the next two decades, according to McGraw Hill Financial. Natural Gas is expected to gain the most market share against all forms of energy over the next two decades, almost reaching market share levels of oil and coal. This can be seen in the table below which was constructed by BP.



Even more specifically, the demand for natural gas is expected to increase tremendously in Asia and Europe over the next two decades. The United States natural gas producers are forecasted to be approximately 20% of the supply for this demand. This can be seen in the table below which was constructed by BP.



With Chesapeake Energy being the second largest natural gas producer in the U.S and the demand for natural gas expected to increase worldwide, Chesapeake and their shareholders will benefit. Chesapeake has the ability to increase their supply of natural gas when needed in the future. President and CEO Robert D. Lawler states, "This company has one of the best gas portfolios in the entire world. And our ability to increase gas production from these world class shale – gas assets is just unbelievable…We've noted that from the existing asset base, we have the capability to grow these assets to a million barrels equivalent per day inside a five-year timeframe." This increase in demand will act as a direct value driver for the company, increasing their revenue every year that there is more demand for their natural gas.

Increased Insider Purchases

Recently, there has been an increase in insider purchasing activity for Chesapeake Energy. The purchasing of shares by insiders in a company is notoriously known as positive news. The idea is that the management team, executives and directors have the most up to date relevant information on their companies' future. It can also be viewed as the companies' insiders feel the current stock price is extremely cheap/undervalued and a great buying opportunity. With that being said, Director Dunham Archie W recently purchased 1 million shares of Chesapeake on 3/27/2015, approximately a $14 million purchase. The total percent change in insider positions has increased 17.58% over the last six months.

Although not an insider, a notable shareholder that increased their position in Chesapeake Energy is Carl Icahn. Carl Icahn has increased his stake in Chesapeake to a total of 11%, up from 10%, purchasing 6,600,000 shares to a total of 73,050,000 shares on 3/23/15.

Improving Financials

Over the past year Chesapeake's financials have drastically improved. During the 4th quarter of 2014 they underwent the divestiture of their Southern Marcellus shale and Eastern Utica shale assets for approximately $5 billion, increasing their cash holdings dramatically. The sale of the assets represented only 7% of the companies' total production and gave Chesapeake a cash holding of approximately 40% of their market capitalization, a high-quality and industry leading ratio. It will be interesting to see what management plans on doing with all the cash that they now have. Management has hinted towards the possibility for acquisitions or altering their capital structure.

Chesapeake has also been granted an unsecured $4 billion credit facility for the first time in the company's history. Related, Chesapeake has received a two-notch upgrade from Moody and S&P, bringing them to one level below investment grade at both rating agencies. The combination of a high cash account and the credit facility makes Chesapeake more liquid than they have ever been. Executive Vice President and CFO, Domenic J. Dell'Osso, Jr., simply states, "With over $4 billion of cash on hand at the end of the year, nothing drawn on our credit facility, and a net debt to capitalization ratio of around 29%, we are in excellent position to weather this current price environment and take advantage of opportunities to add shareholder value."

Conclusion

Chesapeake Energy is currently in a very unique position that makes their share price undervalued. Since the addition of their new CEO Robert D. Lawler in June 2013 Chesapeake has had a new emphasis on efficiency and increasing shareholder value. With the increase in efficiency, shareholders can expect an increase in the companies margins. Many shareholders, especially insiders, have realized the potential of Chesapeake at their current low price which has increased shareholder purchases. Macro-economic conditions for Chesapeake could not be better with natural gas demand expected to increase 1.9%/year over the next two decades, fueling revenue growth, a true value driver. As well, Chesapeake Energy has never been in a better financial position with the largest cash balance they have ever had, approximately $4 billion, and a credit facility, $4 billion, a high amount of liquidity to survive the low commodity market. All of these things will add value to Chesapeake's share price, making them undervalued. For these reasons Chesapeake Energy Corporation is a BUY.

Siena Market Line
3rd week of April 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

Chesapeake Energy Corporation	chk	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Ryan Ahlers	$15.25	$18.94	$20.22	2%	1-y Return: 34.79%	

General Info

Sector	Energy
Industry	Oil, Gas and Consumable Fuels
Last Guidance	Feb-25-2015
Next earnings date	5/6/2015

Market Data

Enterprise value	$21,955.21
Market Capitalization	$10,117.21
Daily volume	15.48
Shares outstanding	663.42
Diluted shares outstanding	772.00
% shares held by institutions	88.30%
% shares held by insiders	1.14%
Short interest	20.43%
Days to cover short interest	6.69
52 week high	$31.49
52-week low	$13.38
5y Beta	1.24
6-month volatility	56.53%

Peers	Market Cap.
Devon Energy Corporation	$27,059.44
Anadarko Petroleum Corporation	$46,820.78
Apache Corp.	$26,308.32
Southwestern Energy Co.	$9,744.72
Noble Energy, Inc.	$20,074.22
Pioneer Natural Resources Co.	$26,309.77
Range Resources Corporation	$9,584.68

Current Capital Structure

Total debt/market cap	114.48%
Cost of Borrowing	0.83%
Interest Coverage	1.3x
Altman Z	1.35
Debt Rating	A
Levered Beta	1.63
WACC (based on market value weights)	6.80%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Lawler, Robert	Chief Executive Officer, President :	$0	$22,423,367	$14,677,377
Dell'Osso, Domenic	Chief Financial Officer and Executi	$7,354,481	$10,484,468	$4,859,383
Webb, James	Executive Vice President, General (	$0	$0	$4,755,185
Pigott, Mikell	Executive Vice President of Operat	$0	$6,052,473	$4,121,085
Doyle, M.	Executive Vice President of Operat	$0	$6,225,869	$4,174,862
Johnson, Michael	Chief Accounting Officer, Senior V	$0	$0	$0

Historical Median Performance

	chk	Peers	Industry	All U.S. firms
Growth	183.6%	12.4%	14.2%	7.4%
ROIC	7.8%	8.4%	16.6%	14.3%
NOPLAT Margin	16.1%	22.2%	15.6%	10.4%
Revenue/Invested Capital	0.49	0.38	1.06	1.37
Excess Cash/Rev.	-3.6%	19.4%	13.5%	12.9%
Total Cash /Rev.	3.0%	19.7%	12.3%	15.2%
Unlevered Beta	0.74	0.90	1.01	0.95
TEV/REV	2.9x	3.9x	5.6x	2.5x
TEV/EBITA	8.4x	17.5x	15.9x	13.1x
PE (normalized and diluted EPS)	6.8x	19.6x	24.7x	23.5x
P/BV	1.0x	1.8x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	12.8%	-16.2%	-52.2%
Last Quarter-1	25.0%	2.7%	18.8%
Last Quarter -2	9.4%	-2.5%	-18.2%
Last Quarter -3	12.7%	9.1%	22.9%
Last Quarter -4	3.3%	-9.4%	-30.8%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	100%	Straightline	10 years
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Money market rate as of today	0.58%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	31.2%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to 0.9
Long term Unlevered Beta	1.01

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	19.7%	68.7%	$27,144.57	12%	9.2%	6.8%
NTM	-26.0%	68.0%	$29,210.83	10%	5.8%	7.3%
NTM+1	2.5%	67.8%	$31,184.10	9%	4.8%	7.5%
NTM+2	5.0%	67.2%	$32,679.90	9%	4.7%	7.8%
NTM+3	17.0%	66.7%	$35,845.41	10%	6.2%	8.1%
NTM+4	10.0%	66.1%	$37,649.76	11%	6.8%	8.4%
NTM+5	8.0%	65.5%	$39,244.38	12%	7.5%	8.6%
NTM+6	6.0%	64.9%	$40,663.38	13%	8.0%	8.9%
NTM+7	5.0%	64.4%	$41,865.60	13%	8.5%	9.1%
NTM+8	2.0%	63.8%	$43,270.77	14%	8.6%	9.3%
Continuing Period	2.0%	63.2%	$36,534.32	12%	10.0%	9.4%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$11,582.00	$1,783.51	663.42
NTM	-$395.27	$11,582.00	$3,682.69	663.42
NTM+1	-$787.07	$11,825.30	$4,341.91	663.42
NTM+2	-$964.90	$11,825.30	$4,116.62	663.42
NTM+3	-$625.02	$11,825.30	$4,349.81	663.42
NTM+4	-$559.41	$12,450.70	$3,718.20	663.42
NTM+5	-$420.64	$12,639.10	$2,943.24	663.42
NTM+6	-$328.16	$12,639.10	$1,861.83	663.42
NTM+7	-$237.91	$12,639.10	$260.04	663.42
NTM+8	-$286.56	$12,639.10	-$1,288.44	663.42
Continuing Value	$3,950.31			

Pricing Model

Period	DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
LTM	$19.95	$73.37	$22.71	$19.95
NTM	$20.99	$35.84	$22.85	$20.99
NTM+1	$23.79	$35.12	$24.77	$23.79
NTM+2	$27.79	$38.58	$27.46	$27.79
NTM+3	$32.96	$54.80	$31.97	$32.96
NTM+4	$37.98	$68.14	$36.18	$37.98
NTM+5	$42.53	$80.32	$40.03	$42.53
NTM+6	$47.56	$92.99	$44.42	$47.56
NTM+7	$52.91	$107.29	$49.59	$52.91
NTM+8	$56.82	$114.88	$55.57	$56.82

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Country Risk Premium	7%	N/A	5%	7%	Triangular
Long term Growth	4%	N/A	3%	184%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$19.95	$20.99
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$18.99	$20.24
Current Price	$15.25	
Analysts' median est.		$19.32

Siena Market Line
3rd week of April 2015

CSX Corp

NYSE:CSX

Analyst: Skyler Scavone
Sector: Services

BUY

Price Target: $46.2

Key Statistics as of 4/15/15

Market Price:	$32.86
Industry:	Railroads
Market Cap:	$32.46B
52-Week Range:	$27.14-37.99
Beta:	1.09

Thesis Points:

- Leader within a promising industry
- Efficiencies increasing, headwinds decreasing
- Three tier shareholder return strategy

Company Description:

CSX Corporation ("CSX"), based in Jacksonville, Florida, was founded in 1978 and is one of the nation's leading transportation companies providing rail-based transportation services in the United States and Canada. It offers traditional rail services, and transports intermodal containers and trailers. The company transports crushed stone, sand and gravel, metal, phosphate, fertilizer, food, consumer, agricultural, automotive, paper, and chemical products; and coal, coke, and iron ore to electricity-generating power plants, steel manufacturers, and industrial plants, as well as exports coal to deep-water port facilities. In addition, the company serves the automotive industry with various distribution centers and storage locations; and connects non-rail served customers through transferring products from rail to trucks, such as plastics and ethanol. The company operates approximately 21,000 route mile rail network, which serves various population centers in 23 states east of the Mississippi River, the District of Columbia, and the Canadian provinces of Ontario and Quebec, as well as owns and leases approximately 4,000 locomotives. It also serves production and distribution facilities through track connection.

Thesis

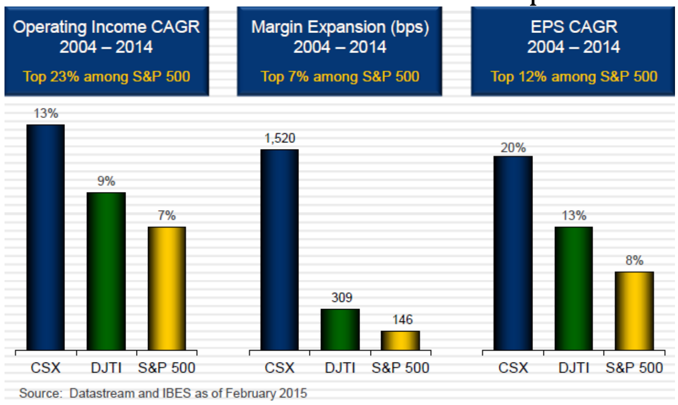
The CSX Corp is a dominant force in the eastern United States railroad industry. With the transportation sector showing strong results in the near term these types of companies should be considered for all well diversified portfolios. The Bjorkland Investment Fund currently does not own a stock in the transportation sector, but should consider CSX as it has outperformed its peers and is poised to do the same in the near term. The firm has a number of initiatives in the works to drive down costs and boost top line growth, all while keeping its three tier shareholder value creating framework in mind. For these reasons I am initiating a BUY at $32.86 with a one year price target of $46.2.

Leader within a promising industry

CSX Corp has had quite the run in the last half decade with share prices increasing more than 100% over that span. Investors might meet this level of growth with skepticism as to its sustainability. However, through the well diversified nature of the railroad industry and more specifically CSX, the growth prospects of this company remain strong. The transportation industry in general, as evidenced by the IYT (iShares Dow Jones Transportation Average, in **green**) has been outperforming the S&P 500, specifically in the past year:

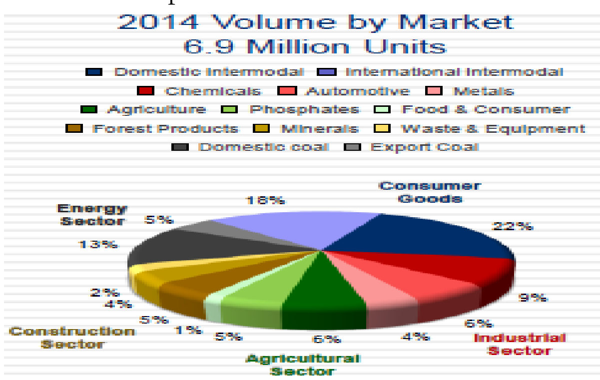
*(Trend line represents start of 2014)

This type of performance relative to the market makes it apparent that strong transportation stocks should be considered for any well diversified portfolio. One can then compare CSX's ten year performance versus the DJTI (Dow Jones Transportation Index) and the S&P 500:



With the level of financial performance relative to the industry and broader market, the returns of CSX over the last decade are not surprising. The past two quarters have been difficult for CSX and its competitors with fuel surcharges decreasing, coal volumes under pressure, and harsh weather conditions. Despite these headwinds, CSX managed to grow its volumes this quarter while a very similar east coast competitor NSC (reports 4/21) anticipates revenues to be down 5% YoY, and KSU a smaller peer also anticipates a 5% decline in revenue YoY this quarter. This can be attributed to CSX's lesser exposure to coal volumes and fuel surcharges. In the first quarter CSX reported fuel surcharges down 45% YoY (excluding two-month time lag). The fuel bill fell 39% YoY, but only 57% of the fuel bill was covered by surcharges for CSX, in comparison to competitors have ratios above 80%. This means that peers rely more on the fuel surcharge and charge more than CSX, indicating more pricing power for the firm. Therefore, falling fuel prices creates a tailwind for CSX in comparison to competitors.

While lower fuel prices put pressure on select segments within the railroad industry, the increased purchasing power of consumers and overall economic activity allow for continued growth. Here one can see the diversified nature of CSX's portfolio:



In Q4 2014 more specifically, CSX saw 60% of revenue in merchandise, 22.6% in coal and 14.6% in intermodal. In comparison NSC saw 58.5% in merchandise, 18.9% in coal and 22.6% in intermodal. Below shows a comparative breakdown of these segments:

Q4 2014 % of revenue	CSX	NSC
Revenue		
Total Merchandise	60.2	58.5
Chemicals	17.2	16.6
Agricultural Products	15.6	13.5
Automotive	9.8	8.8
Forest Products	12.4	6.8
Metals	5.3	12.8
Phosphates and Fertilizers	4.1	x
Minerals	3.6	x
Food and Consumer	2.1	x
Waste & Equipment	2.4	x
Total Coal	22.6	18.9
Intermodal	14.6	22.6

*NSC reports segments differently than CSX, the colors reflect where each stream was baked into CSX's % of revenue for an apples to apples comparison

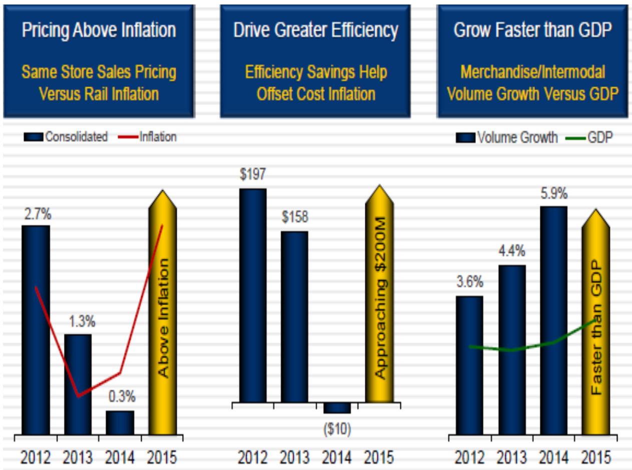
As one can see, the greatest disparity is NSC's higher level of intermodal revenue compared to CSX moving more coal as a percentage of revenue. Despite a very difficult year for coal and CSX's greater % of revenue from coal, CSX still managed to outperform its rival. Next is the 2Q 2015 outlook given by CSX:

Outlook	Markets	Drivers
Favorable 49% of volume	Food & Consumer	Continued growth in frozen food shipments
	Intermodal	Success with H2R conversions; growth with existing customers
	Minerals	Construction market driving aggregate demand
	Waste & Equipment	Increased shipment of municipal waste
Neutral 22% of volume	Agricultural Products	Strength in grain shipments offset by export demand
	Automotive	Modest growth driven by projected N.A. vehicle production
	Chemicals	Reduced energy-related drilling activities
Unfavorable 29% of volume	Domestic Coal	Lower natural gas prices
	Export Coal	Continued weakness in global market conditions
	Forest Products	Decreased demand for printing paper and newsprint
	Metals	Import supply continues to challenge U.S. steel production
	Phosphate & Fertilizer	High inventories and limited export market

Taking a look at the "unfavorable outlooks" this quarter, CSX has already proven it is actually less exposed to fuel (fuel drives coal) than its competitors making the poor Q2 coal outlook not a great concern. In the "forest products" segment (12.4% of total revenue), only paper at 6.4% of this actually falls in the unfavorable outlook category compared to 6.8% for NSC. The positive outlook markets of "minerals" and "waste" make up 3.6% and 2.4% of this segment respectively. The strong dollar is increasing imports of coal therefore reducing U.S. steel production and CSX's volume: CSX relies on 5.3% of revenue from metals compared to NSC's 12.8%. For "agricultural products" (15.6% of CSX sales): 9.4% of this segment is looking at a neutral outlook with 4.1% being unfavorable in "phosphate & fertilizer" due to late winter weather and a strong dollar affecting export markets, and 2.1% in "food & consumer" appear to have a positive outlook going forward. When weather conditions revert to average the lessened phosphate & fertilizer usage should dissipate, and low fuel prices will continue to help consumer purchasing power and drive consumption. The "intermodal" segment which NSC has a higher percent of revenue also has a positive outlook, making CSX's initiatives to grow this sector and further diversify itself against fuel and US dollar prices a positive sign. Compared to the same chart given by CSX at the end of Q4, the Q1 outlook saw 91% of volumes as favorable, perhaps a reason for decreased forecasted YoY sales. With margins about the exact same and NSC having slightly more sales, the superiorly diversified portfolio of CSX has led to higher returns on assets, capital and equity than its similarly sized peer.

Efficiencies increasing, headwinds decreasing

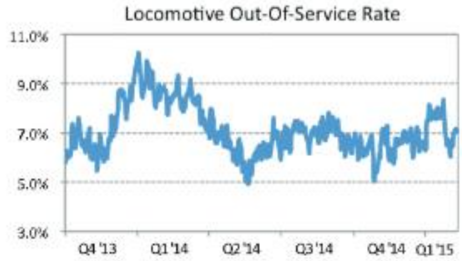
While the price of CSX seems close to fairly valued at these levels, there is still room for top and bottom line growth. In the long term CSX is looking at operating revenue as a percent of costs in the mid 60's compared to 61.3% in the LTM. A number of things will make this possible. First, cost per employee which was 27% of revenue will fall, as about 800 workers are being hired in the first half of 2015, ultimately lessening the high levels of overtime CSX has had to pay recently. Below are three ways CSX has worked to create value:



CSX has continually increased prices faster than inflation, and grown the merchandise/intermodal segments faster than GDP (more so in 2015 than previous year). In terms of cost efficiencies, the firm projects 2015 be the strongest year of savings of the past 4 and $200m greater than 2014, a year in which the share price appreciated more than 23%.

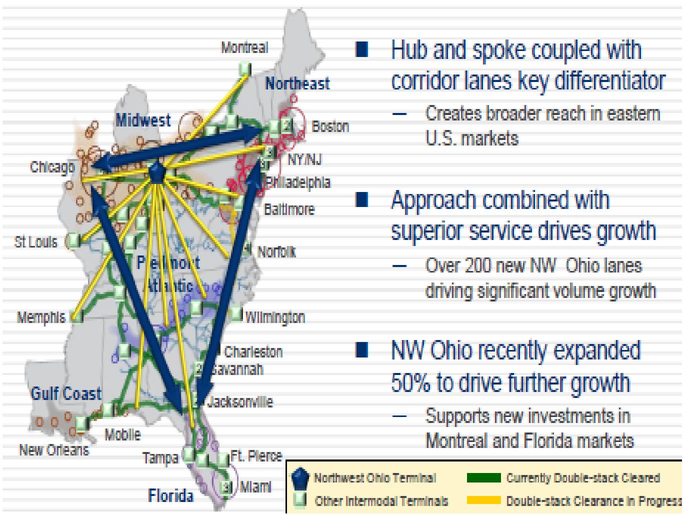
Despite a successful FY 2014, CSX did face a difficult year and endured a number of headwinds. For example, late winter weather coupled with congested West Coast ports caused average intermodal trains speeds to be down 8.7%, based on a four-week average ending March 13 compared to two years ago. Unusually cold weather late in the winter also slows agricultural production and the usage of fertilizers which make up 4.1% of CSX's revenues. Despite this fact, CSX still managed to keep revenues the same in Q1 2015 and grew EPS 12.5% YoY. Amy Rice, director of intermodal marketing at CSX Transportation said on 3/17/15, "We expect the recoverability to bounce back once the winter recedes", a positive indication for Q2 which is forecasting a 2.4% decline in YoY revenues.

CSX recognizes this decline in service and is working to combat it first by adding 200 new units in 2015. Also by "continued investment in its locomotive repair and servicing capabilities — including re-opening the Chicago facility, enhancing the Buffalo service center, and adding an additional shift in Cincinnati.." These initiatives have led to a Q1 with a locomotive out-of-service rate better than a year ago:



Another segment with great opportunity for CSX is intermodal as indicated by the U.S. highway system:

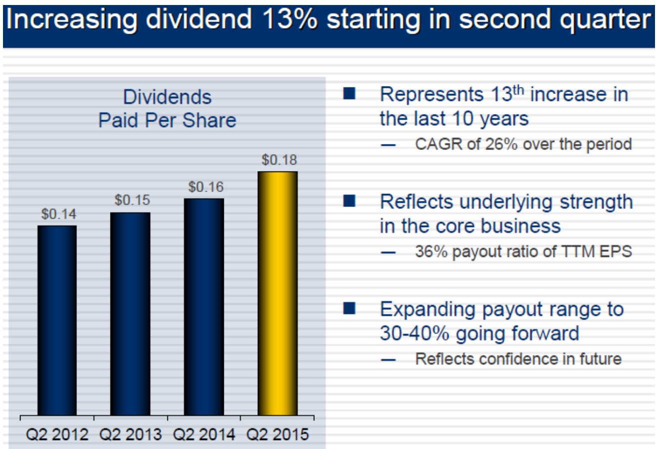
This type of congestion has led to a freight demand projection of 50% growth by 2040. The margins of intermodal are on par with the rest of Merchandise, and the opportunity in terms of volume is vast. In addition, CSX is working to drive efficiency by becoming "double-stackable" in as many routes as possible:



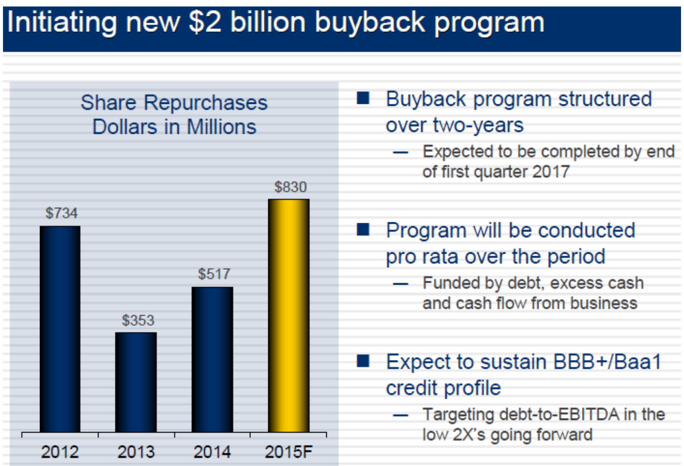
CSX is realizing the shift from fuel and coal to natural gas and is working to further diversify by expanding the intermodal share of revenue, which over time will continue to further set the company apart from its peers.

Three tier shareholder return strategy

As previously stated CSX shares grew over 23% in 2014 and over 66% since the beginning of 2013. Clearly management has developed a strategy to produce shareholder value. Michael J. Ward, CEO, cites this strategy as a balanced approach to capital deployment and cash deployment. This has led to strong dividend growth, Q2 2015 included:



He states, "So we're going to spend $2.5 billion this year, 17% of our revenues, investing for growth in the future. Secondly, this increase on our dividend takes us a little bit above a 2% yield, which some of our shareholders value that dividend and we think we want to be a little bit above the average for the S&P 500. And the share buybacks at $2 billion we think helps those shareholders that like buybacks. So we think that balanced deployment of doing all three really is the best way to create shareholder value, as we've done over the past decade". Owning this company grants the investor a management team that is shareholder conscious and versatile:



As one can see buybacks in 2015 are only slightly less than the past two years combined, indicating management's belief that now is good time to own its shares.

An investor might be concerned with the levels of debt for the firm (46%) but thanks to the high production of cash flows the quick and current ratios of the firm are improving, as well as the Altman z-score.

Pro forma assumptions

The proforma analysis of CSX netted a weighted price per share today of $34.23, slightly above the market price, and a lower bound 1y-target of $46.2. This 1 year target was comprised of a 75% weighted UDCF valuation and a 25% weight relative valuation. Base year and long term unlevered beta convergence are using the peer's historical median. Operating costs/rev. reversion is towards 68% while the firm hopes for a number closer to 65%. When these were chosen the intrinsic value was very close to the market price, adding confidence to my assumptions.

SIENA college

Siena Market Line
3rd week of April 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

CSX Corp.	CSX	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Skyler Scavone	$33.11	$33.27	$46.16	2%	1-y Return: 41.59%	

General Info

Sector	Industrials
Industry	Road and Rail
Last Guidance	Apr-15-2015
Next earnings date	7/14/2015

Market Data

Enterprise value	$41,853.74
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	991.59
Diluted shares outstanding	998.00
% shares held by institutions	99.58%
% shares held by insiders	0.33%
Short interest	0.84%
Days to cover short interest	0.00
52 week high	$37.99
52-week low	$27.14
5y Beta	1.30
6-month volatility	23.90%

Peers	Market Cap.
Norfolk Southern Corporation	$32,824.56
Canadian National Railway Company	$66,387.11
Canadian Pacific Railway Limited	$38,227.98

Current Capital Structure

Total debt/market cap	29.58%
Cost of Borrowing	5.90%
Interest Coverage	2.1x
Altman Z	2.12
Debt Rating	B
Levered Beta	2.73
WACC (based on market value weights)	6.10%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Ward, Michael	Chairman of The Board, Chief Ex	$8,090,122	$12,444,632	$10,068,089
Munoz, Oscar	President and Chief Operating Off	$3,711,038	$3,942,829	$3,775,546
Eliasson, Fredrik	Chief Financial Officer and Executi	$3,804,019	$4,037,125	$4,040,994
Fitzsimmons, Ellen	Executive Vice President of Law &	$3,215,178	$2,742,225	$3,540,866
Gooden, Clarence	Chief Commercial Officer and Exe	$2,906,376	$4,084,960	$3,575,519
Sizemore, Carolyn	Principal Accounting Officer, Vice	$0	$0	$0

Historical Median Performance

	CSX	Peers	Industry	All U.S. firms
Growth	4.5%	5.6%	9.1%	7.4%
ROC	9.8%	9.4%	13.9%	11.8%
NOPLAT Margin	18.5%	19.4%	17.7%	10.4%
Revenue/Total Capital	0.53	0.48	0.78	1.13
Excess Cash/Rev.	9.0%	4.3%	13.5%	12.9%
Total Cash /Rev.	9.0%	5.3%	12.3%	15.2%
Unlevered Beta	0.89	0.68	1.03	0.95
TEV/REV	2.5x	3.5x	3.3x	2.5x
TEV/EBITA	9.8x	18.2x	13.2x	13.1x
PE (normalized and diluted EPS)	14.8x	16.2x	20.6x	23.5x
P/BV	2.2x	2.3x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	0.7%	2.7%	2.3%
Last Quarter-1	0.1%	-2.4%	0.0%
Last Quarter -2	2.2%	6.7%	6.3%
Last Quarter -3	-1.0%	1.0%	1.9%
Last Quarter -4	0.8%	-0.7%	8.1%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interest rates	0.1%
Yield Spread acceleration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to 0.68
Long term Unlevered Beta	0.68

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Capital	NOPLAT Margin	ROC	WACC
LTM	5.3%	61.3%	$21,577.00	18%	9.4%	6.1%
NTM	-1.0%	61.9%	$33,321.27	19%	11.4%	6.4%
NTM+1	5.1%	62.6%	$34,549.41	18%	7.3%	6.5%
NTM+2	5.0%	63.3%	$35,864.50	17%	7.1%	6.6%
NTM+3	4.8%	64.0%	$37,236.32	17%	6.9%	6.7%
NTM+4	4.7%	64.6%	$38,646.13	16%	6.8%	6.8%
NTM+5	4.6%	65.3%	$40,082.22	16%	6.6%	6.9%
NTM+6	4.4%	66.0%	$41,535.95	15%	6.5%	7.0%
NTM+7	4.3%	66.7%	$42,999.19	15%	6.4%	7.1%
NTM+8	4.2%	67.3%	$44,464.64	15%	6.2%	7.1%
Continuing Period	4.0%	68.0%	$38,101.65	12%	10.0%	7.2%

Valuation

Period	Capital x (ROC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$9,741.00	$518.63	991.59
NTM	$1,068.66	$9,741.00	$238.26	991.59
NTM+1	$257.64	$9,741.00	$130.55	991.59
NTM+2	$161.63	$9,741.00	$77.24	991.59
NTM+3	$76.39	$9,741.00	$51.15	991.59
NTM+4	-$7.68	$9,741.00	$38.67	991.59
NTM+5	-$95.57	$9,741.00	$33.00	991.59
NTM+6	-$189.98	$9,741.00	$30.76	991.59
NTM+7	-$292.38	$9,741.00	$30.22	991.59
NTM+8	-$402.10	$9,741.00	$30.55	991.59
Continuing Value	$35,177.56			

Pricing Model

DCF (Weight = 75%)	Relative (Weight = 25%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$34.08	$34.65	$29.72	$34.23
$47.34	$45.63	$42.27	$46.91
$48.96	$47.92	$44.05	$48.70
$51.64	$49.98	$46.74	$51.23
$54.57	$51.66	$49.69	$53.84
$57.89	$53.30	$52.90	$56.75
$61.15	$54.87	$56.85	$59.58
$64.84	$55.78	$61.24	$62.58
$68.83	$56.43	$66.14	$65.73
$72.87	$56.91	$71.54	$68.88

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Country Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	4%	N/A	3%	9%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$34.23	$46.91
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$33.27	$46.16
Current Price	$33.11	
Analysts' median est.		$36.67

Kennedy Wilson Holdings, Inc.

NYSE:KW

Analyst: Tom Kaczmarek
Sector: Financials

BUY

Price Target: $38.75

Key Statistics as of 4/17/2015

Market Price:	$25.40
Industry:	Property Management
Market Cap:	$2.44B
52-Week Range:	$20.89 - $28.33
Beta:	0.82

Thesis Points:

- Realized gains from expansion soon
- Extremely favorable scaling
- Reduced risk through spinoff
- Favorable debt refinancing

Company Description:

Founded in 1977, Kennedy Wilson is a global real estate investment company headquartered in Beverly Hills, CA. The company's vertical integration business model allows them to provide investment services in: properties, auctioning, brokerage and research. The company's real property investments are diversified in: commercial, multifamily, loan purchases, residential properties and hotels. The company currently invests primarily in the US and Europe, with expansion occurring in their growing Japan segment. KW has experienced tremendous growth in the past two years, and well timed investments will prove to be profitable over the next twelve months.

Source	Target Price	Recommendation
Siena	$38.75	BUY
Bloomberg	$34.58	BUY
Capital IQ	$34.00	BUY
Yahoo Finance	$34.79	BUY

Thesis

KW oversees $18 B in assets under management, diversified into: commercial, residential, and hotel properties. The company specializes in distressed assets, searching for properties to renovate in order to create value. Over the course of the past year, KW took full advantage of low interest rates in order to acquire as many properties as possible. Following the restructuring and spinoff of the company's European subsidiary (KWE), Kennedy Wilson is very different than it has ever been in the past. Although the company's high increase in liabilities is concerning, the management team's approach towards restructuring this debt will become increasingly more effective as the company's new scale of operations bring the company to profitability.

New Acquisitions

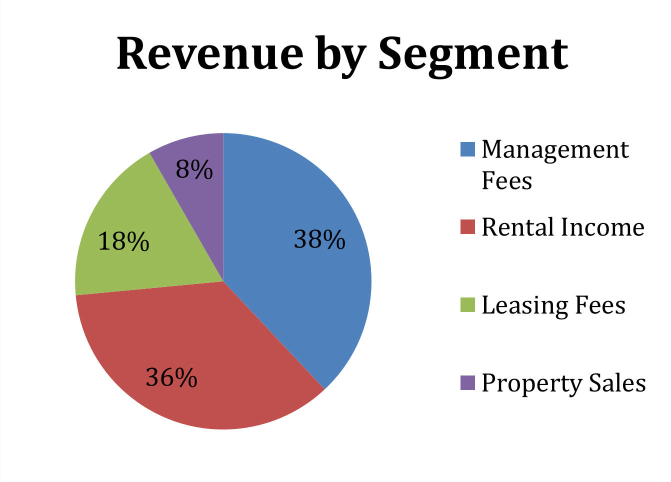
2014 was a landmark year for Kennedy Wilson, with revenue growing at a staggering 224%. The old adage "what you borrow today you'll be worth tomorrow" has become the mantra of the management team. In order to take full advantage of the company's expertise and resources, the firm significantly increased their borrowing and completed $3.2 B of acquisitions in 2014. These funds were used to expand KW's holdings in real property, which now accounts for 86% of the company's asset mix. Approximately half of KW's holdings are US properties, with Ireland and the UK comprising almost all of the other properties. Expansion into the Japanese market has begun with multifamily properties, now composing 14% of the company's multifamily properties. In order to obtain these properties, the company acquired a significant amount of liability, with more than 60% of total liabilities added in the past year. This is representative of the firm's growth mindset, and the impact of these purchases will become evident over the course of 2015 as distressed assets are renovated and occupied.

Date	Total Liabilities
FY2014	3.288B
FY2013	0.980B
FY2012	0.765B
FY2011	379.208M
FY2010	174.942M
FY2009	156.921M
FY2008	84.353M
FY2007	10.476M

Kennedy Wilson Europe

In February of 2014, Kennedy Wilson successfully spun off their European operations in order to raise additional funds for expansion. The $1.7 B IPO was the second largest real estate IPO in the history of the LSE, and all proceeds from the IPO were used in order to purchase real estate properties and related investments in Europe. Following the IPO, KW still retains approximately 15% of KWE, maintaining ownership of some of the company's European assets.

With the spin-off of KWE, Kennedy Wilson has created a diversified stake in the European market, but currently also has great expansion potential in Asian markets. KW's strong position in multi-family housing will prove to be a rewarding investment as the rental market expands in 2015. Zillow predicts that there will be a 3.5% increase in rental costs as opposed to a 2.5% growth in home prices over the next year. While this figure is not indicative of the high growth expectations set for KW, the continued growth of the renter's market over home buyers signals continued favorability for KW's rental properties. KW's impressive occupancy rate of 95% on their 20,721 multi-family units represents their knowledge of the rental market and their ability to retain customers at a higher rate than competitors. As this trend continues, KW's occupancy efficiency will translate into a more efficient operation process. The rental segment is especially important for KW as currently rental income is not only a consistent revenue stream but also significant, accounting for 36% of revenue.



Capital Structure

KW's recent expansion efforts have spurred a restructuring of the company's capital structure. Credit worthiness was especially significant given the amount of debt incurred, but also was mitigated through the large amount of property as collateral. The company has retained a stable BB- rating from Standard & Poor since the company's IPO, with a B2 rating from Moody's in March of 2014. The company's current capital structure yields a 55% debt based structure, with secured debt at 2.72x EBITDA. A majority of the company's debt is held within the $2.181 B non-recourse secured debt from property purchases. Given the security of this debt, the company's remaining debt is less alarming considering that $188 M of the remaining debt is also secured guarantees. KW has recently been successful at refinancing this debt, with only $170 M reaching maturity over the course of the next two years. The company's revolving credit has allowed KW to borrow their way to future stability, with cost of borrowing very significantly tied to profitability. As a result of recent debt refinancing, the company will benefit from a $10.1 million reduction in interest expense from now until 2024.

As a result of the recent restructuring, KW has been able to achieve a WACC of 4%. Although this WACC is the lowest in the company's public history, the management team is confident that additional leverage paired with organic growth will generate a WACC for the firm below 4% as debt is constantly rolled through the revolving credit policy. As the company increases in scale, it is possible that additional refinancing efforts will allow the cost of borrowing to decrease even more dramatically.

Insider Holdings

Insiders and institutional investors combine to hold over 92% of the KW shares outstanding. Insiders currently hold over 19% of KW shares, with CEO William McMorrow holding 13.7% personally. McMorrow's hold of the firm has increased by 600,000 shares over the past year as a result of award acquisition. Share awards in the amount of 1.925 million shares have been awarded in the past year amongst insiders for stock based performance. While insiders have gained considerable stake in the company, institutional investors have also increased their positions. Institutional hold has increased over 10% in the past year, currently at 73.2% of shares outstanding. Additionally, the number of institutions holding positions has increased by 28% over the past year, signaling increased confidence in KW's ability to execute upon their business model. Sentiment in the firm is increasingly positive, with short interest dropping to approximately 3% of float. The short interest ratio for KW decreased by 8 in the past month to only 2.88 days.

Following last quarter's impressive growth, KW's management made the decision to increase dividend payouts by 33%, which would be expected to continue if current revenue projections are met in the next two quarters. With large interest from the company's management team and from institutional investors, outlook is positive that this growth story will continue through 2015.

Competition

Given that barriers to entry in the property management and real estate markets are limited, KW must rely upon the firm's professional know-how and network of investment institutions to locate and acquire additional properties. KW differs from many of its publicly traded competitors in that holding long positions on distressed assets is the company's primary business segment. Additionally, KW has created a more diversified revenue mix by creating a services product line which compliments the firm's commercial and multifamily properties. Some direct competitors of KW include:

- Jones Lang Lasalle (JLL)
- Marcus Millichap Inc. (MMI)
- CBRE Group (CBG)
- Realogy Holdings (RLGY)

While 2014 was an unprecedented year of growth for the company, continued growth throughout 2015 will remain at levels much higher than competitors. As KW's new properties begin to generate revenue, the company expects growth at a rate of 52.5% over last year. The firm's efficiency is evident through their gross margin of 94.8% which positions the company on the high end of their competition. While profitability has been a challenge for the growing company in the past, the company's increasingly diminishing WACC allows the company to undertake more projects than other firms. While KW has a cost of capital of 4%, most competitors' average 9% cost of borrowing. KW also far surpasses competitors with regards to occupancy. KW is able to boast an impressive 90% occupancy rate on a majority of their properties, in part due to their business model which integrates real estate services and management into their properties. Despite the company's high level of debt, the firm has established a business model which will allow the company to be competitive in the marketplace as investment returns become material.

Summary

Kennedy Wilson Inc. is a very different company in 2015 than it was one year ago. With record-breaking expansion and acquisitions, along with a new capital structure and a spinoff of European assets, KW took full advantage of the opportunities in the real estate market in 2014. Cost of debt will continue to decline as the company restructures and ensured new debt, and simultaneously the impact of the purchases will become evident in the company's financials. KW will ultimately be profitable within the next two years given the company's all-in-one approach towards property investments. The long-term vision of the management will become evident over the next twelve months, with renovated properties becoming inhabited and new properties using KW management services. For those reasons a BUY is recommended.

SIENA college

Siena Market Line
3rd week of April 2015

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Kennedy-Wilson Holdings, Inc.	KW	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Tom Kaczmarek	$25.40	$26.99	$38.65	2%	1-y Return: 54.05%	

General Info

Sector	Financials
Industry	Real Estate Management and Development
Last Guidance	Feb-25-2015
Next earnings date	5/6/2015

Market Data

Enterprise value	$6,801.25
Market Capitalization	$2,629.25
Daily volume	0.31
Shares outstanding	103.51
Diluted shares outstanding	91.56
% shares held by institutions	86.97%
% shares held by insiders	19.40%
Short interest	2.20%
Days to cover short interest	5.41
52 week high	$28.33
52-week low	$20.89
5y Beta	0.89
6-month volatility	24.02%

Peers	Market Cap.
Jones Lang LaSalle Incorporated	$7,328.12
Marcus & Millichap, Inc.	$1,356.09
CBRE Group, Inc.	$12,792.25
Realogy Holdings Corp.	$6,607.92
Hopefluent Group Holdings Ltd.	$1,800.50
FelCor Lodging Trust Incorporatec	$1,589.04

Current Capital Structure

Total debt/market cap	114.99%
Cost of Borrowing	3.27%
Interest Coverage	0.7x
Altman Z	0.67
Debt Rating	D
Levered Beta	1.01
WACC (based on market value we	8.39%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
McMorrow, William	Chairman and Chief Executiv	$16,042,121	$8,083,478	$0
Enbody, Justin	Chief Financial Officer and Pr	$2,036,725	$1,670,883	$0
Mouton, Kent	General Counsel and Directo	$0	$1,648,414	$0
Windisch, Matthew	Executive Vice President	$4,377,019	$1,990,867	$0
Ricks, Mary	Chief Executive Officer of Ke	$13,267,406	$7,556,639	$0
Cha, Christina	Vice President of Corporate I	$0	$0	$0

Historical Median Performance

	KW	Peers	Industry	All U.S. firms
Growth	46.8%	8.1%	9.1%	7.4%
ROE	6.0%	19.6%	6.4%	9.9%
Net Profit Margin	17.7%	2.8%	7.8%	6.9%
Revenue/Common Equity	0.34	7.06	0.81	1.45
Excess Cash/Rev.	N/A	8.3%	13.5%	12.9%
Total Cash /Rev.	204.9%	8.3%	12.3%	15.2%
Unlevered Beta	0.53	1.40	1.29	0.95
TEV/REV	13.6x	1.8x	1.8x	2.5x
TEV/EBITA	342.1x	25.2x	14.2x	13.1x
PE (normalized and diluted EF	66.6x	21.6x		23.5x
P/BV	1.9x	4.1x	3.2x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	28.4%	1.0%	NM
Last Quarter-1	67.3%	25.6%	NM
Last Quarter -2	49.4%	208.7%	NM
Last Quarter -3	41.4%	61.6%	NM
Last Quarter -4	-10.3%	119.0%	NM

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalizatic	100%	Straightline	10 years
R&D Exp. Capitalization	0%	N/A	N/A
Expl./Drilling Exp. Capitalizatio	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Money market rate as of today	0.59%
Annual increase (decrease) in interes	0.3%
Yield Spread accelaration	1.2
Marginal Tax Rate	20.0%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to 0.53
Long term Unlevered Beta	1.29

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Common Equity	Net Margin	ROE	Ke
LTM	223.8%	70.9%	$913.21	28%	12.1%	8.4%
NTM	46.3%	72.3%	$1,005.38	34%	21.7%	6.4%
NTM+1	14.5%	73.7%	$1,136.50	36%	23.6%	7.0%
NTM+2	10.4%	75.1%	$1,291.05	36%	23.5%	7.7%
NTM+3	9.4%	76.5%	$1,463.60	37%	22.8%	8.4%
NTM+4	8.4%	77.9%	$1,657.93	37%	21.9%	9.1%
NTM+5	7.4%	79.4%	$1,870.60	37%	21.0%	9.7%
NTM+6	6.4%	80.8%	$2,098.03	37%	19.9%	10.4%
NTM+7	5.9%	82.2%	$2,340.65	37%	18.8%	11.1%
NTM+8	5.0%	83.6%	$2,592.91	37%	17.7%	11.8%
Continuing Period	4.5%	85.0%	$2,696.63	12%	10.0%	12.0%

Valuation

Period	Common Equity x (ROE-Ke)	Total Debt	ier non-interest bearing clai	Shares Outstanding
LTM	$0.00	$3,023.30	$12.80	103.51
NTM	$105.68	$3,023.30	$18.72	103.51
NTM+1	$164.41	$3,023.30	$21.44	103.51
NTM+2	$184.79	$3,023.30	$23.67	103.51
NTM+3	$193.40	$3,023.30	$25.90	103.51
NTM+4	$196.72	$3,023.30	$28.08	103.51
NTM+5	$196.97	$3,023.30	$30.16	103.51
NTM+6	$187.60	$3,023.30	$32.10	103.51
NTM+7	$171.64	$3,023.30	$33.99	103.51
NTM+8	$145.74	$3,023.30	$35.69	103.51
Continuing Value	-$707.36			

Pricing Model

Period	DCF (Weight = 0%)	Relative (Weight =	Distress (Weight =	Weighted Average Price P
LTM	$9.98	$27.95	$0.14	$27.95
NTM	$10.90	$39.40	$0.18	$39.40
NTM+1	$13.11	$44.53	$0.24	$44.53
NTM+2	$10.47	$50.60	$0.32	$50.60
NTM+3	$9.92	$57.37	$0.45	$57.37
NTM+4	$9.73	$65.00	$0.63	$65.00
NTM+5	$11.98	$72.59	$0.66	$72.59
NTM+6	$7.70	$77.54	$0.77	$77.54
NTM+7	$11.47	$82.27	$1.02	$82.27
NTM+8	$20.40	$85.97	$14.51	$85.97

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Country Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	4%	N/A	3%	47%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$27.95	$39.40
σ(ε)	$0.32	$0.25
σ(ε) adjusted pric	$26.99	$38.65
Current Price	$25.40	
Analysts' median est.		$34.79

Kinder Morgan Inc.

NYSE: KMI

Analyst: Brian Johnke
Sector: Energy

BUY

Price Target: $56.72

Key Statistics as of 4/16/15

Market Price:	$43.68
Industry:	Oil, Gas and Consumable Fuels
Market Cap:	$94.113 B
52-Week Range:	$32.10-44.09
Beta:	0.47

Thesis Points:

- Dividend Growth
- Ability to Identify Lucrative Acquisitions
- Has Separated itself from Competitors

Company Description:

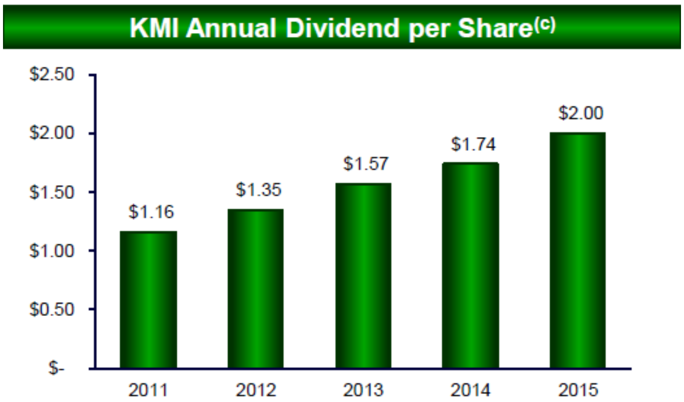
Kinder Morgan, Inc. operates as an energy infrastructure and energy company in North America. The company operates through Natural Gas Pipelines, CO2, Terminals, Products Pipelines, Kinder Morgan Canada, and Other segments. The Natural Gas Pipelines segment owns and operates interstate and intrastate natural gas pipeline and storage systems; natural gas and crude oil gathering systems, and natural gas processing and treating facilities; and natural gas liquids fractionation facilities and transportation systems. The CO2 segment produces, transports, and markets CO2 for use in enhanced oil recovery projects; and owns interest in oil-producing fields, gas processing plants, and crude oil pipelines located in the Permian Basin region of West Texas. The Terminals segment owns and operates liquids and bulk terminals, and rail transloading and materials handling facilities that transload and store refined petroleum products; crude oil; condensate; and bulk products, including coal, petroleum coke, cement, alumina, salt, and other bulk chemicals, as well as owns and operates tankers. The Products Pipelines segment owns and operates refined petroleum products, and crude oil and condensate pipelines; and associated product terminals and petroleum pipeline transmix facilities. The Kinder Morgan Canada segment owns and operates Trans Mountain pipeline system that transports crude oil and refined petroleum products from Edmonton, Alberta, and Canada to marketing terminals and refineries in British Columbia, Canada, and Washington State; and aviation turbine fuel pipeline. The Other segment includes various physical natural gas contracts with power plants. Kinder Morgan, Inc. owns an interest in or operates approximately 80,000 miles of pipelines and 180 terminals. The company was formerly known as Kinder Morgan Holdco LLC and changed its name to Kinder Morgan, Inc. in February 2011. Kinder Morgan, Inc. is headquartered in Houston, Texas. (CIQ)

Recommendation

Kinder Morgan, North America's largest energy infrastructure company, largest midstream, and third largest energy company is a BUY with a one year price target of $56.72. The bullishness towards Kinder Morgan can be attributed to its consistent dividend growth, its ability to identify lucrative acquisitions, and its ability to separate from peers that have felt a negative impact from recent changes in commodity prices.

Dividend Growth

At current price levels, Kinder Morgan yields a 4.3% dividend. On April 15, 2015, Kinder Morgan announced that it received approval from its board of directors to increase its quarterly dividend to $.48 per share payable on May 15, 2015 with an ex-dividend date of April 30, 2015. The dividend represents an increase of 14% over last year's first quarter dividend in order to stay on track to meet its yearly dividend target of $2 a share.



The targeted $2 dividend for 2015 represents a near 16% increase over last year's annual dividend. Kinder Morgan has also announced a targeted annual growth rate of 10% from 2015 thru 2020.

Recent Acquisitions

On January 21, 2015, Kinder Morgan announced that they have agreed to acquire Hiland Partners from founder Harold Hamm and Hamm Family trusts for a price of $3 billion. Hiland's assets consist of crude oil gathering and transportation pipelines and gas gathering and processing systems, primarily serving production from the Bakken Formation in North Dakota and Montana. Hiland's crude oil gathering systems consist of approximately 1,225 miles of gathering pipelines that deliver crude oil to the basin's major takeaway pipelines and rail terminals. Based on its long-term forecast for Hiland, KMI expects that the multiple of EBITDA paid for Hiland, including future growth capital investments, will decline to approximately 10 times by 2018. The acquisition is expected to be modestly accretive to KMI's cash available to pay dividends in 2015 and 2016 and approximately six to seven cents accretive beginning in 2017.

On February 9, 2015, Kinder Morgan announced that it will purchase three terminals and one undeveloped site from Royal Vopak for approximately $158 million. With two completed acquisitions already in 2015, Kinder Morgan shows no sign of taking a step back from acquiring assets they believe are undervalued, in fact in the most recent earnings call Kinder Morgan CEO Richard Kinder said, "I think you can expect us to be active in the coming months." – in regards to the possibility of future acquisitions.

Separation from Peers

As the third largest energy company in North America, Kinder Morgan offers investors income and growth currently above that of other energy companies due to its low sensitivity to commodity prices. During the rapid decline in oil prices over the last nine months that left many energy companies with uncertainty about their futures, Kinder Morgan has thrived. Being the largest midstream company in North America, meaning they are involved in the transportation of the commodity, the increase in oil production has had a positive impact on Kinder Morgan.

Above is a chart that displays Kinder Morgan's 1 year stock performance versus some of its top competitors. This chart helps visualize the impact that the decline in commodity prices have had on Kinder Morgan and its competitors.

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Kinder Morgan, Inc.	kmi	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Brian Johnke	$43.68	$55.20	$56.72	4%	1-y Return: 34.28%	

General Info

Sector	Energy
Industry	Oil, Gas and Consumable Fuels
Last Guidance	Apr-15-2015
Next earnings date	7/18/2015

Market Data

Enterprise value	$138,498.16
Market Capitalization	$93,168.16
Daily volume	15.11
Shares outstanding	2145.25
Diluted shares outstanding	1417.50
% shares held by institutions	56.47%
% shares held by insiders	14.41%
Short interest	3.24%
Days to cover short interest	7.14
52 week high	$43.51
52-week low	$32.10
5y Beta	0.63
6-month volatility	22.58%

Peers

Peers	Market Cap.
Sunoco Logistics Partners L.P.	$10,340.97
Plains All American Pipeline, L.P.	$20,040.86
ONEOK Partners, L.P.	$11,002.89
Enbridge Energy Partners, L.P.	$13,200.33
ONEOK Inc.	$10,661.02
Williams Partners L.P.	$29,845.16
Magellan Midstream Partners LP	$18,230.49
Buckeye Partners, L.P.	$9,873.51
Enterprise Products Partners L.P.	$67,600.98
Targa Resources Partners LP	$8,002.62

Current Capital Structure

Total debt/market cap	48.58%
Cost of Borrowing	3.99%
Interest Coverage	
Altman Z	
Debt Rating	CC
Levered Beta	0.59
WACC (based on market value we	4.84%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Kinder, Richard	Chairman and Chief Executiv	$1	$1	$1
Kean, Steven	President, Chief Operating Of	$2,123,472	$30,777,891	$1,269,706
Dang, Kimberly	Chief Financial Officer and Vi	$1,722,475	$10,429,539	$1,984,367
Shorb, Lisa	Vice President of Human Res	$0	$0	$3,419,122
DeVeau, David	Vice President and General C	$0	$6,009,527	$1,517,959
Martin, Thomas	Vice President and President	$1,772,262	$10,430,377	$1,746,552

Historical Median Performance

	kmi	Peers	Industry	All U.S. firms
Growth	25.9%	10.3%	8.6%	7.4%
ROIC	4.9%	6.7%	11.4%	14.3%
NOPLAT Margin	18.6%	4.5%	8.6%	10.4%
Revenue/Invested Capital	0.26	1.49	1.32	1.37
Excess Cash/Rev.	N/A	0.7%	13.5%	12.9%
Total Cash /Rev.	4.9%	0.7%	12.3%	15.2%
Unlevered Beta	0.48	0.45	0.61	0.95
TEV/REV	7.2x	1.6x	3.1x	2.5x
TEV/EBITA	28.8x	36.3x	19.0x	13.1x
PE (normalized and diluted EF	42.3x	30.0x	29.3x	23.5x
P/BV	2.7x	3.3x	2.8x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-28.4%	-14.1%	-8.7%
Last Quarter-1	-8.1%	-6.8%	-53.1%
Last Quarter -2	7.8%	9.4%	3.2%
Last Quarter -3	4.2%	-1.8%	-3.6%
Last Quarter -4	4.8%	28.8%	-20.0%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalizatic	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalizatio	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Money market rate as of today	0.60%
Annual increase (decrease) in interes	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to 0.45
Long term Unlevered Beta	0.45

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	15.3%	58.2%	$75,919.32	19%	4.0%	4.8%
NTM	1.0%	60.3%	$75,236.70	20%	4.2%	5.0%
NTM+1	1.0%	62.5%	$75,688.59	17%	3.6%	5.1%
NTM+2	1.0%	64.7%	$76,212.84	15%	3.2%	5.2%
NTM+3	1.0%	66.9%	$76,792.53	13%	2.8%	5.3%
NTM+4	1.0%	69.1%	$77,425.83	12%	2.5%	5.4%
NTM+5	1.0%	71.3%	$78,123.17	10%	2.2%	5.5%
NTM+6	1.0%	73.4%	$78,911.57	9%	1.9%	5.6%
NTM+7	1.0%	75.6%	$79,855.62	7%	1.6%	5.7%
NTM+8	1.0%	77.8%	$81,166.95	6%	1.2%	5.9%
Continuing Period	1.0%	80.0%	$34,094.56	12%	10.0%	6.0%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	er non-interest bearing clai	Shares Outstanding
LTM	$0.00	$45,259.00	-$3,563.23	2145.25
NTM	-$590.72	$47,618.01	-$4,683.97	2145.25
NTM+1	-$1,064.10	$47,938.50	-$4,836.28	2145.25
NTM+2	-$1,474.65	$48,465.14	-$4,980.49	2145.25
NTM+3	-$1,836.18	$49,406.31	-$5,177.03	2145.25
NTM+4	-$2,184.55	$50,585.99	-$5,631.88	2145.25
NTM+5	-$2,534.55	$52,140.12	-$5,637.34	2145.25
NTM+6	-$2,895.91	$54,288.61	-$5,639.88	2145.25
NTM+7	-$3,277.62	$57,224.21	-$5,640.96	2145.25
NTM+8	-$3,694.13	$61,310.13	-$5,641.31	2145.25
Continuing Value	$155,017.41			

Pricing Model

DCF (Weight = 100%)	Relative (Weight =	Distress (Weight :	Weighted Average Price P
$56.16	$22.31	$40.81	$56.16
$57.47	$18.69	$43.07	$57.47
$59.88	$15.82	$45.80	$59.88
$62.79	$12.79	$48.89	$62.79
$65.96	$11.79	$52.30	$65.96
$69.75	$11.78	$56.16	$69.75
$73.24	$11.38	$61.30	$73.24
$77.17	$8.88	$67.16	$77.17
$81.34	$2.50	$73.83	$81.34
$85.56	$0.00	$81.34	$85.56

Siena Market Line
April 2015

Krispy Kreme Doughnuts, Inc.

NYSE:KKD

Analyst: Etienne Lehideux
Sector: Services

HOLD

Price Target: $22

Key Statistics as of 4/16/2015

Market Price:	$18.99
Industry:	Restaurants
Market Cap:	$998.8M
52-Week Range:	$28.05-42.00
Beta:	2.72

Thesis Points:

- Strong branding and customer engagement
- Aggressive geographical expansion
- New ERP system should reduce costs
- Market overreacted to increase in operating costs

Company Description:

Krispy Kreme Doughnuts, Inc., together with its subsidiaries, operates as a branded retailer and wholesaler of doughnuts, beverages, and treats and packaged sweets. The company operates through four segments: Company Stores, Domestic Franchise, International Franchise, and KK Supply Chain. It owns and franchises Krispy Kreme stores. As of April 2, 2015, the company had approximately 1000 company operated and franchise shops worldwide. It also produces doughnut mixes and doughnut-making equipment. The company was founded in 1937 and is headquartered in Winston-Salem, North Carolina.

Thesis

Krispy Kreme Doughnuts, Inc. operates as a branded retailer and wholesaler of doughnuts, beverages, and treats and packaged sweets. The company has an aggressive growth strategy both in the U.S. and internationally. It has a strong brand recognition and seems to draw a better image than its competitors, Starbucks (SBUX) and Dunkin Donuts (DNKN). The company relies on word to mouth advertising and same store sales growth will be driven by menu expansion, strategic promotions, and customer engagement through mobile apps. The recent implementation of a new ERP system recently impacted the company's operating margins, to which the market overreacted. Finally, operating margins for their biggest but less profitable segment will increase during Fiscal Year 2016, which will drive an increase in Krispy Kreme's stock price. Although the company has many strengths and is largely able to gain market share, its stock's valuation is not particularly attractive for value investors. However, investors looking for a growth play may want take a look at Krispy Kreme.

Segments

Krispy Kreme Doughnuts, Inc. generates revenues from four business segments: Company Stores, Domestic Franchise, International Franchise and KK Supply Chain.

Company Stores

The Company Stores segment is comprised of the doughnut shops operated by the Company. These shops sell doughnuts and complementary products through the on-premises and wholesale channels and come in two formats: factory stores and satellite shops. Factory stores have a doughnut-making production line, and many of them sell products to on-premises consumers and at wholesale to approved retailers of Krispy Kreme products to more fully utilize production capacity. Satellite shops, which serve only on-premises customers, are smaller than most factory stores, and include the hot shop and fresh shop formats.

Domestic Franchise

The Domestic Franchise segment consists of the Company's domestic store franchise operations and the licensing of Krispy Kreme products domestically.

Following its competitors, Krispy Kreme has begun licensing products in the beverage category. It started with branded bagged coffee, and introduced in 2014 branded ready-to-drink coffee beverages in bottles. The company also signed an agreement with Keurig Green Mountain to bring Krispy Kreme branded coffee to the Keurig brewing system.

International Franchise

The International Franchise segment consists of the Company's international store franchise operations. International franchise stores sell doughnuts and complementary products almost exclusively through the on-premises sales channel using shop formats similar to those used in the United States, and also using a kiosk format.

The table below shows the number of Krispy Kreme shops as of February 1st, 2015:

	2013	2014	2015
International	509	574	709
Domestic	239	254	278
Franchise	142	159	167
Company Operated	97	95	111
Total	**748**	**828**	**987**

KK Supply Chain

The KK Supply Chain segment produces doughnut mixes and manufactures doughnut-making equipment, which all factory stores, both Company and franchise, are required to purchase. In addition, KK Supply Chain sells other ingredients, packaging and supplies, principally to company-owned and domestic franchise stores.

The company operated stores are the less profitable segment with only 3% operating margin, which can explain their slower expansion: they grew only +14% in number of stores between 2013 and 2015 versus +18% for the domestic franchises and 39% for the international franchises. The international franchise segment is the most profitable with stable 70% operating margins, closely followed by domestic franchises with 60% operating margins.

Revenues from franchises business are experiencing double digit growth in revenues, with +12% between 2014 and 2015 for the international franchise segment and +14% for the domestic franchises segment. Below is a table summarizing the revenues and operating margins per segment over the past three years.

		2013	2014	2015
Company Stores				
	Revenue	296.5	306.8	325.3
	Operating Income	8.5	11.3	9.3
	%	2.9%	3.7%	2.9%
KK Supply Chain				
	Revenue	215.4	231.2	244.7
	Operating Income	32.5	37.0	41.8
	%	15.1%	16.0%	17.1%
International Franchise				
	Revenue	24.9	25.6	28.6
	Operating Income	17.4	18.0	20.0
	%	69.7%	70.2%	70.0%
Domestic Franchise				
	Rev	10.3	11.8	13.5
	OI	5.6	8.1	8.1
	%	54.1%	68.3%	60.2%
Total	Revenue	435.9	460.3	490.3
(accounting for intersegment sales elimination)	Operating Income	37.7	46.6	48.2
	%	8.6%	10.1%	9.8%

Similarly to competitors such as Starbucks (SBUX) and Dunkin Donuts (DNKN), Krispy Kreme sells its products through two distribution channels.

On-premises sales are sales to customers visiting company and franchise factory and satellite stores, including sales made through drive-thru windows, along with discounted sales to community organizations that in turn sell doughnuts for fundraising purposes. A substantial majority of the doughnuts sold in Krispy Kreme shops are consumed elsewhere.

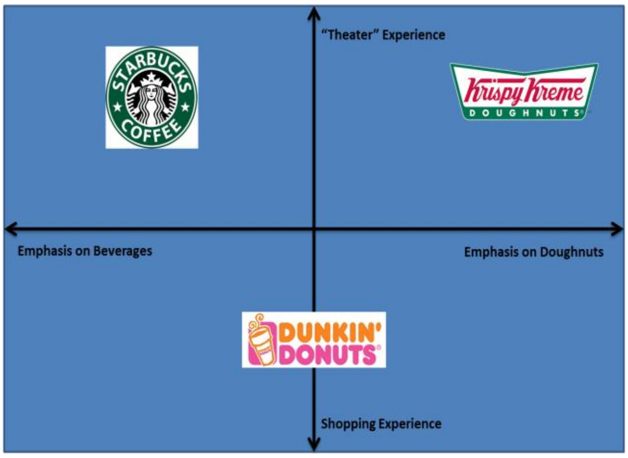
Wholesale sales are sales of fresh doughnuts and packaged sweets primarily on a branded basis to a variety of retail customers, including convenience stores, grocery stores/mass merchants and other food service and institutional accounts. This channel of distribution is mainly limited to the United States.

The Krispy Kreme brand

The company has several important brand elements that allow seducing new customers and retaining them.

Krispy Kreme claims to have a "one-of-a-kind" taste. The taste experience is at the core of their customer experience, which is why they use the same recipe since 1937. As a comparison, Dunkin Donuts was created in 1950 and has pushed the donut from the core of their offering. Indeed, the chain now offers more than 1,000 items to include bagels and other baked goods.

The other important element of the Krispy Kreme brand is the "doughnut theater" experience. Their shops are designed to produce a multi-sensory customer experience and establish their brand identity. Their goal is to provide their customers with an entertainment experience and to reinforce their commitment to quality and freshness by allowing them to see the doughnuts being made. Although Starbucks provides a similar experience with the preparation of their beverages, Dunkin Donuts does not emphasize much commitment to freshness.



Other elements of Krispy Kreme's branding include sharing and connections, as 55% of their retail transactions are for sales of one or more dozen doughnuts. Also, community relationships are something that the company cares about as their brand was built generations of word of mouth marketing. Krispy Kreme is involved in many communities through fundraising programs and sponsorship of charitable events. They refer to their strategy as "local relationship marketing", which is less costly than massive marketing campaign and allows to keep the community values associated with the brand. To put it in perspective, Krispy Kreme spent 2% of its revenues in marketing and advertising during Fiscal Year 2015 for a 7% increase in revenues, while Dunking Donuts spends on average 5% of their revenues in advertising and marketing for a 5.28% increase in revenues.

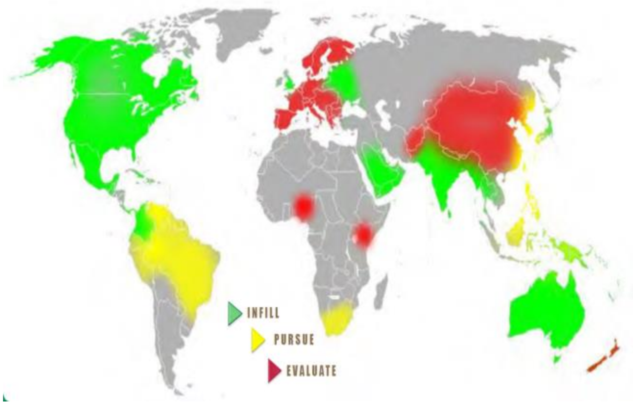
Growth Strategy

Krispy Kreme Doughnuts, Inc. is actively pursuing its geographical expansion, both on the domestic and international markets.

On the domestic side, the company is aggressively opening new shops. During Fiscal Year 2016, 20 to 35 shops will open in the U.S.. As their current footprint is currently mainly in the Southeast, the company expects to infill opportunities in the Southwest and the West Coast moving forward.

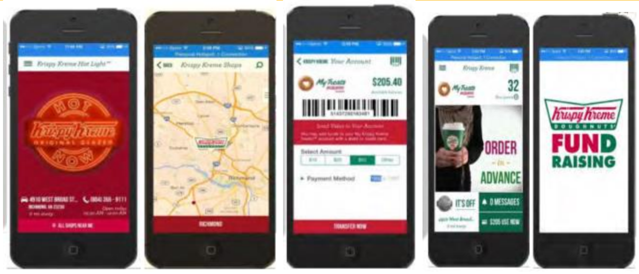
On the international side, Krispy Kreme Doughnuts, Inc. currently operates 900 shops in 24 countries, spread across North America, Occidental Russia, and in the

Asia Pacific region. The company projects to enter 6 to 8 new countries in Fiscal Year 2016, mainly in Latin America and Asia Pacific. They project to open between 95 and 110 new shops during the period. Finally, The company wants to complete its global presence in the near term, as they evaluate new countries in occidental Europe, China, and selected countries' in Africa.



The company is also looking at enhancing their menu. Although more selection can attract more customers, Krispy Kreme has to maintain its focus on what it does best: freshly prepared doughnuts. In fact, management recently stated that doughnuts will always be the center of their plate, while keeping the offering exciting and inviting. The company is also organizing a beverage strategy, and hired special staff to do so. The information on their long term beverage strategy is still quite vague, and defined as "exploring customizations and complimentary offerings".

A unique proposition from Krispy Kreme is the use of technology to directly engage with their guests. The company developed an app that allows them to attract and retain more customers. The "Hot Light" App is a guest engagement platform that allows finding the nearest Krispy Kreme shop and be notified when that Hot Light is on at a specific shop. To date, over 4,000 guests per shop have downloaded this app. A loyalty and rewards program is included in the app, and it also offers stored value, which can be securely loaded and allows our guest to easily pay and go. The company plans to include digital fundraising and digital advanced ordering to the app, which will enhance customer's engagement and save their time.



Operating Income and market reaction

Krispy Kreme's last earnings report revealed an 11% same quarter increase in revenues and a 19% increase in gross profit. Adjusted EPS estimates were beaten, with $0.17 per share versus $0.165 expected. Although, investors were disappointed with the reduced operating margin. In fact, operating income only increased 5% on a same quarter basis, resulting in a 42 bps decrease in operating margin. The numbers are detailed below:

in $ millions	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Revenues	112.75	121.58	120.52	122.87	125.37
Gross Profit	19.44	26.41	19.43	21.71	23.04
Operating Income (Loss)	9.07	16.18	9.62	12.87	9.56
Gross Margin	17.25	21.72	16.12	17.67	18.38
Operating Margin	8.04	13.31	7.99	10.47	7.63

Shares of KKD dropped almost 7% to $19.00 per share on the news, as analysts updated their model without digging more into costs. The reality is that the costs causing this decrease in operating margins are related to the implementation of a new enterprise resource planning (ERP) system from Oracle that aims at reducing general expenses on the long term. The $2.8 million implementation costs incurred during last quarter should be seen as an investment and will be largely offset starting next quarter. Another $2.5 million in G&A expenses was related to the previously announced charge related to the settlement of the employment contract with our former CEO, Jim Morgan, who transitioned from Executive Chairman to non-employee Chairman at the end of January.

Valuation

The company is generally in line with guidance provided by the management. During fiscal year 2016, total revenues should increase by 8% to 11%, return $55 to $59 million in adjusted net income, and spend between $35 and $45 million in capital expenditure, a legitimate increase from the $31.4 million during fiscal year 2015.

Krispy Kreme will work on improving the margins on its company stores segments. This is significant as the segment represents the main part of total sales, with 66% in fiscal year 2015. The margins on its domestic franchise and international franchise segments will stay at current levels. General and administrative costs will be decreased during fiscal year 2016, mainly due renewed IT systems going live, and the stronger dollar versus other currencies should have a $2 to $2.5 million impact on international franchise segment revenues.

On the multiples side, KKD trades at 21.7x its NTM earnings, versus 24.5x and 28.6x for Dunkin Donuts (DNKN) and Starbucks (SBUX), respectively. Its Price to Book value is also lower than its peers, with 4.6x versus 13.7x and 12.5.x for Dunkin Donuts (DNKN) and Starbucks (SBUX), respectively. Its EV/EBITDA is 14.1x versus 15.1x and 15.5x for Dunkin Donuts (DNKN) and Starbucks (SBUX), respectively. Finally, Krispy Kreme trades at 2.55x its sales, versus 6.79x and 4.28x for Dunkin Donuts (DNKN) and Starbucks (SBUX), respectively.

	KKD	DNKN	SBUX
NTM P/E	21.7x	24.5x	28.6x
P/B	4.6x	13.7x	12.5x
EV/EBITDA	14.1x	15.1x	15.5x
P/Sales	2.55x	6.79x	4.28x

Although the multiples valuation reveals a slight undervaluation of the stock, the DCF shows that the stock is overvalued by $5. I advise investors to wait for the price to decrease before investing in it, as Krispy Kreme has many element that make it a great company with a bright future ahead.

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Krispy Kreme Doughnuts,	KKD	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Etienne Lehideux	$18.86	$10.89	$21.15	0%	1-y Return: 12.13%	

General Info		Peers	Market Cap.
Sector	Consumer Discretionary	Denny's Corporation	$981.68
Industry	Hotels, Restaurants and Leisure		
Last Guidance	Mar-11-2015	Dunkin' Brands Group, Inc	$4,695.73
Next earnings date	6/8/2015		
Market Data			
Enterprise value	$1,183.26		
Market Capitalization	$1,224.54		
Daily volume	0.81		
Shares outstanding	64.93	BJ's Restaurants, Inc	$1,370.03
Diluted shares outstanding	68.93	Starbucks Corporation	$72,348.20
% shares held by institutions	88.81%	**Current Capital Structure**	
% shares held by insiders	1.32%	Total debt/market cap	0.79%
Short interest	7.42%	Cost of Borrowing	7.74%
Days to cover short interest	9.52	Interest Coverage	10.1x
52 week high	$22.32	Altman Z	10.13
52-week low	$14.82	Debt Rating	AA
5y Beta	1.42	Levered Beta	0.97
6-month volatility	31.81%	WACC (based on market value weights)	7.71%

Past Earning Surprises	Revenue	EBITDA	Norm. EPS
Last Quarter	-2.1%	-17.0%	6.3%
Last Quarter-1	-1.2%	-7.3%	0.0%
Last Quarter -2	2.0%	-17.2%	-18.8%
Last Quarter -3	-3.2%	-5.7%	0.0%
Last Quarter -4	-5.1%	-12.8%	-7.7%

Management

Professional	Title	Comp. FY2013	Comp. FY2014	Comp. FY2015
Chambers, G.	Chief Marketing Officer and Senior Vice Pr	$990,670	$1,996,134	$0
Bay, Cynthia	Senior Vice President of US Franchises anc	$1,042,843	$913,504	$0
Thompson, Anthony	Chief Executive Officer and President	$0	$0	$0
Cooper, G.	Chief Financial Officer and Executive Vice	$0	$0	$0
Booe, Anita	Director of Investor Relations	$0	$0	$0
Marsch, Darryl	Senior Vice President, General Counsel an	$0	$0	$0

Historical Median Performance	KKD	Peers	Industry	All U.S. firms
Growth	2.9%	9.4%	6.1%	7.4%
ROIC	8.9%	11.2%	14.7%	14.3%
NOPLAT Margin	5.5%	10.1%	7.1%	10.4%
Revenue/Invested Capital	1.61	1.11	2.06	1.37
Excess Cash/Rev.	9.2%	7.5%	13.5%	12.9%
Total Cash /Rev.	9.2%	9.1%	12.3%	15.2%
Unlevered Beta	1.31	0.92	0.97	0.95
TEV/REV	1.2x	3.1x	1.7x	2.5x
TEV/EBITA	16.8x	30.5x	14.1x	13.1x
PE (normalized and diluted EPS)	38.0x	29.9x	25.7x	23.5x
P/BV	3.3x	7.9x	3.2x	2.2x

GAAP Adjustments in estimates computations			
Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions	
Money market rate as of today	0.60%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	6.0%
Base Year Unlevered Beta	is equal to 0.92
Long term Unlevered Beta	0.92

Forecast Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	6.5%	86.4%	$368.03	7%	9.7%	7.7%
NTM	12.2%	80.0%	$401.63	14%	20.6%	7.8%
NTM+1	12.0%	79.4%	$438.72	13%	20.3%	7.9%
NTM+2	12.0%	78.7%	$479.99	13%	20.7%	8.0%
NTM+3	11.9%	78.1%	$525.73	13%	21.5%	8.1%
NTM+4	11.9%	77.5%	$576.35	14%	22.4%	8.2%
NTM+5	11.8%	76.8%	$632.19	14%	23.4%	8.2%
NTM+6	11.8%	76.2%	$693.55	14%	24.5%	8.3%
NTM+7	11.7%	75.6%	$760.42	15%	25.7%	8.4%
NTM+8	11.7%	74.9%	$831.95	15%	26.9%	8.5%
Continuing Period	11.6%	74.3%	$1,263.79	15%	10.0%	8.6%

Valuation Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$9.69	$126.83	64.93
NTM	$46.99	$9.69	$81.28	64.93
NTM+1	$49.91	$9.69	$24.42	64.93
NTM+2	$55.92	$9.69	-$16.25	64.93
NTM+3	$64.33	$9.69	-$80.94	64.93
NTM+4	$74.90	$9.69	-$141.43	64.93
NTM+5	$87.59	$9.69	-$214.67	64.93
NTM+6	$102.52	$9.69	-$317.09	64.93
NTM+7	$119.95	$9.69	-$423.94	64.93
NTM+8	$140.29	$9.69	-$554.06	64.93
Continuing Value	$401.96			

Pricing Model

DCF (Weight = 0%)	Relative (Weight = 100%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$15.01	$11.85	$14.91	$11.85
$17.04	$21.90	$16.99	$21.90
$18.54	$26.47	$18.58	$26.47
$19.98	$31.35	$19.95	$31.35
$21.68	$37.11	$21.66	$37.11
$23.37	$42.95	$23.27	$42.95
$25.06	$49.62	$24.95	$49.62
$27.03	$57.46	$26.90	$57.46
$28.89	$66.19	$28.71	$66.19
$30.43	$76.21	$30.55	$76.21

Monte Carlo Simulation Assumptions	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Country Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	6%	N/A	3%	9%	Triangular

Monte Carlo Simulation Results	Intrinsic Value	1y-Target
Mean est.	$11.85	$21.90
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$10.89	$21.15
Current Price	$18.86	
Analysts' median est.		$24.83

Proto Labs Inc.

NYSE:PRLB

Analyst: Kyle White
Sector: Industrials

BUY

Price Target: $85.00

Key Statistics as of 4/15/2015

Market Price:	$78.16
Industry:	Machinery
Market Cap:	$2.023 B
52-Week Range:	$94.23-54.97
Beta:	-0.14

Thesis Points:

- Very attractive growth profile, taking advantage of shorter modern product lifecycles, and unique business model is dramatically shortening companies time to market
- Highly scalable, meaning higher revenues at relatively similar cost profile
- Extremely efficient cash usage, short cash cycles compared to peers and industry
- Cash machine and minimal debt even with capital expenditures geared for future growth

Company Description:

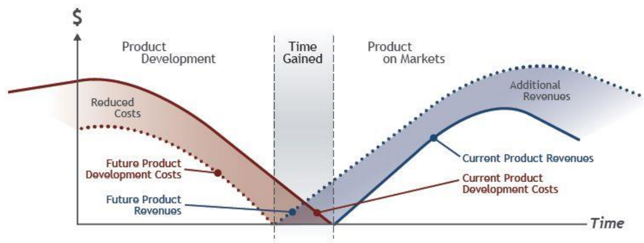
Proto Labs, Inc., together with its subsidiaries, manufactures computer numerical control (CNC) machined, injection molded, and 3D printed custom parts for prototyping and short-run production in the medical, aerospace, computer/electronics, consumer products, industrial machinery, and other markets. Its primary manufacturing services comprise Firstcut, a CNC machining service; and Protomold, an aluminum injection molding service. The company also provides Fineline, an additive manufacturing product that offers precision rapid prototyping. It serves product developers who use three-dimensional computer-aided design software to design products. The company has operation primarily in the United States, Europe, and Japan. Proto Labs, Inc. was founded in 1999 and is headquartered in Maple Plain, Minnesota.

Thesis

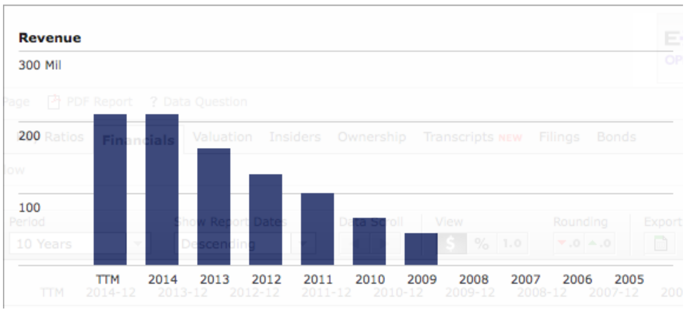
In today's business environment, fast is everything. The cold hard truth is that companies are most likely to be defined by their ability to get new, innovative products to market than by any other part of their business. This reality is most pressing for many technology and medical device providers, whose product lifecycles are often, at best, 6 to 12 months. You would have to be deaf, dumb, and blind to not recognize this as an opportunity. Fortunately for a small quick-turn manufacturer like Proto Labs, they've heard the call of an underserved market, envisioned a future full of opportunity, and have done an amazing job of communicating that vision through real, tangible results today. What we are looking at is a company that has achieved incredible growth year-over-year, while achieving cash efficiency unrivaled by peers and the industry, doing so with minimal debt, and throughout, maintaining highly stable margins. Since coverage of this stock was initiated 2 weeks ago, the stock has surged past it's 1-year target of $76.00, for an 11% gain, and as some would say, "has tapped out all the value there was," but this stock is certainly still undervalued and has in the short term potential to climb to $85 and beyond.

Strong Growth Profile

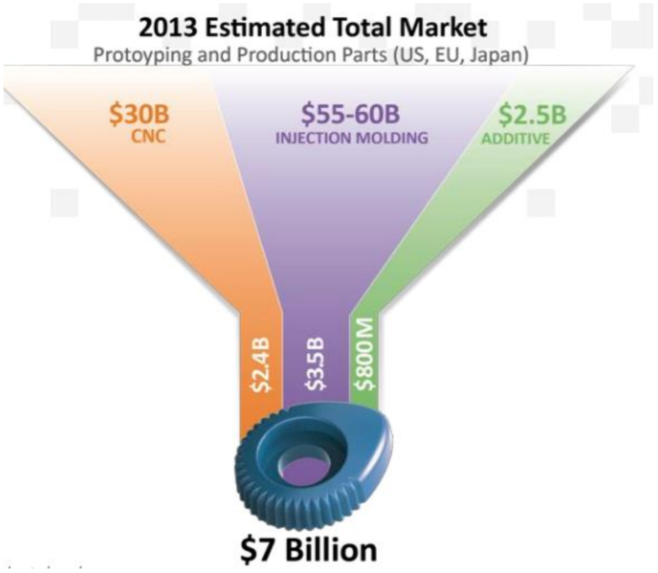
In order to understand the full potential of Proto Labs, which will from here on out be referred to as PL, you first have to gain an understanding of what the company does, will do, and to some extent what they have done in the past. Like with any straightforward story, the past is the absolute best place to start, unlike what Hollywood would have you believe. PL was founded in 1999, as much of the same company as it is today, a jumpstarter. The company's founder, Larry Lukis, like many engineers then, and many engineers today, were, and are frustrated by the length of time required, and the excessive cost associated with getting prototypes and products up and running. Many companies at the time were largely focused around pushing through large volumes of single parts, and ignoring small run jobs that, what was then Protomold, focused on. Prototyping has always been a critical part of the design process, but it's becoming increasingly important as generational iterations of products begin to shrink as a unit of time. For a single product, the number of prototypes involved may be countless, and the associate parts further add to the burden. Today companies simply can't afford sitting around waiting for parts like they could in the past, and the same amount of headache compressed into a smaller timeframe is generating a great deal of anxiety inside many companies. The losses absorbed by a company due to delayed projects are summed up rather nicely in the following chart.



As we move into the more rapidly shifting environment of the future, this chart and its associated costs will only become more exacerbated. The 4 to 12 week waiting period for necessary parts just won't cut it anymore. PL has stepped in to fill this void. Working with engineers, advanced machinery, and proprietary software, the company is turning 12 weeks into 2. For many, working with PL, this has caused a sigh of relief across multiple industries. What does that relief look like? Well for PL it's a 25% CAGR in revenue with industry leading margins.



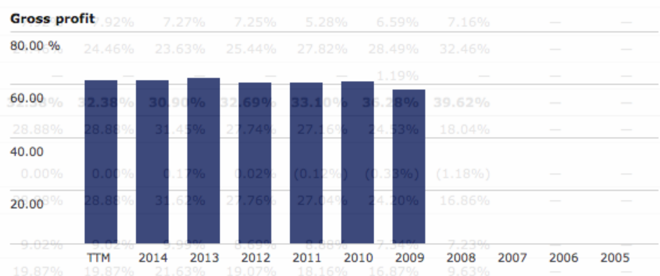
Today the company's growth has brought us to about $200 million in sales, the company's CEO Vicki Holt, "It's a very large market out there," and she has her eyes peeled on $7 billion portion of the larger $90 billion space that her company operates in. In large, the company intends to engage in a great deal of cooperation with the blooming medical device industry, which must go through much iteration to get past the rigorous scrutiny of the FDA. In order to achieve the type of growth talked about here, the company has very specific plans for each of its operating segments, and is by no means timid in it CAPEX spending to achieve those goals.



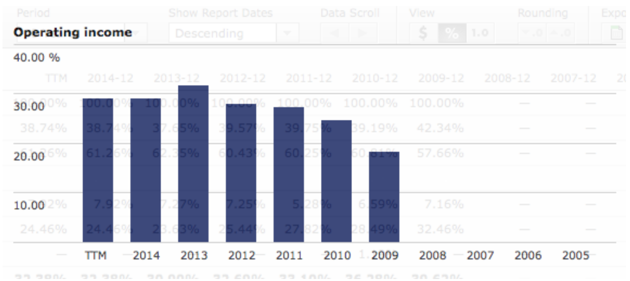
Where PL truly focuses is in its injection molding business, as it can produce the highest volumes, with the largest range of materials, and for the largest amount of customers as we can see the graph above. Both the CNC and injection molding have had several new facilities dedicated to their future space requirements, but a significant sales force has been dedicated to the segments as well. Starting in 2014 roughly 500 new sales staff was brought on board to understand and market the unique services that PL offers. As marketing and sales now makes up a significant portion of operating costs, it might be expected that in the short run this could squeeze margins and reduce ROIC. As a long-term investment in the firm, it should be expected that the higher revenues, coupled with the scalability of the business would quickly outweigh this. Outside their more "traditional" business, PL recently acquired Fineline, an additive manufacturing company, aka, 3D printing technology. While for now it makes up a relatively small portion of the companies revenues, focusing on this technology, which is believed by many experts to become, overtime, the primary means of manufacturing small, low volume parts in the developed world. While the company's focus here is on the future, that isn't to say that it hasn't had its impact today. When observing overall revenue growth in 2014, of the 28.5% growth, roughly 10% was derived from the newly added Fineline services, showing that there is already significant demand for the service, although many engineers and product developers are still reluctant to fully embrace the technology. As the technological capabilities of the company unfold, we can expect to see more and more engineering departments seeking to adopt the company's services as they come in line with their needs. Most of the company's revenues are still largely based in the US, but an increasingly significant amount of that top line growth is coming from international markets, especially due to increasing manufacturing growth in Europe, as well as a blossoming of advanced manufacturing in Southeast Asia. The company is making aggressive expansion into these areas in order drive value creation moving into the future. What PL does is one of a kind, and if they can be first to market in those areas, we can expect to see considerable competitive advantage, as the barriers to entry for this industry are considerable. What will be the biggest obstacle to the company's growth in these areas will be their ability to enforce the multiple patents that they derive their advantage from.

Highly Scalable

PL is a company that, at least, at the core of their business is completely automated. Engineers secure quotes online, upload CAD designs online, and are billed online. From the internet, besides feeding machines material, the process is entirely automated. Machines receive orders from an online queue and immediately begin producing, and if transportation could remove the human element, that would be automated as well. The result of this business model is high initial fixed costs, with minimal variable costs going forward. From 2013 to 2014 the company has made major outlays in terms of NPPE, a 64% of which 54%% represented new machinery and 37% represented new floor space and expansion. This capital expenditure is likely to provide more than enough room for growth over the coming years. With a proper foothold in the company's desired markets, and its grounding in an internet based system, the companies only true addition to cost over the coming years is likely to be from sales and marketing to capture more and more of the market. It should also hold true that revenues should outpace the growth in cost and allow the company to maintain current margins.

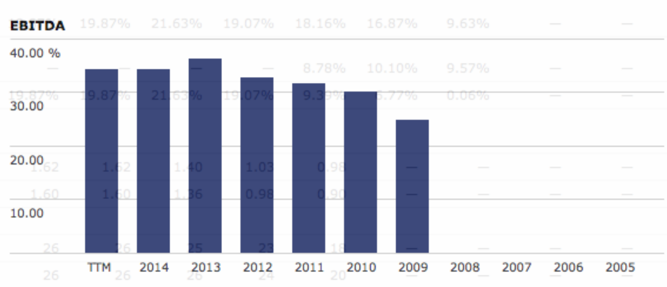


As is plainly clear the company has done an astounding job keeping material costs down suggesting either a great deal of operating leverage with suppliers or low switching costs, as the materials which PL uses in production (plastics and common manufacturing metals) are for the most part commoditized. What is more important than that though, we see below in terms of operating profits.



The company has a track record of being able to bring down its operating cost either through increasing expertise in their business or fat trimming abilities, of which the former I would be more inclined to say is true. From 2010 to 2014, there has been an improvement in operating margins of nearly 4%, which is impressive, even if the company is relatively new. As technology becomes cheaper, as Moore's Law says it inevitably will, the company should be able to find increased efficiencies as technology and experience merge, creating larger margins, and coupled with significant growth should continue to drive value.

But even more exciting are the company's EBITDA margins, (which as the true estimator of cash being generated by the business) are significantly higher than both the company's peers and the industry as well.



Efficient Cash Use

PL is a very unique player in a diversified playing field. Commonly it is lumped in by many investors with the rest of the big 3D printing companies like Stratasys and 3D Systems, and therefore it has high valuation multiples that many don't believe it deserves and will eventually run into a higher cost structure like its peers have. Whatever the similarities, of which there were none before the company's acquisition of Firstline, PL is far more likely to exceed investors expectation on a shorter timeframe such as this fund typically goes after. While the companies margins speak for themselves, there are other aspects of PL that place it squarely in the realm of best in class, particularly its CCC, which demonstrates a companies ability to use cash, and whether it will continue to do so in the future. Now PL sits at a cash conversion cycle of approximately 32 days, which are light years ahead of its two closest competitors DDD and SSYS who are at 118 and 138 respectively. On top of this, the company has been able to improve this number year-over-year, and as online experience improves along with quicker, more accurate customer deliveries they should at least continue to exhibit stability if not improvement in the future. The ability of the company to use cash now is a good indicator of quick, efficient growth in coming years, and the avoidance of growing pains that rapidly expanding companies tend to face.

Cash Machine, Low Debt

An encouraging sign for any company's value is its ability to generate cash, and doing so efficiently. PL does this and more. With a fraction of a fraction of debt, the company enjoys a great deal of freedom it terms of its capital structure decisions and will continue to experience autonomy in an industry were direct competitors don't really exist. This isn't to say that the company doesn't face pressure from rivals, but the quality and quickness that the company delivers, their niche appeal in the protoyping world, and the customer relations they have built provide them with a stable economic moat. So could the company be a target for acquisition by a larger manufacturer looking to diversify, or take advantage of the in house benefit the company could offer? Insiders do hold a significant portion of the company still at around 15%, meaning the clearly do care, and believe in the future potential of the company. That combined with the compensation to employees in the form of options and warrants, mean that management does see future appreciation of stock price in the future. In large, acquisitions of this type of company are rare, as they are too specialized for a larger company to take real advantage of. As a result many companies often see more value in these companies as stand alones that can be used via outsourcing. That being said, it isn't outside the realm of possibility, given the attractiveness of the PL balance sheet and cash flows, that it may be the target of possible M&A activity.

Forecast & Final Recommendation

There is a fair chance that in approaching months we will see a pullback in the economy, which has continually searched for new heights in the first quarter of 2015, however rocky the waters may be. Many analysts, and I would agree have placed a target price in the mid-80's, which having recently moved past it consensus target of $76.00, is very possibly within the cards. Although this company is classified as an industrial, even the company's management smirks when the notion of it being a tech play is mentioned, and that ultimately makes it more vulnerable to a pull back and the collapse of rich valuations in the technology sector. Long term, the outlook on this stock is very bullish, as its servable market is really starting to take off. Short-term, the waters are likely to be choppy. Value plays, good luck finding them in this market, but investors with patience and a long investment horizon are likely in for a treat with this little chestnut.

Siena Market Line
3rd week of April 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

Proto Labs, Inc.	PRLB	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BEARISH
		Kyle White	$76.63	$67.40	$64.39	0%	1-y Return: -15.98%	

General Info

Sector	Industrials
Industry	Machinery
Last Guidance	##############################
Next earnings date	4/23/2015

Market Data

Enterprise value	$1,911.15
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	25.89
Diluted shares outstanding	26.10
% shares held by institutions	99.58%
% shares held by insiders	10.16%
Short interest	15.61%
Days to cover short interest	14.27
52 week high	$94.23
52-week low	$54.97
5y Beta	-0.08
6-month volatility	38.44%

Peers	Market Cap.
Stratasys Ltd.	$2,832.32
(Parameter Length Limit Exceeded)	(Parameter Length Limit Exceeded)

Current Capital Structure

Total debt/market cap	0.01%
Cost of Borrowing	12.75%
Interest Coverage	52.3x
Altman Z	52.28
Debt Rating	AAA
Levered Beta	-0.43
WACC (based on market value weights)	0.35%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Holt, Victoria	Chief Executive Officer, President :	$0	$0	$1,894,210
Way, John	Chief Financial Officer and Executi	$0	$0	$427,898
Krantz, Donald	Executive Vice President and Tech:	$553,795	$913,408	$971,455
Schneider, Jacqueline	Vice President of Global Sales	$0	$830,716	$930,181
Tumelty, John	Managing Director of Europe, Mic	$0	$785,346	$1,021,328
Dietrick, William	Vice President of Marketing	$0	$0	$0

Historical Median Performance

	PRLB	Peers	Industry	All U.S. firms
Growth	26.9%	26.5%	5.7%	7.4%
ROIC	18.8%	6.7%	17.7%	14.3%
NOPLAT Margin	31.0%	12.6%	8.4%	10.4%
Revenue/Invested Capital	0.61	0.53	2.09	1.37
Excess Cash/Rev.	N/A	37.5%	13.5%	12.9%
Total Cash /Rev.	42.0%	37.5%	12.3%	15.2%
Unlevered Beta	-0.43	1.23	1.29	0.95
TEV/REV	8.0x	4.5x	1.6x	2.5x
TEV/EBITA	16.8x	38.5x	12.0x	13.1x
PE (normalized and diluted EPS)	26.8x	20.1x	22.1x	23.5x
P/BV	2.9x	1.8x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	2.8%	-9.5%	2.4%
Last Quarter-1	-2.1%	-5.4%	-6.4%
Last Quarter -2	3.0%	9.3%	7.1%
Last Quarter -3	-1.6%	4.3%	5.1%
Last Quarter -4	0.9%	2.8%	5.4%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	100%	Straightline	10 years

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	35.0%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	2%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to -0.43
Long term Unlevered Beta	1.10

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	28.5%	63.6%	$488.89	31%	13.3%	0.3%
NTM	30.0%	63.3%	$271.64	25%	13.8%	1.3%
NTM+1	35.0%	63.1%	$316.76	25%	33.8%	2.3%
NTM+2	32.6%	62.8%	$365.64	25%	38.9%	3.2%
NTM+3	25.0%	62.5%	$415.28	25%	42.4%	4.1%
NTM+4	20.0%	62.3%	$465.32	26%	45.2%	5.1%
NTM+5	17.6%	62.0%	$515.77	26%	47.8%	6.0%
NTM+6	15.1%	61.8%	$565.00	26%	50.0%	7.0%
NTM+7	12.7%	61.5%	$611.06	26%	51.7%	7.9%
NTM+8	10.2%	61.3%	$651.55	26%	53.1%	8.8%
Continuing Period	7.8%	61.0%	$1,052.84	15%	10.0%	8.9%

Valuation / **Pricing Model**

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding	DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
LTM	$0.00	$0.15	-$58.72	25.89	$68.36	$48.42	$70.37	$68.36
NTM	$61.05	$0.15	-$96.78	25.89	$65.14	$51.68	$64.35	$65.14
NTM+1	$85.81	$0.15	-$146.56	25.89	$67.87	$71.07	$67.03	$67.87
NTM+2	$112.92	$0.15	-$229.75	25.89	$71.39	$96.43	$70.52	$71.39
NTM+3	$140.00	$0.15	-$332.62	25.89	$75.02	$123.23	$74.07	$75.02
NTM+4	$166.53	$0.15	-$465.37	25.89	$79.44	$151.48	$77.93	$79.44
NTM+5	$194.22	$0.15	-$654.39	25.89	$84.01	$183.40	$82.92	$84.01
NTM+6	$221.78	$0.15	-$853.21	25.89	$88.25	$216.29	$87.11	$88.25
NTM+7	$247.73	$0.15	-$1,096.39	25.89	$92.45	$250.35	$91.44	$92.45
NTM+8	$270.43	$0.15	-$1,371.56	25.89	$95.11	$283.78	$95.17	$95.11
Continuing Value	$124.12							

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Country Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	4%	N/A	3%	27%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$68.36	$65.14
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$67.40	$64.39
Current Price	$76.63	
Analysts' median est.		$77.56

Siena Market Line
2nd week of February 2015

Sears Holding Corporation

NASDAQ:SHLD

Analyst: JACKY CHENG
Sector: SERVICES

SHORT

Price Target: $20.00

Key Statistics as of 4/16/2015

Market Price:	$43.50
Industry:	Department Stores
Market Cap:	$4.53 B
52-Week Range:	$22.45 - 48.25
Beta:	2.77

Thesis Points:

- Diminishing Financials w/ Negative Cash Flows
- No Future Growth Outlook
- Unprofitable Company
- Decrease in Market Share in Competitive Industry

Company Description:

Sears Holdings Corporation operates as a retailer in the United States. It operates in two segments, Kmart and Sears Domestic. The Kmart segment operates retail stores that offer a range of products, including consumer electronics, seasonal merchandise, outdoor living, toys, lawn and garden equipment, food and consumables, apparel, and in-store pharmacies. As of January 31, 2015, this segment operated approximately 979 Kmart stores located across 49 states, Guam, Puerto Rico, and the U.S. Virgin Islands. The Sears Domestic segment operates stores that provide appliances, consumer electronics/connected solutions, tools, sporting goods, outdoor living, lawn and garden equipment, apparel, footwear, jewelry, and accessories, as well as automotive services and products, such as tires, batteries, and home fashion products. It also offers appliances and services to commercial customers in the single-family residential construction/remodel, property management, multi-family new construction, and government/military sectors; appliance and plumbing fixtures to architects, designers, and new construction or remodeling customers; parts and repair services for appliances, lawn and garden equipment, consumer electronics, floor care products, and heating and cooling systems; and home improvement services, as well as protection agreements and product installation services. As of January 31, 2015, this segment operated 717 full-line stores located across 50 states and Puerto Rico. Sears Holdings Corporation was founded in 1899 and is based in Hoffman Estates, Illinois.

Thesis

Sears Holdings Corporation has been struggling financially and it is a surprise to still see them sticking around. For the past five years, the corporation has been on a decline in sales and has been forced to close down stores and sell other assets over the past several years. Management has taken a compensation cut to keep the company alive. Overall, the story looks like a fiasco.

Full Year 2014
Domestic Comparable Store Sales

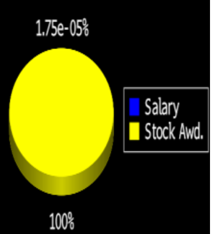
Format	Full Year 2014	Drivers
Sears Domestic	-2.1%	↑ Home Appliances ↑ Mattresses ↓ Apparel ↓ Auto ↓ Consumer Electronics
Kmart	-1.4%	↑ Apparel ↑ Jewelry ↓ Grocery & Household ↓ Consumer Electronics

**Above shows the decrease in domestic sales compared to last year.*

Management

Currently, Edward S Lampert, who is the CEO and Chairman of Sears Holdings Corporation, does not have a salary and has not had one for the past three years Eddie has been with the company. He is though, being compensated entirely in stock awards. This gives him a really imperative incentive to revive the company; otherwise his investment would be such a waste of time.

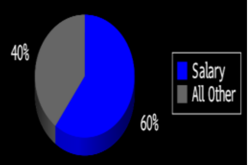
Executive Compensation (2015)	Amount (USD)
SALARY	1
BONUS	0
STOCK AWARDS	5,702,363
OPTION AWARDS	0
NON-EQUITY INCENTIVE	0
PENSION/NONQUALIFIED DEFERRED	0
ALL OTHER COMPENSATION	0
TOTAL	5,702,364



**Above shows Eddie's Compensation of $1 in salary and $5 Million in stock awards.*

Robert A Schrieshem, who is the CFO of Sears Holdings Corporation, has a salary of $800,000 while the rest is in compensation. Robert has over the past year lost his bonus and stock award he once had, shrinking his total compensation from about $5.2 million in 2012 to $1.3 million in 2015.

Executive Compensation (2015)	Amount (USD)
SALARY	800,000
BONUS	0
STOCK AWARDS	0
OPTION AWARDS	0
NON-EQUITY INCENTIVE	0
PENSION/NONQUALIFIED DEFE...	0
ALL OTHER COMPENSATION	533,516
TOTAL	1,333,516



**Above shows Robert's compensation, which has been significantly less compared to previous years.*

The executives are not the only one suffering from pay cuts. A lot of employees that work in Sears or K-Mart have been laid off or taken a salary cut due to the fact they are unable to pay them the salaries at the same rate or the stores are not generating a profitable margin where they end up closing the stores entirely.

Store Closings/Sell Offs

Sears Holding Corporation has been selling off its assets and closing down stores in order to decrease its expenses, increase gross margins, and most importantly to raise capital. Recently, the corporation has started selling their properties to a REIT in order to make the company profitable. Sears Holding Corporation has also spin off Lands' End, which is a clothing line, and most of Sears Canada.

	Date	Action Type	Ticker / ID	Summary
1)	04/13/15	Divestiture	SHLD US	Unit: Sears Holdings property at the La Plaza Mall, S
2)	04/13/15	Joint Venture	SHLD US	Forming: Unnamed Joint Venture
3)	04/01/15	Joint Venture	SHLD US	Forming: Unnamed Joint Venture
4)	05/14/14	Divestiture	SHLD US	PROPOSED - Unit: Sears Canada Inc, Seller: Sears H
5)	04/07/14	Spin-off	SHLD US	Spin-off: Lands' End Inc(LE US)
6)	04/07/14	Spin-off	SEE GR	Spin-off: Lands' End Inc(LE US)
7)	04/07/14	Spin-off	SEE TH	Spin-off: Lands' End Inc(LE US)
8)	11/12/13	Divestiture	SHLD US	Unit: Berkshire Property Portfolio, Seller: Sears Hol
9)	10/31/12	Spin-off	SHLD US	Spin-off: Sears Canada Inc(SCC CN)
10)	10/31/12	Spin-off	SEE GR	Spin-off: Sears Canada Inc(SCC CN)
11)	10/31/12	Spin-off	SEE TH	Spin-off: Sears Canada Inc(SCC CN)
12)	04/18/12	Divestiture	SHLD US	Unit: Sears Stores, Seller: Sears Holdings Corp

**Above shows Sears Holding Corporation spin-off and divestitures for the past three years.*

**Above shows graph projection with each divestiture plotted.*

Despite reducing its stores, the company is unable to transform its business operations into a profitable company as the company's store sales still remain negative.

Debt and Other Obligation

The unfunded pension obligation has been hurting the corporation as it has increased year to year. This was due to that fact that decreases in the interest rate used to measure funding status and increase in mortality rates used to compute the liability.

Sears Holdings has a frozen pension plan which provides benefits for past services

The pension obligation increased in 2014 due to a decrease in the discount rate and new mortality rates used to compute the liability

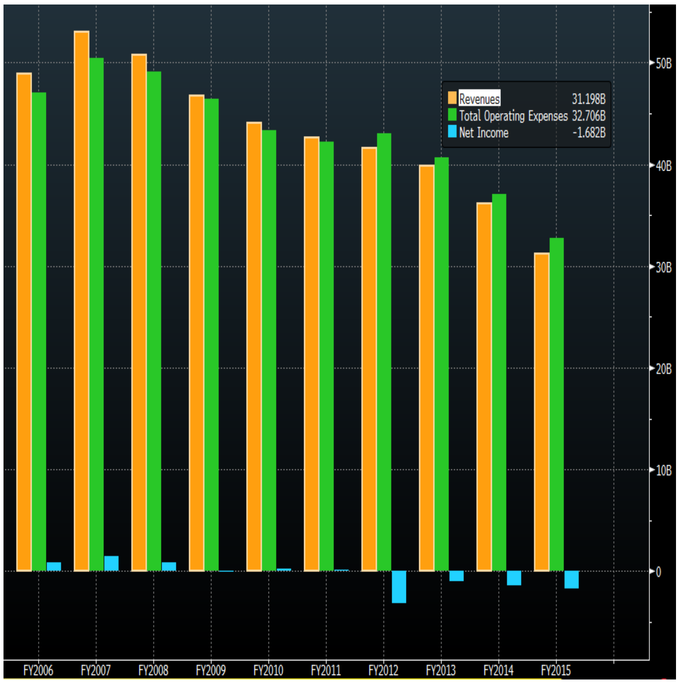
Amounts in millions — Year-End Balances

	2014	2013	2012 (1)	2011	2010	2009
Assets	$3,616	$3,490	$3,221	$4,051	$4,054	$3,633
Liability	5,875	4,981	5,311	6,109	5,623	5,435
Unfunded	($2,259)	($1,491)	($2,090)	($2,058)	($1,569)	($1,802)
Discount Rate	*3.70%*	*4.60%*	*4.25%*	*4.90%*	*5.75%*	*6.00%*

- Note: A 100 bps increase in the discount rate would reduce the pension liability by approximately $600 million

Financials

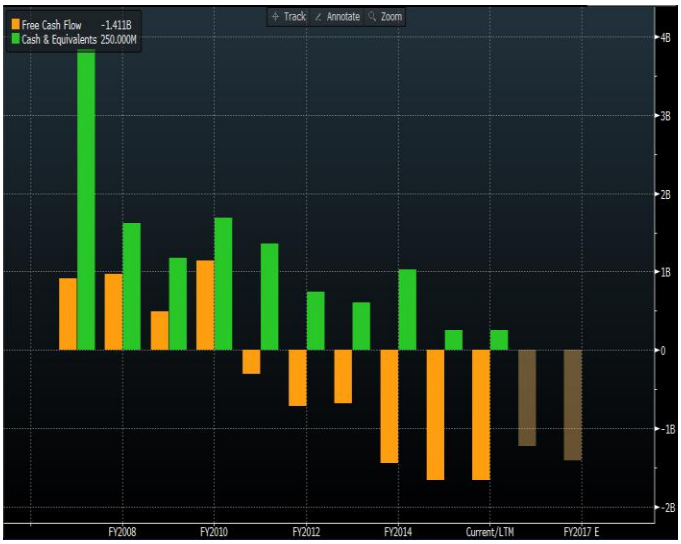
Sears Holding Corporation has been suffering from terrible financials for almost ten years. Looking at the financials, revenue has been on a decline since 2007 and operating expenses has exceeded revenue starting in 2012, resulting in negative net income.



**Above graph shows revenue decreasing and operating expense exceeding revenue at FY2012, resulting in a negative net income.*

Other indicators on their financials include the amount of cash the corporation has on hand. For 2015, Sears Holdings has only 250 million compared to 1 billion from last full year.

Other alarming indicators that are worth noting are the free cash flows and EBITDA. Both of these have been negative for the past years and have been getting worse by the year.



**Above graph shows the decrease in cash & equivalents and free cash flows.*

Future Outlook

Currently, Sears Holding Corporation does not look like they have a good future despite the efforts to become profitable again. Despite selling off stores and other assets, the corporation is still operating at a loss. On top of that, the competition in the department stores market is outperforming Sears Holding Corporation. K-Mart is being outperformed by companies such as Wal-Mart and Target while Sears is not competing well with companies such as Lowes and Best Buy. Not to mention, there are almost five or more times as many Wal-Mart or Target stores than a K-Mart store and the company is only diminishing their market share in the industry. Same goes with Sears compared to stores like Home Depot, Best Buy, and Macy stores that you see almost everywhere and Sears is nowhere to be in sight.

Conclusion

Despite the efforts to transform the corporation into a profitable company, the trend has not stopped and continues to show through the financials. The company remains unprofitable and downsizing on stores is only shrinking the market share in the industry that is already highly congested with myriads of competitors. The corporation is doing a good job raising capital by selling stores and assets, but it is not translating into revenue and most importantly net profit. For these reasons, Sears Holding Corporation is a SHORT.

CENTER FOR GLOBAL FINANCIAL STUDIES

Sears Holdings Corporation	SHLD	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BEARISH
		JACKY CHENG	$43.50	$20.26	$0.00	0%	1-y Return: -100%	

General Info

Sector	Consumer Discretionary
Industry	Multiline Retail
Last Guidance	Nov-07-2014
Next earnings date	NM

Market Data

Enterprise value	$8,191.18
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	106.56
Diluted shares outstanding	106.30
% shares held by institutions	99.58%
% shares held by insiders	27.46%
Short interest	9.66%
Days to cover short interest	14.90
52 week high	$48.25
52-week low	$24.10
5y Beta	2.90
6-month volatility	68.05%

Peers	Market Cap.
Best Buy Co., Inc.	$13,312.63
Staples, Inc.	$10,384.80
J. C. Penney Company, Inc.	$2,791.86
Macy's, Inc.	$23,228.80
Lowe's Companies Inc.	$70,407.14
Bed Bath & Beyond Inc.	$13,619.40
The Home Depot, Inc.	$148,077.84
Target Corp.	$53,302.84
Kohl's Corp.	$15,530.58
Advance Auto Parts Inc.	$10,903.84

Current Capital Structure

Total debt/market cap	81.98%
Cost of Borrowing	6.05%
Interest Coverage	1.9x
Altman Z	1.92
Debt Rating	D
Levered Beta	3.76
WACC (based on market value we	7.86%

Management

Professional	Title	Comp. FY2013	Comp. FY2014	Comp. FY2015
Lampert, Edward	Chairman, Chief Executive Of	$4,309,524	$5,702,364	$0
Schriesheim, Robert	Chief Financial Officer and Ex	$1,498,245	$1,333,516	$0
Balagna, Jeffrey	Chief Information Officer and	$3,590,828	$1,151,524	$0
Arora, Arun	Senior Vice President and Pr	$0	$1,590,151	$0
Mixon, James	Senior Vice President of Sup	$0	$0	$0
Riecker, Robert	Chief Accounting Officer, Vic	$0	$0	$0

Historical Median Performance

	SHLD	Peers	Industry	All U.S. firms
Growth	-5.9%	1.8%	2.5%	7.4%
ROIC	2.0%	10.5%	13.6%	14.3%
NOPLAT Margin	2.9%	5.2%	3.8%	10.4%
Revenue/Invested Capital	0.70	2.03	3.62	1.37
Excess Cash/Rev.	2.8%	4.0%	13.5%	12.9%
Total Cash /Rev.	2.8%	4.0%	12.3%	15.2%
Unlevered Beta	0.93	0.98	1.08	0.95
TEV/REV	0.3x	0.8x	0.7x	2.5x
TEV/EBITA	7.2x	15.8x	9.8x	13.1x
PE (normalized and diluted EF	9.5x	15.6x	18.1x	23.5x
P/BV	0.6x	2.9x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-2.5%	0.0%	NM
Last Quarter-1	4.7%	0.0%	NM
Last Quarter -2	-1.4%	NM	NM
Last Quarter -3	2.1%	NM	NM
Last Quarter -4	0.2%	NM	NM

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalizatic	100%	Straightline	10 years
R&D Exp. Capitalization	0%	N/A	N/A
Expl./Drilling Exp. Capitalizatio	0%	N/A	N/A
SG&A Capitalization	14%	Straightline	10 years

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interes	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.5%
Base Year Unlevered Beta	is equal to 0.98
Long term Unlevered Beta	0.98

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	-13.8%	102.7%	$17,843.54	-1%	-0.9%	7.9%
NTM	-12.0%	101.2%	$8,266.34	-3%	-4.3%	8.2%
NTM+1	-10.1%	99.7%	$7,143.15	-2%	-4.5%	8.3%
NTM+2	-8.3%	98.2%	$6,474.90	0%	-0.7%	8.4%
NTM+3	-6.5%	96.7%	$6,092.22	1%	2.3%	8.5%
NTM+4	-4.6%	95.2%	$5,905.75	2%	5.0%	8.6%
NTM+5	-2.8%	93.7%	$5,973.77	2%	7.9%	8.7%
NTM+6	-1.0%	92.3%	$5,956.29	3%	10.6%	8.5%
NTM+7	0.9%	90.8%	$6,988.76	4%	13.5%	8.4%
NTM+8	2.7%	89.3%	$7,873.75	5%	13.4%	8.4%
Continuing Period	4.5%	87.8%	$7,957.24	6%	10.0%	8.5%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	ıer non-interest bearing clai	Shares Outstanding
LTM	$0.00	$3,800.00	$9,507.86	106.56
NTM	-$2,227.12	$4,614.59	$5,796.74	106.56
NTM+1	-$1,056.21	$5,388.25	$4,748.89	106.56
NTM+2	-$644.79	$5,936.32	$4,110.78	106.56
NTM+3	-$401.69	$6,283.97	$3,715.33	106.56
NTM+4	-$214.35	$6,436.57	$3,474.24	106.56
NTM+5	-$47.30	$6,489.28	$3,343.07	106.56
NTM+6	$117.69	$6,489.28	$3,241.59	106.56
NTM+7	$305.25	$6,489.28	$2,680.08	106.56
NTM+8	$346.54	$6,489.28	$3,162.73	106.56
Continuing Value	$2,673.63			

Pricing Model

Period	DCF (Weight = 100%)	Relative (Weight =	Distress (Weight =	Weighted Average Price P
LTM	$20.40	$0.00	$75.20	$20.40
NTM	$0.00	$0.00	$21.46	$0.00
NTM+1	$0.00	$0.00	$28.02	$0.00
NTM+2	$0.00	$0.00	$30.46	$0.00
NTM+3	$0.00	$0.00	$33.33	$0.00
NTM+4	$0.00	$0.00	$34.99	$0.00
NTM+5	$0.04	$17.73	$35.95	$0.04
NTM+6	$1.74	$38.87	$38.54	$1.74
NTM+7	$9.22	$36.51	$37.70	$9.22
NTM+8	$15.35	$60.47	$36.03	$15.35

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Country Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	5%	N/A	-6%	7%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$20.40	$0.00
σ(ε)	$0.32	$0.25
σ(ε) adjusted pric	$19.44	$0.00
Current Price	$43.50	
Analysts' median est.		$0.00

TechTarget, Inc.

NASDAQ:TTGT

Analyst: Jarret Reaume
Sector: Technology

BUY

Price Target: $13.91

Key Statistics as of 4/16/2015

Market Price:	$11.25
Industry:	Internet Software and Services
Market Cap:	$370.25 M
52-Week Range:	$6.27 – $12.63
Beta:	2.51

Thesis Points:

- Unique Content Model
- IT Deal Alert Growth Drives Value
- Zero Debt Position
- Margin Improvements Will Improve Free Cash Flows
- Online International Growth Will Emerge As New Value Driver

Company Description:

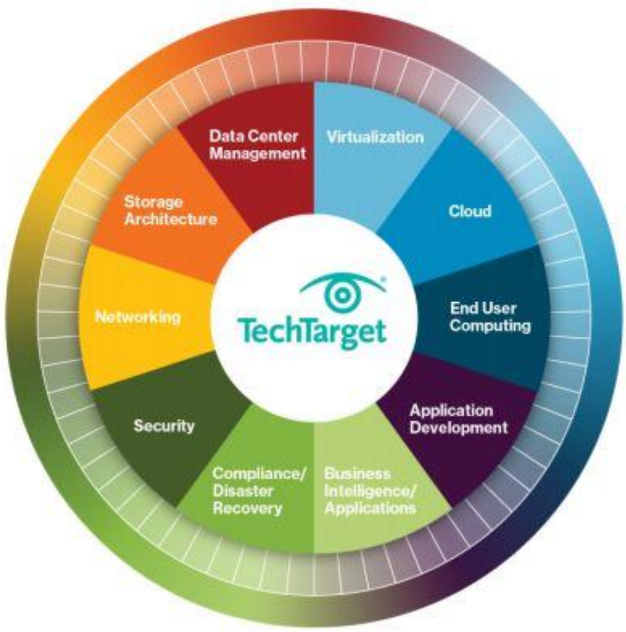
TechTarget, Inc. provides specialized online content and brand advertising that brings together buyers and sellers of corporate information technology (IT) products and services. It sells customized marketing programs which enable IT vendors to reach corporate IT decision makers who are researching specific IT purchases, as well as provides conferences, seminars, and other in-person events through its websites. The company also operates an integrated content platform that consists of a network of approximately 150 websites that focus on media groups including security, networking, storage, data center and virtualization technologies. In addition, it enables registered members to conduct their pre-purchase research by accessing vendor content, such as

Thesis

TechTarget, Inc. is a growing company that looks to create value with continued improvement in margins and free cash flows. The firm is in an industry where barriers to entry are high due to a unique content model. The company provides many services to companies that are in the information technology buying process and need help choosing the right products. TechTarget, Inc.'s vast assortment of content is unrivaled by any other company in its industry. Combine that with a large audience and the result is a company with a bright future of value creation. The market does not yet realize the potential of this company because there is no company like it and the firm has not yet hit its prime. There is a serious opportunity to capitalize on the low price of the stock at $11.46.

Unique Content Model

The vast collection of content that TechTarget, Inc. boasts is unlike any other company. There are over 5,000 topics covered that can satisfy any company's



5,000 topics covered

needs. With 150 full-time editors, 700+ outside experts, and thousands of users generating peer content, there is always ample information for any type of technology buyer.

The content on TechTarget would be meaningless if there was no audience to pay for it and use it. Fortunately, TechTarget has the largest IT audience on the web and is only growing. As of February 2015, the company has over 15.3 million registered users worldwide. This number is growing and does not account for all of the people viewing the site. 94% of people who view the site are not registered yet which gives the amount of registered users room to grow.

With over 16 million monthly visitors and over 500,000 different companies researching tech products on TechTarget, the market is clearly large. The competition of companies to have the best technology will drive even more companies to research on TechTarget. Many of the best companies in the world are already customers of TechTarget, which will only attract competing companies to do the same. The image below shows the caliber of companies that use TechTarget. Clearly, it is a very prestigious list that sets up the company to grow

due to other big companies converting to TechTarget. The market has not priced this factor because it is hard to predict exactly how many companies will adopt TechTarget's services. However, there is reason to believe the companies will switch because of the aforementioned content model. If firms see that the best companies like Google use the services and there is no other place that can provide the same content, then it will be an easy to decision to register with TechTarget.

Not only can TechTarget attract major companies, but it can also retain them and make the business relationship extremely lucrative for both parties. TechTarget's focused, content-rich platform results in great benefits for both customers as well as advertisers. Any business that partners with TechTarget can expect to benefit tremendously. That is why the company's subscribers have very high renewal rates.

IT Deal Alert Growth Drives Value

IT Deal Alert is an innovative suite of enablement tools and services from TechTarget that addresses the distinct role-based needs of sales, marketing, and data science teams by providing real-time insight and in-depth data about IT buying teams worldwide. TechTarget plans to have existing customers adopt Deal Alert in the near future because of the economic value it will add. The service is extremely profitable as shown by its $16.9 million revenue from just 196 customers. TechTarget hopes to get Deal Alert to 1,200 customers so that it will become a $100 million revenue stream. The company believes that it can convince existing customers to adopt Deal Alert and renew existing customers at a high enough rate to make this happen. The chart below shows the opportunity this unique service presents.

The market is not as optimistic about the prospects of Deal Alert as TechTarget is; and that is a reason why the stock is undervalued. No other company has a service like this, so there is reason to believe TechTarget could meet its expectations or even surpass them. If it can, then the stock should increase greatly. During the Q4 2014 earnings conference call, nearly every question centered on IT Deal Alert and its expectations. CEO Greg Strakosch made it very clear that he is optimistic about this service. He believes that it should continue to grow and create value as the number of customers increase. Since variable costs are low for this service, higher volume of customers will create value because margins will increase. The company's management team can be trusted to have the firm's best interest in mind because the CEO and the Executive Director of Product Innovation both founded the business. This fact means it is likely that they prioritize company performance over personal compensation.

Zero Debt Position

TechTarget, Inc. has not held any long-term or short-term debt for more than five years. It is very beneficial for a growing company such as this one to have zero debt because it increases flexibility for the firm. The company can invest in new technologies or projects and not have to worry about defaulting on interest payments or becoming too distressed. Also, it saves money due to the lack of interest payments and assures the company to have a strong debt rating.

It may be prudent in the future for TechTarget to issue some debt because it could possibly lower the weighted average cost of capital since the cost of debt tends to be lower than the cost of equity. However, at this time, retained earnings prove to be the cheapest method of financing the company's expenses. The firm has only had to issue equity in the secondary market once since its initial public offering (IPO) in 2007. Since it did not have to issue debt to raise capital, it is clear that the company is in a solid financial state. It does not appear that TechTarget will be forced to issue debt anytime soon, so the firm will be able to generate free cash flows without tying up any earnings in interest payments. This strategy will assist TechTarget in continuing to grow organically and create shareholder value.

Margin Improvements Will Improve Free Cash Flows

TechTarget has proven to be efficient in having operating margins that generate free cash flows. The company has been able to generate cash in its last five years consecutively with margins that have fluctuated slightly, but look to improve. For example, the company's EBITDA margin has hovered around double digits for between FY 2010 and FY 2013. However, in 2014, TechTarget was able to make a 12.51% EBTIDA margin. EBITDA margins are projected to increase in the future, but not by enough as they actually should. This is where the market is underestimating the potential of TechTarget.

As mentioned previously, the number of customers and the services they purchase will increase more than the market expects in the near future. Services like IT Deal Alert that have already been implemented will cost

TechTarget far less than they will generate in revenue. Therefore, all operating margins will increase, and not just by a small amount. It is an optimistic view, but there is reason to believe that companies will desire this service due to the fact that many major players in the technology industry use it. A handful of the companies are shown in an image on the second page of this report. It is highly likely that several other major technology buyers will adopt TechTarget's services like IT Deal Alert.

An improvement in margins will help the firm generate free cash flows. As shown below, TechTarget has done well to generate cash flows in from 2011 until now.

Free Cash Flow	11.4	14.5	3.8	14.4	14.4

These numbers will look very small compared to what TechTarget should generate in the near future. With improved margins, a wider customer base, and services that are unmatched by any other company in the industry, free cash flows will double the 2014 number within a few years. Bloomberg analysts project free cash flows to reach $23.1 million by 2016, which is a low estimate. TechTarget will be able to outperform market expectations once again and the stock price will increase.

Online International Growth Will Emerge as New Value Driver

TechTarget's investor presentation highlights the fact that more than 50% of the enterprise IT market is outside of the United States. The company's international presence has been slowly growing, but there is an incredible amount of room for improvement. In 2009, TechTarget only had $4 million in revenue from the online international segment, but had $28 million in 2014.

TechTarget believes it can capitalize off of this in the future by doing business internationally just as it does domestically. In 2009, the company switched its business model from partnering with international buyers to doing direct business with them. The growth from 2009 until now shows that there is serious potential to generate revenue and create value this way.

According to TechTarget, margins are consistent with the US, so there will be little to no gain or loss in productivity when dealing with international customers. The only change will be an increase in volume which should create value as domestic margins improve. The tailwind shift from traditional media to online media in international countries is several years behind the United States, so there is even more of an opportunity to capitalize on this market. As other nations become more accustomed to online media, more customers will come to TechTarget to aid in the technology buying process. The market seems to not realize this phenomenon yet, so if the company can generate more free cash flows, shareholder value will be created. This is yet another reason why TechTarget stock is a recommended buy at this point.

Conclusion

TechTarget, Inc. is a growing company that has an extremely unique array of services that aren't matched by competitors. It has a service called IT Deal Alert that looks to create tremendous value for the firm by attracting new customers and retaining existing ones at a profitable rate. The fact that the company has not had any debt for the past five years shows that it is not reliant on outside sources to fund its projects and obligations. In addition, the financials for the company will improve more than they are already expected to. Also, the online international segment presents an interesting opportunity for even more value to be created. All of these reasons make TechTarget, Inc. a recommended buy at a price of $11.6

SIENAcollege

Siena Market Line
3rd week of April 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

TechTarget, Inc.	TTGT	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Jarret Reaume	$11.46	$13.68	$13.91	0%	1-y Return: 21.4%	

General Info

Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	Feb-11-2015
Next earnings date	5/5/2015

Market Data

Enterprise value	$352.41
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	32.91
Diluted shares outstanding	34.64
% shares held by institutions	99.58%
% shares held by insiders	27.83%
Short interest	1.07%
Days to cover short interest	3.97
52 week high	$12.63
52-week low	$6.14
5y Beta	1.93
6-month volatility	31.59%

Peers	Market Cap.
QuinStreet, Inc.	$259.39
TrueCar, Inc.	$1,303.84
Angie's List, Inc.	$328.86
Global Sources Ltd.	$162.51
Synacor, Inc.	$67.75
Tarsus Group plc	$228.92
Yelp Inc.	$3,552.74
Autobytel Inc.	$123.43
Marin Software Incorporated	$242.06

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	#DIV/0!
Interest Coverage	8.2x
Altman Z	8.19
Debt Rating	AAA
Levered Beta	1.10
WACC (based on market value weights)	8.61%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Strakosch, Gregory	Co-Founder, Chairman and Chief	$3,126,489	$602,000	$0
Beam, Kevin	President	$2,230,620	$442,000	$0
Hawk, Don	Co-Founder and Executive Directo	$1,327,758	$1,185,000	$0
Kelliher, Janice	Chief Financial Officer, Principal A	$595,027	$392,600	$0
Cotoia, Michael	Chief Operating Officer	$2,230,620	$442,000	$0
Freedman, Jane	Vice President and General Couns	$0	$0	$0

Historical Median Performance

	TTGT	Peers	Industry	All U.S. firms
Growth	6.5%	13.1%	13.8%	7.4%
ROIC	7.9%	2.3%	15.1%	14.3%
NOPLAT Margin	19.0%	3.9%	10.7%	10.4%
Revenue/Invested Capital	0.42	0.58	1.41	1.37
Excess Cash/Rev.	53.5%	34.6%	13.5%	12.9%
Total Cash /Rev.	53.5%	43.0%	12.3%	15.2%
Unlevered Beta	1.76	1.09	1.12	0.95
TEV/REV	2.0x	6.1x	3.9x	2.5x
TEV/EBITA	7.5x	154.7x	17.5x	13.1x
PE (normalized and diluted EPS)	16.0x	137.3x	33.9x	23.5x
P/BV	0.8x	7.4x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	5.6%	33.2%	11.1%
Last Quarter-1	5.7%	21.8%	16.7%
Last Quarter -2	2.8%	24.1%	-12.5%
Last Quarter -3	8.6%	428.3%	33.3%
Last Quarter -4	0.3%	-1.4%	0.0%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	20%	Straightline	10 years

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interest rates	0.1%
Yield Spread acceleration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth tapers to maintenance until
Long term Growth	8.0%
Base Year Unlevered Beta	is equal to 1.09
Long term Unlevered Beta	1.09

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	20.0%	80.6%	$251.42	18%	7.8%	8.6%
NTM	18.8%	80.5%	$208.64	17%	8.4%	8.4%
NTM+1	17.6%	80.5%	$224.39	17%	11.9%	8.4%
NTM+2	16.4%	80.4%	$240.78	17%	12.9%	8.5%
NTM+3	15.2%	80.4%	$257.59	17%	13.9%	8.5%
NTM+4	14.0%	80.3%	$274.59	17%	14.9%	8.6%
NTM+5	12.8%	80.2%	$291.50	17%	15.8%	8.7%
NTM+6	9.7%	80.2%	$306.13	17%	16.4%	8.7%
NTM+7	9.0%	80.1%	$320.67	17%	17.1%	8.8%
NTM+8	8.5%	80.1%	$335.27	17%	17.7%	8.9%
Continuing Period	8.0%	80.0%	$197.16	12%	10.0%	9.0%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$0.00	$19.40	32.91
NTM	-$0.08	$0.00	$11.55	32.91
NTM+1	$7.30	$0.00	$5.96	32.91
NTM+2	$10.02	$0.00	-$5.96	32.91
NTM+3	$13.01	$0.00	-$10.51	32.91
NTM+4	$16.25	$0.00	-$17.60	32.91
NTM+5	$19.65	$0.00	-$27.68	32.91
NTM+6	$22.33	$0.00	-$42.86	32.91
NTM+7	$25.28	$0.00	-$60.87	32.91
NTM+8	$28.42	$0.00	-$81.71	32.91
Continuing Value	$299.07			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$14.43	$14.12	$13.38	$14.43
$14.48	$16.19	$12.97	$14.48
$15.78	$19.30	$14.23	$15.78
$17.05	$22.90	$15.49	$17.05
$18.15	$26.54	$16.56	$18.15
$19.32	$30.48	$17.65	$19.32
$20.40	$34.68	$18.75	$20.40
$21.53	$38.48	$19.84	$21.53
$22.68	$42.44	$20.93	$22.68
$23.49	$46.59	$21.98	$23.49

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Country Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**8%**	**N/A**	**3%**	**14%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$14.43	$14.48
σ(ε)	$0.25	$0.19
3 σ(ε) adjusted price	$13.68	$13.91
Current Price	$11.46	
Analysts' median est.		$13.90

Siena Market Line
2nd week of April 2015

Yelp Inc.

NYSE:YELP

Analyst: Benjamin Lunaud
Sector: Internet Services

BUY

Price Target: $62

Key Statistics as of 04/15/2015

Market Price:	$49.57
Industry:	Internet Software and Services
Market Cap:	$ 3,699.8 M
52-Week Range:	$42.10-86.88
Beta:	2.55

Thesis Points:

- Oversold on last earnings, less risk than expected
- Underestimate revenue from new services and international market
- Acquisitions will allow Yelp to have a more constant revenue stream
- Margin will increase faster than expected from lower SG&A expenses

Company Description:

Yelp Inc. operates a platform that connects people with local businesses in the United States. Its platform covers various local business categories, including restaurants, shopping, beauty and fitness, arts, entertainment and events, home and local services, health, nightlife, travel and hotel, auto, and others categories. The company provides local advertising services, including free and paid business listing services to businesses of various sizes, as well as enable businesses to deliver targeted search advertising to large local audiences through its Website and mobile app. It also offers brand advertising services comprising advertising solutions for national brands in the food and restaurant, automobile, financial services, logistics, consumer goods, and health and fitness industries that want to improve their local presence in the form of display advertisements and brand sponsorships. In addition, the company provides other services, including Yelp platform, which allows consumers to transact directly on Yelp; Yelp deals that allows local business owners to create promotional discounted deals for their products and services; and gift certificates products for local business owners to sell full-price gift certificates directly to customers. It serves customers in Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, the Czech Republic, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. It has a strategic partnership with YP to display YP business owner profile data on company's platform. The company was founded in 2004 and is headquartered in San Francisco, California.

Thesis

Yelp has been oversold in the recent quarter based on investor concerns about future growth, risk coming from the Google algorithm dependency, and operating leverage. Growth is underestimated and should be faster than estimates. Recent acquisitions allowed the company to reduce its costs and allowed Yelp to introduce new services to enhance consumer experience, drive daily engagement in key restaurants vertical which means an increase of loyalty from customers and a more consistent revenue stream. Sales and Marketing expenses represent the major costs for the company. However, these expenses already are decreasing significantly as a percentage of revenue and will decrease in the future, increasing considerably EBITDA margins and creating value for shareholders. The recommendation is a buy with a target price of $62 based on the proforma presented on the last page of this report, a potential increase of 25.13%.

Porter's Five Forces

Bargaining power of suppliers for YELP is low as inputs have no impact on costs. Low costs positively impact YELP. As a result the company has a lot of room to decrease its operating costs as most of them are selling and administrative expenses.

Bargaining power of consumers is high even if there are a large number of customers. Consumers have low dependency on the product and are able to use Google to make similar researches. YELP is highly dependent on visitors and reviews from customers who have no switching costs on the product.

Threat of substitutes is medium for YELP. Some bigger players such as Google, Facebook, or Yahoo can propose similar services. Switching costs are low but substitute products are inferior in quality and have lower performances.

Threat of new entry is low even if entry barriers are low. YELP disposes of a high learning curve coming from its experience. Customers are loyal to the company and new services available on the platform have recently increased the relationship between the company and its users. Costs of marketing are high for this business and represent the highest percentages of total costs. As a consequence, new competitors would have to spend too much money to build a brand name without necessarily having the expected return on investment. YELP has strong brand recognition and has already a strong distribution network, reducing the possibility of new entrants.

The intensity of exiting rivalry is high. Competitors have bigger names (Trip Advisors, Google, Yahoo, and Facebook) and the industry is one of the largest in size. There are low storage costs and a fast industry growth rate, making it difficult for companies to follow the trend.

On the other hand YELP has a unique business model and has been able to build a name in this environment thanks to some competitive advantages. Its business model benefit to both customers and the business community, therefore YELP is more a community solver rather than a technology solver. The company competes on the basis of a number of factors. It competes for consumer traffic on the basis of factors including: the reliability of its content; the breadth, depth and timeliness of information; and the strength and recognition of its brand. Yelp competes for local businesses' advertising budgets on the basis of factors including: the size of its consumer audience; the effectiveness of its advertising solutions; its pricing structure; and recognition of its brand. YELP is broader than Trip Advisors and is looking on other businesses than hotels or restaurants, such as haircut, tattoo, bars, and so on. The company's model is unique and the number of reviews on the platform shows their advantages to the competitors. For example, YELP has about six times as many reviews as Google for a given business (studies on a sample of 500 businesses). YELP's ability to build a competitive positioning allowed the company to do better in the past years than its industry.

Financials vs Industry

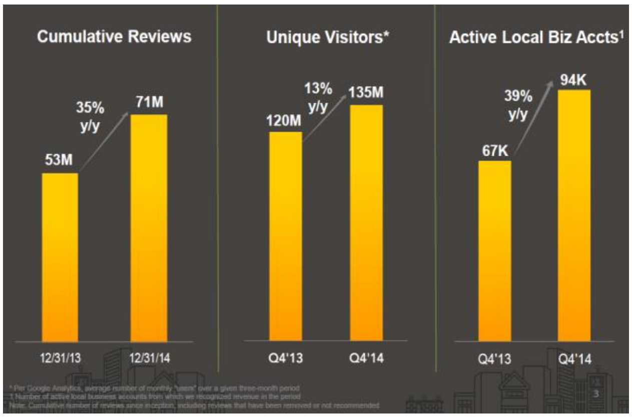
Revenue grew at 62% versus 15.71% for its average industry. ROE is 6.79% compared to a negative 5.75% for the industry showing that Yelp has a better ability to generate profit with the money that has been invested by shareholders. ROIC is 6.73%, again much better than a negative 3.84% compared to its industry average. Most importantly, gross margins are 93.54%, or 30% higher than its competitors. This shows that the company has almost no cost of revenue and will be able to focus on operating costs reduction in the future to increase operating margins. EBITDA margins are 7.59%, 4% higher than 3.26% average for the industry. In addition the company has no debt and has a current ratio of 12.29x, 4 times higher than its competitors. Overall, YELP is doing better than its industry in terms of profitability, debt management and liquidity.

Past Performances

Yelp Metrics Data Sheet	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Traffic and Engagement Metrics (thousands)								
Total Unique Visitors	102,065	108,058	117,447	120,005	132,460	137,761	139,418	135,399
Desktop Unique Visitors	71,809	73,366	78,179	77,713	82,211	81,884	80,468	77,628
Mobile Unique Visitors	40,168	45,064	50,455	52,905	61,190	67,886	73,440	72,307
International Unique Visitors	15,970	17,120	21,462	25,750	31,124	30,965	30,149	30,837
Cumulative Reviews	39,103	42,526	47,322	52,757	56,905	61,342	66,592	71,232
Cumulative Int'l Reviews	1,989	2,319	3,551	5,802	6,168	6,525	7,013	7,468
Percentage of Searches on Mobile	57%	59%	62%	59%	60%	61%	64%	65%

YELP has been over sold in the recent quarter based on a decrease of total visitors on the platform. However, Q3 to Q4 has been the unique sequentially decline of users for the company. Investors see this decrease as a threat for future growth and do not believe that margins could increase much faster as well. Though, when looking at the previous four quarters, Yelp was often less performant than in other quarters. During Christmas and Thanksgiving, people use Yelp less often as they are spending more time at home with family during those periods of the year. The chart above shows that from 3Q13 to 4Q14 Yelp performed less than in other quarters and desktop unique visitors decreased from 78,179 to 77,713 visitors.

Another concern of investors is the reduction of users coming from destocks unique visitors in recent quarters. This comes from an increase of mobile devices user which is up by 37% year-over-year. This is in fact something positive for the company as it decreases its dependency from Google. About 65% of searches are now on mobile and this percentage should grow in the future years. Less dependency on Google is reducing the risk of a change of algorithm from the giant company.



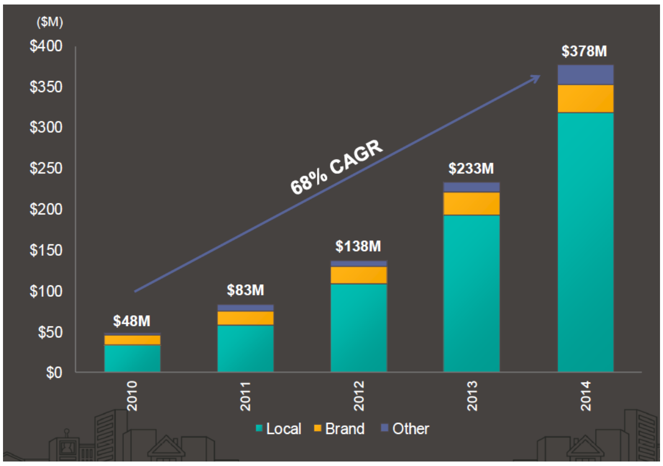
Investors were also concerned of a decrease in reviews which still grew at 35% from last year and monthly unique visitors grew by 13%. Active local businesses accounts grew fast at 39% (chart above).

YELP has been able to beat analyst estimates in all the major earning departments and have been oversold based on concerns about future growth, future margins, and risks coming from a dependency from Google which is in fact decreasing years-over-years.

Underestimated Growth

Year Ended December 31,	2014	2013	2012
Percentage of total net revenue by product:			
Local advertising	85%	83%	79%
Brand advertising	9	12	15
Other services	6	5	6
Total	100%	100%	100%

Yelp generates revenue primarily from the sale of advertising on its website and mobile app to businesses. During the year ended December 31, 2014, it generated net revenue of $377.5 million, representing 62% growth over 2013, a net profit of $36.5 million and an adjusted EBITDA of $70.9 million. Revenue is recognizing from local advertising, brand advertising and other services (Yelp platform, Yelp deals, and Gift certificates).



As shown on the graph above the company has been growing at an impressive 68% CAGR from 2010 to 2014. YELP should be able to sustain growth in the future thanks to its recent acquisitions and international expansion in major countries. The company is already present in 29 countries which represent only 7.4% of its total revenue. Yelp is only monetizing for the moment in about eight countries. In addition, YELP just lunched the platform in Japan this year and Brazil, Mexico and other countries in April 2014. YELP estimates that in three years only the company will be able to monetize these countries representing a gigantic opportunity for the company. The company has actually $377.5 million in revenue, targets $577.6 million the next year and should reach $1 billion in 2017 before even starting to monetize major countries.

Past acquisition will also allow YELP to increase its revenue stream.

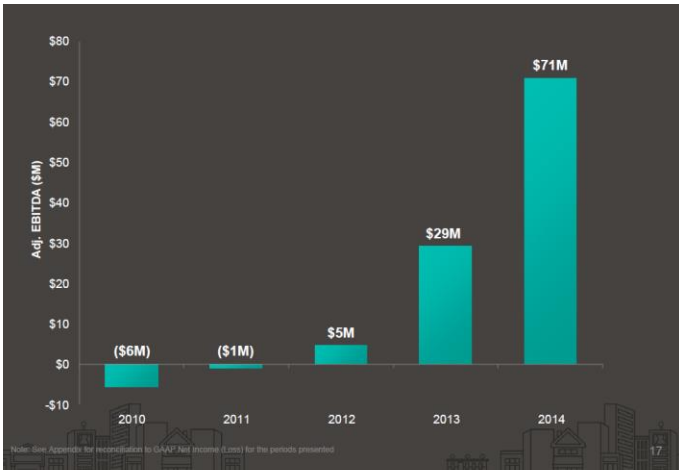
Acquisitions

YELP acquired SeatMe the 24th of July 2013 and recently acquired Eat24 (02/09/2015). These two acquisitions already helped the company to reduce its cost and will help it to increase its revenue stream in the future by increasing consumer engagement and relationship. SeatMe was a company with a reservation system that allowed YELP to also increase its customer by 200. Almost 18 month later, SeatMe had 8,000 paid and unpaid customers, free product called Yelp reservation and $19 million seated dinner in 2014. This is the proof that Yelp is able to ally a good product and technology with its important traffic and see that kind of impressive growth. OnTable is also on Yelp and now customers do not have to leave the app to make reservations, which increases customer engagement and relationship with the company. This is driving more transaction and is increasing consumer loyalty. The recent acquisition of Eat24 (at 3.7x 2015 revenue, a discount to GrubHub's multiple of 8.5x), shows that YELP continues to focus on closing the loop with its SMB customers by providing consumers, data, and transactions. This should help Yelp in the future to enhance daily engagement in the restaurant vertical by giving consumers the ability to execute on reviews' driven impulses. The number of advertisers grew by 54% on the platform in the last quarter and the acquisition of Eat24 will improve interactions with local businesses and build longer relationship with customers. It will enhance consumer experience, drive daily engagement in key restaurant vertical and expand offerings to one million listed U.S restaurants.

The market reacted positively but prudently to this acquisition with an increase of the stock price of 11% from 02/09/2015 to today, from $44.66 to $49.57. With those acquisitions, Yelp is still debt free; still have 58.1% of its total asset in cash. The company has been able to reduce its costs and will be able to have a constant revenue stream in the future thanks to a higher consumer loyalty.

As a result, margins have increased and will increase faster in future years, allowing the company to generate free cash flows and value.

Higher Margins

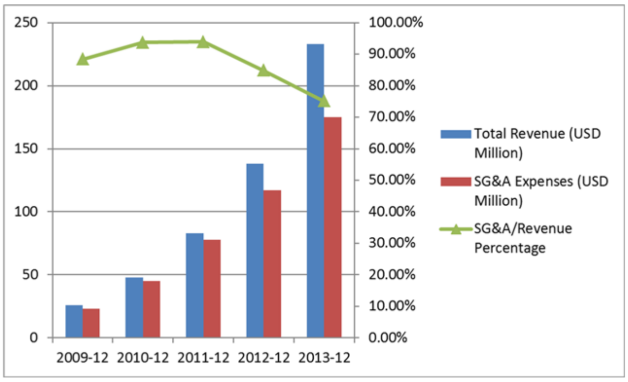


Investors are concerned about future margins and do not believe that there is possible leverage for YELP. They had the same concern a year ago and the company was able to more than double its EBITDA margins from 7.6% to 18.5% in 2014. The graph above proves that there is actually significant leverage in this company with a growth in adjusted EBITDA of 145% from 2013 to 2014. EBITDA Margins are expected to increase slightly to 19% in 2015 due to an important increase in marketing expenses. Yelp spent about $10 million last year and is expecting an incremental $20 million in 2015. On the other hand future margins will increase much faster and should increase in the longer term to 35% and to 40%

Costs and expenses:	2014	2013	2012
Cost of revenue (exclusive of depreciation and amortization shown separately below)	7%	7%	7%
Sales and marketing	53	57	62
Product development	17	16	15
General and administrative	15	18	23
Depreciation and amortization	5	5	5
Restructuring and integration	—	—	1
Total costs and expenses	97	104	113

When looking at the cost structure (table above), it is clear that most of the costs are coming from sale and marketing expenses, representing 53% of net revenue in 2014. Those expenses are also long term investment and will generate more revenue in the future allowing revenue to grow faster than expenses. Yelp started to generate positive free cash flows only in 2013 and it is understandable as total costs became less than 100% of revenue in 2014. This shows that there is a lot of room for the company to decrease its costs as it is coming mainly from marketing.

EBITDA margins will increase significantly as the firm will require lower SG&A expenses



The graph above shows that SG&A as a percentage of revenue is decreasing consequently over the years. There should be lower costs coming from advertising in the future as the company already has a strong name and is well known around the world. A slight decrease in advertising expenses should substantially increase margins in the future.

Valuation

A valuation has been done on the next page of this report. The valuation has been done based on the return on capital rather than in ROIC. The beta has been chosen on the Sub-Industry historical median of 1.12. It has been increased to 1.2 considering the risk associated with the dependency on Google's algorithm. Operating expenses as a percentage of revenue have decreased from 82.3% to 80% based on fewer expenses in marketing in the future. Long term revenue growth has been fixed at 5% considering the faster growth of this industry. R&D and SG&A expenses have been capitalized has those expenses represent the major costs of the company and are its main long term investment. The target price is $62, representing a potential increase of 25.13%.

Conclusion

YELP has significant room for revenue growth coming from growth in users, international expansion, and higher loyalty coming from new services. Recent acquisitions brought more customers for yelp but also helped the company to reduce its costs. Significant operating leverage is possible as most of the costs are coming from marketing expenses which are decreasing considerably as a percentage of revenue over the years. EBITDA margin will increase faster than expected in the future years, increasing free cash flows and creating value for shareholders. In addition, the company is debt free and has 58.1% of its total assets in cash. The company relies on Google, competes with Yahoo, TripAdvisor and Facebook, making it also a possible target for an acquisition. The recommendation is a buy.

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Yelp Inc.	YELP	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		TYPE YOUR NAME HERE	$49.57	$67.06	$62.05	0%	1-y Return: 25.17%	

General Info

Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	Feb-10-2015
Next earnings date	4/29/2015

Market Data

Enterprise value	$3,333.96
Market Capitalization	$3,699.77
Daily volume	5.40
Shares outstanding	74.64
Diluted shares outstanding	76.71
% shares held by institutions	82.78%
% shares held by insiders	13.71%
Short interest	11.63%
Days to cover short interest	2.73
52 week high	$86.88
52-week low	$42.10
5y Beta	2.55
6-month volatility	59.99%

Peers	Market Cap.

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	#DIV/0!
Interest Coverage	74.3x
Altman Z	74.31
Debt Rating	AAA
Levered Beta	1.22
WACC (based on market value weights)	9.08%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Stoppelman, Jeremy	Co-Founder, Chief Executive Offi	$340,657	$8,097,964	$66,913
Krolik, Robert	Chief Financial Officer	$311,409	$3,007,548	$338,533
Donaker, Geoff	Chief Operating Officer and Direct	$311,371	$6,243,727	$23,232
Wilson, Laurence	Senior Vice President of Legal & U	$305,983	$3,003,245	$333,233
Nachman, Joseph	Senior Vice President of Revenue	$487,919	$3,162,205	$619,481
Sollitto, Vince	Vice President of Corporate Comm	$0	$0	$0

Historical Median Performance

	YELP	Peers	Industry	All U.S. firms
Growth	55.5%	0.0%	13.8%	7.4%
ROC	8.5%		11.3%	11.8%
NOPLAT Margin	36.0%		10.7%	10.4%
Revenue/Total Capital	0.24		1.06	1.13
Excess Cash/Rev.	N/A	#DIV/0!	13.5%	12.9%
Total Cash /Rev.	96.9%	#DIV/0!	12.3%	15.2%
Unlevered Beta	3.04		1.12	0.95
TEV/REV	9.5x		3.9x	2.5x
TEV/EBITA	16.1x		17.5x	13.1x
PE (normalized and diluted EPS)	29.1x		33.9x	23.5x
P/BV	1.8x		2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	1.4%	2.2%	9.1%
Last Quarter-1	3.6%	4.2%	-11.1%
Last Quarter -2	2.8%	40.8%	50.0%
Last Quarter -3	1.8%	-9.9%	-42.9%
Last Quarter -4	5.1%	6.1%	11.1%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	100%	Straightline	10 years

Proforma Assumptions

Money market rate as of today	0.59%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.5%
Tobin's Q	0.80
Op. Cash/Rev.	2%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	5.0%
Base Year Unlevered Beta	is equal to 1.2
Long term Unlevered Beta	1.20

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Capital	NOPLAT Margin	ROC	WACC
LTM	62.0%	82.3%	$2,347.98	37%	6.0%	9.1%
NTM	56.3%	82.0%	$1,326.77	22%	5.5%	9.1%
NTM+1	50.6%	81.8%	$1,662.93	21%	14.4%	9.0%
NTM+2	44.9%	81.6%	$2,073.00	21%	16.4%	9.0%
NTM+3	39.2%	81.4%	$2,538.49	21%	18.2%	9.0%
NTM+4	33.5%	81.1%	$3,107.24	21%	19.7%	9.0%
NTM+5	27.8%	80.9%	$3,775.16	21%	20.5%	9.0%
NTM+6	22.1%	80.7%	$4,525.51	21%	20.6%	9.0%
NTM+7	16.4%	80.5%	$5,329.05	21%	20.1%	9.0%
NTM+8	13.0%	80.2%	$6,181.75	21%	19.4%	9.1%
Continuing Period	9.0%	80.0%	$17,906.70	12%	12.0%	9.2%

Valuation

Period	Capital x (ROC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$0.00	$434.66	74.64
NTM	-$84.98	$0.00	$509.71	74.64
NTM+1	$70.96	$0.00	$617.07	74.64
NTM+2	$122.54	$0.00	$762.20	74.64
NTM+3	$189.33	$0.00	$947.08	74.64
NTM+4	$271.13	$0.00	$1,160.64	74.64
NTM+5	$357.69	$0.00	$1,293.75	74.64
NTM+6	$438.53	$0.00	$1,542.55	74.64
NTM+7	$500.34	$0.00	$1,710.74	74.64
NTM+8	$548.45	$0.00	$1,865.57	74.64
Continuing Value	$3,970.89			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$68.02	$47.79	$72.04	$68.02
$62.80	$46.32	$60.85	$62.80
$71.13	$68.45	$69.82	$71.13
$78.65	$97.73	$77.52	$78.65
$86.11	$134.39	$85.04	$86.11
$94.48	$178.74	$92.94	$94.48
$102.92	$230.33	$102.04	$102.92
$110.71	$282.85	$109.61	$110.71
$118.92	$333.67	$117.62	$118.92
$124.73	$382.80	$125.36	$124.73