Macroeconomic Overview

During this past trading week, all major U.S. indices increased on a weekly basis, with the Nasdaq Composite Index reaching its all-time high exceeding the previous record high set in March 2000. In addition, oil prices continued their price gains of the recent weeks. In effect, the Dow Jones Industrial Average and the NASDAQ Composite increased on a weekly basis by 1.42% and 3.25% respectively, while the S&P 500 increased by 1.75% during the last week. Small cap stocks measured by the Russell 2000 index also experienced gains, yielding 1.25% throughout the week. The VIX week-to-date change of -11.52% indicates that volatility levels start to decrease again, leading to a year-to-date change of -39.55%. The yield of the 10-year U.S. T-note decreased by 6 basis points to 1.93%. In addition, the price of oil increased throughout the week by 2.53% to a price of $57.15/bbl.

U.S. Stocks		
Index	**% Change Week-to-Date**	**% Change Year-to-Date**
DJIA	1.42%	1.44%
S&P 500	1.75%	2.86%
NASDAQ Composite	3.25%	7.52%
Russell 2000	1.25%	5.22%
VIX	-11.52%	-39.55%

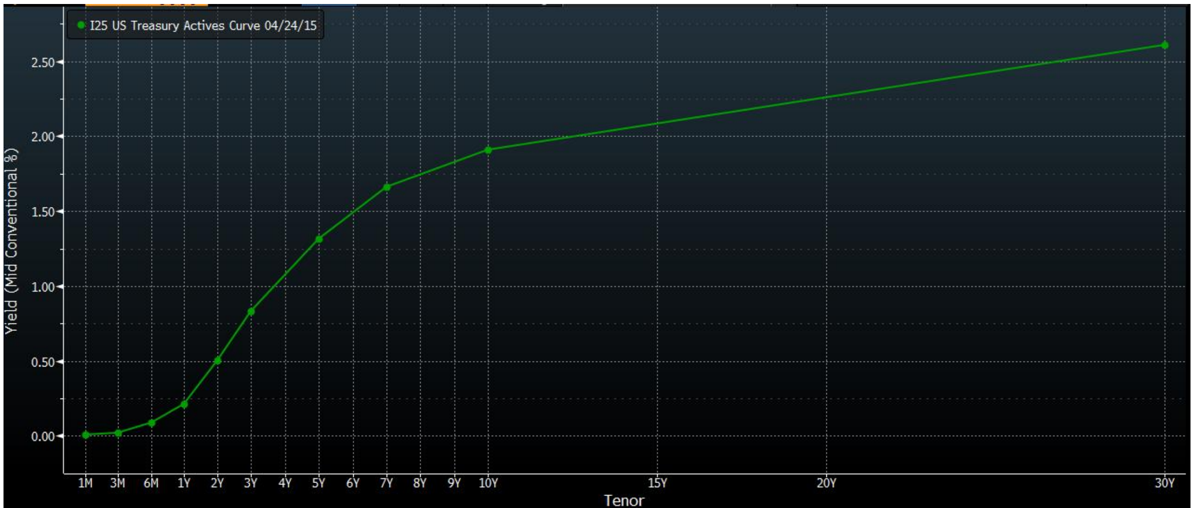
This week's market movements were primarily driven by earnings reports and global economic news. Currently being in first quarter earnings season, more than one third of S&P 500 companies have already reported first quarter of 2015 earnings data. More than 70% have surprised on the upside although their profits have been suffering in the past months due to the strong U.S. dollar. In the past week multiple economic data has been released in the U.S. and globally. U.S. jobless claims have increased to 295,000 indicating current difficulties in the labor market caused by decreased business spending. Additionally, U.S. core durable goods orders have decreased for the seventh straight month. In March business equipment spending fell by 0.5%.

Internationally, the Reserve Bank of China has reduced its reserve ratio requirements by an additional 1% which equals the largest reduction in the history of the country. This move was caused by a continuing slowdown of China's growth and will increase the economy's liquidity. In addition, China's manufacturing purchasing managers' index decreased again in the month of March indicating continuing slowdown of China's economy. In April, the manufacturing sector of the Eurozone also experienced a slowdown after reaching an 11 month high in March. The upholding debt crisis in Greece also causes lowered investor confidence in Europe.

Next week, investors will be looking forward to see data from different economic reports that will have an impact on the global markets. On Tuesday 28th, Great Britain will report on their economy's Gross Domestic Product (QoQ) and (YoY) (Q1). On the same day, the governor of the Bank of Canada Stephen Poloz is expected to speak about the control of the country's short term interest rate. On Wednesday 29th, the Reserve Bank of New Zealand governor decides on where to set interest rates. On Thursday 30th, the Bank of Japan will hold a press conference reporting on the overall economic outlook, inflation and insights about the upcoming interest rate decisions. On the same day, Germany will report on their country's unemployment change (Apr). In addition, the European Central Bank will report on the Eurozone's Consumer Price Index changes (YoY) (Apr). The same day, Russia will decide on changing their economy's short term interest rates. Additionally, Canada will report on the country's Gross Domestic Product (MoM) (Feb).

Bond Report

U.S. Treasury Bonds increased on Friday, lowering yields from higher mid-week yields. Most notably, bond prices increased on Friday, April 24th. This is due to signs of weak business investing from worries that the economy will not be able to bounce back from last quarter. Yields rose mid-week to 1.99% on Wednesday, April 22nd and fell down as low as 1.91% on Friday, marking the biggest two day increase in prices this month. A report released this past week noted Nondefense capital goods fell .5% in March which is the seventh straight decline. This information has continued to scare investors who are already anxious over the expected Quarter 1 of 2015 economic slowdown. This report signaled investors that spring my not be very favorable for the economy as well. As a result, demand has picked up for safer U.S. Treasuries. “Yields seem to be driven by economic data, which have been disappointing this week,” said Sharon Stark, fixed-income strategist at D.A. Davidson. Bond investors continue to remain extremely speculative while waiting to see if economic data will show improvements and support the need for an interest rate increase in 2015 or wait until 2016. Many Federal Reserve officials have acknowledged expectations of disappointing economic data for Quarter 1 of this year, but feels the economic slowdown is temporary. The next Fed’s meetings will be this week on April 28-29 and will release an updated policy statement.



Curve ID	3M	1Y	2Y	3Y	5Y	7Y	10Y	30Y
I25	0.020	0.211	0.506	0.831	1.315	1.665	1.909	2.610

What's Next & Key Earnings

On Tuesday, April 28th, the U.S. Conference Board Consumer Confidence measure will be released. Conference Board (CB) Consumer Confidence measures the level of consumer confidence in economic activity. It is a leading indicator as it can predict consumer spending, which plays a major role in overall economic activity. Higher readings point to higher consumer optimism.

On Wednesday, April 29th, there will be a FOMC Statement. The U.S. Federal Reserve's Federal Open Market Committee (FOMC) statement is the primary tool the panel uses to communicate with investors about monetary policy. It contains the outcome of the vote on interest rates, discusses the economic outlook and offers clues on the outcome of future votes. The Fed will also vote on where to set the Fed Funds Target Rate.

On Wednesday, April 29th, the Gross Domestic Product for Quarter 1, 2015 will be released. Gross Domestic Product (GDP) measures the annualized change in the inflation-adjusted value of all goods and services produced by the economy. It is the broadest measure of economic activity and the primary indicator of the economy's health. This will come as a result of the Federal Reserve's monetary policy meetings.

Company	EPS	Forecast	Prev.	Imp.	Market Cap	Time
Monday, April 27, 2015						
Apple (**AAPL**)		2.16	3.06		755.30B	
AvalonBay (**AVB**)		1.09	1.08		22.64B	
Barrick Gold (**ABX**)		0.14	0.18		17.75B	
Boston Properties (**BXP**)		1.24	0.39		21.15B	
CH Robinson (**CHRW**)		0.74	0.77		10.44B	
Canon (**CAJ**)		0.4	0.36		50.19B	
Charter Commu... (**CHTR**)		-0.03	-0.48		20.82B	
General Growth (**GGP**)		0.08	0.30		25.48B	
Hartford (**HIG**)		0.97	0.96		17.65B	
Laboratory of A... (**LH**)		1.63	1.65		12.75B	
Plum Creek Timber (**PCL**)		0.22	0.38		7.48B	
Restaurant Bran... (**QSR**)		-	-2.52			
Roper Industries (**ROP**)		1.52	1.85		17.05B	
SK Telecom (**SKM**)		7,396.35	6948.00		23,416.26B	
Universal Health... (**UHS**)		1.56	1.51		12.07B	

Tuesday, April 28, 2015			
AGL Resources (**GAS**)	1.48	1.24	6.17B
Aetna (**AET**)	1.95	1.22	37.99B
Affiliated Managers (**AMG**)	2.9	3.55	12.16B
Aflac (**AFL**)	1.54	1.29	28.14B
Akamai (**AKAM**)	0.61	0.65	13.66B
Boston Scientific (**BSX**)	0.21	0.22	24.56B
Bristol-Myers Sq... (**BMY**)	0.5	0.46	109.67B
CONSOL Energy (**CNX**)	0.13	0.25	6.91B
Cincinnati Finan... (**CINF**)	0.71	0.89	8.63B
Coach (**COH**)	0.35	0.72	11.76B
Corning (**GLW**)	0.33	0.45	28.57B
Cummins (**CMI**)	2.14	2.56	24.75B
Ecolab (**ECL**)	0.81	1.2	34.37B
Edison (**EIX**)	0.79	1.08	20.06B
Entergy (**ETR**)	1.27	0.75	14.29B
Equity Residential (**EQR**)	0.42	0.59	28.97B
Express Scripts (**ESRX**)	1.1	1.39	63.65B
Ford Motor (**F**)	0.26	0.26	62.68B
Genworth (**GNW**)	0.26	-0.84	3.91B
Grupo Financier... (**BSMX**)	0.5	0.57	229.92B
Hospira (**HSP**)	0.53	0.53	15.10B

Jacobs Engineer... (**JEC**)	0.79	0.77	5.94B
JetBlue (**JBLU**)	0.39	0.26	6.23B
Kraft Foods (**KRFT**)	0.81	0.75	51.50B
Masco (**MAS**)	0.2	0.24	9.13B
McGraw-Hill (**MHFI**)	1	0.95	29.12B
Merck&Co (**MRK**)	0.75	0.87	162.92B
National Oilwell ... (**NOV**)	1.1	1.69	21.38B
Owens-Illinois (**OI**)	0.42	0.46	3.96B
Parker-Hannifin (**PH**)	1.99	1.84	17.45B
Pfizer (**PFE**)	0.49	0.54	216.57B
Range Resources (**RRC**)	0.13	0.39	10.37B
Sirius XM Hld Inc (**SIRI**)	0.03	0.03	21.86B
TECO Energy (**TE**)	0.28	0.19	4.63B
Textron (**TXT**)	0.48	0.76	12.25B
Total System Ser... (**TSS**)	0.46	0.58	7.11B
United Parcel Se... (**UPS**)	1.09	1.25	88.51B
Valero Energy (**VLO**)	1.7	1.83	30.87B
Verisk (**VRSK**)	0.61	0.65	11.50B
Waters (**WAT**)	1.02	1.99	10.21B
Western Digital (**WDC**)	1.89	2.26	23.05B
Whirlpool (**WHR**)	2.49	3.52	15.42B
Wyndham (**WYN**)	0.92	0.9	10.98B
Wynn Resorts (**WYNN**)	1.33	1.2	13.21B

Wednesday, April 29, 2015

ADT (**ADT**)	0.5	0.51	7.01B
AMTEK (**AME**)	0.63	0.63	12.63B
Anthem Inc (**ANTM**)	2.66	1.73	41.04B
Avery Dennison (**AVY**)	0.69	0.9	4.70B
Baidu (**BIDU**)	1.04	1.45	76.17B
Banco Bradesco (**BBD**)	0.84	0.83	159.77B
CBRE (**CBG**)	0.26	0.68	12.82B
Cameco (**CCJ**)	0.25	0.52	8.33B
Coca Cola Fems... (**KOF**)	0.92	1.48	85.32B
Con-way (**CNW**)	0.39	0.41	2.51B
ENSCO (**ESV**)	1.3	1.68	5.63B
Eaton (**ETN**)	0.98	1.27	32.06B
Equinix (**EQIX**)	0.83	-0.56	13.90B
Eversource Energy (**ES**)	0.8	0.72	15.96B
Exelon (**EXC**)	0.69	0.48	29.33B
Franklin Resour... (**BEN**)	0.86	0.91	32.20B
GRUMA (**GMK**)	2.46	2.27	83.34B
Garmin (**GRMN**)	0.57	0.77	8.84B
General Dynamics (**GD**)	1.94	2.19	44.28B
Hess (**HES**)	-1.05	0.18	21.62B
Hudson City (**HCBK**)	0.02	0.08	4.97B
Humana (**HUM**)	2.56	1.09	27.28B

International Paper (**IP**)	0.81	0.53	22.70B
Kirby (**KEX**)	1.08	1.19	4.58B
Level 3 Commu... (**LVLT**)	0.33	0.35	19.36B
Lincoln National (**LNC**)	1.49	1.67	14.68B
Macerich (**MAC**)	0.1	0.20	13.16B
Marriot (**MAR**)	0.7	0.68	22.72B
Mastercard (**MA**)	0.8	0.69	104.19B
MeadWestvaco (**MWV**)	0.26	0.46	7.97B
Mondelez (**MDLZ**)	0.37	0.47	60.38B
Murphy Oil (**MUR**)	-0.87	0.39	8.55B
NXP (**NXPI**)	1.3	1.35	24.00B
NextEra Energy (**NEE**)	1.26	1.03	47.48B
Noble Corporation (**NE**)	0.52	0.47	3.79B
Norfolk Southern (**NSC**)	1.05	1.64	34.39B
Northrop Grumman (**NOC**)	2.27	2.29	31.78B
Pacific Gas&Ele... (**PCG**)	0.7	0.53	25.21B
Praxair (**PX**)	1.44	1.57	35.34B
QEP Resources (**QEP**)	-0.3	0.22	3.92B
Realty Income (**O**)	0.23	0.32	11.48B
Southern (**SO**)	0.57	0.38	40.79B
Starwood Hotels... (**HOT**)	0.57	0.97	14.23B
Suncor Energy (**SU**)	0.17	0.22	58.13B
The Goodyear Ti... (**GT**)	0.44	0.59	7.48B

Time Warner (**TWX**)	1.09	0.98	70.89B
Unum (**UNM**)	0.89	0.9	8.40B
Valeant (**VRX**)	2.88	3.14	87.25B
Varian (**VAR**)	1	0.99	9.56B
Vertex (**VRTX**)	-0.75	-0.74	32.25B
Waste Managem... (**WM**)	0.48	0.67	24.10B
Williams (**WMB**)	0.15	0.16	39.37B
XL (**XL**)	0.75	1.12	9.70B
Thursday, April 30, 2015			
ADP (**ADP**)	1.02	0.7	40.75B
AIG (**AIG**)	1.19	0.97	77.16B
Agnico Eagle Mi... (**AEM**)	0.15	0.10	7.87B
Air Products&Ch... (**APD**)	1.55	1.55	32.15B
Airgas (**ARG**)	1.14	1.23	7.93B
Allegion Public (**ALLE**)	0.47	0.76	5.85B
American Tower (**AMT**)	0.53	0.42	40.33B
AmerisourceBer... (**ABC**)	1.19	1.14	25.36B
Apartment Inv. & ... (**AIV**)	0.09	0.25	6.04B
Ball (**BLL**)	0.79	0.84	10.25B
BorgWarner (**BWA**)	0.85	0.75	13.80B
CME Group (**CME**)	0.95	0.95	30.34B
CNH Industrial NV (**CNHI**)	0.08	-	11.18B
Cardinal Health (**CAH**)	1.16	1.2	30.17B

Catamaran (**CTRX**)	0.72	0.67	15.05B
Celgene (**CELG**)	0.93	1.01	95.04B
Cigna (**CI**)	1.84	1.69	33.78B
Coca-Cola Enter... (**CCE**)	-	-	
Colgate-Palmolive (**CL**)	0.66	0.76	62.73B
ConocoPhillips (**COP**)	-0.15	0.6	83.14B
Delphi Automotive (**DLPH**)	1.18	-	24.30B
Eastman Chemical (**EMN**)	1.6	1.64	11.24B
Expedia (**EXPE**)	0.1	0.86	12.53B
Exxon Mobil (**XOM**)	0.82	1.32	364.36B
Fidelity Information (**FIS**)	0.66	0.87	18.16B
First Solar (**FSLR**)	-0.29	1.89	6.39B
Flowserve (**FLS**)	0.7	1.16	7.63B
Fluor (**FLR**)	0.98	1.41	8.86B
Fomento Econo... (**FMX**)	0.72	2.03	506.88B
Gilead (**GILD**)	2.31	2.43	153.79B
Goldcorp (**GG**)	0.13	0.07	19.25B
Harman Industries (**HAR**)	1.27	1.79	9.96B
Host Hotels&Re... (**HST**)	0.11	0.33	15.66B
Invesco (**IVZ**)	0.6	0.63	17.51B
Iron Mountain (**IRM**)	0.29	0.25	7.69B
KT (**KT**)	737.35	-1000.00	7,963.91B
L-3 Communicat... (**LLL**)	1.54	2.53	10.21B

Leggett&Platt (**LEG**)	0.46	0.41	6.12B
Marathon Petrol... (**MPC**)	2.87	2.87	28.16B
Marsh&McLennan (**MMC**)	0.86	0.66	30.67B
Martin Marietta ... (**MLM**)	0.12	0.99	9.32B
Mosaic (**MOS**)	0.74	0.87	16.88B
NiSource (**NI**)	0.82	0.51	14.24B
Nomura (**NMR**)	17.02	19.29	3,035.88B
PerkinElmer (**PKI**)	0.46	0.85	5.84B
Phillips 66 (**PSX**)	1.42	1.63	44.25B
Pitney Bowes (**PBI**)	-	0.51	4.62B
Potash ofskatch... (**POT**)	0.6	0.60	33.88B
Public Storage (**PSA**)	1.19	1.64	33.45B
Quanta Services (**PWR**)	0.34	0.30	6.09B
Rockwell Autom... (**ROK**)	1.42	1.64	15.19B
Scana (**SCG**)	1.24	0.73	7.82B
Sealed Air (**SEE**)	0.42	0.59	9.45B
Skyworks (**SWKS**)	1.13	1.26	17.84B
Sony Ord (**SNE**)	-	-	36.58B
Teva (**TEVA**)	4.88	1.31	245.28B
Time Warner Ca... (**TWC**)	1.88	2.03	43.61B
VALE (**VALE**)	-	-	112.57B
Viacom B (**VIAB**)	1.08	1.29	28.72B
Visa (**V**)	0.62	0.63	165.70B

Western Union (**WU**)	0.38	0.42	10.68B
Xcel Energy (**XEL**)	0.5	0.39	17.67B
Xylem (**XYL**)	0.31	0.62	6.47B
Zimmer (**ZMH**)	1.51	1.71	20.19B
Friday, May 1, 2015			
Aon (**AON**)	1.28	1.89	27.42B
Berkshire Hatha... (**BRKb**)	2,374.82	2412.00	351.29B
CVS Health Corp (**CVS**)	1.08	1.21	115.32B
Chevron (**CVX**)	0.74	1.85	206.61B
Clorox (**CLX**)	1.1	0.97	14.33B
Duke Energy (**DUK**)	1.12	0.86	56.22B
FirstEnergy (**FE**)	0.51	0.8	15.33B
Legg Mason (**LM**)	0.67	0.67	6.15B
Moodys (**MCO**)	1.03	1.12	21.72B
Newell Rubberm... (**NWL**)	0.34	0.49	10.64B
Pinnacle West C... (**PNW**)	0.18	0.05	7.06B
Public Service E... (**PEG**)	0.94	0.49	21.41B
VF (**VFC**)	0.67	0.98	31.36B
Weyerhaeuser (**WY**)	0.26	0.27	16.77B

Siena Market Line
4nd week of April 2015

Breeze-Eastern Corp. (AMEX:BZC)

Analyst: Hugo Perrin
Sector: Aerospace and Defense

BUY

Price Target: $15.56

Key Statistics as of 04/21/2014

Market Price:	$10.07
Industry:	Industrials
Market Cap:	$98.8 M
52-Week Range:	$9.01 – $15.15
Beta:	0.13

Thesis Points:

- Constant increase in EBITDA margins
- New management team that changed the company
- Industry forecasts greater than originally set
- Stock undervalued

Company Description:

Breeze-Eastern Corporation designs, develops, manufactures, sells, and services engineered mission equipment for specialty aerospace and defense applications. It primarily offers mission-critical helicopter rescue hoist and cargo hook systems; hydraulic and electric aircraft cargo winch systems; cargo and aircraft tie-downs; and hoists for aircraft and weapons systems. The company also manufactures weapons handling systems, including weapons handling equipment for land-based rocket launchers, and munitions hoists for loading missiles and other loads using electric power or exchangeable battery packs; and actuators and specialty gearboxes for specialty weapons applications. In addition, it provides overhaul, repair, maintenance, and engineering services for various products. The company sells its products through internal marketing representatives, and independent sales representatives and distributors primarily to military and civilian agencies, and aerospace contractors in the United States; and exports its products internationally. Breeze-Eastern Corporation was founded in 1962 and is headquartered in Whippany, New Jersey.

Thesis

Breeze-Eastern is operating in a market with no existing competition, which allows them to fully take advantage of the market trends. Additionally, the new management team has been able to reduce the debt to zero while increasing margins. The recent forecast are more bullish than what they were a year ago, which means that the firm is going to increase its revenues and its margins. Another interesting factor is the very light coverage that the company has, which is a sign of undervaluation in this case.

Products

Breeze-Eastern Corporation is the "only dedicated hoist and winch specialist", according the company. Consequently, it sells its products to the military forces law enforcement, along with few civilian operations. It has been successfully operating more about 70 years now, which enable the firm to have a long-time experience in its domain which makes it perfectly operational.

The picture above shows some of the products that the company is offering to its customers. The firm's products are covering most of the helicopters available, such as patrol and law enforcement helicopters, light-medium and medium helicopters.

The company is one of the only one that offers such products. As developing such things requires time and a number of regulatory laws and safety measures that are needed in the law enforcement industry, most competitors do not try to copy Breeze-Eastern, which eliminates any potential threats for potential new competitors. Today, BZC has only one competitor, which is Goodrich Corporation, but is a much smaller company that does not allow them to come up with new products that would lead BZC to decrease its market share.

An advantage that Breeze carries is that its products are available for the newest planes/helicopters, meaning that as soon as a new machine comes out, the firm is able to quickly respond to the potential demands.

Management Team

An important factor that also leads the company to be where it is currently is the change in the management team. In 2012, Breeze-Eastern Corporation announced that Brad Pedersen has been assigned at the firm's CEO. Also in 2013, Breeze announced James Cashel as the company's new General Counsel and Corporate Secretary. Most recently, the company continued to change the management team. As a result, the company has successfully decreased its level of debt to zero FY 2013. In the meantime, Breeze Eastern has also been able to constantly increase its cash & equivalent position from \$6.4 million in 2011 to \$15.7 million currently.

Brad Peterson, the current CEO appears to be a relevant choice has he has always been working in the aviation industry, and spent notably 17 years at Boeing, which is what Breeze Eastern is exclusively evolving. As reported by the company, "he has a track record of generating profitable growth by successfully managing engineering development programs and providing strong customer service."

As the company is free of debt since FY2012, the firm's Altman Z-Score is constantly increasing. In mid-2010, the Z-Score was lower than 0, but is now 3.54, higher than the bankruptcy level. The new management team has defectively changed the fate of the company and is penetrating new markets as discussed later.

Customers

As Breeze Eastern Corporation works in a typical industry, its major competitors comprises the U.S. Government, United Technologies Corporation, and Finmeccanica SpA (an Italian engineering company) which accounted for 30%, 14%, and 13% of the sales for the FY 2014. This means that more than half of the company's revenues are generated by 3 clients.

Concerning the reliance to the U.S. Government and other governments, they generated 81% of the total sales in FY 2014. As most contracts used based on a fixed price, revenues can most of the times be predetermined ahead. In the option that of a partial or complete termination of a contract, provisions for recovery are generally incurred.

Geographic Sales	2014		2013	
U.S.	$ 48,832	57%	$ 51,020	64%
Italy	$ 7,500	9%	$ 6,186	8%
Germany	$ 4,491	5%	$ 216	0%
England	$ 3,225	4%	$ 5,420	7%
Other European Countries	$ 4,620	5%	$ 5,225	7%
Pacific and Far East	$ 8,888	10%	$ 2,651	3%
Other International	$ 8,377	10%	$ 9,238	12%
Total	**$ 85,933**	**100%**	**$ 79,956**	**100%**

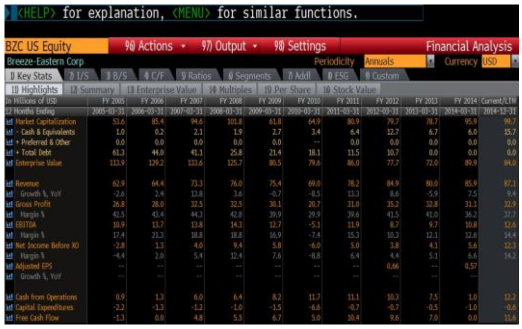
The table above depicts the geographic sales for the last two fiscal years. It is interesting to see that the firm is becoming less dependent on the U.S. market. Sales went from 64% in 2013 to 57% in 2013. On the other side, the sales to European countries increased from 21% to 23%. However, the majority of the sales come from the U.S. The most significant increase percentage wise are the sales to Pacific and Far East countries that went from 3% to 10%, an increase of $6.2 million.
However, it appears that the importance of the U.S. market is still predominant for Breeze-Eastern.

	1990s				2000s										2010s					
	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15
Defense Budget (Billions)	266	270	271	292	304	335	362	456	491	506	556	625	696	698	721	717	681	610	614	637
Total Budget (Trillions)	1.58	1.64	1.69	1.78	1.82	1.96	2.09	2.27	2.41	2.58	2.78	2.86	3.32	4.08	3.48	3.51	3.58	3.48	3.64	3.97
Defense Budget %	16.8	16.5	16.0	16.4	16.7	17.1	17.3	20.1	20.4	19.6	20.0	21.9	20.9	17.1	20.7	20.4	19.1	17.5	16.8	16.0
Defense Spending Change	-0.1	1.6	0.2	7.8	4.0	10.1	8.2	26.0	7.6	3.1	10.0	12.5	11.3	0.2	3.4	-0.6	-5.0	-10.5	0.6	3.8

The table above reconstitutes the USA Defense Budget from 1996 to the current period. According to Wikipedia, the US defense budget for 2013 was $610 billion or 17.5% of the overall government's budget versus $681 billion, or 19.1% of the total budget a year earlier. However for 2014, the defense budget went back up to $614 billion, but still carried a lower percentage out of the total budget, at 16.8%. For 2015, it is going back up at a faster pace at $637 billion, or 16% of the overall country's budget. Consequently, even with a defense budget that is significantly lower compared to the year 2010 to 2012 (around $700 billion), the company has still been able to generate revenue, and most importantly, increase its EBITDA margin, as this will be discuss later. Concerning the EBITDA margin, it has been constantly improving since FY 2012, from 10.3% to currently 14.4%.

As the contracts with the U.S. Government are long-term services the likelihood for the government to stop its contracts is very low.

Firm's Financials



The chart above displays the company's key statistics over the last few years. It appears that Breeze-Eastern Corporation has been able to increase its top line since FY2011 with a slight revenue decline in 2013. However, it went back up in FY 2014 and is currently experiencing its highest growth since FY2011. In 2013, the decline in revenue was imputable to the U.S. military activity in Iraq and Afghanistan that decline. Consequently, that affected the firm's revenue. However, in FY 2013, the company was worried about the idea that future United States defense spending would decrease, and therefore hurt the company's top line growth. Later, the U.S. Budget Spending will be discussed and will prove that such decrease in the U.S. military spending will not harm the company's financial statements as Breeze is geographically diversifying its operations.

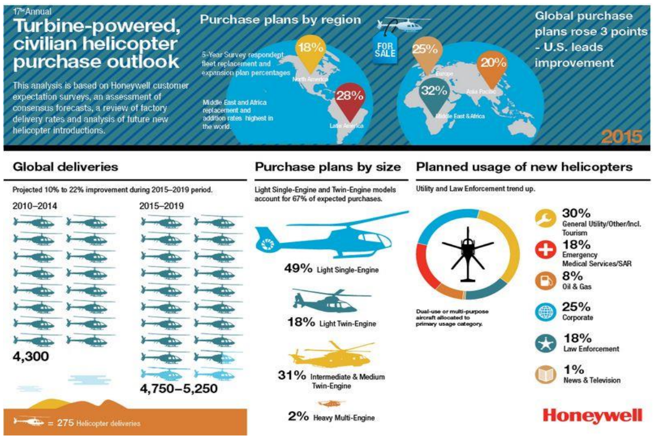
The higher gross profit for the first nine months of 2014 is due to the spare sales volume. Also, it is due to an increase in spare parts volume and also the higher profitability for spare parts and overhaul repairs.
The EBITDA margin increase due to lower operating expenses that are currently at 20% of the firm's sales, compared to 25.3% a year earlier.

The company has been able to decrease its SG&A expenses in FY2014 by $1.4 million to $22 million due to the environmental liability reduction in the Q1 and other general reductions. Even if the SG&A as a percentage of sales decreased to 16.2% from 19.1%, the company has still been able to increase its spending investments in customer service and marketing and increased its medical benefits costs. By decreasing most of overhead costs and still increasing the costs that will enable the company to create value and remain the leading company in its industry, the firm is still able to already increase its margins, which is remarkable.

As for the capital expenditures that are not significantly important compared to the firm's revenue, (generally less than 2%) they are allocated for production test equipment and information technology. This relative low capital expenditure as a percentage of sales is something new as the firm is near to end of some significant new product development that should increase the company's revenue and increase the free cash flow.

For the first nine months of FY 2014, Breeze Eastern has its highest cash position at $15.7 million, or 18% of the company's total assets. As said previously, despite constantly investing in new products, the firm is still able to generate cash. As for the CCC, it is relatively stable at 165 days. This reveals a higher proportion of inventory with lower proportion of account receivables and account payable. Since 2011, the firm is taking more time to collect its receivables, 85 days versus 71 days. The day inventory outstanding remains relatively flat at 122 days while the days payable outstanding has decreased from 55 days to 42 days. Even if the decrease in DPO might not be a good sign for Breeze-Eastern Corporation as the proportion of payable is decreasing, this offset the effect of lower DPO.

Forecasts



The picture above shows the forecasted global deliveries for the helicopters for the 2015-2019 periods; this forecast is provided by Honeywell Aerospace. As said in the picture, there is a projected 10% to 22% improvement during the forecasted period. Which is also interesting is that the Middle East and Africa are the parts of the world that predict to have the highest replacement rate in the world for the next four years. Those two locations are the ones where the company does not operate the most. This implies that Breeze-Eastern will have the opportunity to increase its market share and take advantage of an increase of demand from a new market. Concerning the parts of the world where the firm already operates, the replacement rate is still positive with 18% in the USA, 25% in Europe and 20% in Asia Pacific.

European demand also increased despite the weakened buying plans from Russia. Other countries such as India and other BRICs members are currently increasing their demand for helicopters. Consequently, this is another factor that will drive the revenue growth for Breeze-Eastern.

The forecast goes along with the current sales trend of Breeze-Eastern where sales in the US are decreasing while sales in the other part of the world is increasing. It is for those reasons that it seems appropriate to forecast a continuing revenue growth for the next four years. An interesting point is the fact that the U.S. and Canada share of demand is up 7% compared to last year's survey. Also, the main factor that conducts operators who intend to purchase new helicopters is due to the age of their vehicles. Also, the report suggests that "Purchase interest for helicopters in training, tourism, firefighting and law enforcement categories is trending up, influenced by increased utilization rates and helicopter replacement cycles." Additionally, as it has been stated before, the sales of spare parts and overhaul did bring an increase in the gross profit. By assuming that helicopters' age is growing, the spare parts sales should increase for the companies that decide not to buy new helicopters, which is also a positive sign for the firm's revenue and gross profit. Therefore, Breeze-Eastern should be able to create more value to its shareholders.

When it comes to the purchase plans by size, as the company is offering products that are compatible on most helicopters, the share of purchase plan for any type of helicopters do not specially matters. However, concerning the planned usage of new helicopters for the coming four years, 18% is predicted to be used for law enforcement and the emergency medical services is also at 18%. Therefore, it seems very likely that at least a third of the new helicopters will need the products that the firm is offering. Additionally, as the firm is also selling its product to the general public, the share of the general utility helicopters that are going to be sold during the next four years at 30% might use the products offered to them.

Additionally, the use of helicopters is a sure technology that should not go away rapidly, which insure a future for Breeze. Also, it does not seem to be other alternatives that hoists and winches in the markets and nothing appears to replace that technology anytime soon.

Valuation

As referred earlier, the new management team that got rid of the debt in 2012 has been able to shape a new company. Since that moment, the stock of the company has only appreciated on a constant basis. In a little more than three years, the stock price constantly increases from $6 per share to currently roughly $10 per share. It seems that the low volume of traded stocks for this company can represent a mispricing of the company. With less than 3,000 shares exchanged on average during the last three months, it seems appropriate to believe that the mispricing comes from that factor. The rapid increase in the share price in Q2 2012 comes from positive earnings, but still due to the low volume, investors did not continue to buy the stock, but still; the stock slightly continued to appreciate. The short interest ratio of 0.17% also proves this statement. With 0.6 days to cover, the short ratio is almost inexistent, which shows that none of the current investors believe that Breeze-Eastern is a stock that has to be shorted.

One of the only that lies with owning that stock is that three insitutional investors, Tinicum Inc, Wynnefield Capital Management LL and VN Capital Management own 67.75% of the floating shares. If for any reasons, one of those three shareholders were to sell a part of the globality of the shares, the stock price could plunge; but nothing for the moment would talk in favor of such move.

Even if the little risk mentionned above, it appears that the stock has significantly more upside than downside. It is for those reasons that I recommend this stock as a BUY with a target at $15, representing an upside of 46% from its current price.

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Breeze-Eastern Corporation	BZC	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Hugo PERRIN	$10.24	$17.70	$15.59	0%	1-y Return: 52.26%	

General Info

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	(Invalid Identifier)
Next earnings date	6/5/2015

Market Data

Enterprise value	$84.77
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	9.82
Diluted shares outstanding	9.92
% shares held by institutions	99.58%
% shares held by insiders	4.61%
Short interest	0.07%
Days to cover short interest	0.71
52 week high	$15.15
52-week low	$9.01
5y Beta	0.29
6-month volatility	19.31%

Peers	Market Cap.
Figeac-Aero Société Anonyme	$525.86
Precision Castparts Corp.	$28,906.50
Curtiss-Wright Corporation	$3,634.39
Air Industries Group	$72.51
Kontron AG	$303.97
Goodrich Corp.	
CPI Aerostructures Inc.	$95.64
Melrose Industries PLC	$2,671.14

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	#DIV/0!
Interest Coverage	3.7x
Altman Z	3.70
Debt Rating	AA
Levered Beta	0.89
WACC (based on market value weights)	7.59%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Pedersen, Brad	Chief Executive Officer, President :	$0	$1,632,887	$693,354
Cashel, James	Chief Compliance Officer, General	$0	$0	$422,659
Dupuis, Serge	Chief Financial Officer and Treasur	$0	$0	$0
Hahneman, Rodger	General Manager of Production O|	$0	$0	$0
Koons, Mike	Vice President of Contracts and Cu	$0	$0	$0
Repp, Brad	Vice President of Product Develop	$0	$0	$0

Historical Median Performance

	BZC	Peers	Industry	All U.S. firms
Growth	3.8%	10.5%	8.5%	7.4%
ROIC	9.1%	11.7%	14.9%	14.3%
NOPLAT Margin	16.6%	11.4%	9.6%	10.4%
Revenue/Invested Capital	0.55	1.03	1.55	1.37
Excess Cash/Rev.	4.9%	6.9%	13.5%	12.9%
Total Cash /Rev.	4.9%	6.9%	12.3%	15.2%
Unlevered Beta	0.28	0.89	1.02	0.95
TEV/REV	1.2x	2.0x	1.7x	2.5x
TEV/EBITA	5.3x	18.2x	10.7x	13.1x
PE (normalized and diluted EPS)	7.2x	19.0x	19.2x	23.5x
P/BV	0.7x	2.8x	1.9x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-24.7%	0.0%	-60.0%
Last Quarter-1	-32.8%	0.0%	NM
Last Quarter -2	23.3%	0.0%	200.0%
Last Quarter -3	25.1%	0.0%	466.7%
Last Quarter -4	-19.9%	0.0%	NM

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	50%	Straightline	10 years

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interest rates	0.1%
Yield Spread acelaration	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	2.0%
Base Year Unlevered Beta	is equal to 0.89
Long term Unlevered Beta	0.89

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	7.5%	84.9%	$138.26	16%	9.1%	7.6%
NTM	3.0%	84.9%	$98.55	12%	7.9%	7.7%
NTM+1	3.0%	84.9%	$100.06	12%	11.2%	7.8%
NTM+2	2.0%	84.9%	$101.82	12%	11.2%	7.9%
NTM+3	2.0%	84.9%	$103.79	12%	11.2%	8.0%
NTM+4	2.0%	85.0%	$106.15	12%	11.3%	8.1%
NTM+5	3.0%	85.0%	$108.64	12%	11.3%	8.2%
NTM+6	3.0%	85.0%	$111.09	12%	11.4%	8.3%
NTM+7	3.0%	85.0%	$113.24	12%	11.4%	8.4%
NTM+8	2.0%	85.0%	$115.32	12%	11.4%	8.5%
Continuing Period	2.0%	85.0%	$106.31	12%	11.1%	8.6%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$0.00	-$2.26	9.82
NTM	$0.28	$0.00	-$4.91	9.82
NTM+1	$3.38	$0.00	-$12.22	9.82
NTM+2	$3.33	$0.00	-$19.46	9.82
NTM+3	$3.29	$0.00	-$26.71	9.82
NTM+4	$3.32	$0.00	-$33.85	9.82
NTM+5	$3.35	$0.00	-$41.15	9.82
NTM+6	$3.37	$0.00	-$48.79	9.82
NTM+7	$3.32	$0.00	-$58.18	9.82
NTM+8	$3.28	$0.00	-$66.36	9.82
Continuing Value	$41.58			

Pricing Model

Period	DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
LTM	$17.82	$16.74	$18.99	$17.82
NTM	$15.74	$17.51	$15.36	$15.74
NTM+1	$16.82	$18.64	$16.58	$16.82
NTM+2	$17.75	$19.72	$17.49	$17.75
NTM+3	$18.71	$20.82	$18.44	$18.71
NTM+4	$19.77	$22.04	$19.43	$19.77
NTM+5	$20.74	$23.34	$20.44	$20.74
NTM+6	$21.84	$24.70	$21.49	$21.84
NTM+7	$23.00	$26.09	$22.68	$23.00
NTM+8	$23.76	$27.33	$23.76	$23.76

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	**2%**	**N/A**	**3%**	**10%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$17.82	$15.74
σ(ε)	$0.04	$0.05
3 σ(ε) adjusted price	$17.70	$15.59
Current Price	$10.24	
Analysts' median est.		$0.00

Chegg, Inc.

NYSE:CHGG

Analyst: Jacky Cheng
Sector: Services

BUY

Price Target: $13.20

Key Statistics as of 4/24/2015

Market Price:	$8.06
Industry:	Education & Training Services
Market Cap:	$681.08 M
52-Week Range:	$4.82-8.85
Beta:	N/A

Thesis Points:

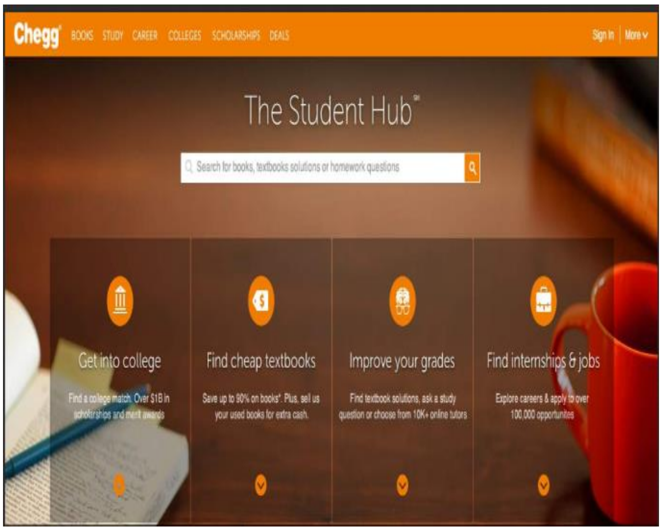
- Change in Model to Increase Margins
- Strategic Partnerships to Increase Cash Flows
- Growing Revenue

Company Description:

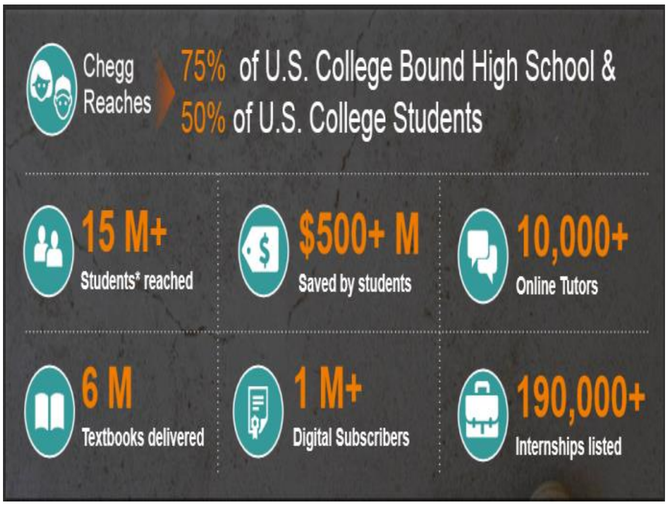
Chegg, Inc. operates student-first connected learning platform that empowers students to take control of their education to save time, save money, and get smarter. The company, through its Student Hub, rents and sells print textbooks; and provides eTextbooks, supplemental materials, Chegg Study service, textbook buyback, courses, internships, and college admissions and scholarship services, as well as offers enrollment marketing and brand advertising services. Chegg, Inc. has a strategic alliance with Ingram Content Group Inc. The company was founded in 2005 and is headquartered in Santa Clara, California.

Thesis

Chegg Inc. has been helping students make higher education a little more affordable. From firsthand experiences, the college bookstore marks up the prices on their textbook to a ridiculous price which is just creating more of a burden financially on college students. Luckily, Chegg's rental services helps provide books at a reasonable and affordable/competitive price along with other helpful tools that benefit students today and future students entering their first year of undergrad. Chegg is now switching its focus from physical textbooks to digital textbooks and expanding their digital platform in order to stay competitive in its industry and generate higher profit and margins. Having the majority of the market share, Chegg looks to partner up with strategic companies to further their business and grow.



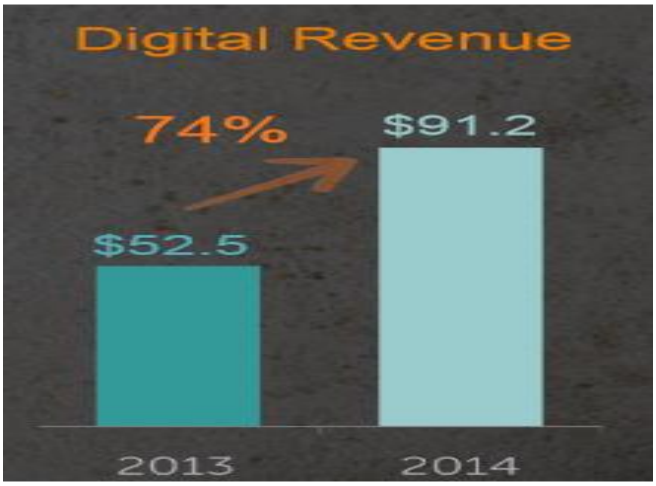
**Above shows the main portal when browsing Chegg's website.*



**Above shows Chegg's outreach and their impact in the industry.*

Change in Business Model

Chegg, Inc. realized that holding onto books was becoming obsolete and has suffered in its stock value since going public by going well below the initial price offering of $12.50. Housing and shipping the books was consuming nearly all of Chegg's working capital while competitors like Amazon were emerging into the market. Chegg is now switching its model to go completely digitalized as it is the next big thing with the growing trend of tablets usage such as the iPad and Kindles. Chegg would still deal with its hard copy book rentals, but would have another company handle it as they have already signed a partnership with Ingram Content Group and collect commission from it, discussed in the next section.



**Above shows growth in digital revenue between 2013-2014.*

By switching to this new digital model, Chegg would have more free cash flows instead of spending it on operating expenses. This would allow them to further expand their digital footprint by partnering up with other educational enterprises and acquire other companies as they already have to build onto their model. Chegg plans on being completely digitalized by 2017 where the company will generate revenue all commission-based from both rental and digital sales.

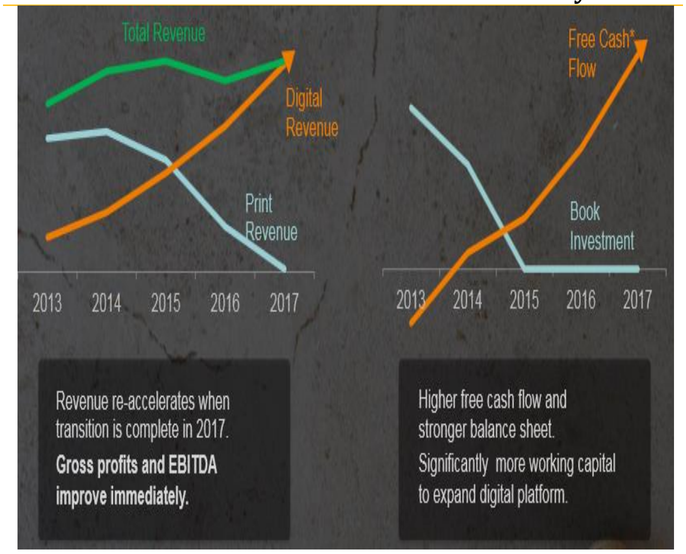
Chegg has already put its acquisitions into good use from using Chegg Tutors, which was known as InstaEDU and Chegg Study which was formally known as Cramster. Chegg Tutors is an online tutoring company that matches students who need help with online tutors. Chegg Study provides online homework and textbook help for college and high school students in areas such as math, science, engineering, humanities, business, and writing help. Both of these platforms run on a subscription based model and it has been very beneficial for high school and college students in success. There are already over 1 million paying digital subscribers. Chegg plans to buy more services like InstaEDU and Cramster to further integrate its platform.

Strategic Partnerships

Ingram Content Group

Chegg Inc. has partnered up with Ingram Content Group, who is the world's largest B2B distributor of physical and digital content and is known for having world-class inventory, logistics and distribution capabilities. Last year, Chegg entered into a test partnership with Ingram to determine the feasibility of outsourcing the logistics and inventory financing and determined it was feasible, entering into a five year partnership, in which Chegg will maintain the front-end direct to student relationships, while Ingram will be responsible for purchasing all future inventory, and well as managing all back-end logistics. This would mean that Chegg would be shrinking their inventory to basically zero as it would make Ingram responsible for inventory while Chegg would be dealing with their digital model. Chegg would be getting 20% commission from Ingram.

This partnership will greatly benefit Chegg as they continue on their complete switch towards digital and allow Ingram to handle all the physical textbooks which is what Ingram specializes in. This partnership will free up a lot of operating expenses and allow Chegg to use their cash towards further expanding their digital footprint in their industry such as acquiring other educational platforms.



**Above shows the financial projection of the partnership with Ingram and its projected outcome in total revenue and free cash flows.*

Blackboard Inc.

To further their digital footprint and provide a better educational service to their clients, Chegg partnered up with Blackboard Inc. that would allow Chegg's self-directed learning services (Chegg Study, Chegg Tutors, and Chegg Career Center) to be accessible within Blackboard Inc.'s market-leading teaching and learning environment. With what Blackboard already offers with Blackboard Learn, which is a virtual learning environmental and course management system, that is used in already over 17,000 institutions in 100 countries, the partnership would create more exposure for Chegg and its products. This would greatly increase the market share in their industry that Chegg already dominates. The impact of this integration is expected to be in the second half of the year.

Financials

Over the years, revenue has been substantially growing. With the transition from the physical to digital, it is expected that revenue will continue to grow. At the moment, the company has a negative net income due to high operating expenses from shipping and storing books. Operating expenses is expected to go down as Chegg is transitioning its inventory to Ingram where they will handle all of the physical copy textbooks.
Along with growing revenue, free cash flow is also growing at a steady rate. It is expected in the future that the cash flow will be greater as they eliminate a substantial amount of operating expenses, giving them more options to expand the company.

Future Outlook

By 2017, Chegg is expected to be at its prime becoming completely digitalized, generating all of its revenue from commission and digital sales. Operating expenses is expected to drop substantially, making Chegg a profitable company and also boosting their free cash flow. With the partnership of Ingram already in effect and Blackboard starting in the second half of the year, Chegg will have more exposure which will result in higher revenue.

Conclusion

Chegg was quick at adjusting their business strategy and now they are off to a better start than ever. With their acquisitions and recent partnerships, Chegg further expanded their market share that they already have the majority in. Despite not generating a profit currently, the changes Chegg has made to the company will significantly boost revenue, lower costs, and most importantly generate profit. For these reasons, Chegg Inc. is a BUY.

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Chegg, Inc.	CHGG	Analyst JACKY CHENG	Current Price $8.04	Intrinsic Value $14.52	Target Value $13.20	Divident Yield 0%	Target Return 1-y Return: 64.2%	BULLISH

General Info

Sector	Consumer Discretionary
Industry	Diversified Consumer Services
Last Guidance	Jan-00-1900
Next earnings date	5/6/2015

Market Data

Enterprise value	$589.93
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	84.50
Diluted shares outstanding	83.21
% shares held by institutions	99.58%
% shares held by insiders	9.16%
Short interest	10.28%
Days to cover short interest	11.92
52 week high	$8.85
52-week low	$4.82
5y Beta	0.00
6-month volatility	49.53%

Peers	Market Cap.
eBay Inc.	$68,411.71
Amazon.com Inc.	$181,657.73
Google Inc.	$366,476.52
Barnes & Noble, Inc.	$1,497.04

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	#DIV/0!
Interest Coverage	3.9x
Altman Z	3.92
Debt Rating	D
Levered Beta	1.26
WACC (based on market value we	9.47%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Rosensweig, Daniel	Chairman, Chief Executive Of	$3,303,152	$8,969,812	$0
Brown, Andrew	Chief Financial Officer	$555,044	$3,097,362	$0
Geiger, Charles	Chief Technology Officer	$797,585	$3,369,171	$0
Phumbhra, Aayush	Co-Founder and Advisor	$0	$0	$0
Tomasello, Robin	Principal Accounting Officer,	$0	$0	$0
Osier, Michael	Chief Information Officer	$825,391	$0	$0

Historical Median Performance

	CHGG	Peers	Industry	All U.S. firms
Growth	18.2%	22.0%	9.8%	7.4%
ROIC	4.9%	11.2%	20.9%	14.3%
NOPLAT Margin	11.1%	13.8%	10.2%	10.4%
Revenue/Invested Capital	0.44	0.81	2.04	1.37
Excess Cash/Rev.	N/A	51.5%	13.5%	12.9%
Total Cash /Rev.	29.3%	51.8%	12.3%	15.2%
Unlevered Beta		1.25	0.65	0.95
TEV/REV	2.2x	3.6x	2.4x	2.5x
TEV/EBITA	11.3x	26.7x	13.7x	13.1x
PE (normalized and diluted EF	23.1x	28.4x	25.3x	23.5x
P/BV	0.8x	3.1x	2.7x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-1.0%	33.8%	26.7%
Last Quarter-1	4.3%	NM	NM
Last Quarter -2	0.8%	-91.9%	NM
Last Quarter -3	4.7%	NM	NM
Last Quarter -4	2.8%	-2.7%	81.8%

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	53%	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	7.6%
Base Year Unlevered Beta	is equal to 1.25
Long term Unlevered Beta	1.25

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	19.3%	80.1%	$749.83	11%	4.5%	9.5%
NTM	18.1%	80.1%	$494.71	10%	4.9%	9.5%
NTM+1	16.9%	80.2%	$538.82	11%	9.1%	9.6%
NTM+2	15.8%	80.3%	$562.42	11%	10.0%	15.7%
NTM+3	14.6%	80.4%	$629.05	11%	11.0%	10.0%
NTM+4	13.5%	80.5%	$640.98	12%	11.9%	10.3%
NTM+5	12.3%	80.5%	$688.22	12%	13.1%	10.2%
NTM+6	11.1%	80.6%	$736.80	12%	13.5%	10.3%
NTM+7	10.0%	80.7%	$786.66	12%	14.2%	10.4%
NTM+8	8.8%	80.8%	$838.19	12%	14.5%	10.6%
Continuing Period	7.6%	80.9%	$727.06	10%	15.7%	10.7%

Valuation / **Pricing Model**

Period	Invested Capital x (ROIC-WACC)	Total Debt	ıer non-interest bearing clai	Shares Outstanding	DCF (Weight = 100%)	Relative (Weight =	Distress (Weight	Weighted Average Price P
LTM	$0.00	$0.00	$11.49	84.50	$15.49	$8.53	$16.42	$15.49
NTM	-$34.34	$0.00	$46.00	84.50	$13.95	$9.33	$13.59	$13.95
NTM+1	-$2.35	$0.00	$78.97	84.50	$15.16	$10.85	$14.86	$15.16
NTM+2	$0.46	$0.00	$86.36	84.50	$16.37	$12.83	$16.09	$16.37
NTM+3	$5.83	$9.85	$106.49	84.50	$17.62	$14.29	$17.30	$17.62
NTM+4	$8.26	$19.62	$113.76	84.50	$19.08	$16.74	$18.71	$19.08
NTM+5	$18.41	$25.02	$121.17	84.50	$20.46	$18.89	$20.11	$20.46
NTM+6	$21.50	$38.76	$127.89	84.50	$21.97	$21.08	$21.63	$21.97
NTM+7	$27.54	$50.66	$140.60	84.50	$23.50	$23.17	$23.10	$23.50
NTM+8	$30.96	$64.36	$153.06	84.50	$24.64	$25.13	$24.71	$24.64
Continuing Value	$1,317.00							

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%	22%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$15.49	$13.95
σ(ε)	$0.32	$0.25
σ(ε) adjusted pric	$14.53	$13.20
Current Price	$8.04	
Analysts' median est.		$10.14

Coach, Inc.

NYSE:COH

Analyst: Pamela Juergens
Sector: Consumer Discretionary

SHORT

Price Target: $24.12

Key Statistics as of 4/25/2015

Market Price:	$42.65
Industry:	Apparel, Accessories, and Luxury Goods
Market Cap:	$11.76 B
52-Week Range:	$32.72-50.60
Beta:	0.7

Thesis Points:

- Expensive transformation plan in the works
- Rapidly losing market share to new entrants
- Eroding brand image
- Decreasing sales and margins

Company Description:

Coach, Inc. provides luxury accessories and lifestyle collections for women and men in the United States and internationally. The company's products include handbags, wallets, wristlets, cosmetics cases, and watches for women, as well as wallets, and time management and electronic accessories for men. They also make wearables, such as outerwears, gloves, scarves, and hats, as well as jewelry and luggage. They also have a line of fragrances and body lotions for women. The company markets its products to consumers through a network of company-operated stores, including internet, and Coach operated stores and concession shop-in-shops. It also sells its products to wholesale customers and distributors in 35 countries.

Thesis

Coach, Inc. was once known as one of the premier luxury handbag and accessories brand both in the United States, and internationally. However, they missed many pricing and design mark in the last ten years and they have been rapidly losing their market share to new entrants, in a growing market. They have an eroding brand image because of an overabundance of factory stores, and sales. Their sales and margins are in steady decline, and expected to continue declining. They hve a $300 million transformation plan in the works, that is not guaranteed to return them to their status as a well respect "affordable luxury" brand.

Product Offerings

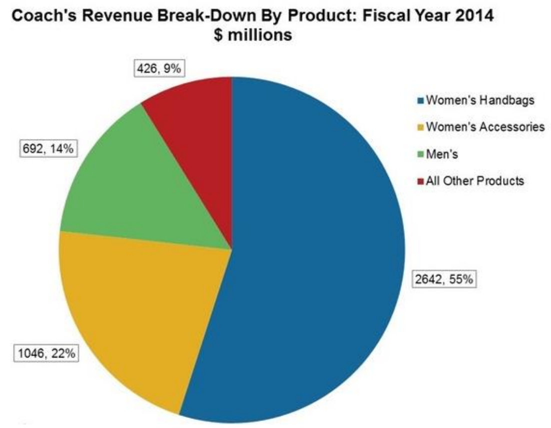
The company has different segments of product offerings that comprise their revenues, including:

Womens Handbags: Women's handbags are how the company started and their current core product category. Within their women's handbags section they have many different lines of products including "A Tribe Called Coach", "Modern Metallics", "Americana", "Trending Textures", "Perfect Pieces" and "Coach X Baseman", which consists of products designed by Gary Baseman. Coach offers many different lines handbags in an attempt to attract many different types of customers. Women's handbags accounted for 55% of revenues, or $2.6 billion in FY 2014.

Women's Accessories: The women's accessories segment primarily includes wallets, wristlets, and cosmetic cases that complement handbags. These products are typically offered under the same product lines as the handbags, and are often made to be worn as a set so they are designed to match the handbags that coach makes. Women's accessories accounted for 22% of Coach's revenues, or ~$1 billion in FY 2014.

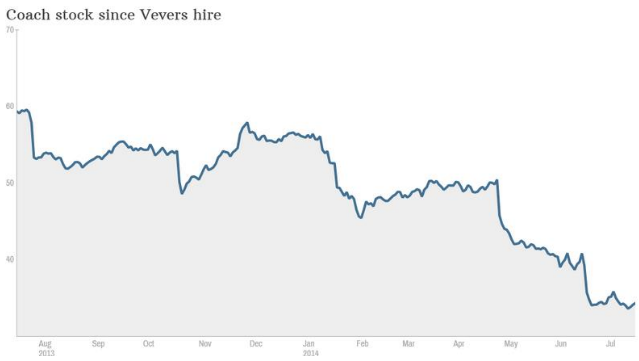
Mens Products: Men's products include business cases, computer cases, totes, messenger bags, wallets, belts, and card cases, as well as time management and electronics pieces. The men's segment also has different product lines including "Business Best" and "Americana". Coach recently began to offer men's shoes in an effort to diversify their offerings for a segment they believe will drive their future growth. Men's products accounted for only 14%, or $0.7 billion of revenue in FY 2014.

Other Products: Coach's other products include apparel, footwear, sunglasses, watches, jewelry, fragrances and travel bags. Currently, these products cater primarily to women. All other products accounted for 9%, or $0.4 billion of revenues for FY 2014.



Managment

Coach recently appointed a new CEO, Victor Luis, following the retirement of Lew Frankfort in December 2014. Prior to being appointed CEO, Luis was the President and Chief Commercial Officer at Coach, and he has been with Coach since 2006. Luis is carrying out the same vision put into place by Lew Frankfort. Also, in 2013 it was announced that Stuart Vevers would be joining Coach as Executive Creative Director. Coach is counting on him to reinvent Coach and help them target the higher-end customer again. However, after investors were not confident that Vevers will be able to turn the brand around, and the stock performance was disappointing following Coach's hire of Vevers.



Industry Outlook

Handbags and accessories are among the fastest growing segments in the overall luxury goods industry. In North America alone the handbag and accessory market is an $11.4 billion market. The global market for accessories, including handbags, is rising at a fast pass since the last recession and is further expected to be a highly growing and profitable market for the next couple of years. This growth is largely being driven by a rise in disposable income, expanding middle class, growing preference for branded products, and rising number of wealthy consumers worldwide. Other key factors driving growth is the increasing working women population, accelerating online sales trend, and improvement in global growth.

Transformation Plan

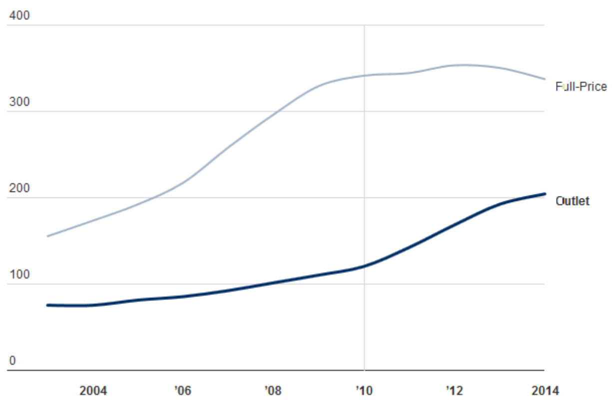
In 2014, Coach unveiled a transformation plan to restore their brand image and grow their sales in the coming years. The Transformation Plan is focused on a new global branding strategy centered on the concept of defining modern luxury. Coach intends to do this through organizational efficiencies, the closure of approximately 70 retail stores in North America, updating their global store fleet and realigning inventories. Through this plan, Coach will incur pre-tax charges of approximately $250- 300 million, a portion of which were recognized in Q4 2014, and the remainder will be incurred in FY 2015. Shares of Coach fell 10% in the month following the announcement of the plan. This is an expensive plan for Coach, that is not guaranteed to work.

Losing Market Share

The growing handbag and accessory market should be good news for affordable luxury brand Coach, but instead they are rapidly losing market share in a growing industry. Coach used to be one of the leading brands in North America in the affordable luxury market. In FY 2008 Coach had over 35% market share in the handbags and accessory industry, and in FY 2014 their market share was only 23%. Coach's eroding market share is attributed to rising competition from new entrants like Michael Kors and Kate Spade. Another reason for their decline in market share is their decline in same store sales. Same store sales are declining for Coach but they are increasing for competitors Michael Kors and Kate Spade. In Q2 F2014, comparable store sales in North America were down by 13.6%, gross profits fell by ~10 %, and gross margin contracted three percentage points. In contrast, Michael Kors' most recent earnings report saw a 24% increase in comparable store sales, accompanied by a 50% jump in sales in North America. Another reason Coach has been losing market share is that their designs have not been resonating with customers lately. They have been unable to come up with designs that customers want to wear, and that connect with the customers.

Eroding Brand Image

During and after the recession in 2008 Coach lowered prices in an effort to remain "affordable luxury". They wanted to keep their prices low enough that even through a recession their target market could afford to purchase their products. However, this proved to be a critical mistake for Coach because when they lowered their prices it caused them lose their brand image. People know longer see them as a cool aspirational lifestyle brand, and instead they make products that many people can afford. Over the past 10 years the number of full-price Coach stores has gone from 156 in 2003 to 338 in 2014, while the number of outlet stores is growing at a faster rate and continuing to grow, going from 76 in 2003 to 205 in 2014. Currently, factory sales make up approximately 70% of Coach's total retail business in North America, which is up from 40% 10 years ago. Their factory sales represent almost 50% of total sales, which is very high for a company that wants to bill themselves as a luxury lifestyle brand. The dominance of the factory channel may be hurting Coach in more ways than declining sales. Because of the availability of information on the internet, especially through comparison shopping it might become hard for Coach to ever sell full priced products. Customers may wait for Coach's products to become available in the factory stores, where they can buy them for a much lower price. Further, the factory stores have been placed closer to their retail stores over the past decade, eating into retail sales. In 2005, Coach's factory stores were located 50 to 100 miles from major markets. By 2008, Coach said factory stores were "generally more than 50 miles" away. Now factory stores tend to be more than 30 miles from major markets. Even with their new transformation plan Coach is not planning to decrease the number of factory stores, in fact in 2014 they announced plans to open 15 more. The steady increase in the number of factory stores, as well as their proximity to retail locations indicates that Coach does not see this as a major problem and they will continue to sell their products at a deep discount.



Fundamentals

In FY 2014, Coach had revenues of $4.8 billion, a sharp 5.3% decline from $5.1 billion in FY 2013, and estimates have their revenues shrinking another 12.5% in FY 2015. Along with their decline in revenues Coach's margin have also been steadily declining. In FY 2014, their gross profit margin was was 70.3% down from 73% in FY 2013. Their EBITDA margin was 30.1% in FY 2014, down from 34.3% in FY 2013. Coach' cash and cash equivalents decreased decreased from $1.1 billion in FY 2013 to $868 million in FY 2014, and will continue to decrease as they put their expensive transformation plan into action. While Coach's profitability is in a steady decline peers such as Michael Kors, Kate Spade, Louis Vuitton and Ralph Lauren have seen their profitability greatly increase, or remain steady. It is especially concerning that Coach's sales are declining in a market that is growing faster than the retail sector overall.

CENTER FOR GLOBAL FINANCIAL STUDIES

Company	Ticker	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	
Coach, Inc.	COH	Pamela Juergens	$42.65	$21.58	$24.12	3%	1-y Return: -40.26%	BEARISH

General Info

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	Aug-05-2014
Next earnings date	4/28/2015

Market Data

Enterprise value	$10,719.29
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	275.83
Diluted shares outstanding	277.08
% shares held by institutions	99.58%
% shares held by insiders	0.86%
Short interest	6.36%
Days to cover short interest	4.52
52 week high	$50.60
52-week low	$32.72
5y Beta	1.16
6-month volatility	26.63%

Peers	Market Cap.
Michael Kors Holdings Limited	$12,743.99
LVMH Moët Hennessy Louis Vuitton S	
Kate Spade & Company	$4,335.96
Ralph Lauren Corporation	$11,915.78

Current Capital Structure

Total debt/market cap	0.17%
Cost of Borrowing	0.89%
Interest Coverage	8.7x
Altman Z	8.66
Debt Rating	AAA
Levered Beta	1.41
WACC (based on market value weights)	10.34%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Luis, Victor	Chief Executive Officer and Directo	$0	$17,851,776	$6,679,113
Nielsen, Jane	Chief Financial Officer	$4,274,463	$2,731,480	$2,048,403
Kahn, Todd	Global Corporate Affairs Officer, C	$0	$0	$2,401,780
Dunn, Sarah	Global Human Resources Officer	$0	$0	$1,831,078
Rainer, Gebhard	President and Chief Operating Offi	$0	$0	$0
Putur, Christine	Chief Information Officer and Exe	$0	$0	$0

Historical Median Performance

	COH	Peers	Industry	All U.S. firms
Growth	11.8%	8.1%	8.3%	7.4%
ROIC	33.6%	9.5%	17.2%	14.3%
NOPLAT Margin	21.7%	12.6%	7.7%	10.4%
Revenue/Invested Capital	1.55	0.75	2.23	1.37
Excess Cash/Rev.	22.4%	12.6%	13.5%	12.9%
Total Cash /Rev.	22.4%	12.6%	12.3%	15.2%
Unlevered Beta	1.40	1.33	1.21	0.95
TEV/REV	3.2x	0.6x	2.0x	2.5x
TEV/EBITA	9.1x	4.2x	11.5x	13.1x
PE (normalized and diluted EPS)	16.2x	4.7x	24.7x	23.5x
P/BV	7.7x	0.8x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-0.7%	8.3%	9.1%
Last Quarter-1	3.3%	0.0%	17.8%
Last Quarter -2	3.9%	12.5%	11.3%
Last Quarter -3	-2.6%	4.1%	11.5%
Last Quarter -4	-4.3%	-4.1%	-4.5%

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	0.54%
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	1.5%
Base Year Unlevered Beta	is equal to 1.4
Long term Unlevered Beta	1.40

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	-5.3%	72.4%	$1,323.08	15%	16.1%	10.3%
NTM	-12.5%	72.3%	$1,341.85	16%	50.9%	10.5%
NTM+1	1.9%	72.1%	$1,386.70	16%	51.4%	10.6%
NTM+2	2.6%	72.0%	$1,438.50	16%	51.3%	10.7%
NTM+3	3.3%	71.8%	$1,497.60	16%	51.3%	10.8%
NTM+4	3.9%	71.7%	$1,564.25	16%	51.6%	10.9%
NTM+5	4.6%	71.6%	$1,638.43	16%	52.1%	11.0%
NTM+6	5.3%	71.4%	$1,719.37	16%	52.9%	11.1%
NTM+7	6.0%	71.3%	$1,803.93	16%	54.0%	11.2%
NTM+8	6.7%	71.1%	$1,878.49	17%	55.8%	11.3%
Continuing Period	7.3%	71.0%	$5,056.42	12%	10.0%	11.4%

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	$20.00	-$1,068.51	275.83	$22.54	$37.72	$18.82	$22.54
NTM	$534.83	$20.00	-$1,564.07	275.83	$24.87	$39.02	$21.73	$24.87
NTM+1	$547.45	$20.00	-$1,812.68	275.83	$25.09	$40.69	$22.10	$25.09
NTM+2	$562.85	$20.00	-$2,071.79	275.83	$25.31	$42.67	$22.43	$25.31
NTM+3	$583.54	$20.00	-$2,343.66	275.83	$25.44	$44.98	$22.69	$25.44
NTM+4	$610.20	$20.00	-$2,632.73	275.83	$25.54	$47.67	$22.86	$25.54
NTM+5	$643.73	$20.00	-$2,943.75	275.83	$25.30	$50.80	$23.10	$25.30
NTM+6	$685.43	$20.00	-$3,248.87	275.83	$24.86	$54.32	$23.15	$24.86
NTM+7	$737.33	$20.00	-$3,584.55	275.83	$24.16	$58.43	$23.07	$24.16
NTM+8	$803.85	$20.00	-$3,975.02	275.83	$23.54	$63.37	$22.80	$23.54
Continuing Value	-$275.86							

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	1%	N/A	3%	12%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$22.54	$24.87
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$21.58	$24.12
Current Price	$42.65	
Analysts' median est.		$40.65

Criteo SA

NASDAQ: CRTO

Analyst: Mitchell Rager
Sector: Technology

BUY

Price Target: $49.69

Key Statistics as of 4/21/15

Market Price:	$43.59
Industry:	eCommerce
Market Cap:	$2.66 B
52-Week Range:	$25.16-$46.50
Beta:	N/A

Thesis Points:

- Further Expansion in Americas
- Expansion in to eCommerce Sub-Sectors
- Solid Financials & Revenue Growth
- Differentiated Business Model
- Accomplished Management Team

Company Description:

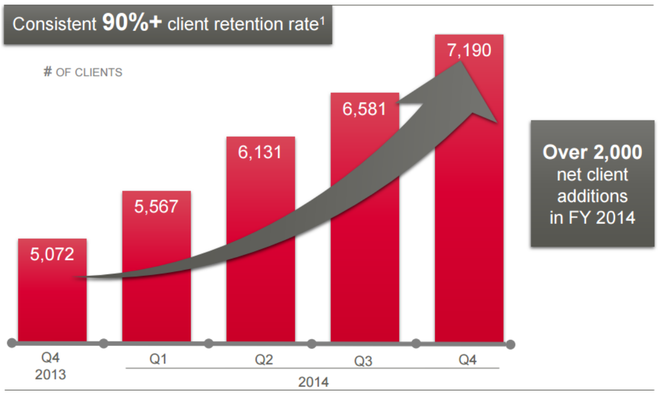
Criteo SA is a web advertising company that focuses on personalized retargeting based on end user data mining collection. Criteo was founded by Jean-Baptiste Rudelle, Franck Le Ouay and Romain Niccoli in 2005. The company is based out of Paris, France but has offices spanning from New York to Tokyo, with office locations most concentrated in California, New York, Spain, France, and Japan. Criteo's main product is a form of online-marketing display advertising as well as a data analysis engine. Specifically, Criteo identifies end user retail browsing preferences by tracking customer activity while viewing particular products on a retailer's website. If the customer does not end up buying the product on said website, Criteo then places personalized banner advertisements on additional websites that the customer visits. Retail companies pay Criteo for this information as well as the subsequent banner advertisements that are displayed on additional websites. Criteo does this through a product called the "Criteo Engine." The data analysis engine provides algorithms which "predict the probability and nature of a user's engagement with a given advertisement and recommends algorithms that create and tailor advertisements to specific user interest through modifying the advertisement's creative content and presentation, and determining the specific products and services to include in the advertisement."

Thesis & Recommendation

Criteo SA has tremendous upside potential within the online global advertising markets. The company is extremely attractive compared to its competitors and is continuing to actively positioning itself in to a pivotal location within its sector. The company is continuing to expand all over the globe, but still has huge room for growth in the retail giant, the United States. As the company continues to expand and become partners with some of the world's largest retail companies, it also has been expanding its avenues of wealth creation. That being, not only online website display advertising, but mobile web browsing, in-app advertisements, social media advertisements, and E-mail advertisements. By doing this, the company continues to shift its business model to one of digital and programmatic advertising, differentiating it from the majority of similar online marketing firms. The company is headed by a very strong management team of accomplished innovators who will surely continue to provide resourceful insight and business techniques which will in turn stimulate expansion and financial growth. Based upon these key points, I feel Criteo is a strong Buy, with a very conservative target price range in the area of $50.00.

Differentiated Business Model

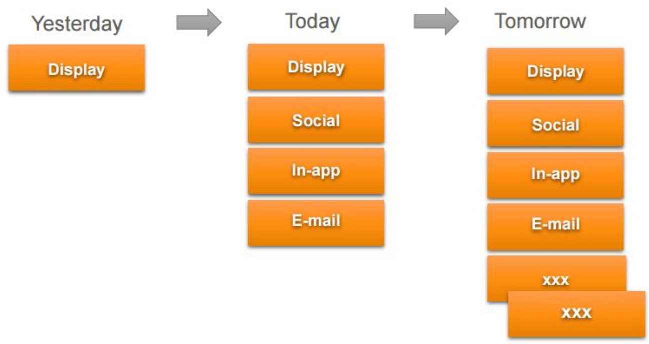
Criteo has been continuously shifting its business model based upon new technology that they continue to build upon and improve. The world of marketing has been continuing to shift from traditional forms of advertising to digital and now, programmatic advertising. Criteo has positioned itself right in the epicenter of programmatic advertising with its new Criteo Engine data analysis software. The Criteo Engine is best-in-class based upon similar data mining engines. They have an extremely high level of confidence in the predictive intelligence of its engine, which can be seen through Criteo's very strong sales growth as well as customer retention rates. Criteo has received an astounding 90% retention rate from customers. This data represents and annual average of quarterly retention, defined as percentage of live clients during the previous quarter that continued to be live clients during the current quarter.



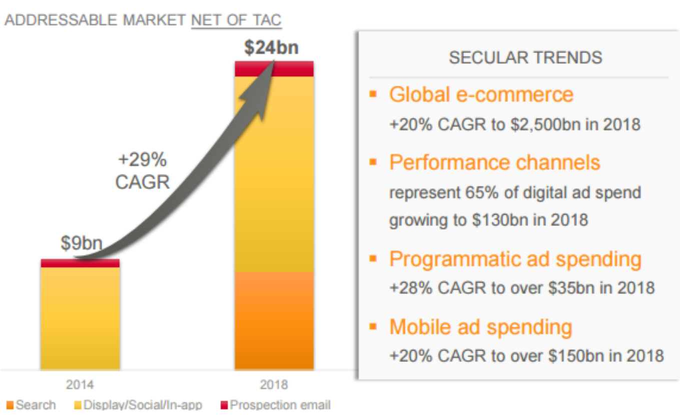
Criteo has consistently grew its number of clients each quarter while continuing to provide superior service to its current customers in order to achieve the 90% overall retention from its client base. The catalyst for their repeat customers is their differentiated business model of "performance-based Cost-Per-Click, or CPC." Criteo differentiates itself from its competitors by throwing a twist on the common payment method of Cost-Per-Click. CPC is a method in which advertising companies are paid for their services based upon how many people actually end up clicking on the advertisement on a website. Criteo prides itself on its extremely well-developed and predictive algorithm software Engine to create top of the line advertising experiences for end users. As a result, their incentivized policy states they are paid for a "click" only if that click is attributed to a sale. Criteo receives the click-rate if a sale is made within 30 days of the initial click of the advertisement. As a result of this performance-based business model, Criteo charges a higher click-rate than its competitors. The differentiated business model that Criteo provides to the retail market ensures a low initial resistance of potential clients as well as persuading them away from competitors who their client will need to pay regardless if the advertisement results in a sale or not. This differentiated business model also assures clients that Criteo is providing a top-notch service in order to receive as many sales for the client as possible so that they themselves get paid the click-rate.

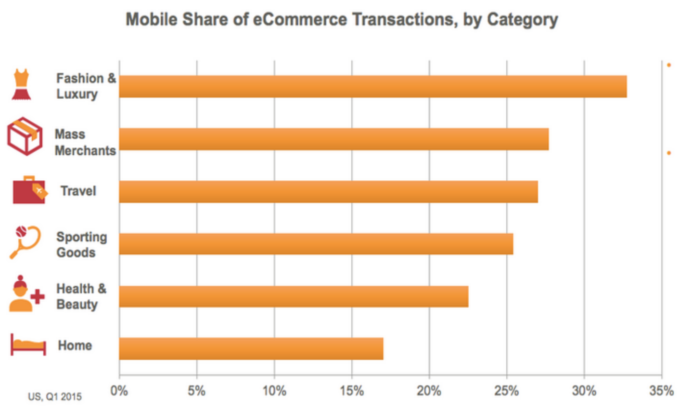
Expansion in to eCommerce Sub-Sectors

Criteo began its life through online display advertisements. This includes website banners, block advertising, and similar web display methods. Currently, Criteo not only provides predictive algorithm based display advertisements, but they also now provide mobile, E-mail, social media, in-app, and video interaction advertising methods.



Criteo continues to seek the future of additional marketing channels which will provide the most end-user interaction and traffic. That shift is most concentrated in the mobile and in-app marketing channels. Mobile is now 29% of eCommerce transactions in the U.S. and 34% globally. By the end of 2015, this is forecasted to be 33% and 40%, respectively. This information comes from Criteo's latest public report, the "State of Mobile Commerce."

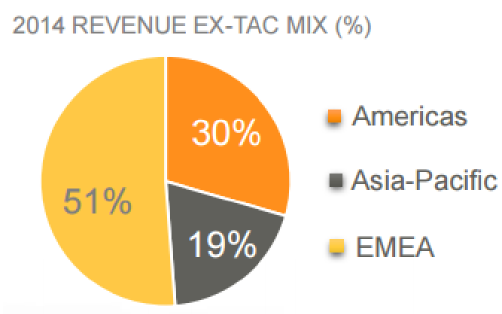




In 2014, Criteo collaborated with Facebook to create effective solutions to mobile advertising. As a result, Criteo now has access to a significant amount of Facebook's enormous in-app inventory which is untapped with ads and customer data. "People spend more time on Facebook's mobile app than on any other single app, so it is a critical place for retailers to reach their customers," said Jonathan Wolf, chief product officer of Criteo. "With dynamic product ads, Criteo delivers relevant and timely messages to these users, and so generates post click sales and strong return on ad spend for our clients." This partnership alone will be a significant driver of 2015-2016 sales growth for the company in to the now largest and fastest growing marketing channel. Criteo's Chairman and CEO recently stated, "we delivered our first in-app inventory on Facebook in the fourth quarter [of 2014]. In 2015, we aim to access Facebook in-app inventory on a much larger scale and bring out clients the same performance in this important count of mobile traffic. This will be one of our key areas of focus in 2015." The partnership will also be a key factor of continued development in the growing Social Media marketing channel as well.

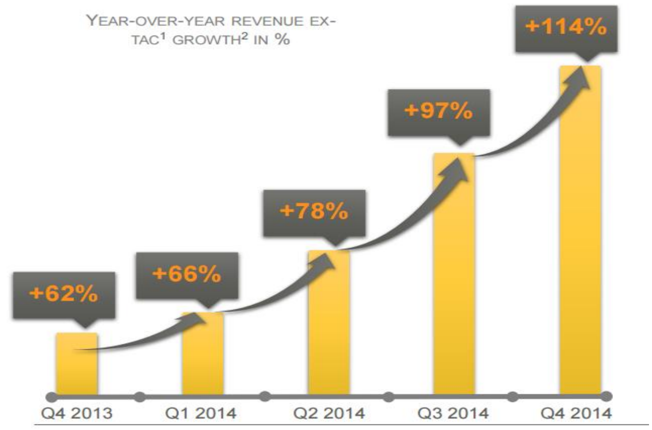
Further Expansion in to Americas

Criteo truly has a global presence. Currently, they have 23 offices in 69 different national markets spanning from New York to Tokyo. They started the company servicing mostly Europe, but have expanded greatly in the past few years, with a huge amount of untapped potential still in the Americas. Criteo's 2014 revenue was made up of 51% from Europe, 19% of Asia-Pacific countries, and 30% from the Americas.



Criteo currently has over 7,100 clients. Growth has consistently accelerated in the Americas over the recent quarters and is expected to continue that growth while the U.S. economy is also expanding. Criteo added over 2,000 new clients in 2014 predominantly due to U.S economic growth. In Quarter 4 of 2014, Criteo added 600 new clients alone, the largest quarterly increase in Criteo's history. Starting with Q4 2013, revenue from the Americas increased 62%, in Q1 of 2014 it had increased

66%, in Q2 it has increased 78%, in Q3 it had increased 97%, and in Q4 it had increased 114%. We expect this to continue in to the summer as consumers start spending the money saved at the gas pump.



Accomplished Management Team

Criteo has an extremely distinguishable and experienced management team, Board of Directors, and Board of Advisors in the eCommerce marketing sector.

CEO and Co-Founder of Criteo is Jean-Baptiste Rudelle. "Rudelle previously founded K-mobile and Kiwee, which quickly became one of leaders in emerging mobile content market in the 2000s. The companies were acquired by American Greetings in 2004."

Eric Eichmann is the President and Chief Operating Officer. "Prior to Criteo, Eric served as Living Social's COO and President International and chief operating officer at Rosetta Stone. Eric also previously served as senior vice president of Ad Operations and Technology at AOL, and as senior engagement manager at McKinsey & Company."

Kathleen Schneider is the Senior Vice President of Marketing and Communications. "Prior to joining Criteo, Schneider was Executive Director for Global Channel Marketing and Programs at Dell based in London, leading a global team responsible for the development and execution of marketing programs to and through the company's more than 160,000 resellers, distributors, SI, and OEM partners worldwide. Schneider also has held brand manager positions at Kraft Foods Mexico, based in Mexico City."

Mollie Spilman is Chief Revenue Officer. "Prior to this, she was CMO at Yahoo! and served as Chief Sales & Marketing Officer of Advertising.com. Her experience also includes the roles of CEO at two ad tech start-ups as well as senior executive positions at other large media companies including Time Warner, Meredith Corporation and Discovery Networks."

Notable Board of Directors includes Dominique Vidal. Dominique was the CEO of Yahoo! Europe from 2004 to 2007. Notable Board of Advisors includes Greg Coleman and John Costello. "Coleman was formerly the president and Chief Revenue Officer at the Huffington Post and the EVP of global sales at Yahoo. He also served as President of Platform-A at AOL from February to April of 2009. Coleman was previously senior vice president of Reader's Digest Association and president of U.S. Magazine Publishing."

"John Costello is President, Global Marketing and innovation at Dunkin' Brands, Inc. and the current Global Chairman of the Mobile Marketing Association. At Dunkin, John has global responsibility for Dunkin' Donuts and Baskin-Robbins advertising, marketing, consumer engagement, digital, mobile and social marketing, consumer and business intelligence, multi-cultural marketing and oversees research and product development, the culinary team and retail channel development efforts for both brands globally. One of the early pioneers of omni-channel marketing, John has served as the EVP of Merchandising and Marketing at The Home Depot, Senior EVP of Sears, Chief Global Marketing Officer of Yahoo and President and COO of Nielsen Marketing Research U.S. John began his career at Procter & Gamble, where he held a number of senior marketing and brand management positions and served as Senior VP of Marketing and Sales at Pepsi-Cola, USA. John was named one of the 30 Most Influential People in Marketing."

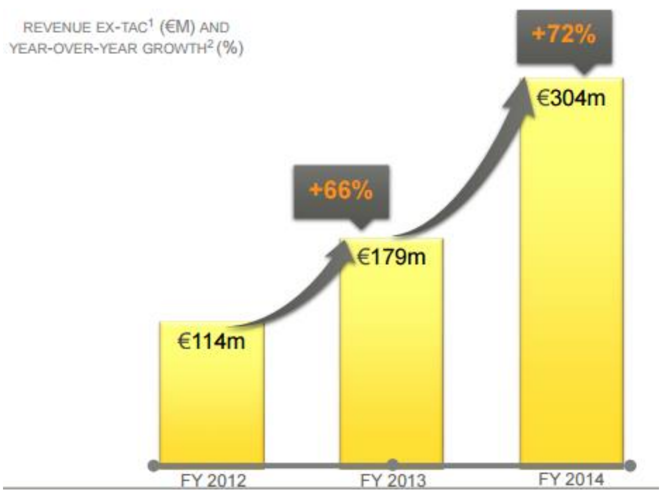
(via Criteo website "about us")

As you can see, Criteo's management is full of extremely professional and skilled innovators. Many of the individuals listed have a great deal of experience in the marketing and advertising sector with some of the biggest companies in that industry, such as AOL, Yahoo, Kraft foods, Dunkin, and Baskin-Robbins. Similarly, many of management members also come from a strong background of information technology companies including Dell, Time Warner Cable, and Alcatel. Lastly and most importantly for the future plans of Criteo, many management and advisories come from the mobile sector background. As stated earlier, the mobile advertising sector will be one of the most important areas of growth for Criteo in 2015. With the tremendous amount of background knowledge and experience of each of these individuals it will ensure Criteo continues to make the correct expansion and marketing decisions within the coming years.

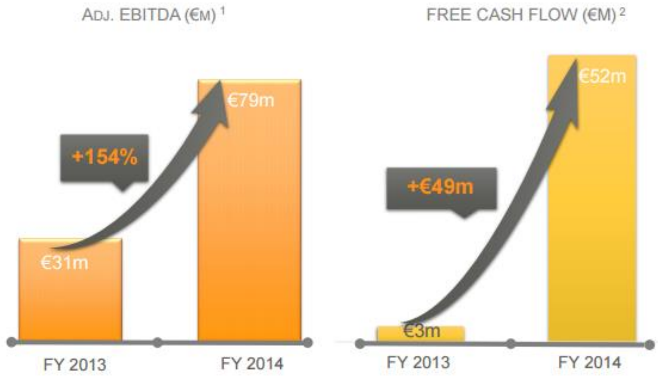
Solid Financials & Revenue Growth

As a % of Revenue	FY 2012	FY 2013	FY 2014	LT Model
Revenue	100%	100%	100%	100%
Revenue ex-TAC	42.0%	40.3%	40.8%	39-41%
Cost of sales	3.3%	3.2%	2.7%	3-4%
Gross Margin	38.7%	37.1%	38.1%	35-38%
R&D	5.0%	6.0%	5.1%	5-6%
S&O	20.4%	17.6%	16.3%	11-12%
G&A	6.9%	6.5%	6.1%	3-4%
Adjusted EBITDA	6.4%	7.1%	10.7%	15-17%

Criteo's financials have been very favorable over the past few quarters, specifically fiscal year 2014. This past year, Criteo has delivered record profitable growth, especially in Quarter 4. In Quarter 4, Criteo grew total revenues by 71%, and 69% at constant currency exchange rates (233M€). Similary, over 2014 total revenue grew 68% and 70 % at constant currency exchange rates (745M€).



Criteo grew Q4 adjusted EBITDA by 120%, or 121% constant currency exchange rates, to 32M€. Adjusted EBITDA margin improved 3 percentage points, as a percentage of revenue. For overall fiscal year 2014, adjusted EBITDA grew by 154%, or 156% at constant currency exchange rates, to over 79M€. Adjusted EBITDA margin increased by 3.6 percentage points, as a percentage of revenue. For fiscal 2014, free cash flow increased by 49M€ to over 52M€, or 66% of our adjusted EBITDA for the year.



Criteo expects to make significant investments in R&D in 2015. Fiscal year 2015 is expected to produce 44% reported growth compared to 2014. There will be expected changes in currency exchange rates due to a strong U.S. dollar which is estimated to lower this to 39% growth. Criteo will be increasing their capex as a result of expanding their hosting capabilities in many regions of the world and updating their internal Information Technology and facilities in New York and London. This also includes investing in to using DataPop's technology, which was acquired in February and will be used to improve the Criteo Engine and the mobile-ad sector. This will greatly increase their capacity for additional clients as well as mobile advertisements in the U.S. Overall 2015 will be a year of increasing client base to sustain continuous profitable growth.

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Criteo SA	CRTO	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Mitchell Rager	$43.59	$43.57	$49.69	0%	1-y Return: 13.99%	

General Info

Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	Feb-18-2015
Next earnings date	NM

Market Data

Enterprise value	$2,251.29
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	61.01
Diluted shares outstanding	62.65
% shares held by institutions	99.58%
% shares held by insiders	13.99%
Short interest	1.29%
Days to cover short interest	1.45
52 week high	$46.50
52-week low	$25.16
5y Beta	0.00
6-month volatility	45.25%

Peers	Market Cap.
Conversant, Inc.	
Google Inc.	$367,502.49
Yahoo! Inc.	$41,802.48
AOL Inc.	$3,126.11
Twitter, Inc.	$33,635.19
Facebook, Inc.	$232,569.91
HomeAway, Inc.	$2,992.95
MaxPoint Interactive, Inc.	$201.46
LinkedIn Corporation	$32,542.10
Rocket Fuel Inc.	$381.42

Current Capital Structure

Total debt/market cap	0.47%
Cost of Borrowing	0.14%
Interest Coverage	6.4x
Altman Z	6.40
Debt Rating	AAA
Levered Beta	1.13
WACC (based on market value we	8.91%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Rudelle, Jean-Baptiste	Co-Founder, Chairman, Chief	$0	$0	$0
Niccoli, Romain	Co-Founder, Deputy Chief Ex	$0	$0	$0
Fouilland, Benoit	Chief Financial Officer	$0	$0	$0
Eichmann, Eric	Chief Operating Officer	$0	$0	$0
Schneider, Kathleen	Senior Vice President of Mar	$0	$0	$0
Gigoux, Mimi	Executive Vice President of H	$0	$0	$0

Historical Median Performance

	CRTO	Peers	Industry	All U.S. firms
Growth	41.9%	17.3%	13.8%	7.4%
ROE	10.5%	14.0%	10.1%	9.9%
Net Profit Margin	7.6%	22.8%	5.4%	6.9%
Revenue/Common Equity	1.37	0.61	1.88	1.45
Excess Cash/Rev.	N/A	92.3%	13.5%	12.9%
Total Cash /Rev.	38.9%	92.3%	12.3%	15.2%
Unlevered Beta		1.07	1.12	0.95
TEV/REV	2.7x	7.8x	3.9x	2.5x
TEV/EBITA	27.0x	35.3x	17.5x	13.1x
PE (normalized and diluted EF	56.8x	39.1x	33.9x	23.5x
P/BV	3.3x	4.0x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	6.2%	18.0%	54.2%
Last Quarter-1	6.8%	64.2%	285.7%
Last Quarter -2	5.9%	72.5%	80.0%
Last Quarter -3	10.8%	20.1%	50.0%
Last Quarter -4	6.2%	32.3%	44.4%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalizatio	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	0.54%
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	4.0%
Base Year Unlevered Beta	is equal to 1.07
Long term Unlevered Beta	1.07

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Common Equity	Net Margin	ROE	Ke
LTM	47.5%	89.8%	$718.78	8%	9.6%	8.9%
NTM	43.2%	87.9%	$873.05	10%	17.2%	8.9%
NTM+1	38.8%	86.0%	$1,082.16	11%	21.8%	9.2%
NTM+2	34.5%	84.2%	$1,373.22	12%	26.1%	9.4%
NTM+3	30.1%	82.3%	$1,771.31	13%	29.3%	9.6%
NTM+4	25.8%	80.4%	$2,302.13	14%	31.2%	9.7%
NTM+5	21.4%	78.5%	$2,988.44	15%	31.6%	9.9%
NTM+6	17.1%	76.6%	$3,845.54	16%	30.8%	10.0%
NTM+7	12.7%	74.8%	$4,876.61	18%	29.0%	10.1%
NTM+8	8.4%	72.9%	$6,070.16	19%	26.6%	10.2%
Continuing Period	4.0%	71.0%	$6,312.96	12%	10.0%	10.3%

Valuation

Period	Common Equity x (ROE-Ke)	Total Debt	ıer non-interest bearing clai	Shares Outstanding
LTM	$0.00	$14.74	$205.22	61.01
NTM	$50.48	$14.74	$207.45	61.01
NTM+1	$97.72	$14.74	$210.98	61.01
NTM+2	$170.08	$14.74	$215.89	61.01
NTM+3	$268.95	$14.74	$222.21	61.01
NTM+4	$393.02	$14.74	$48.88	61.01
NTM+5	$535.27	$14.74	$59.34	61.01
NTM+6	$683.13	$14.74	$69.46	61.01
NTM+7	$818.12	$14.74	$78.28	61.01
NTM+8	$917.75	$14.74	$84.82	61.01
Continuing Value	-$415.68			

Pricing Model

DCF (Weight = 100%)	Relative (Weight =	Distress (Weight =	Weighted Average Price P
$44.53	$34.90	$5.16	$44.53
$50.44	$59.41	$6.45	$50.44
$56.59	$84.58	$8.48	$56.59
$63.65	$119.54	$11.72	$63.65
$72.25	$165.92	$16.58	$72.25
$82.70	$227.66	$23.57	$82.70
$90.78	$298.57	$32.97	$90.78
$98.96	$379.81	$45.16	$98.96
$106.66	$467.67	$60.40	$106.66
$111.72	$556.87	$78.48	$111.72

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%	42%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$44.53	$50.44
σ(ε)	$0.32	$0.25
σ(ε) adjusted pric	$43.57	$49.69
Current Price	$43.59	
Analysts' median est.		$53.53

Emergent Biosolutions, Inc.

NYSE:EBS

Analyst: Laura Pladys
Sector: Healthcare

BUY

Price Target: $59.47

Key Statistics as of 4/23/2015

Market Price:	$29.82
Industry:	Specialty Pharma
Market Cap:	$1.1 B
52-Week Range:	$19.31-30.96
Beta:	1.05

Thesis Points:

- The BioDefense market: a growth opportunity
- Relative valuation showing signs of undervaluation compared to its peers

Company Description:

Emergent BioSolutions Inc., a specialty pharmaceutical company, develops, manufactures, and commercializes specialized products for use in biodefense and commercial markets in the United States and internationally. The company's Biodefense segment markets BioThrax, an FDA approved vaccine for the prevention of anthrax disease; BAT (Botulism Antitoxin Heptavalent (A,B,C,D,E,F,G)-Equine) for the treatment of suspected or documented exposure to botulinum neurotoxin A, B, C, D, E, F, or G; Anthrax Immune Globulin Intravenous to treat toxemia associated with inhalational anthrax; Vaccinia Immune Globulin Intravenous for addressing adverse events from smallpox vaccination; and RSDL (reactive skin decontamination lotion) to remove and/or neutralize chemical warfare agents from the skin. This segment is also developing NuThrax, an anthrax vaccine product candidate based on BioThrax combined with CPG 7909, an adjuvant licensed from Pfizer Inc.; and PreviThrax, a recombinant protective antigen anthrax vaccine product candidate, as well as GC-072, the compound in the EV-035 series of broad spectrum antibiotics. Its Biosciences segment markets WinRho SDF, to treat autoimmune platelet disorder and hemolytic disease of the newborn; HepaGam B for the prevention of Hepatitis B reinfection after liver transplantation, and for use as a post-exposure prophylaxis; VARIZIG for post-exposure prophylaxis of chickenpox; and Episil to treat pain associated with oral mucositis. This segment is also developing IXINITY, a therapeutic to prevent bleeding episodes in people with hemophilia B; MOR209/ES414, treatment for metastatic castration resistant prostate cancer; Otlertuzumab, treatment for chronic lymphocytic leukemia. In addition, it provides contract manufacturing services to third-party customers. The company has an agreement with MorphoSys AG to develop and commercialize MOR209/ES414. Emergent BioSolutions Inc. was founded in 1998 and is headquartered in Gaithersburg, Maryland.

Thesis

Emergent BioSolutions is a company that does not deliver vaccines or treatment for common disease but rather that focuses on a few orphan diseases. The specialty pharma outlook looks very positive due to the actual demographics and the current spending on healthcare and research. The BioDefense division of EBS is the most profitable one and is closely linked to the US government spending on BioDefense. It is a source of funding for the company and is a growth opportunity that the market seems to underestimate. In addition, the company shows sign of undervaluation compared to its peers.

Industry Outlook

The Specialty Pharma industry has an intense competition with a fast growth. It mainly deals with innovation and patents approvals by the FDA (Food and Drug Administration). Within the United States, the total market cap of the industry is estimated at $172 trillion, represented by more than 55 companies. The Obama Affordable Care enabled more patients to be treated in the United States. In an industry such as specialty pharma where care is expensive, more patients are now able to be treated and the number of patients treated for rare diseases is expected to keep increasing as well. Therefore, the Affordable Care Act is expected to increase firms' revenues and therefore their research and development expenses. These companies should therefore increase their pipelines and come up with more preventive vaccine or treatments.

The industry specialty pharma specializes on orphan diseases. Though rare, people are still sick. Thanks to the increase in science and technology and the increased spending on healthcare, it is an industry that will keep growing in the upcoming years. This industry develops products that have no generics yet. It is a needed and essential industry.

The positive outlook of the industry is mainly explained by favorable patient demographics, a better and constantly improving technology leading to an increased research in specialized pharmaceutics, as well as an increased healthcare spending.

Management

Emergent BioSolutions has been founded by Fuad El-Hibri in 1998. He has a Bachelor of Economics with Honors from Stanford university as well as a Master's degree from Yale. He has an extensive background in telecommunications and biopharmaceuticals and developed and co-managed the first digital cellular operating network in Russia. In EBS, he served as Chief Executive Officer for a decade, President and Chairman of the Board after having an outstanding career in the pharmaceuticals industry.

Daniel Abdun-Nabi is the Chief Executive Officer of EBS since 2012. He has a lot of experience within the company. Prior to that; he held the position of EBS President for 8years, as well as the position of Chief Operating Officer. His background in law makes him a great asset for the company. Pharmaceutical companies always deal with patent approval and legal procedures.

Robert Kramer has been the Chief Financial Officer since 2012 and serves as Treasurer. He, as well, has been an asset for the company for more than a decade and has experience in other pharmaceutical and biotech companies prior to joining EBS. EBS management is made up of talented people, with extensive experience in pharmaceutical companies as well as long tenures within Emergent BioSolutions, making them very effective in the decisions made for the company.

Pipeline

The company's area of focus is the bacterium Anthrax. It is a rare acute disease that less than 20,000 people in the US have each year. Though mostly animals are infected and that it is not contagious, meat can be infected and the bacterium can be transmitted to humans or it can be lethal if inhaled. EBS goal is to provide effective preventive vaccines against this bacterium and other types of bacteria.

The company currently operates in two different divisions: biodefense and bioscience in order to protect and enhance life. EBS has 9 marketed products: 5 in biodefense and 4 in biosciences. The company also has 6 named products in investigational stage of development – 3 in each category – and other at earlier stages of development.

Refer to the two charts below for details of the products proposed the company.

MARKETED PRODUCT PORTFOLIO

BIODEFENSE

Product	Indication	Regulatory Approvals
BioThrax® (Anthrax Vaccine Adsorbed)	Pre-exposure prophylaxis of anthrax disease	United States Germany Singapore
BAT™ [(Botulism Antitoxin Heptavalent (A,B,C,D,E,F,G)-(Equine)]	Treatment of suspected or documented exposure to botulinum neurotoxin A, B, C, D, E, F or G	United States
Anthrasil (Anthrax Immune Globulin Intravenous (Human))	Treatment of toxemia associated with inhalational anthrax	Anthrasil is an investigational product, but is procured by U.S. Health & Human Services, or HHS, for inclusion into the Strategic National Stockpile, or SNS, for use in an emergency under an Emergency Use Authorization, or EUA.
VIGIV (Vaccinia Immune Globulin Intravenous (Human)	Post-exposure prophylaxis of vaccinia (a common virus used to vaccinate against small pox)	United States Canada
RSDL® (Reactive Skin Decontamination Lotion Kit)	Removal or neutralization of chemical warfare agents, T-2 toxin and many pesticide-related chemicals from the skin	United States 510(k) United Kingdom Australia Canada

BIOSCIENCES

Product	Indication(s)	Regulatory Approvals
WinRho® SDF [(Rh_o(D) Immune Globulin Intravenous (Human)]	ITP – immune thrombocytopenic purpura HDN – hemolytic disease of the newborn Preventing Rh_o(D) immunization in Rh_o(D)(-) women [1] Treating Rh_o(D)(-) patients after transfusions with incompatible Rh_o(D)(+) blood or erythrocyte products [2]	Canada – ITP, HDN United States – ITP, HDN Portugal – [1] and [2]
HepaGam B® [Hepatitis B Immune Globulin Intravenous (Human)]	Post-exposure prophylaxis for hepatitis B Prevention of hepatitis B recurrence following liver transplantation in patients who are positive for hepatitis B surface antigen	United States Canada Israel Kuwait Turkey
VARIZIG® [Varicella Zoster Immune Globulin (Human)]	Post-exposure prophylaxis for varicella (chickenpox) in high-risk patient groups, including immunocompromised children, newborns and pregnant women [1] Prevention and reduction of severity in maternal infections within four days of exposure to Varicella zoster virus [2]	United States – [1] Canada – [2]
episil® (oral liquid)	Relief of pain, soothing oral lesions of various etiologies, including oral mucositis/stomatitis caused by chemotherapy and radio therapy	United States (exclusive commercializa rights in the United States)

Biothrax, the company leading product, represents 80% of the firm's revenues as of fiscal year 2014 with only 9% of the total R&D expenses associated with it. Globally, the company markets its products in the United States, Canada, Germany, and Singapore.

Competitors

Competition arises because of the intent to treat and prevent CBRNE (Chemical, Biological, Radiological, Nuclear and Explosives) threats. This competition can arise from two different parties. First, it can come from already marketed products from other companies. For the company's leading product BioThrax, which is the only FDA approved vaccine for Anthrax; there can be a future competition from other vaccine companies since the United States provides lots of funding to develop alternative vaccines.

Competition in this industry comes from both the development and the procurement of the product. This means that competition comes from EBS' peers growing in the same industry for the sales but it also comes from government funding distributed to companies.

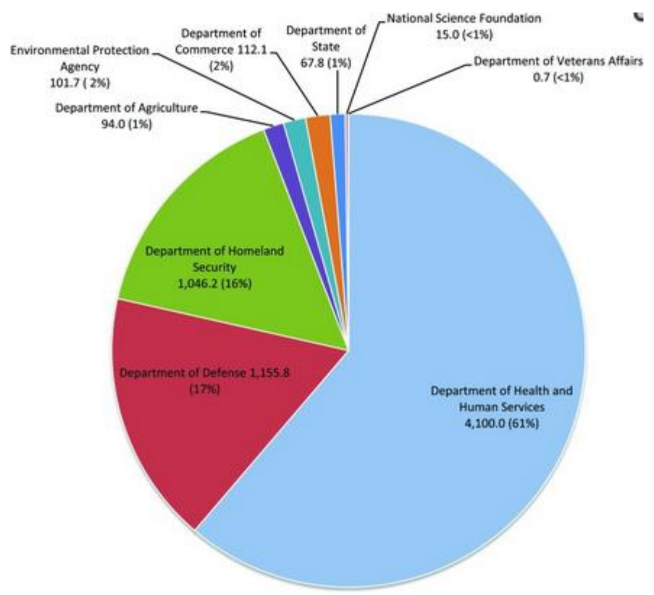
The BioDefense market: a growing opportunity

The company is strongly focused on its BioDefense division since 2014 and announced its expansion recently. The BioDefense division is a specialty pharmaceutical business focused on countermeasures that address CBRNE threats. When it comes to Emergent BioSolutions, the United States is the company's primary purchaser of those biodefense products. Since the anthrax attack of 2001, the United States has been increasing its spending in the biodefense field. A week after the terrorist attack of the World Trade Center, five people were killed and 17 injured because of letters infected with the anthrax bacterium sent to media offices as well as two democratic U.S. senators. EBS BioThrax, the company's leading product, is a vaccine for the treatment for anthrax. Thanks to the consistent funding of the US government, the company has been able to secure a post exposure or peripheral access for BioThrax, supporting the vaccine position as the leading medical counter measure against Anthrax disease.

Culture of Anthrax

Making a bioweapon is easier and cheaper than making a nuclear weapon. Indeed, it only required 15 grams of anthrax to infect and kill these people but it cost the economy more than $6 billion in the aftermath. Since the anthrax attack of 2001, the US government has already spent more than $60 billion in biodefense.

The country fears another bioterrorist attack. It is one of the main reasons why the government is funding pharmaceuticals companies in their researches. For the fiscal year 2014, the civilian biodefense totaled $6.69 billion and out of those $6.69 billion, 88% was attributed to companies with biodefense goals and applications like EBS. Below is a split of the civilian biodefense budget by agency for FY 2014.



The biodefense segment represents 82% of the company's revenues. In addition, it also represents 212% of the company's net income for FY 2014. This segment is the most profitable one for the company. In addition, that focus made by the company's first purchaser of biodefense products, the American government, is expected to surge the company's revenues.

In addition, the company acquired several molecules from the company Evolva in the last quarter of 2014. This acquisition follows the government's strategy and objective to fight antibiotic resistant bacteria. At the meantime, this acquisition has occurred to develop a treatment of Burkholderia. It is a bacterium responsible for glanders, a disease that occurs primarily in horses and related animals but that is an important pathogen of pulmonary infections for people with cystic fibrosis (mucoviscidosis). Thus, the acquisition offers a potential for commercialization of a broader spectrum antibiotics to protect against multi drug resistant bacteria.

Due to the past terrorist attacks in the US and worldwide, the previous bio attacks that happened, and the potential bioweapons to be made, the United States keeps and will keep funding pharmaceutical companies to develop preventive vaccines or treatments for relatively unknown diseases. The market is underestimating EBS potential to develop new vaccines, but because of the constant funding from the government and the persistent fear from the government to face another bio attack, the BioDefense market should keep on increasing, and so will the BioDefense division of EBS.

Financials and undervaluation

Emergent BioSolutions is a pharmaceutical company generating a lot of cash with positive free cash flow. Though the company is growing by acquisitions, it still had growing cash since 2011. For FY 2014, cash represented 65% of the company's current assets and 30% of the total assets. Though EBS has been established almost two decades ago, the company has not reached the mature stage yet. It has every ingredient to keep on growing.

Compared to its peers, EBS shows sign of undervaluation. The P/E of 32.97 times for EBS is 1.6 times lower than the peers' average of 52.88 times. The EV/EBITDA of 12.64 times is 14 times lower than the peers' average of 180.51 times. Other multiples showing even more signs of undervaluation are the EV/Sales and the price to sales ratio. The EV/Sales of 2.54 times is 1,291 times lower than the peers' average of 3.28k times. Concerning the price to sales ratio of 2.55 times is 1,368 lower than the peers' average of 3.49k times.

The sales growth of the company of 43.93% is 100% lower than the peers' average of 146.25%. However, the company is more efficient at generating EBITDA margins than its peers. Indeed, the EBITDA margins of EBS peers' average are -5,583.74%, whereas EBS EBITDA margin is at 20.11%. Thus, the gross margins of both EBS and its peers are within the same percentage, 76.18% for the peers and 73.69% for EBS. All returns on assets, on equity, and on capital are negative for the peers whereas they are positive for EBS.

The proforma also shows signs of undervaluation with a potential upside of 99.44%. By plugging the company's revenues expectations for the next two years that are significantly lower than the current one, the company still has a consequent upside. With a long term growth rate established at 4%, it is conservative as the current revenue growth of EBS is of 43.9%. The company is generating consequent margins compared to its peers and has a bright future ahead that should enable the company to gain value, and therefore increase the stock price.

Conclusion

Emergent BioSolutions is a specialized pharmaceutical company that still has room to grow. Its specialization in the biodefense products is a strong asset as it is a consequent focus for the US government since the bio attack of 2001. This opportunity is becoming more and more of a target for EBS and should start to increase the company's stock price. Concerning the current price of the company, the relative valuation shows that EBS is currently undervalued. The company is generating cash, is having more than respectable margins, and creates value. EBS is a buy with a target price at $59.47 with a target return at 99.44%.

Siena Market Line
4th week of April 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

Emergent BioSolutions, Inc.	EBS	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Laura Pladys	$29.82	$53.71	$59.47	0%	1-y Return: 99.44%	

General Info

Sector	Healthcare
Industry	Biotechnology
Last Guidance	Mar-05-2015
Next earnings date	5/5/2015

Market Data

Enterprise value	$1,100.68
Market Capitalization	$1,130.18
Daily volume	0.10
Shares outstanding	38.32
Diluted shares outstanding	45.80
% shares held by institutions	77.73%
% shares held by insiders	5.55%
Short interest	8.86%
Days to cover short interest	12.90
52 week high	$30.96
52-week low	$19.31
5y Beta	1.05
6-month volatility	29.51%

Peers	Market Cap.
DepoMed Inc	$1,550.67
Nektar Therapeutics	$1,570.01
Chimerix, Inc	$1,580.17

Current Capital Structure

Total debt/market cap	22.21%
Cost of Borrowing	1.50%
Interest Coverage	2.9x
Altman Z	2.92
Debt Rating	BAA
Levered Beta	1.10
WACC (based on market value weights)	7.07%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
El-Hibri, Fuad	Founder, Executive Chairman, Ch	$1,408,428	$1,295,472	$3,591,373
Abdun-Nabi, Daniel	Chief Executive Officer, President,	$1,675,366	$2,160,851	$4,147,386
Kramer, Robert	Chief Financial Officer, Executive V	$1,046,126	$800,747	$1,917,987
Havey, Adam	Executive Vice President and Presi	$670,058	$805,364	$1,241,984
Labinger, Barry	Executive Vice President and Presi	$0	$853,943	$1,298,655
Jackson, W.	Chief Scientific Officer and Senior V	$0	$0	$0

Historical Median Performance

	EBS	Peers	Industry	All U.S. firms
Growth	16.5%	31.3%	13.8%	7.4%
ROIC	9.7%	-2.7%	1.1%	14.3%
NOPLAT Margin	24.1%	7.5%	7.3%	10.4%
Revenue/Invested Capital	0.40	-0.35	0.15	1.37
Excess Cash/Rev.	55.3%	168.8%	13.5%	12.9%
Total Cash /Rev.	55.3%	195.8%	12.3%	15.2%
Unlevered Beta	-0.11	0.63	1.09	0.95
TEV/REV	2.1x	6.7x	6.2x	2.5x
TEV/EBITA	5.3x	94.4x	17.4x	13.1x
PE (normalized and diluted EPS)	9.2x	-23.6x	31.3x	23.5x
P/BV	0.8x	1.9x	2.3x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-6.3%	0.0%	8.7%
Last Quarter-1	10.4%	0.0%	45.9%
Last Quarter -2	1.3%	33.1%	-3.8%
Last Quarter -3	-6.0%	0.0%	NM
Last Quarter -4	5.2%	0.0%	50.0%

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	0%	N/A	N/A

Proforma Assumptions

Money market rate as of today	0.56%
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	1.00
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to 0.94
Long term Unlevered Beta	0.94

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	43.9%	75.5%	$1,346.16	23%	7.5%	7.1%
NTM	4.5%	75.5%	$1,467.04	25%	8.6%	7.5%
NTM+1	22.8%	75.4%	$1,609.98	24%	9.4%	7.6%
NTM+2	20.0%	75.4%	$1,749.87	23%	10.0%	7.7%
NTM+3	16.0%	75.3%	$1,882.45	23%	10.5%	7.8%
NTM+4	14.0%	75.3%	$2,006.39	23%	11.0%	7.9%
NTM+5	12.0%	75.2%	$2,117.09	22%	11.4%	8.0%
NTM+6	8.0%	75.2%	$2,211.51	22%	11.6%	8.1%
NTM+7	5.0%	75.1%	$2,297.06	22%	11.6%	8.2%
NTM+8	4.0%	75.1%	$2,382.90	22%	11.7%	8.3%
Continuing Period	4.0%	75.0%	$2,231.92	12%	10.0%	8.4%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$251.00	-$159.18	38.32
NTM	$15.45	$251.00	-$186.87	38.32
NTM+1	$26.93	$251.00	-$222.91	38.32
NTM+2	$37.64	$251.00	-$285.45	38.32
NTM+3	$47.40	$251.00	-$377.58	38.32
NTM+4	$57.61	$251.00	-$488.03	38.32
NTM+5	$67.52	$251.00	-$559.66	38.32
NTM+6	$73.19	$251.00	-$654.65	38.32
NTM+7	$75.31	$251.00	-$766.77	38.32
NTM+8	$76.74	$251.00	-$888.35	38.32
Continuing Value	$767.16			

Pricing Model

Period	DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
LTM	$54.40	$70.77	$43.15	$54.40
NTM	$60.19	$77.53	$47.76	$60.19
NTM+1	$66.06	$96.22	$52.84	$66.06
NTM+2	$72.48	$115.68	$58.36	$72.48
NTM+3	$79.16	$135.22	$64.45	$79.16
NTM+4	$85.60	$155.39	$70.58	$85.60
NTM+5	$90.43	$174.07	$74.98	$90.43
NTM+6	$95.45	$189.29	$79.41	$95.45
NTM+7	$100.58	$201.10	$84.12	$100.58
NTM+8	$104.27	$211.92	$88.86	$104.27

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%	31%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$54.40	$60.19
σ(ε)	$0.23	$0.24
3 σ(ε) adjusted price	$53.71	$59.47
Current Price	$29.82	
Analysts' median est.		$32.00

Headwaters Incorporated

NYSE: HW

Analyst: Issam Kaisse
Sector: Basic Materials

BUY

Price Target: $20.97

Key Statistics as of 4/21/2015

Market Price:	$18.34
Industry:	Construction Materials
Market Cap:	$1.3B
52-Week Range:	$10.27-19.14
Beta:	2.54

Thesis Points:

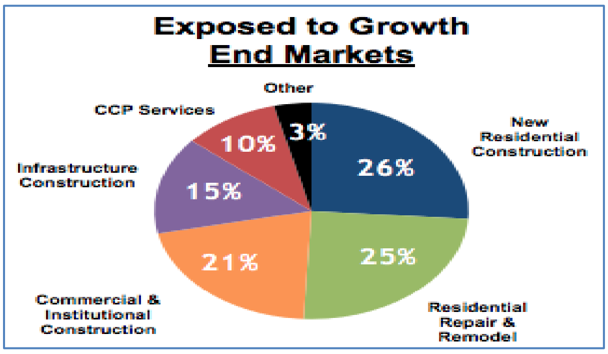
- Industry Outlook looks promising
- Leading position in the concrete market
- Diversified end markets
- Debt reduction and financial results

Company Description:

Headwaters Incorporated, a building products company, provides products and services in the light and heavy building materials sectors primarily in the United States and Canada. It operates through three segments: Light Building Products, Heavy Construction Materials, and Energy Technology. The Light Building Products segment designs, manufactures, and markets siding and exterior siding accessories, including decorative window shutters, gable vents, mounting blocks for exterior fixtures, roof ventilation, trim board and molding products, specialty siding products, and window well systems; professional tools, such as portable cutting and shaping tools; manufactured architectural stone products; specialty roofing products; and concrete-based masonry products comprising standard grey blocks, split and ground face blocks, and polished and textured blocks. This segment sells its products under the Eldorado Stone, Dutch Quality Stone, StoneCraft, InSpire, Aledora, Gerard, and Allmet brand names. This segment distributes its products through a network of distributors, such as masonry and stone suppliers, roofing and siding material distributors, fireplace suppliers, and other contractor specialty stores, as well as through national and regional retail home centers and direct sales. The Heavy Construction Materials segment manages and markets coal combustion products (CCP), including fly ash that is used as a replacement for Portland cement in various concrete applications, such as infrastructure, commercial, and residential construction; and provides CCP disposal services, as well as services to electric utilities related to the management of CCPs. The Energy Technology segment offers HCAT, a heavy oil upgrading technology. Headwaters Incorporated was founded in 1987 and is headquartered in South Jordan, Utah.

Thesis

Headwaters incorporated is a leading construction products company. As a matter of fact, the company has been able to realize double-digit growth and achieve top-quartile margin performance. The chart below shows clearly that HW has exposure to end-markets with growth opportunities:

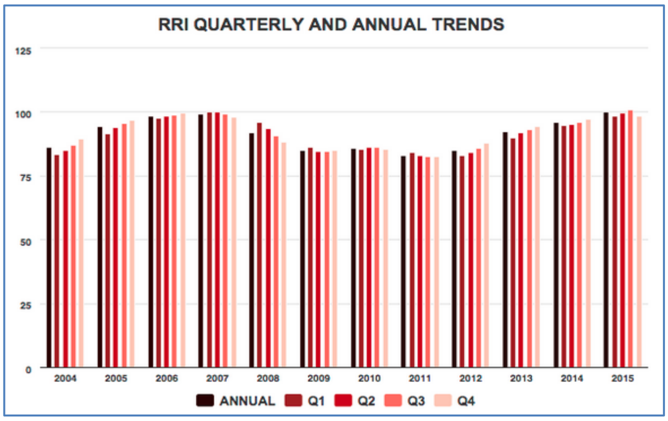


The firm is able to be a leader in high margin products because it is the best in class customer and distribution base. The company has 190 issued and pending patents, and 28 issued and pending trademarks for its products and intellectual property. The firm has been able to achieve thirteen consecutive quarters of year-over-year revenue and EBITDA growth. The stock has performed fairly well over the past year and the report will focus on proving that HW will continue to generate value in the long term. In fact, the firm is well diversified and has an important market share for many of the products they develop both nationally and internationally. Overall, Headwaters is a good long term investment opportunities with a price target of $20.97, which is a 14.51% return.

Industry Outlook

According to the National Association of Home Builders and the U.S. Census Bureau, the markets for home remodeling and new home sales are picking up and are showing significant improvement from the numbers we saw during the financial crisis. For example, single family new home sales increased by 25% since February 2014. Hence, Headwaters benefits from this growth in the housing markets with its products and services. As a matter of fact, the sale of its coal combustion products and its light building products give the company a competitive advantage versus its competitors. Also, HW uses fly ash as a substitute to concrete because it is considered more resistant than traditional concrete and less susceptible to water infiltration. In the company's 10K we can clearly see that in 2012 the firm used approximately 20% of its fly ash instead of traditional concrete in US products. HW is confident that its fly ash will receive increasing demand in the upcoming years because the US Environmental Protection Agency ruled fly ash as not hazardous and environmentally friendly. Thus, home constructors will favor houses made with fly ash than traditional cement.

Another promising factor that Headwaters could look at is the growth rate in the remodeling industry. As a matter of fact, in the past four years the US market has witnessed a high level of remodeling activity of houses during 2015. According to the National Association of Home Builders, "every metropolitan statistical area in the United States can look forward to increasing remodeling activity this year, with growth averaging 4% and the nation as a whole set to reach an unprecedented level of activity by the third quarter"[1]. This view is confirmed by the graph below as it shows Residential Remodeling Index is increasing since 2012.

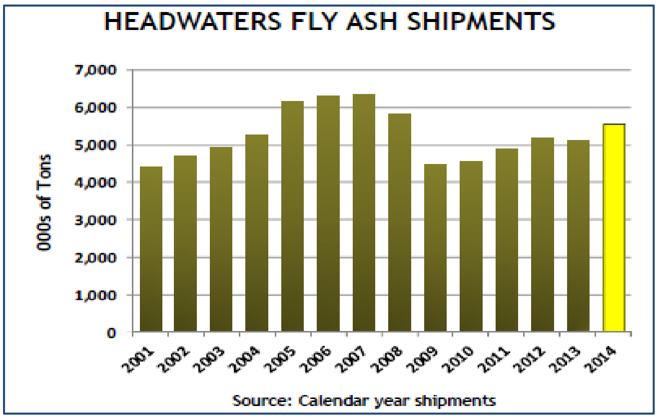


The demand for remodeling items, such as decorative window and door trim, will increase in the upcoming years and Headwaters' light building products will benefit from this improvement. Thus, HW works closely with retailers like Home Depot in order to increase its chances of selling remodeling items for home remodelers and to position itself in a market that is expected to grow.

[1] http://www.remodeling.hw.net/benchmarks/economic-outlook-rri/

Leading position in the concrete market

Headwaters has the leading position in the supply of fly ash, a product that enhances the durability of concrete. This product is made by burning coal at power plants and other coal combustion products without the need for virgin new materials. This product is interesting because it reduces CO2 emissions and energy consumption with greater long-term strength for infrastructure projects such as: roads, bridges, and highways. Fly ash can easily replace the traditional cement because it is generally less expensive.

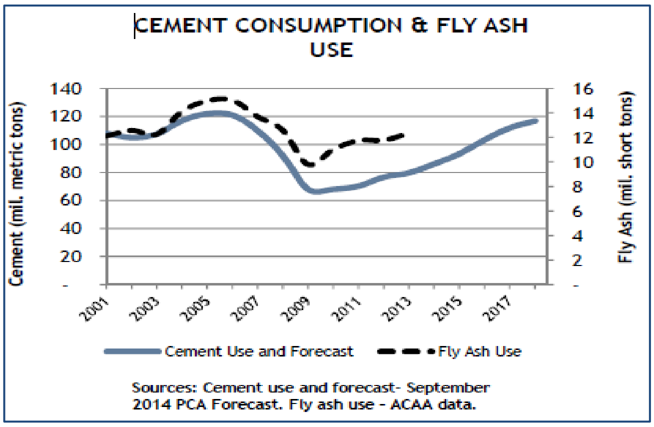


According to the American Road and Transportation Builders Association report, "the cost to build roads, runways and bridges would increase by an estimated $104.6 billion over the next twenty years if fly ash were not available[2]." Thus, Headwaters' business model will benefit from reports that underline the importance of fly ash as it has positive environmental impacts. In fact, it reduces landfill utilization and several positive impacts:

Impacts of CCP Beneficial Use
(Approximate Annual Reductions)

Ash landfilling	51 million tons
CO_2 emissions	12 million tons
Water use	30 billion gallons
Federal/State spending ..	+$5 billion

The recent acquisition in July 2014 of LA Ash Products and Services will strengthen Headwaters' ability to meet customer needs in Louisiana and Texas region. Thus, this cash purchase will increase fly ash sales by more than 300,000 tons. Headwaters has a competitive advantage because it established exclusive long term contracts with nearly 100 power plants in 35 states and developed nationwide infrastructure with 25 fly ash terminals, 100 trucks and 850 railcars. The firm expects that the growth in cement consumption drives fly ash demand and this will create a long term customer relationship.



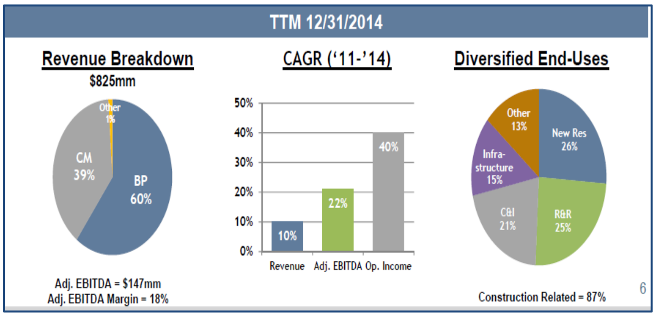
This assumption is based on several reports that cement demand will exceed capacity by 2016 and a 20 million ton shortfall is expected. HW will tackle this gap with a stable fly ash supply thanks to its larger and newer power plants.

Diversified end markets

Headwaters is ranked number one in U.S. market share for its Light Building Products and number one in manufactured stone veneer. Thanks to these two product lines, the firm can achieve high growth in key areas of the construction materials market. The company has also been able to achieve number one market share in the Texas concrete block market for commercial and institutional construction. The Light Building Products segment gives HW the ability to produce environmentally and sustainable wall components that reduces waste, protects natural resources, and uses less energy in either the manufacturing process or application. Throughout its Light Building Products brands, Headwaters is a market leader in the manufacturing of building products and professional tools used in residential remodeling and construction. Hence, wholesalers and big box retailers choose Headwaters because its brands, such as Kleer Lumber,

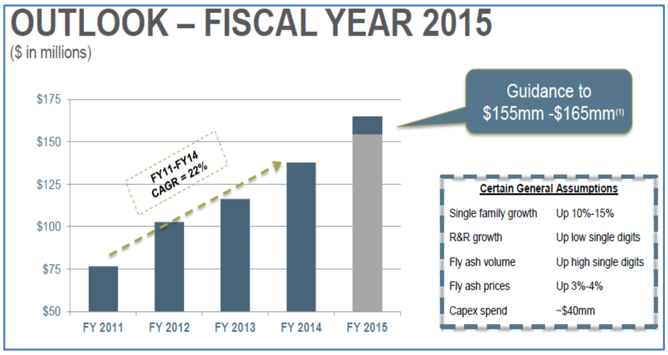
[2] http://www.acaa-usa.org/Portals/9/Files/PDFs/Ash_at_Work_final_LR.pdf

Atlantic Premium Shutters and Tapco Tools Systems, always achieve customer satisfaction. The company also tries to manufacture and market premium quality architectural stone veneer with brand names like: Eldorado Stone and Dutch Quality Stone. Overall, Headwaters deliver products that are more sustainable combining both fly ash and cement in order to create products both at lower cost and improved quality. This diversification will give Headwaters the ability to increase its revenue, adjusted EBITDA and operating income in the long term.

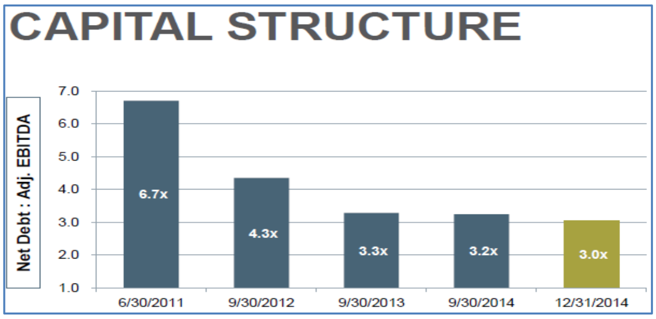


Debt Reduction and financial results

Over the past few years Headwaters has been able to significantly reduce debt levels. At the end of the June 2011 quarter the firm's net debt to adjusted EBITDA ratio was 6.7x. At the end of the fiscal 2014-year, Headwaters' net debt to adjusted EBITDA ratio was 3.2x. The company continues to focus on the appropriate use of debt to enhance shareholder returns, but remains determined to reduce its overall leverage to a range of 2.5x to 3.0x net debt to Adjusted EBITDA.
The company's total revenue for the fiscal year 2014 was $791.4 million, which is up 13% from fiscal year 2013. Gross profit increased 17% from $192.5 million in 2013 to $225.7 million in 2014 and operating income went from $54.4 million in 2013 to $66.7 million in 2014, which is an increase of 23%. Adjusted income from continuing operations was $52.5 million compared to $38.7 million in 2013, representing increases of 36%. Net income including discontinued operations increased from $7.1 million in 2013 to $16.1 million in 2014. We can clearly see the growth in Q1 of 2015. In fact, the firm posted an increase in EBITDA of 39% with a 21% increase in revenue compared to 2014 levels. During the earnings call, the management team decided to give EBITDA guidance for 2015 between $155 and $165 million.



Also, the CFO outlined the commitment of the company to reduce its debt levels. According to the CFO, the company will refinance $400 million of notes originally due April 2019 by extending the maturity dates and reducing interest costs. Thus, Headwaters wants to reduce unnecessary debt from its balance sheet in order to preserve its promising growth with its cash of approximately $152 million. As you can see on the chart below, HW is continuing to reduce its leverage ratio that went from 6.7x to 3.0x ending Q1 2015.



Conclusion

Following the strong Q1 2015 figures, investors can expect a positive Q2 with healthy numbers. Headwaters still has to reach its full potential and is positioned to continue its recent growth. Hence, Headwaters seems an attractive investment that should be considered for the long term play.
The only main risk that Headwaters could face is a decrease in home construction and remodelling. In fact, the building and remodelling activity was low between 2007 and 2011 and the firm is afraid to experience reduced margins as well as goodwill impairments. Headwaters hopes that the trend will continue or even stay flat at a comfortable level in order to remain profitable and realize a good return for investors.
The company offers a broad range of products with important market share and a broad distribution system for their products. The management team has also

played an important role because they have been able to grow the company through strategic acquisitions and achieve organic growth with interesting products.

Forecasts

After analyzing the business model of Headwaters and the potential it can bring in the long term, several assumptions in the proforma were put in place. For example, HW achieved a growth of 12.6% in 2014 and after listening to the earning call of the management team they seem confident to attain a growth of at least 11% for 2015. In fact, the management team believes that HW has the patent products that will attract new customers looking for fly ash instead of traditional cement. In the proforma, their long term growth will end up at 4% as new competitors will emerge and compete with Headwaters. The operating costs will be between 82% and 75% since HW is looking to reduce its costs by reorganizing its distribution system. The long term ROIC exceeds the WACC since the company generates positive cash flow relative to the capital it has invested in its business. The Monte-Carlo simulation has been run and it pops up a 1 year target of $21.73 with an intrinsic value of $19.81. Overall, the proforma shows the potential that the company can create with its unique products.

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Headwaters Incorporated	HW	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		DJ SAM	$18.31	$18.84	$20.97	0%	1-y Return: 14.51%	

General Info

Sector	Materials
Industry	Construction Materials
Last Guidance	Mar-24-2015
Next earnings date	5/4/2015

Market Data

Enterprise value	$1,789.85
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	73.70
Diluted shares outstanding	75.02
% shares held by institutions	99.58%
% shares held by insiders	2.81%
Short interest	2.42%
Days to cover short interest	2.53
52 week high	$19.14
52-week low	$10.27
5y Beta	2.54
6-month volatility	32.56%

Peers	Market Cap.
Texas Industries Inc.	
Eagle Materials Inc.	$4,225.28
James Hardie Industries plc	$6,983.82
USG Corporation	$3,781.36
Cementos Molins, S.A.	$592.10
Vulcan Materials Company	$10,843.93
Covanta Holding Corporation	$2,914.51
Toyo Asano Foundation Co.,Ltd.	$2,877.90
Asahi Concrete Works Co., Ltd.	$8,362.07
CSR Limited	$1,927.86

Current Capital Structure

Total debt/market cap	45.13%
Cost of Borrowing	7.10%
Interest Coverage	1.3x
Altman Z	1.30
Debt Rating	C
Levered Beta	0.98
WACC (based on market value weights)	7.25%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Benson, Kirk	Chairman and Chief Executive Of	$3,701,360	$3,680,809	$9,317,594
Newman, Donald	Chief Financial Officer	$900,479	$1,309,897	$1,751,835
Hatfield, Harlan	Vice President, General Counsel ar	$930,425	$889,588	$1,233,379
Lents, Murphy	President of Headwaters Siding an	$952,104	$602,883	$844,439
Gehrmann, William	President of Headwaters Heavy Cc	$1,315,835	$1,470,298	$722,226
Madden, Sharon	Vice President of Investor Relatior	$0	$0	$0

Historical Median Performance

	HW	Peers	Industry	All U.S. firms
Growth	1.4%	1.8%	3.4%	7.4%
ROIC	7.1%	4.0%	7.4%	14.3%
NOPLAT Margin	6.8%	5.6%	6.3%	10.4%
Revenue/Invested Capital	1.04	0.71	1.17	1.37
Excess Cash/Rev.	8.5%	10.9%	13.5%	12.9%
Total Cash /Rev.	8.5%	10.9%	12.3%	15.2%
Unlevered Beta	0.93	0.83	1.01	0.95
TEV/REV	1.3x	2.0x	2.8x	2.5x
TEV/EBITA	12.6x	36.2x	18.4x	13.1x
PE (normalized and diluted EPS)	18.7x	32.8x	41.4x	23.5x
P/BV	1.0x	2.5x	3.1x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	5.8%	16.0%	100.0%
Last Quarter-1	1.2%	4.8%	0.0%
Last Quarter -2	-0.2%	-0.4%	-36.4%
Last Quarter -3	4.0%	17.3%	NM
Last Quarter -4	3.8%	9.1%	NM

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	0%	N/A	N/A
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 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 0.83
Long term Unlevered Beta	0.83

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	12.6%	82.7%	$628.81	8%	11.0%	7.2%
NTM	11.8%	81.9%	$663.01	10%	14.9%	7.3%
NTM+1	11.5%	81.2%	$694.05	10%	16.2%	7.4%
NTM+2	11.0%	80.4%	$726.14	11%	17.8%	7.5%
NTM+3	10.1%	79.6%	$758.62	11%	19.5%	7.6%
NTM+4	9.3%	78.8%	$791.08	12%	21.3%	7.6%
NTM+5	8.4%	78.1%	$823.08	12%	23.0%	7.7%
NTM+6	7.5%	77.3%	$854.17	13%	24.7%	7.8%
NTM+7	6.7%	76.5%	$883.84	13%	26.4%	7.9%
NTM+8	5.8%	75.8%	$911.58	14%	27.9%	8.0%
Continuing Period	4.9%	75.0%	$721.23	12%	14.0%	8.1%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$599.62	-$32.86	73.70
NTM	$47.37	$599.62	-$46.46	73.70
NTM+1	$58.14	$599.62	-$74.75	73.70
NTM+2	$71.68	$599.62	-$117.00	73.70
NTM+3	$86.92	$599.62	-$175.40	73.70
NTM+4	$103.52	$599.62	-$251.69	73.70
NTM+5	$121.12	$599.62	-$385.07	73.70
NTM+6	$139.38	$599.62	-$501.73	73.70
NTM+7	$157.91	$599.62	-$640.77	73.70
NTM+8	$176.34	$599.62	-$802.98	73.70
Continuing Value	$1,268.26			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$19.80	$19.41	$19.87	$19.80
$21.72	$27.75	$21.85	$21.72
$23.24	$32.21	$23.39	$23.24
$24.92	$37.02	$25.04	$24.92
$26.69	$42.12	$26.78	$26.69
$28.74	$47.48	$28.58	$28.74
$30.88	$53.56	$30.90	$30.88
$32.77	$59.27	$32.77	$32.77
$34.66	$65.06	$34.52	$34.66
$35.98	$70.87	$36.20	$35.98

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	1%	7%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$19.80	$21.72
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$18.84	$20.97
Current Price	$18.31	
Analysts' median est.		$17.92

Herman Miller Inc.

NasdaqGS: MLHR

Analyst: Matthew Darcy
Sector: Industrial/Consumer

BUY

Price Target: $38.11

Key Statistics as of 4/23/2015

Market Price:	$28.75
Industry:	Home and Office Furniture
Market Cap:	$1.72B
52-Week Range:	$27.22-32.72
Beta:	1.087

Thesis Points:

- Growth assumptions can be more optimistic than Analysts' expectations
- The Company's stock is the best investment in its industry.

Company Description:

Founded in 1905, Herman Miller is a designer, manufacturer, marketer, and seller of high quality office furniture. The company is expanding its reach beyond the office, moving into markets such as residential, healthcare, and education. Their main customer is currently the US government, although no customer accounts for more than 5% of revenue. The stock has a dividend yield of 1.92%. The company has a focus on lowering fixed costs, which results in low operating leverage. They make up for this with a debt to assets ratio of 25%, which gives them financial leverage and low WACC. In the past year, the company spent 48.8 million in order to terminate their defined benefit pension plans. Its level of debt is currently at its lowest point in over 10 years.

Thesis

The office furniture market is a growing market due to an increasing number of corporate jobs. Within that industry, Herman Miller is a leading company with above average margins and inventory turnover. It is also undervalued, due to pessimistic analyst expectations for growth. These factures make Herman Miller a BUY.

The Product

Herman Millers products provide solutions for workplace design. This company invented the cubical, and has now moved on to a concept they call the living office. That is, the products can be arranged to fit any room, and any purpose. By mixing and matching various components of the furniture, the customer can create workspaces that fit their own specific needs. The company has products that work like this for office spaces as well as nurses and doctors offices. It is also foreseeable that this concept be applied to dormitories, as the company attempts to penetrate the education market.

The company also designs and produces ergonomic rolling chairs, stools, and benches, tables, accessories such as mounts for computer monitors, tablets, laptops, and power outlets, waste bins, and other miscellaneous objects needed or wanted in the workplace or at home.

Growth in the Industry

The type of labor needed in United States and other economies is continuously shifting from industrial production and process driven work towards corporate or "knowledge work" as described in the company's 10k. This means there is an increasing need for efficient office spaces, both in the U.S. market and other growing markets.

The Business and Institutional Furniture Manufacturers Association (BIFMA) has put out a forecast for the industry which shows growth of both production and consumption.

CURRENT
U.S. OFFICE FURNITURE MARKET FORECAST

Year	Production	% Change	Consumption	% Change
2015	$10.2 billion	+4.5 %	$ 13.2 billion	+ 8.6 %
2016	$10.9 billion	+6.4 %	$ 14.5 billion	+10.0 %

Because the size of Herman Miller's Market share, within the industry. is not expected to change, it can be assumed that increases in consumption for the industry, will be equivalent to increases in growth of Herman Miller's Sales. These growth rates are higher than the median growth rate assumptions by analysts, which are 2.7% and 7.0% respectively. Growth is an area that can cause a significant difference between the market price and the actual value of the company.

Herman Miller against its Peers

When compared to its peers, in the home and office furniture industry, Herman Miller is contested, for best stock, by one other company. Knoll Inc. In the comparison table below, one can see that Knoll has impressive EBITDA growth, as well as, the highest operating margin, in the industry. Knoll is also very similar in size to Herman Miller, and has the second highest R&D expense to net sales.

	Name	Tkr & Exch	Mkt Cap (USD)	Beta:Y-1	P/E	WACC	EBITDA↑ 1Yr Growth LF	GM LF	OPM LF	Inv Turnover LF	R&D/Net Sales:Y
	Average		1.51B	1.07	20.19	9.51%	37.89%	33.09%	4.32%	10.75	1.38%
100)	HERMAN MILLER INC	MLHR US	1.74B	0.93	16.44	8.80%	13.39%	36.89%	7.24%	12.43	3.50%
101)	KNOLL INC	KNL US	1.15B	1.12	19.61	9.29%	325.38%	35.76%	8.37%	5.12	1.83%
102)	OKAMURA CORP	7994 JP	884.96M	0.89	17.30	7.09%	-8.69%	28.73%	1.66%	9.12	0.47%
103)	HNI CORP	HNI US	2.56B	1.14	32.64	10.58%	-19.96%	35.25%	3.84%	13.62	0.00%
104)	STEELCASE INC-CL A	SCS US	2.30B	1.12	21.13	9.55%	-25.14%	31.11%	4.93%	13.26	1.26%
105)	KIMBALL INTERNATIONAL-B	KBAL US	410.07M	1.23	14.01	11.74%	-57.66%	30.77%	-0.11%	10.94	1.24%

Knoll Inc. operates primarily in the residential furnishings industry, with a smaller line in the office furnishings industry, while Herman Miller is the opposite. Although Knoll has very impressive financials, when you look at the P/E ratio, Knoll Inc. is currently fairly valued, while Herman Miller is slightly undervalued.

This is confirmed by a more in-depth evaluation, using Economic profit, based on ROIC, and using the growth assumptions provided above. When Knoll Inc. is valued this way, the intrinsic value is $22.85 and the Current Price is $23.00. Herman Miller, however, is undervalued by $4.85 with a one year target that would yield a 34% return. An overview of both valuations can be found below.

Herman Miller has a below average Beta and WACC, the highest Gross Profit Margin, above average Operating margin and inventory turnover, and the highest R&D expense as a percentage of Sales.

The large inventory turnover can be attributed to the fact that raw materials are purchased and assembled after the orders are placed. This reduces the costs of holding inventory and eliminates the risk of overproduction. Lastly, looking at R&D, this company is more likely to be successful in their growth aspirations. This is because the company will be able to innovate their products better and faster than its competitors. The company's plans for growth will be explained in more depth below.

Growth Specific to Herman Miller

Herman miller has begun growing inorganically, in order to become more of a consumer brand rather than a producer of office equipment, which resembles commodities. This requires expansion into the home furniture markets.

In 2013, they purchased a fabric designer and manufacture, Maharam Fabric Corp, for $156 million cash. In July of 2014, the company purchased Design Within Reach, a marketer and seller of both residential and commercial furnishings, for $154 million cash. When companies make acquisitions in cash rather than stock, it indicates that the company believes its stock is undervalued. The closing price of MLHR stock on the day of this announcement was $29.98. It is $28.75 today.

Neither, of these companies, operated outside the U.S. and Herman Miller does. Therefore these brands may be able to expand geographically, with the help of Herman Miller.

The company's strategic goals for expansion are increasing foreign revenue, and penetrating the education, healthcare, and residential markets. They also want the company to become more desirable, as a consumer brand, rather than an industrial product. They believe this will help them penetrate the residential market more effectively. This is the driving reason behind their more recent acquisitions.

Herman Miller has plans for organic growth as well. By pumping 3.5% of its revenue into R&D, the company is able to come up with new designs and concepts, such as living office, which help keep them relevant. The company's ability to stay ahead of the competition, is what helps keep their profit margins higher than average.

Summary

When looking at the office furniture industry, Herman Miller is the best stock. This is not only due to its high margins and inventory turnover. The most important thing is valuation of the company. At a market price of $28.75 with a target price of $38.1, this company will yield its investors over 30%. The company is also low risk, with a beta near 1, a focus on reduced fixed costs, and inventory made to order. High return and low risk makes this company a BUY.

Siena Market Line
4th week of April 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

Herman Miller Inc.	mlhr	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Matthew Darcy	$28.75	$33.63	$38.11	2%	1-y Return: 34.48%	

General Info

Sector	Industrials
Industry	Commercial Services and Supplies
Last Guidance	Mar-18-2015
Next earnings date	6/24/2015

Market Data

Enterprise value	$1,998.83
Market Capitalization	$1,713.33
Daily volume	0.38
Shares outstanding	59.59
Diluted shares outstanding	59.79
% shares held by institutions	85.99%
% shares held by insiders	1.12%
Short interest	1.51%
Days to cover short interest	2.56
52 week high	$32.72
52-week low	$27.22
5y Beta	1.35
6-month volatility	21.88%

Peers	Market Cap.
HNI Corp.	$2,282.44
Steelcase Inc.	$2,261.63
Knoll, Inc.	$1,126.45
Okamura Corp.	$889.10
Kimball International, Inc.	$408.51

Current Capital Structure

Total debt/market cap	19.03%
Cost of Borrowing	6.24%
Interest Coverage	4.2x
Altman Z	4.22
Debt Rating	D
Levered Beta	0.99
WACC (based on market value weights)	7.37%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Walker, Brian	Chief Executive Officer, President :	$3,295,935	$3,784,692	$3,721,203
Lock, Andrew	Executive Vice President and Presi	$1,210,524	$1,116,786	$1,052,348
Pullen, Curtis	Executive Vice President and Presi	$1,043,041	$1,179,299	$1,093,787
Goeman, Donald	Executive Vice President of Resear	$636,515	$856,654	$929,036
Bylsma, Gregory	Chief Operating Officer of Hermar	$875,404	$1,156,230	$1,057,955
Stutz, Jeffrey	Chief Financial Officer and Executi	$0	$0	$0

Historical Median Performance

	mlhr	Peers	Industry	All U.S. firms
Growth	3.7%	3.0%	3.4%	7.4%
ROIC	13.8%	6.2%	15.6%	14.3%
NOPLAT Margin	6.7%	3.6%	7.3%	10.4%
Revenue/Invested Capital	2.07	1.74	2.14	1.37
Excess Cash/Rev.	8.5%	7.9%	13.5%	12.9%
Total Cash /Rev.	8.5%	7.9%	12.3%	15.2%
Unlevered Beta	0.88	0.96	1.16	0.95
TEV/REV	1.0x	0.6x	1.2x	2.5x
TEV/EBITA	10.2x	17.1x	11.1x	13.1x
PE (normalized and diluted EPS)	17.9x	19.0x	23.5x	23.5x
P/BV	3.5x	1.8x	2.6x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	0.2%	6.1%	8.8%
Last Quarter-1	0.6%	1.3%	-1.9%
Last Quarter -2	0.6%	0.8%	0.0%
Last Quarter -3	-1.4%	1.7%	8.7%
Last Quarter -4	-0.5%	3.4%	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	0%	Straightline	10 years

Proforma Assumptions

Money market rate as of today	0.57%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.7%
Tobin's Q	0.80
Op. Cash/Rev.	0%
Growth in PPE	NPPE Growth tapers to maintenance until
Long term Growth	3.2%
Base Year Unlevered Beta	is equal to 0.88
Long term Unlevered Beta	0.96

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	6.0%	88.3%	$1,080.31	7%	13.8%	7.4%
NTM	8.6%	88.3%	$1,117.64	7%	15.7%	7.6%
NTM+1	10.0%	88.4%	$1,138.41	7%	16.1%	7.7%
NTM+2	5.3%	88.4%	$1,156.26	7%	16.4%	7.8%
NTM+3	3.6%	88.4%	$1,172.48	7%	16.8%	8.0%
NTM+4	4.3%	88.4%	$1,186.55	7%	17.1%	8.1%
NTM+5	3.7%	88.5%	$1,200.34	7%	17.5%	8.2%
NTM+6	3.5%	88.5%	$1,214.02	7%	17.9%	8.4%
NTM+7	3.4%	88.5%	$1,227.48	7%	18.2%	8.5%
NTM+8	3.3%	88.5%	$1,234.43	7%	18.6%	8.6%
Continuing Period	3.3%	88.6%	$222.97	7%	13.5%	8.7%

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	$326.00	-$11.96	59.59	$34.29	$38.03	$31.40	$34.29
NTM	$87.98	$326.00	-$176.40	59.59	$38.89	$46.03	$36.04	$38.89
NTM+1	$93.86	$326.00	-$262.89	59.59	$40.63	$50.57	$37.81	$40.63
NTM+2	$97.45	$326.00	-$357.23	59.59	$42.48	$54.20	$39.59	$42.48
NTM+3	$101.76	$326.00	-$457.98	59.59	$44.36	$58.06	$41.41	$44.36
NTM+4	$106.04	$326.00	-$565.31	59.59	$46.38	$61.99	$43.25	$46.38
NTM+5	$110.09	$326.00	-$676.67	59.59	$48.13	$65.87	$45.18	$48.13
NTM+6	$114.03	$326.00	-$792.59	59.59	$50.03	$69.80	$47.53	$50.03
NTM+7	$118.01	$326.00	-$919.70	59.59	$52.01	$73.94	$50.08	$52.01
NTM+8	$122.16	$326.00	-$1,052.60	59.59	$53.64	$78.21	$52.66	$53.64
Continuing Value	$1,012.92							

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	3%	N/A	3%	7%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$34.29	$38.89
σ(ε)	$0.22	$0.26
3 σ(ε) adjusted price	$33.63	$38.11
Current Price	$28.75	
Analysts' median est.		$34.00

SIENA college

Siena Market Line
4th week of April 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

Knoll, Inc.	knl	Analyst Matthew Darcy	Current Price $23.00	Intrinsic Value $22.85	Target Value $29.57	Divident Yield 2.04%	Target Return 1-y Return: 30.62%	BULLISH

General Info

Sector	Industrials
Industry	Commercial Services and Supplies
Last Guidance	Feb-04-2015
Next earnings date	7/20/2015

Peers

Peers	Market Cap.
Herman Miller Inc.	$1,713.33
HNI Corp.	$2,282.44
Steelcase Inc.	$2,261.63
Kimball International, Inc.	$408.51
Okamura Corp.	$889.10

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Cogan, Andrew	Chief Executive Officer, Acting Pre	$3,143,093	$2,752,000	$10,975,254
Spray, Craig	Chief Financial Officer, Chief Accou	$0	$2,271,183	$657,800
Ahrens, Pamela	Senior Vice President of Sales & Di	$0	$0	$957,550
Pardo, Benjamin	Executive Vice President and Direc	$921,910	$783,200	$808,619
Beattie, Michael	Global Chief Information Officer	$0	$0	$0
Pollner, Michael	Senior Vice President, General Cou	$0	$0	$0

Market Data

Enterprise value	$1,411.77
Market Capitalization	$1,126.45
Daily volume	0.31
Shares outstanding	48.98
Diluted shares outstanding	48.16
% shares held by institutions	97.46%
% shares held by insiders	3.95%
Short interest	2.12%
Days to cover short interest	2.96
52 week high	$24.42
52-week low	$16.45
5y Beta	1.17
6-month volatility	25.70%

Current Capital Structure

Total debt/market cap	26.63%
Cost of Borrowing	2.83%
Interest Coverage	
Altman Z	
Debt Rating	BBB
Levered Beta	0.92
WACC (based on market value weights)	7.00%

Historical Median Performance

	knl	Peers	Industry	All U.S. firms
Growth	5.5%	2.6%	3.4%	7.4%
ROIC	10.9%	6.9%	15.6%	14.3%
NOPLAT Margin	7.6%	3.8%	7.3%	10.4%
Revenue/Invested Capital	1.44	1.83	2.14	1.37
Excess Cash/Rev.	1.6%	8.9%	13.5%	12.9%
Total Cash /Rev.	1.6%	8.9%	12.3%	15.2%
Unlevered Beta	0.84	0.97	1.16	0.95
TEV/REV	1.1x	0.7x	1.2x	2.5x
TEV/EBITA	9.6x	17.5x	11.1x	13.1x
PE (normalized and diluted EPS)	14.5x	19.8x	23.5x	23.5x
P/BV	3.2x	2.1x	2.6x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	5.3%	0.0%	50.0%
Last Quarter-1	0.8%	-7.5%	2.9%
Last Quarter -2	3.3%	12.5%	22.2%
Last Quarter -3	5.2%	21.3%	4.5%
Last Quarter -4	4.0%	13.2%	38.5%

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	0.57%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.7%
Tobin's Q	0.80
Op. Cash/Rev.	0%
Growth in PPE	NPPE Growth tapers to maintenance until
Long term Growth	4.5%
Base Year Unlevered Beta	is equal to 0.84
Long term Unlevered Beta	0.97

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	21.8%	88.7%	$664.70	7%	8.5%	7.0%
NTM	8.6%	88.5%	$651.93	8%	13.9%	7.0%
NTM+1	10.0%	88.4%	$657.15	8%	15.1%	7.2%
NTM+2	3.3%	88.2%	$663.76	8%	15.5%	7.4%
NTM+3	4.5%	88.0%	$674.72	8%	16.1%	7.5%
NTM+4	4.5%	87.8%	$686.80	8%	16.7%	7.7%
NTM+5	4.5%	87.7%	$699.59	8%	17.4%	7.9%
NTM+6	4.5%	87.5%	$714.36	8%	18.1%	8.1%
NTM+7	4.5%	87.3%	$730.30	8%	18.8%	8.2%
NTM+8	4.5%	87.2%	$745.20	8%	19.5%	8.4%
Continuing Period	4.5%	87.0%	$345.97	7%	13.0%	8.5%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$300.00	$66.23	48.98
NTM	$45.82	$300.00	-$220.54	48.98
NTM+1	$51.52	$300.00	-$268.60	48.98
NTM+2	$53.29	$300.00	-$321.83	48.98
NTM+3	$56.90	$300.00	-$370.26	48.98
NTM+4	$60.91	$300.00	-$422.25	48.98
NTM+5	$65.39	$300.00	-$478.33	48.98
NTM+6	$70.29	$300.00	-$537.69	48.98
NTM+7	$75.46	$300.00	-$601.67	48.98
NTM+8	$81.03	$300.00	-$672.90	48.98
Continuing Value	$803.40			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$23.80	$19.25	$21.60	$23.80
$30.32	$28.86	$27.77	$30.32
$31.62	$32.63	$29.05	$31.62
$33.05	$35.18	$30.38	$33.05
$34.48	$38.01	$31.71	$34.48
$36.07	$41.02	$33.11	$36.07
$37.50	$44.22	$34.97	$37.50
$39.08	$47.59	$36.97	$39.08
$40.70	$51.45	$39.12	$40.70
$42.26	$55.64	$41.44	$42.26

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**	**3%**	**7%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$23.80	$30.32
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$22.84	$29.57
Current Price	$23.00	
Analysts' median est.		$27.50

Sanderson Farms Inc.

NASDAQ: SAFM

Analyst: Kevin Akbaraly
Sector: Consumer Staples

BUY

Price Target: $110

Key Statistics as of 4/23/2015

Market Price:	$76.06
Industry:	Packaged Food
Market Cap:	$1,768M
52-Week Range:	$74.95 - $103.30
Beta:	0.50

Thesis Points:

- Avian flu concerns over the poultry industry might be overestimated by the market.
- Current corn and soybean prices are highly benefiting the company's operating margins and are expected to remain stable in coming years.
- The company offers the highest margins relative to its peers and is currently the most undervalued company within the industry.

Company Description:

Sanderson Farms, Inc., an integrated poultry processing company, produces, processes, markets, and distributes fresh, frozen, and prepared chicken products in the United States. The company sells ice pack, chill pack, bulk pack, and frozen chicken in whole, cut-up, and boneless form primarily under the Sanderson Farms brand name to retailers, distributors, and casual dining operators in the southeastern, southwestern, northeastern, and western United States, as well as to customers who resell frozen chicken in the export markets. Its prepared chicken product line includes institutional and consumer packaged partially cooked or marinated chicken items for distributors and food service establishments. Sanderson Farms, Inc. was founded in 1947 and is headquartered in Laurel, Mississippi.

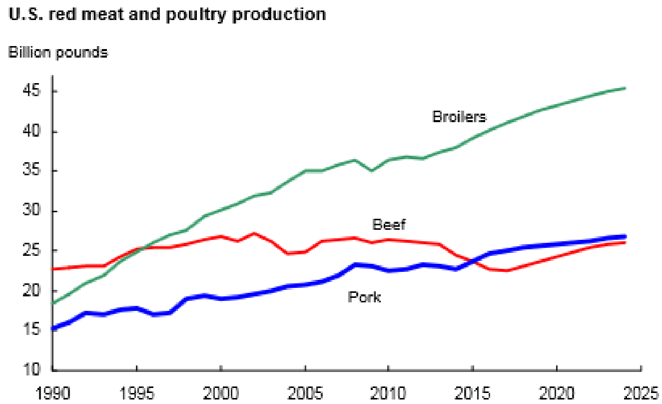
Thesis

Sanderson Farms Inc. is the third largest poultry processor company within the US with $2.9 billion of revenue. The company is well established and has consistently showed positive revenue growths coupled with competitive operating margins over the past 10 years. Recent concerns over cases of avian flu detected around the country have raised skepticism among investors. The market is concerned about China's restrictions over the import of broiler meat produced by the US, which is expected to negatively impact companies exporting their poultry products in Asia. However, the company is currently well positioned to benefit from current market conditions, enjoying higher operating margins thanks to lower corn and soybean prices. The company's financials are strong and decrease the risks associated with a potential decline in poultry exports. Sanderson Farms Inc. seems to be the most undervalued stock within this market, which creates a good opportunity for investors to enter into a long position at current levels. A BUY is therefore recommended on SAFM with a target price of $110, representing an upside potential of 46% based on the current market price.

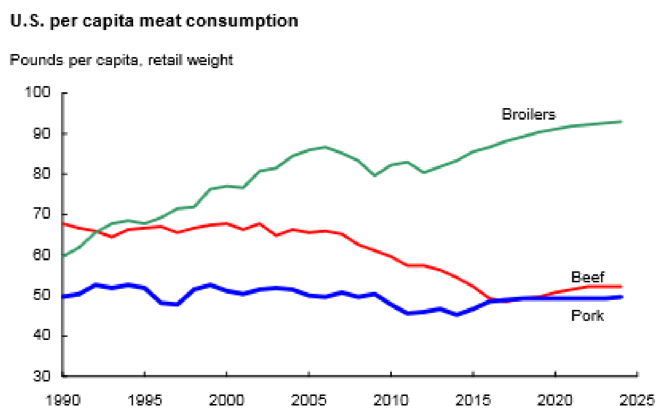
Macro Outlook

The United States is the world's largest poultry producer and the second-largest exporter of poultry meat after Brazil. The country produces over 43 billion pounds annually, of which 80% represents broiler meat with most of the remaining representing turkey meat. The U.S. poultry market exceeds $20 billion, representing 20% of the total world production, followed by Brazil and China which produce about 15% each of the total world production. The United Stated exports between 14 and 17 percent of its boiler meat production internationally with Russia accounting for the major importing country, followed by China and Mexico. These 3 markets accounted for over half of the U.S. broiler product exports on a quantity basis. The U.S. imports only a small amount of broiler products, accounting for less than 1 percent of the domestic production.

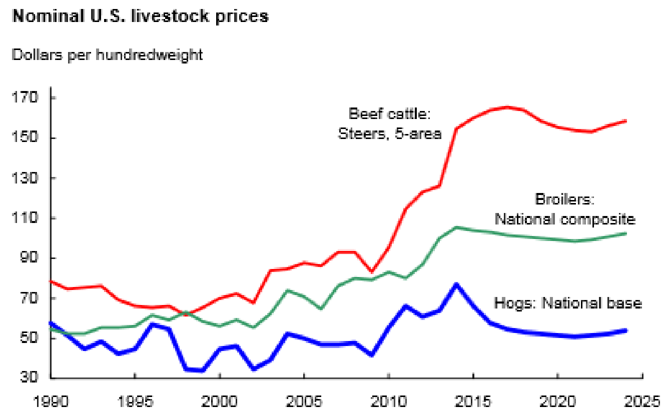
As a result of lower grain commodities' prices (corn and soybean), livestock producers are enjoying higher margins, providing incentives for increasing production. The pork sector has rebounded from reduced production in 2014 due to the Porcine Epidemic Diarrhea virus, leading to an expected increase in production through 2025. Beef's increase in production is not expected until 2018 due to a decline in output leading producer to retain their stocks to build beef cow inventories rather than feed for slaughter. Poultry's production has been expanding faster and is expected to do so over the next 10 years due to a higher number of birds and higher average weights per bird (USDA).



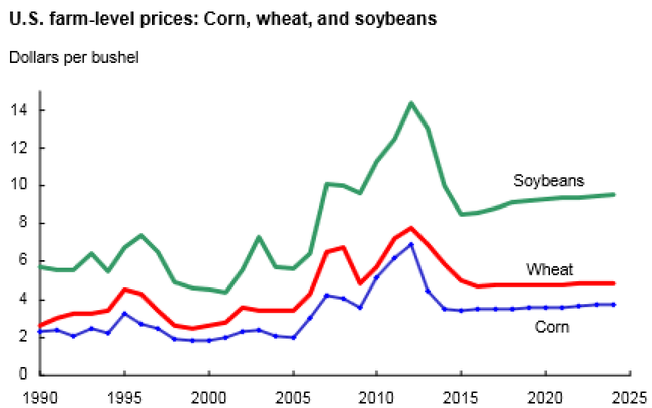
On the supply side, due to increased prices since 2007, per capita consumption has declined. The annual average consumption of red meats and poultry fell from over 221 pounds per capital in 2004-07 to under 202 pounds in 2014. Following the expected increase in production, per capita meat consumption is also expected to rise to about 214 pounds by 2024, led by poultry consumption compared to a more stagnant trend for beef and pork consumption. Indeed, due to higher red meat prices, poultry consumption is expected to reach new highs over the next 10-years, showing consumers' tendency to choose broiler meats over other more expensive substitutes (USDA).



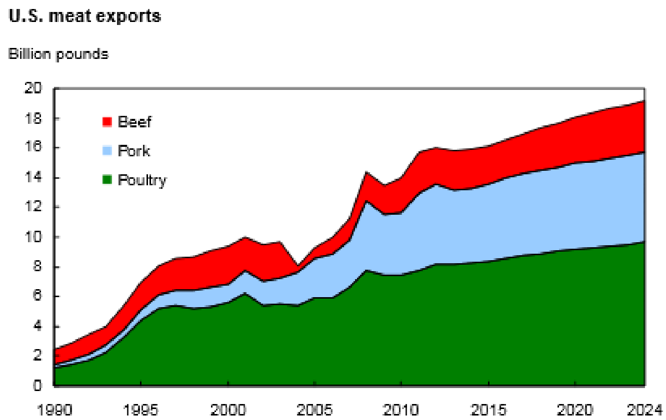
After the decline in production that occurred from 2007 to 2014, prices have increased to new highs for every different category. The modest expected increase in beef production would lead prices to further expand over the next 10 years, while broilers' consumption offsetting higher production is expected to help stabilize prices over the same period. Hog prices on the other hand are expected to see a significant decline due to higher expected production coupled with modest increase in consumption.



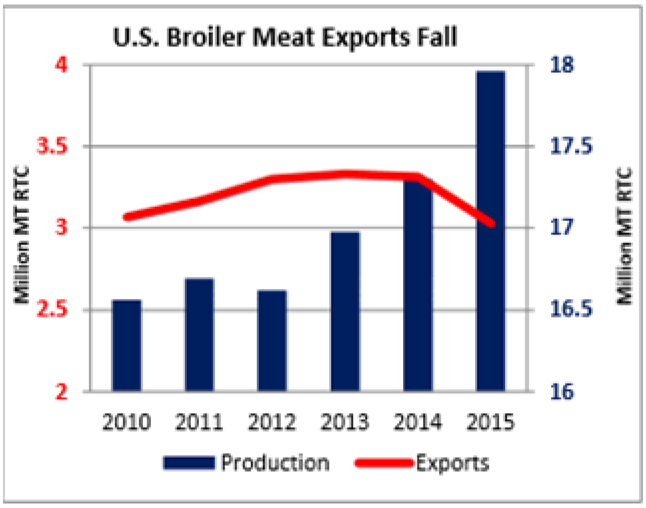
Corn, wheat and soybean prices have recently reached their lower levels since 2005/06 following an increased production. Those commodities are used by producers on a daily basis and represent a consequent portion of their operating expenses. Thanks to lower prices, producers are currently enjoying higher operating margins, which are expected to remain relatively stable over the next 10 years. Indeed, prices are expected to increase only moderately in the future due to increased stock piles and lower demand. With stabilizing poultry prices, producers are therefore expected to enjoy higher margins over the next 10 years. Thus, a slight pressure according to the moderate increase in commodity prices is expected.



Expected economic growths of foreign countries increasing their demand for selected meat cuts and parts from the U.S. market are still expected to lead to additional exports over the next 10 years. Major export markets such as China and Mexico have been followed by an increasing number of other countries due to an increasing demand. The international demand for broilers remains strong because of its lower cost relative to beef and pork, but increased competition is also expected from other major exporters, particularly Brazil.



In early January 2015, China, Mexico and other countries totaling more than 20 different countries have started to restrict the import of U.S. poultry in their territory because of avian flu (H5N8) cases detected on different birds. A poultry industry detected traces of H5N8 influenza in backyard flocks of chicken and guinea fowl in Oregon with similar cases in Washington and California. That discovery was later confirmed by the US Department of Agriculture, which stated that no commercial bird has been detected with the pathology yet. After China issued its restriction over U.S. broilers imports, the U.S. poultry & Egg Export Council condemned China's decision, saying that avian flu outbreaks have occurred far in the Pacific Northwest and away from the major commercial poultry production regions. The bulk of poultry production in the US comes largely from the Midwest and Southern states like Arkansas, Alabama and Georgia. "There's absolutely no justification for China to take such a drastic action", said president of the poultry trade council, Jim Summer. "In fact, these isolated and remote incidents are hundreds of thousands of miles away from major poultry and egg production areas. Most all of our other trading partners have taken some sort of regionalized approach and have limited their restrictions to the state or, in in some cases, to the country. We would have expected China to do the same" he said (Bloomberg News). Following China's decision, analysts have revised the poultry US exports to only 3.0 million tons in 2015, which represents 9 percent from previous estimates. Other traders have estimated the impact on exports to only 5% in 2015.



However, analysts feel also confident that this restriction won't remain in place indefinitely; some expect a withdrawal of the policy by 2016. Mexico for example has already started to ease its import restriction during March 2015, signaling that the disease's threat to US poultry exports is starting to subside. Mexico is now considering the acceptance of some poultry coming from the US if the products are destined for further domestic processing. A New-York-based analyst for Stephens Inc. stated that "over time, China and South Korea will likely lift their trade restrictions, but no actions are expected in the near term. The increased access to Mexico is a positive sign for US poultry companies". Will Sawyer, a Vice President of US animal-protein research for Rabobank International also said that "the industry is feeling a lot better about the whole situation" (Bloomberg News).

Company's Operations

Sanderson Farms Inc. is a fully-integrated poultry processing company engaged in the production, marketing and distribution of fresh and frozen chicken products. The company also engages in the processing, marketing and distribution of prepared chicken through its wholly-owned subsidiary. The products that are sold are ice pack, chill pack, bulk pack and frozen chicken, in whole, cut-up and boneless form, primarily under the Sanderson Farms brand name to retailers, distributors and casual dining operators principally in the U.S. The company also engages in transactions involving customers who resell frozen chicken into export markets. During the year ended October 31, 2014, the company processed about 452 million chickens representing about 3 billion dressed pounds. According to 2014 industry statistics, Sanderson Farms Inc. was the third largest processor of dressed chicken in the US based on average weekly processed pounds. The farm is selling only 10% of its products internationally. The company is currently operating through 8 hatcheries, 7 feed mills and 9 processing plants. The farm has added new facilities in Palestine, Texas where it started hatchery activities in November 2014 and processing operations in February 2015. The new facilities will add an additional 1.25 million chickens per week in term of capacity, now totaling 10.625M chicken a week or over 550M chickens per year. The company's facilities are located in Mississippi, Texas, Georgia, North Carolina and Louisiana where no avian flu case has been founded, increasing the chance for the company's products to be selected among authorized importers if China decides to ease its current poultry restriction.

Sanderson Farms' main operating costs consist of transportation, feeding, processing, cooking and packaging of broiler meat. Most of them are considered to remain stable over time as they rely on company's equipment and machinery. However, the company is also subject to cost variations related to its poultry feeding operations. The farm relies on corn and soybeans prices, which could see high fluctuations over time in terms of market price following prevailing market conditions. The company does not enter into financial derivative instruments allowing it to control and hedge related costs, but instead enter into agreements with its suppliers involving real options to buy or not related commodities at a specific price from 1 to 9 months in advance. Also, the company buys and stocks these commodities internally when the management thinks it could take advantage of lower prices at current market price. The management is highly concerned by future market conditions in order to anticipate future price fluctuations to better control its costs and optimize its margins over time. Following the recent decline in commodity prices, the company is currently well positioned to increase its operating margins for at least the coming 9-months compared to its competitors entering into financial derivatives. As of October 31st, 2014 the company's average feed cost per pound of broilers processed totaled $0.3338 for the fiscal year 2014 compared to only $0.2911 for the first quarter of 2015, representing a decline of 12.8%. This decline in commodity prices has allowed the company to lower its cost of revenue to only 79.2% relative to revenue over the last 12-months, compared to 81.2% for the Fiscal Year 2014 and 88.6% for the Fiscal Year 2013. As stated in the macro outlook, corn prices, which are the most sensitive commodity for Sanderson Farms Inc. are expected to remain stable over the next 10-years, which should highly benefit the company in terms of operating margins.

Financials and Key Statistics

Sanderson Farms Inc. generated $2,775M of revenue during FY2014, a 3.4% increase compared to FY2013 with $2,683M, which represents an increase of 12.4% compared to FY2012 with $2,386M of revenue. Gross Profits were $520.9M in FY 2014 representing a gross margin of 18.8% compared to only 11.4% in FY2013 and 7.3% in FY2012. SG&A expenses represented 5% of revenues during FY2014, but generally ranged between 3.1% and 4.5% annually. SG&A expenses are expected to rise slightly to 5.4% of revenues during the upcoming months due to related expenses allocated to the new facility in Palestine, Texas before decreasing to average levels. The Net Margin reported by the company increased to $242.3M in FY2014 representing a 8.7% Net Margin over the period, compared to only 4.7% and 2.2% over FY2013 and FY2012 respectively. LTM figures show an increase of Gross Margin to 20.8% due to a further decrease in corn prices leading to an increase of Net Margin representing 9.8% of revenues.

The company spent $199M in Capital Expenditures over the last 12-months following the construction of new facilities in Palestine, Texas that has been initiated in 2013. The company used its cash on hand combined with cash generated from operations to finance the project. Capital Expenditures are expected to decrease to $121M in both 2015 and 2016 and then only $71.1M in 2017.

Following current concerns over the poultry market, the company has decreased its inventory levels to 17.2% of total assets by the end of FY2014 while it averaged 22% over the past 5 years. Sanderson Farms Inc has $165.6M in cash in its balance sheet, representing 15% of total assets while it ranged only 1.3% to 9.3% over the past five years. SAFM's current ratio is 3.5 while its quick ratio is 11.9. The company reported only $10M of short term debt in the last fiscal year representing less than 1% of total assets, while long-term debt has been decreased to $10M only, also representing less than 1% of total assets, compared to 3.2% in 2013, 16.8% in 2012 and 28.9% in 2011. The company has now a TIE ratio of 148.2x compared to 33.5x in 2013 and 10.5x in 2012.

The company has been very consistent at turning its inventory into cash over the past 10 years. The inventory period was 32.1 days in FY2014 after having ranged 32 to 37 days over the past 5-years. Account Receivable period was 15 days in FY2014 after having ranged 14 to 17.2 days over the past 5-years and the Account Payable period was 10.6 days after having ranged 9.6 to 12.8 over the same period. This lead the company's conversion cycle period to 36.5 days only, while it ranged 35 to 39.3 days over the past 5-years, meaning that the company has to finance its operations by its own during 36.5 days only. This is in line with Tyson (the biggest poultry processor in the U.S.) which averaged 31 days over the past five years, but way better than Pligrim's Pride Corp. who averaged 47.4 days over the same period.

The company's Board of Directors approved a share repurchase program of up to one million shares expiring in February 2017. The company repurchased a total of 44,985 shares during the year representing $3.8M. Following the recent company's build up in cash and the recent launch of its new facilities in Palestine, Texas, it is not expected that the company will conclude an acquisition, which could increase the chance that the company takes advantage of the current market price to invest in its own shares. The company also issued a special dividend of $0.50 per share right after its shares repurchase in last September. Additionally, the company distributes a quarterly dividend representing a dividend yield of 1.8%.

Valuation

The valuation of Sanderson Farms Inc. has been made using a proforma that is presented on the last page of this report. The valuation method that has been used is based on a Discounted Cash Flow model using Return on Invested Capital metrics.

The revenue growth rate for the FY2015 and FY2016 has been set at 0% compared to an average of 2.4% estimated by analysts in order to reflect the risks associated with China's restrictions on poultry imports. This is a very conservative assumption that assumes a decline in international sales offset by the company's newly increased capacity that will allow the farm to sell additional broiler products domestically and in other countries that have not put in place or eased their import restrictions. Revenues growth rates for the FY2017 has then been set at 2.6% in line with analysts' consensus, which will remain at the same level over the following 8-years. The long-term growth has been set at 2% in order to reflect increased competition both domestically and internationally within the poultry industry.

Operating costs over revenue has been tapered from the current 81.2% level to 92% over the long-term in order to reflect potential changes in grain commodity prices which affect negatively the company's margins. Also, due to an increasing competition and an increasing production, the industry could potentially see an additional pressure on broiler meat prices, which would also negatively impact the company's margins.

Sanderson Farms' forward P/E is about 6.6x compared to an average of 15.3x for competitors. The company's P/E ratio has averaged 15.6x over the past 5 years. The current level shows market concerns over the poultry industry, which makes a good opportunity for investors to enter into a long position at the current price. Additionally, the forward EV/EBITIDA equals only 3.3x while it averaged 6.6x over the past 5-years and equals 11.6x for competitors. The Price-to-Book ratio is currently about 1.8x compared to 2.8x for respective peers. On the other hand, Sanderson Farms Inc. shows to have an operating margin of 15% compared to an average of 12% for competitors, and are the only companies along with PPC that have almost no debt outstanding. That makes it the most attractive poultry processor company relative to its peers at current level.

All the assumptions that have been made above are extremely conservative and could see further improvements over the coming-months. However, due to current market conditions and concerns, these assumptions take into consideration potential declines in revenues growths and increased pressure on operating margins. Nevertheless, the company seems to be pretty attractive at current level. As a result, a buy is recommended on Sanderson Farms Inc. with a target price of $110 per share. This represent a potential upside of 46% based on the current market price. Current concerns over the poultry industry have led the stock to be undervalued relative to peers, which creates a good opportunity for investors to enter into a long position. Once the avian flu concern will stabilize in coming months, China might ease its actual import restrictions, which would lead the stock to appreciate again, offering investors interesting returns for the risks they carried.

Conclusion

Current concerns regarding avian flu cases detected around the country has raised skepticism among investors. China's restriction over the import of US broiler meat is expected to negatively impact companies exporting in Asia. However, the market seems to be overreacting, which creates a good opportunity for investors to take advantage of the current market price. The Chinese restriction is not expected to remain in place indefinitely, with analysts expecting an ease of the policy by 2016. Other countries such as Mexico have already started to ease their own restrictions, excluding the import of meat coming from concerned regions only. Additionally, following the decline in grain prices, the company is currently enjoying higher operating margins, which are expected to remain stable over the next 10-years. Sanderson Farms Inc. seems to be the most undervalued company within the poultry industry, currently enjoying higher margins relative to competitors. As a result, a BUY is recommended on SAFM with a one-year target price of $110. This represent a potential upside of 46% based on current price.

CENTER FOR GLOBAL FINANCIAL STUDIES

Sanderson Farms, Inc.	SAFM	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Kevin Akbaraly	$76.06	$97.95	$109.99	1%	1-y Return: 45.77%	

General Info

Sector	Consumer Staples
Industry	Food Products
Last Guidance	Feb-24-2015
Next earnings date	5/29/2015

Peers

Peers	Market Cap.
Pilgrim's Pride Corporation	$6,134.11
Tyson Foods, Inc.	$15,721.15
Pinnacle Foods Inc.	$4,770.43
Hormel Foods Corporation	$14,460.54

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Sanderson, Joe	Chairman and Chief Executive Offi	$3,441,123	$2,824,155	$5,931,371
Butts, Lampkin	President, Chief Operating Officer	$1,180,904	$1,702,063	$2,126,958
Cockrell, D.	Chief Financial Officer, Treasurer ar	$1,022,181	$1,445,142	$1,732,919
Rigney, Timothy	Chief Accounting Officer, Controll	$137,223	$300,769	$404,151
Romano, Brian	Director of Administration	$0	$0	$0
Robinson, Robin	Director of Organization Developm	$0	$0	$0

Market Data

Enterprise value	$1,609.51
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	23.17
Diluted shares outstanding	22.47
% shares held by institutions	99.58%
% shares held by insiders	5.39%
Short interest	41.96%
Days to cover short interest	18.55
52 week high	$103.90
52-week low	$74.95
5y Beta	0.20
6-month volatility	33.16%

Current Capital Structure

Total debt/market cap	1.13%
Cost of Borrowing	17.74%
Interest Coverage	10.4x
Altman Z	10.37
Debt Rating	AA
Levered Beta	0.50
WACC (based on market value weights)	5.47%

Historical Median Performance

	SAFM	Peers	Industry	All U.S. firms
Growth	9.7%	4.1%	7.2%	7.4%
ROIC	14.9%	7.3%	17.4%	14.3%
NOPLAT Margin	5.3%	2.8%	7.0%	10.4%
Revenue/Invested Capital	2.80	2.66	2.49	1.37
Excess Cash/Rev.	1.2%	2.8%	13.5%	12.9%
Total Cash /Rev.	1.2%	2.8%	12.3%	15.2%
Unlevered Beta	0.49	0.48	0.64	0.95
TEV/REV	0.5x	0.5x	1.5x	2.5x
TEV/EBITA	5.6x	18.4x	14.6x	13.1x
PE (normalized and diluted EPS)	9.2x	19.0x	24.1x	23.5x
P/BV	1.8x	1.9x	2.6x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	2.3%	10.2%	-5.3%
Last Quarter-1	0.4%	2.2%	0.5%
Last Quarter -2	0.2%	-8.5%	-14.5%
Last Quarter -3	5.0%	23.2%	26.3%
Last Quarter -4	2.5%	36.8%	47.1%

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 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	2.0%
Base Year Unlevered Beta	is equal to 0.49
Long term Unlevered Beta	0.64

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	3.4%	81.2%	$1,010.00	10%	28.9%	5.5%
NTM	0.0%	82.4%	$1,033.84	11%	29.9%	5.6%
NTM+1	0.0%	83.5%	$1,053.28	10%	26.6%	5.8%
NTM+2	2.6%	84.6%	$1,081.74	9%	24.5%	6.0%
NTM+3	2.6%	85.7%	$1,110.85	8%	22.3%	6.2%
NTM+4	2.6%	86.9%	$1,140.58	7%	20.3%	6.4%
NTM+5	2.6%	88.0%	$1,170.91	7%	18.2%	6.5%
NTM+6	2.6%	89.1%	$1,201.74	6%	16.3%	6.7%
NTM+7	2.6%	90.2%	$1,232.87	5%	14.3%	6.9%
NTM+8	2.6%	91.4%	$1,263.59	4%	12.3%	7.1%
Continuing Period	2.6%	92.5%	$1,566.88	5%	8.0%	7.2%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$20.00	$46.77	23.17
NTM	$245.42	$20.00	-$195.84	23.17
NTM+1	$215.04	$20.00	-$406.70	23.17
NTM+2	$194.62	$20.00	-$592.69	23.17
NTM+3	$174.56	$20.00	-$762.49	23.17
NTM+4	$154.33	$20.00	-$915.67	23.17
NTM+5	$133.42	$20.00	-$1,051.68	23.17
NTM+6	$111.58	$20.00	-$1,169.72	23.17
NTM+7	$88.66	$20.00	-$1,269.05	23.17
NTM+8	$64.63	$20.00	-$1,349.38	23.17
Continuing Value	$170.64			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$98.40	$188.92	$93.22	$98.40
$110.35	$199.39	$107.54	$110.35
$111.92	$209.74	$109.29	$111.92
$114.02	$222.78	$111.38	$114.02
$116.03	$235.26	$113.37	$116.03
$118.24	$247.15	$115.25	$118.24
$119.69	$251.47	$117.03	$119.69
$121.39	$239.07	$118.77	$121.39
$123.03	$224.84	$120.57	$123.03
$124.30	$208.78	$122.90	$124.30

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	**2%**	**N/A**	**3%**	**10%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$98.40	$110.35
σ(ε)	$0.15	$0.12
3 σ(ε) adjusted price	$97.95	$109.99
Current Price	$76.06	
Analysts' median est.		$88.86

SunPower Corporation
NASDAQ:SPWR

Analyst: Guillaume Valentin
Sector: Technology

BUY

Price Target: $43.91

Key Statistics as of 04/20/2015

Market Price:	$34.05
Industry:	Semiconductors
Market Cap:	$4.48B
52-Week Range:	$22.75 - $42.07
Beta:	3.13

Thesis Points

- Opportunities for market growth
- Innovation to meet demand
- Yieldco with First Solar
- Growth in the commercial market

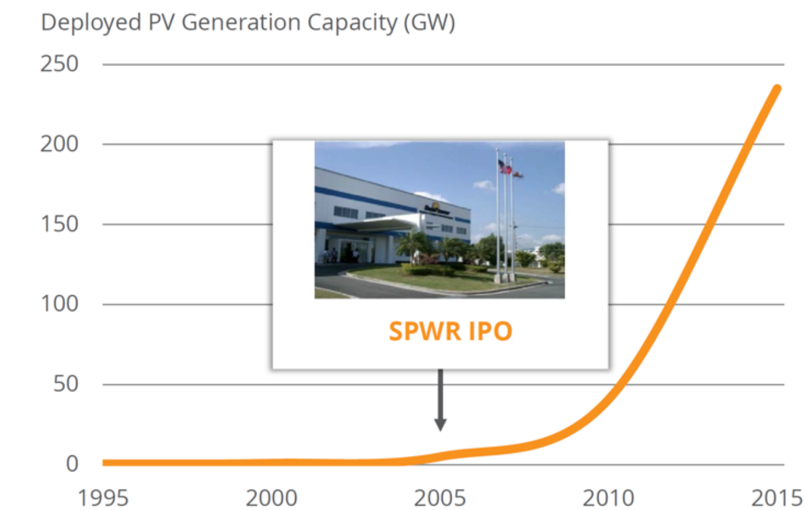
Company Description

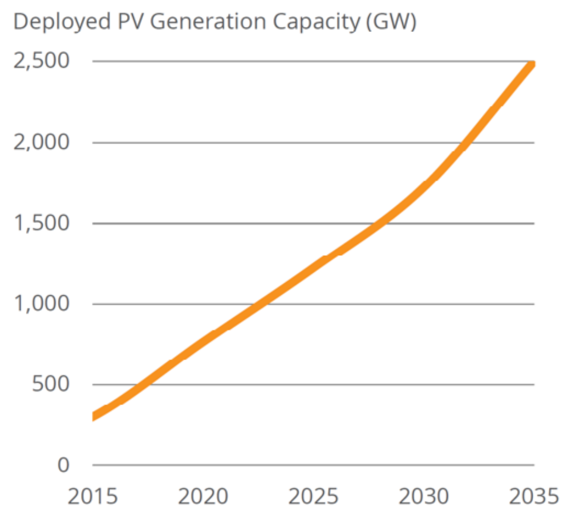
SunPower Corporation, a subsidiary of Total Energies Nouvelles Activités USA, was incorporated in 1985 and is headquartered in San Jose, California. SunPower Corporation designs, manufactures, and delivers solar systems to residential, commercial, and utility-scale power plant customers worldwide. The company offers solar power components. It also offers rooftop and ground-mounted solar power systems. In addition, the company offers operations and maintenance services. Further, it leases solar power systems to residential customers; and sells inverters manufactured by third parties. The company serves investors, electric utilities, independent power producers, commercial and governmental entities or residential owners.

Thesis

SunPower Corporation designs and manufactures solar equipment in order to produce renewable electricity. The company has been a pioneer in an industry that has seen 30% CAGR increase in sales over the past two decades. In the future, the solar industry is expected to skyrocket. SunPower has strong brand recognition and will take advantage of this growing market share. The demand has been particularly increasing in the commercial market. The company produces solar panels that can output more power within the same surface. Finally, SunPower developed a Yieldco with First Solar, which will generate value in the future.

Industry overview





The first graph above displays the solar industry performance over the past two decades. It shows the total photovoltaic (PV) capacity deployed in Gigawatts (GW) all over the world. We can see that the total power of solar installations kept increasing every single year since 1995, to reach slightly less than 250GW at the beginning of 2015. SunPower is a pioneer in the solar industry. It was first traded in November 2005, at a time when this industry was at the beginning of its exponential growth. The United States alone represent about only 8% of the global market with 20GW. Currently, about 4 million homes in the United States are equipped with solar panels, which represents only 3% of the total U.S. homes. However, America is in overall more and more interested in solar power because 32% of new electric generating capacity came from solar in 2014.[1] The solar industry employs about 175,000 workers, which is more than Google, Apple, Facebook and Twitter combined. The solar market grew at a 30% CAGR over the past 20 years, to reach about $120 billion in sales in 2014. The industry is highly fragmented because there are no company than has more than 8% of the total market share. Therefore, product differentiation is essential. Globally, the current installed electricity generation capacity is about 6,000GW, which means that there is a huge room for the solar industry to take market share of the conventional and traditional electricity production, such as nuclear or coal power plants. This is exactly what is expected to happen during the next two decades. Indeed, solar power capacity is expected to be multiplied by 10 during the next 20 years, to reach about 2,500GW. In the same time, global electricity production is expected the only double, which means that solar energy will have a greater market share. The photovoltaic supply will meet about 10% of the total global electricity demand in the foreseeable future. The cumulative development of photovoltaic systems will account for about $5 trillion.

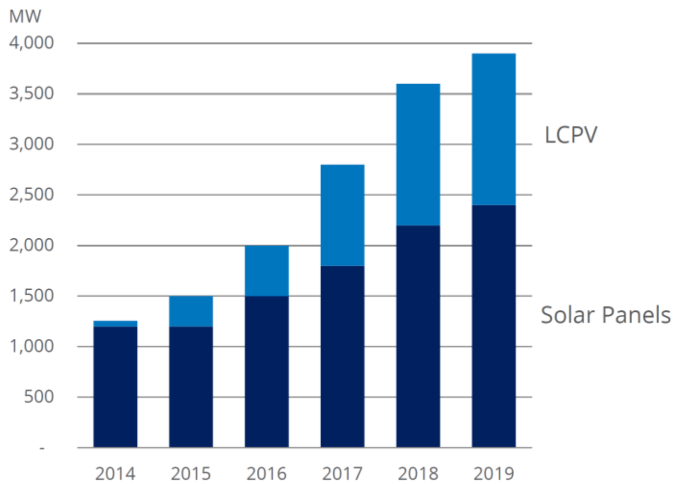
Yieldco with First Solar

On April 20, 2015, First Solar and SunPower, long rivals in developing and selling solar panels and power plants, announced they plan to jointly form a yieldco. This has been very popular recently among renewable energy companies to raise low-cost capital to fund new projects. A yieldco is a "dividend growth-oriented public company, created by a parent company that bundles renewable and/or conventional long-term contracted operating assets in order to generate predictable cash flows."[2]

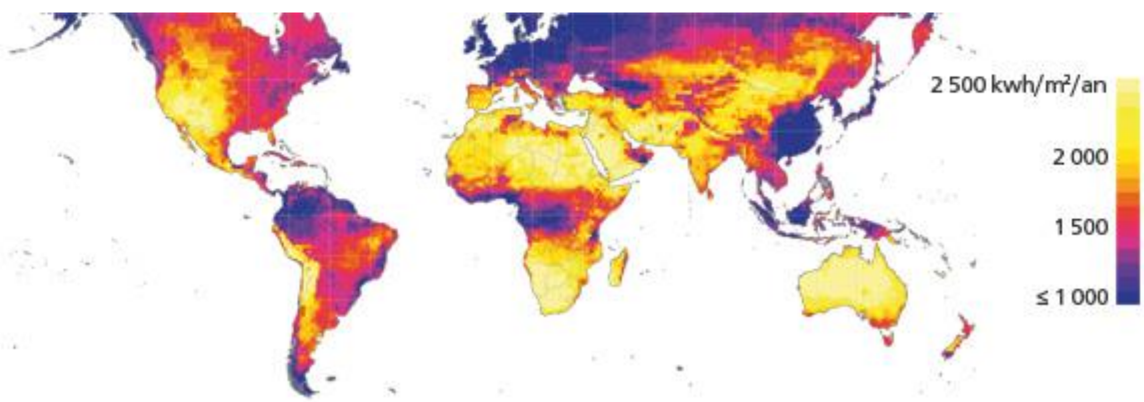
[1] http://www.seia.org/research-resources/us-solar-market-insight
[2] https://financere.nrel.gov/finance/content/deeper-look-yieldco-structuring

The creation of a single company from two competitive companies will create will generate lower yields and therefore faster dividend per share growth.[3] Since the two companies announced their intention to create a yieldco very recently, the details of the deals are not yet know, but analyst are confident that this new entity will create value. The new Yieldco will be traded on the NASDAQ and will be called 8point3 Energy Partners. This new entity will be able to pay off debt from building solar panels. On the day of the announcement, shares of SunPower has risen about 11.50%, which means that investors have understood the synergy that will emerge in the future.

Innovation to meet demand

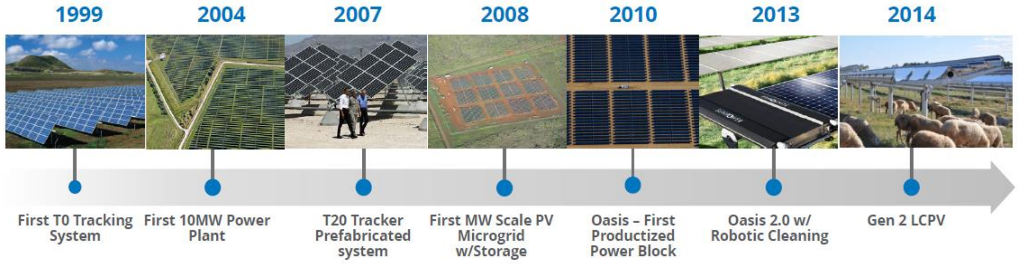


In order to answer to this expected increase in demand, SunPower will multiply its production capacity by almost four times by 2019. Currently, almost 100% of its products comes from traditional solar panels. In 5 years, the company's production will be split between solar panels and LCPV. LCPV cells do not need to be actively cooled. This technology has a high acceptance angle and can be installed with or without solar tracker under proper circumstance.



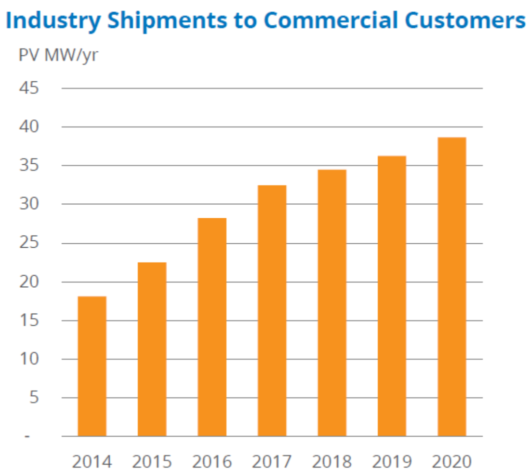
The map above show the sunshine of one square meter per year in each country around the world. We can see that most of the northern hemisphere countries have an average to low sunshine compares to tropical and southern countries. However, these countries are the most developed and the ones that would be able to afford solar panels. By investing in the LCPV technology SunPower will be able to target more efficiently these countries. SunPower clearly believes that its LCPV technology is suited to certain environmental and market conditions. In order to answer to this demand, the company announced that it will deploy this technology in the U.S. and China. The company announced the commencement of the construction of a manufacturing plant of LCPC solar panel in Philippines in February 2015. This plant will be operational during 2017.

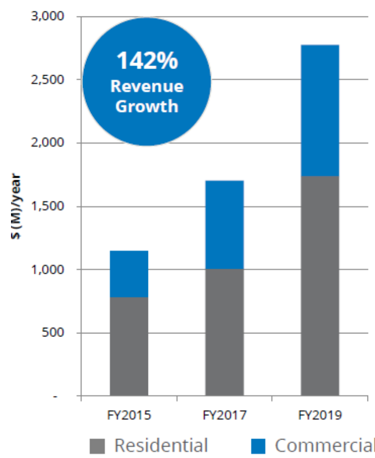
[3] http://www.benzinga.com/analyst-ratings/analyst-color/15/02/5273658/why-a-first-solar-sunpower-yieldco-is-a-two-headed-drago

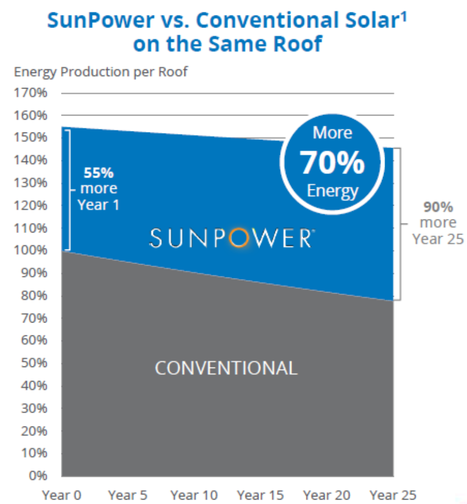


The timeline above shows the historical commitment to innovation from SunPower. We can see that the company has been developing new products often over the past decade. The company has been providing the market with innovating solutions that meet customers' expectations. There are significant innovations from SunPower that require attention. For example, the company recently developed a robotic solar panel cleaning. The company has been able to target key market opportunities and issues with current products. This solution can increase productivity up to 15% per year. It uses 90% less water and is 3 times faster than hand cleaning. This is one of the many other innovations that it worth talking about in this report.

Growth in the commercial market







Six years from now, the commercial photovoltaics market is expected to double. Indeed, the chart above shows the expected shipment of photovoltaics (in terms of MW) per year. In 2014, the industry shipped about 18MV of solar panel used in commercial applications. This number is expected to grow to almost 40MV by the end of 2020. SunPower has several advantages among the industry to take advantage of this market growth. The company is able to produce solar panels that can produce more power with the same surface than any of its competitors. Additionally, SunPower offers the longest warranty in the industry on its solar panels. Indeed, the company is very confident about the quality and the reliability of its panels. The company supply panels and systems, financing solutions, design, installation and other indirect services. A survey by the U.S. Consumer Benchmark conducted in 2014 shows that SunPower has the highest customers' satisfaction among the industry. Additionally, it ranks higher in most of the criteria that makes products attractive and customers satisfied. Competitors only rank higher in special promotions and discounts. This shows that SunPower's competitors have to make huge discounts in order to attract more customers. SunPower, however, is the best company ranked in terms of quality/price and efficiency/quality. The last chart above illustrates the higher efficiency of SunPower solar panels at any time in point from installation to the end of the life of the panel. We can see that at the time of the installation, where a conventional solar panel has a base of 100%, SunPower's solar panels produce up to more than 50% more power than them. This gap keeps increasing over time. We can see that after a 25 years period of time, SunPower solar panels became 70% more efficient than traditional ones. Obviously, the efficiency of any solar panels decreases over time. However, this drop is much more important for conventional panels than for SunPower ones. This will lead to much higher net present values for any company that wants to product electricity from solar panels. Already 13 of the 25 largest commercial buyers of solar buyers are SunPower customers. Most famous customers include Walmart, FedEx, HP, USPS or Toyota. Additionally, the company announced recently that it has developed a partnership with Apple. Apple chose SunPower to produce two solar plants in China totaling 40MW.

SunPower already partnered with Apple in the creation of six power plants in California, Nevada and North Carolina, totaling 90MW. The company is expected to more than double the number of commercial customers by the end of 2019. This will lead to a tremendous increase in revenues. Currently, SunPower generates about $1 billion in revenues. In a 4-year time frame, the company sees its revenues to climb to more than $2.5 billion, which represents a 142% increase from now.

Financials highlight

The company has been maintaining a stable debt to equity ratio. Currently, its total debt represents about 25% of its market capitalization, which is not very high. In terms of margins and revenues, SunPower sees a bright future. The EBITDA growth in both commercial and residential markets is expected to grow at a 50 CAGR over the next 4 years. In the same time, the company will increase its production capacity during the same period. In the future, commercial solar panels will represent a bigger part of the total market segmentation of the company. For next year, the company's gross margin is expected to increase to 21% to 23% and EBITDA to $400 million to $450 million. The company will be more and more profitable and will generate more value.

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SunPower Corporation	SPWR	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		GUILLAUME VALENTIN	$34.28	$35.99	$43.91	0%	1-y Return: 28.11%	

General Info

Sector	Information Technology
Industry	Semiconductors and Semiconductor Equipment
Last Guidance	Feb-24-2015
Next earnings date	4/30/2015

Market Data

Enterprise value	$4,933.31
Market Capitalization	$453.51
Daily volume	0.41
Shares outstanding	131.48
Diluted shares outstanding	162.75
% shares held by institutions	73.98%
% shares held by insiders	0.67%
Short interest	4.48%
Days to cover short interest	2.77
52 week high	$42.07
52-week low	$22.75
5y Beta	2.88
6-month volatility	47.96%

Peers	Market Cap.
First Solar, Inc.	$6,242.99
Trina Solar Limited	$1,105.24
Canadian Solar Inc.	$1,911.34
Yingli Green Energy Holding Co. Ltd.	$367.16
JA Solar Holdings Co., Ltd.	$472.87
Analog Devices, Inc.	$19,763.38
ReneSola Ltd.	$181.25
Skyworks Solutions Inc.	$18,010.78
Maxim Integrated Products, Inc.	$9,782.06
SolarWorld AG	$240.50

Current Capital Structure

Total debt/market cap	29.52%
Cost of Borrowing	3.00%
Interest Coverage	202.89%
Altman Z	2.03
Debt Rating	BB
Levered Beta	3.62
WACC (based on market value weights)	8.36%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Werner, Thomas	Chairman, Chief Executive Offic	$ 4,900,212.00	$ 8,845,546.00	$ -
Boynton, Charles	Chief Financial Officer and Execu	$ 2,000,593.00	$ 2,758,314.00	$ -
Neese, Marty	Chief Operating Officer	$ 1,947,675.00	$ 2,814,730.00	$ -
Richards, Douglas	Executive Vice President of Adm	$ 1,542,833.00	$ 2,164,128.00	$ -
Wenger, Howard	President of Business Units	$ 1,973,733.00	$ 2,997,043.00	$ -
Branderiz, Eric	Chief Accounting Officer, Senior	$ -	$ -	$ -

10y-Median Performance

	SPWR	Peers	Industry	All U.S. firms
Growth		15.1%	8.0%	7.4%
ROIC	9.5%	7.2%	12.8%	14.3%
NOPLAT Margin	8.5%	12.7%	14.7%	10.4%
REV./Invested Capital	111.3%	56.5%	87.4%	137.4%
Excess Cash/Rev.	N/A	49.5%	13.5%	12.9%
Total Cash /Rev.	30.6%	49.5%	12.3%	15.2%
Unlevered Beta	2.03	2.13	1.28	0.95
TEV/REV	0.9x	2.2x	3.2x	2.5x
TEV/EBITA	0.0x	24.4x	11.5x	13.1x
PE	32.8x	29.3x	26.0x	23.5x
P/BV	0.0x	1.8x	1.6x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	0.6%	-12.9%	4.0%
Last Quarter-1	12.5%	32.7%	25.0%
Last Quarter -2	4.2%	10.6%	12.0%
Last Quarter -3	2.0%	0.0%	53.1%
Last Quarter -4	12.3%	0.0%	67.9%

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	0.52%
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	1.00
Op. Cash/Rev.	2%
Growth in PPE	NPPE Growth tapers to zero until continuing period
Long term Growth	4.0%
Long term EBITDA Margin	23.0%
Long term NOPLAT Margin	20.0%
Long term ROIC	12.0%
Most recent Unlevered Beta	2.03
Long term Unlevered Beta	1.31

Forecast

$ -	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	20.7%	84.0%	$2,166.93	9%	11.9%	8.4%
NTM	12.4%	80.5%	$2,371.71	13%	21.0%	9.4%
NTM+1	8.2%	78.7%	$2,502.99	14%	21.5%	9.5%
NTM+2	6.1%	77.9%	$2,606.71	14%	22.0%	9.6%
NTM+3	5.0%	77.4%	$2,693.97	14%	22.4%	9.8%
NTM+4	4.5%	77.2%	$2,770.57	14%	22.8%	9.9%
NTM+5	4.3%	77.1%	$2,840.34	14%	23.2%	10.0%
NTM+6	4.1%	77.1%	$2,917.49	14%	23.6%	10.1%
NTM+7	4.1%	77.0%	$2,998.89	14%	24.0%	10.2%
NTM+8	4.0%	77.0%	$3,085.36	15%	24.4%	10.3%

Valuation

	Invested Capital x (ROIC-WACC)	Enterprise Value (UFCF Valuation only	Total Debt	Other claims	Equity Value	UDCF Valuation	Relative Valuation	Weighted Price Per Share
LTM	$77.63	$4,752.21	$1,326.39	-$1,032.28	$4,458.10	$35.55	$41.15	$36.95
NTM	$274.98	$5,136.30	$1,326.39	-$1,347.14	$5,157.05	$40.28	$57.81	$44.66
NTM+1	$301.28	$5,213.01	$1,326.39	-$1,675.48	$5,562.10	$43.24	$70.29	$50.00
NTM+2	$323.81	$5,228.75	$1,326.39	-$2,059.04	$5,961.40	$46.25	$80.35	$54.78
NTM+3	$341.76	$5,194.90	$1,326.39	-$2,483.39	$6,351.90	$49.21	$89.00	$59.16
NTM+4	$358.24	$5,119.23	$1,326.39	-$2,943.38	$6,736.22	$52.26	$97.05	$63.46
NTM+5	$374.95	$5,003.92	$1,326.39	-$3,436.61	$7,114.13	$54.96	$105.00	$67.47
NTM+6	$395.16	$4,858.23	$1,326.39	-$3,950.78	$7,482.61	$57.73	$112.98	$71.54
NTM+7	$413.53	$4,673.04	$1,326.39	-$4,490.88	$7,837.53	$60.39	$121.19	$75.59
NTM+8	$1,146.04	$4,444.88	$1,326.39	-$5,058.32	$8,176.81	$62.19	$129.72	$79.07

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%**	**15%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$36.95	$44.66
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$35.99	$43.91
Current Price	$34.28	
Analysts' median est.		$38.07

The Blackstone Group

NYSE: BX

Analyst: Nicholas Luca
Sector: Financials

BUY

Price Target: $49.05

Key Statistics as of 3/11/2015

Market Price:	$38.44
Industry:	Asset Management
Market Cap:	$23.16B
52-Week Range:	$26.56 - 39.62
Beta:	1.25

Thesis Points:

- Additional revenue streams from recent acquisitions
- Steadily increasing high yield distributions
- Taking opportunistic moves on real estate prior to soon to raise rates. Generating working capital at a relatively low cost

Company Description:

The Blackstone Group L.P. is a publicly owned investment manager. The firm also provides financial advisory services to its clients. It provides its services to public and corporate pension funds, academic, cultural, and charitable organizations. The firm manages separate client focused portfolios. It launches and manages private equity funds, real estate funds, funds of hedge funds, and credit-focused funds for its clients. It invests in private equity, public equity, fixed income, and alternative investment markets. The firm was founded in 1985 and is based in New York, New York.

Recommendation

The Blackstone Group (BX) is a BUY as of March 12th, 2015 as they are the world's largest independent alternative asset manager and one of the leading global financial advisory groups that continues to increase revenue streams while reducing costs year over year. The one year target price of $49.05 and also a high dividend yield (in 2014 roughly 6%) create a favorable investment.

Management Team

The Blackstone Group is led by Cofounder, CEO, and Chairman, Stephen Schwarzman, a graduate of Yale University with an MBA from Harvard Business School. Schwarzman founded the company in 1985 with his former boss at Lehman Brothers Investment Bank, Pete Peterson. Schwarzman is noted as one of Time Magazine's 100 most influential people, and currently has made headlines as being projected to be Wall Street's first CEO to be compensated over a billion dollars for 2015. His intelligence and 20 percent stake in Blackstone highly contribute to the interest in holding Blackstone.

Although no longer with the company, the discussion of Blackstone's management would be nothing without the talk of Peter George Peterson. He served as United States Secretary of Commerce from February 29, 1972 to February 1, 1973 and co-founded Blackstone with Schwarzman. He started the company with $400,000 and within the first two years completed their first big M&A advisory of Hutton and Lehman, and collected $3.5 million in advisory fees.

Strong Yield Distributions to Shareholders

Their management team tells a lot about the Blackstone's interests, as they all hold a percentage of Blackstone's shares. Their team gets paid when revenues and earnings increase, through dividends. Schwarzman's salary since 2007 has been roughly $315,000, of which is far less than his annual dividend returns, totaling $33,000,000 in 2014 alone. With their team's invested interest in the company's success, they act in manners that are best for shareholders and are very hard working individuals.

The dividend is one of the biggest drivers to holding this company. The lowest paid dividend was $0.40 or 2.9% in 2008, of which was during the financial downturn but still remained above the current rates of its competitors in the industry today in 2015. The average yield per year has increased from roughly 3.5% to the ~6% in 2014.

	Dividend Yield (%)	Market cap (in B)	P/E Ratio		Profit Margin (%)	1yr EPS growth rate (%)	Return on Equity (%)	Price vs. S&P 500 13 Weeks
			Trailing	Forward				
Blackstone Group (BX)	7.08	44.9	15.01	10.28	49.37	30.3	23.71	15.36
Blackrock Inc (BLK)	2.39	60.5	19.2	15.74	29.46	14.13	12.05	1.15
T Rowe Price Group (TROW)	2.53	24.41	18.05	15.27	30.88	16.56	23.8	-2.79
Ameriprise Financial (AMP)	1.74	24.27	16.02	11.94	16.28	28.76	19.87	-1.61
Goldamn Sachs (GS)	1.28	84.4	10.95	9.97	21.15	10.38	11.15	-2.38
Franklin Resources (BEN)	1.11	33	14.4	13.43	28.2	12.52	21.14	-8.12

Along with the strong yield, Blackstone's financials have been nothing short of outstanding. Their forward and trailing P/E ratios are trading at a 55% and 56% discount to the S&P 500, showing they are positioned for achievable returns while strong enough to withstand any economic challenges they may be forced to endure.

Increased Revenue Streams

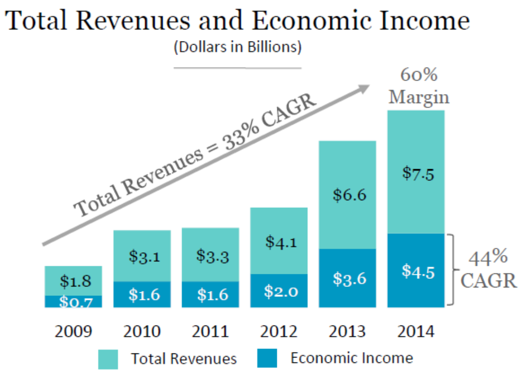
Blackstone invested most heavily during the period 2009-2014. In the years after the global crisis, deal valuations were more reasonable. PE Funds that made substantial investment after the financial crisis are now better placed to generate strong returns. Along with preexisting investments to really start generating revenues, they have been making acquisitions left and right.

They are in the talks to purchase General Electric's $30 billion real estate portfolio with a partner more than likely to be Wells Fargo. This is a big target for two reasons; one, General Electric approached Blackstone's Jonathan Gray in an urgent fashion, meaning more than likely they need to liquidate the portfolio quickly, of which ultimately leads to a cheap, underpriced sale. It also indicates Blackstone's position in the real-estate industry as the firm to call when it is time to unload tens of billions of dollars of property in one fell swoop.

On top of the underpricing of the deal from GE's quick liquidation, Blackstone's ability to analyze undervalued or poorly ran assets also shows significant revenue gains from the acquisition.

If the deal is to take place, Blackstone will acquire GE's U.S. holdings, mainly office buildings in Southern California, Seattle and Chicago, for roughly $3 billion, along with a $4-5 billion portfolio of commercial mortgages. The firm also agreed to buy European assets including office, industrial and retail properties, for an estimated $2 billion and commercial mortgages in Mexico and Australia for $4billion. The deal is the largest real estate transaction since the financial crisis and among the biggest for Blackstone.

Since 2009, Blackstone's revenues have increased by an annual rate of 33% to $7.5 billion in 2014, with 2013 and 2014 being particularly successful years for Blackstone.



High Investment in Real Estate with Low Interest Rates

Blackstone, the largest real estate private equity firm, has $81 billion of assets under management. Within their unrealized assets, half of them are within their real estate segment. Their real estate business continues to grow significantly, and comparatively grows quicker than any other real estate firm. Blackstone typically buys assets and improves by renovating and raising the property rental and valuation.

Blackstone is taking advantage of low interest rates before the Fed begins to raise rates by the end of the year or into early 2016. Blackstone will be able to achieve working capital at a relatively low cost. Blackstone will use the capital for investment opportunities. These opportunities may be on the table right now, or they may come into play in the near future. But Blackstone has shown that the company is willing and able to put capital to work, and the $350 million raised is likely to follow this trend.

In 2014, Blackstone raised $57 billion from investors, an all-time record for any alternative asset management firm. Blackstone has raised more capital in this past year than the next leading three competitors have earned combined. Their ability to raise capital is second to none, and promotes their attractiveness. CEO, Schwarzman, is one of, if not the best at investing into real estate. His ability to find struggling assets that are either poorly managed or merely undervalued is incredible. With the potential investments that constantly arise, the ability to raise capital in order to fund the investment is very valuable.

SIENA college

Siena Market Line
2nd week of March 2015

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The Blackstone Group L.P.	BX	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Nicholas Luca	$41.14	$42.85	$49.05	5%	1-y Return: 24.3%	

General Info

Sector	Financials
Industry	Capital Markets
Last Guidance	(Invalid Identifier)
Next earnings date	7/16/2015

Market Data

Enterprise value	$0.00
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	671.46
Diluted shares outstanding	619.57
% shares held by institutions	99.58%
% shares held by insiders	0.46%
Short interest	1.91%
Days to cover short interest	2.84
52 week high	$42.75
52-week low	$26.56
5y Beta	1.97
6-month volatility	18.12%

Peers	Market Cap.
KKR & Co. L.P.	$10,131.43
Franklin Resources, Inc.	$32,011.65
Invesco Ltd.	$17,336.40
BlackRock, Inc.	$61,739.39
T. Rowe Price Group, Inc.	$21,521.70
The Carlyle Group LP	$2,049.95
Apollo Global Management, LLC	$3,651.80
Legg Mason Inc.	$6,135.25
Affiliated Managers Group Inc.	$12,092.21
Och-Ziff Capital Management Group LI	$2,241.96

Current Capital Structure

Total debt/market cap	32.09%
Cost of Borrowing	1.29%
Interest Coverage	
Altman Z	
Debt Rating	A
Levered Beta	1.52
WACC (based on market value weights)	11.03%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Schwarzman, Stephen	Co-Founder, Chairman, Chief Exe	$8,414,804	$21,991,142	$85,888,640
James, Hamilton	President, Chief Operations Office	$33,273,924	$43,054,243	$78,332,030
Tosi, Laurence	Chief Financial Officer and Senior I	$8,243,269	$10,578,377	$14,971,827
Finley, John	Chief Legal Officer and Senior Mar	$0	$5,341,934	$7,669,827
Gray, Jonathan	Global Head of Real Estate, Direct	$0	$0	$0
Hill, James	Vice Chairman, Vice President and	$13,678,453	$25,872,492	$25,940,290

Historical Median Performance

	BX	Peers	Industry	All U.S. firms
Growth	25.6%	22.7%	8.2%	7.4%
ROE	24.6%	21.5%	9.2%	9.9%
Net Profit Margin	40.9%	26.6%	15.7%	6.9%
Revenue/Common Equity	0.60	0.81	0.59	1.45
Excess Cash/Rev.	25.7%	97.4%	13.5%	12.9%
Total Cash /Rev.	25.7%	97.4%	12.3%	15.2%
Unlevered Beta	1.56	1.52	0.83	0.95
TEV/REV		3.9x	3.6x	2.5x
TEV/EBITA	0.0x	14.5x	14.7x	13.1x
PE (normalized and diluted EPS)	6.4x	11.0x	23.2x	23.5x
P/BV	1.1x	2.2x	2.0x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	21.7%	22.3%	31.7%
Last Quarter-1	12.5%	0.0%	37.4%
Last Quarter -2	7.9%	0.5%	-8.3%
Last Quarter -3	42.0%	36.0%	53.3%
Last Quarter -4	16.9%	0.0%	25.0%

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	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 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	10.8%
Base Year Unlevered Beta	is equal to 1.52
Long term Unlevered Beta	1.52

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Common Equity	Net Margin	ROE	Ke
LTM	13.2%	37.2%	$476.75	43%	47.7%	11.0%
NTM	13.0%	38.5%	$2,509.42	45%	899.5%	11.1%
NTM+1	12.7%	39.8%	$4,977.22	46%	192.9%	11.2%
NTM+2	12.5%	41.0%	$8,520.41	48%	116.0%	11.3%
NTM+3	12.2%	42.3%	$12,683.29	52%	81.8%	11.4%
NTM+4	12.0%	43.6%	$18,033.12	56%	65.9%	11.5%
NTM+5	11.8%	44.9%	$24,729.49	60%	55.5%	11.6%
NTM+6	11.5%	46.2%	$32,907.52	64%	48.4%	11.7%
NTM+7	11.3%	47.4%	$42,973.02	69%	43.3%	11.8%
NTM+8	11.0%	48.7%	$55,289.20	74%	39.5%	11.9%
Continuing Period	10.8%	50.0%	$61,260.43	30%	10.0%	12.0%

Valuation

Period	Common Equity x (ROE-Ke)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$0.00	$476.75	671.46
NTM	$19,686.11	$0.00	$539.89	671.46
NTM+1	$8,027.20	$0.00	$608.17	671.46
NTM+2	$7,933.18	$0.00	$683.63	671.46
NTM+3	$7,954.71	$0.00	$766.82	671.46
NTM+4	$8,761.28	$0.00	$858.30	671.46
NTM+5	$9,721.19	$0.00	$958.64	671.46
NTM+6	$10,835.28	$0.00	$1,068.43	671.46
NTM+7	$12,164.29	$0.00	$1,188.23	671.46
NTM+8	$13,727.38	$0.00	$1,318.63	671.46
Continuing Value	-$88,441.71			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$43.81	$17.13	$0.00	$43.81
$49.80	$23.80	$0.00	$49.80
$25.67	$30.43	$0.00	$25.67
$19.25	$40.66	$0.00	$19.25
$12.63	$53.15	$0.00	$12.63
$6.29	$68.55	$0.00	$6.29
$0.00	$87.42	$0.00	$0.00
$0.00	$110.21	$0.00	$0.00
$0.00	$137.63	$0.00	$0.00
$0.00	$173.94	$0.00	$0.00

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	**11%**	**N/A**	**3%**	**26%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$43.81	$49.80
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$42.85	$49.05
Current Price	$41.14	
Analysts' median est.		$47.23

Build-A-Bear Workshop, Inc.

BBW: NYSE

Analyst: Mark Papuzza
Sector: Consumer Discretionary

BUY

Price Target: $23.59

Key Statistics as of 4/23/15

Market Price:	$20.14
Industry:	Specialty Retail
Market Cap:	$341.17M
52-Week Range:	$10.07-23.00
Beta:	1.31

Thesis Points:

- Introduction of New Products
- Growing Demand in Toy Industry
- Expansion to New Areas
- Financials – Revenue Growth, EBITDA growth, Free Cash Flow, Zero Debt

Company Description:

Build-A-Bear Workshop, Inc. operates as a specialty retailer of plush animals and related products. It operates in three segments: Retail, International Franchising, and Commercial. The company's merchandise comprises approximately 30 styles of stuffed animals; clothing, shoes, and accessories for the stuffed animals; and other brand related toy and novelty items. It operates stores under the Build-A-Bear Workshop brand name, as well as sells its products through its e-commerce Websites buildabear.com and buildabear.co.uk. Build-A-Bear Workshop, Inc. was founded in 1997 and is headquartered in St. Louis, Missouri.

Thesis

Build-A-Bear Workshop has a highly unique business model, in which customers not only pay for the product but for the experience as well. With the introduction of new products to their product line, the growing demand in the toy industry and expansion into new areas, Build-A-Bear Workshop will continue their consistent revenue growth and EBITDA growth, and continue to generate value for the company and increase the price of the stock.

New Products

Customers who enter a Build-A-Bear Workshop do not just select a product to buy, but enter into a teddy-bear themed environment where they will go through an eight-step process. The process has eight stations that include: Choose Me, Hear Me, Stuff Me, Stitch Me, Fluff Me, Dress Me, Name Me and Take Me Home. Customers complete each process themselves, with the help of associates at the Stuff Me and Stitch Me steps. This creative and innovative process allows customers to have an experience and a memory along with the product they purchase. The core customer that products target are 3-12 year olds, who are responsible for 60% of sales. The company focuses on both bringing customers of this age into the store, and on making sure they have a great experience making the toy. Build-A-Bear keeps all of their products visible to customers, so that they can increase the chance of customers returning for another toy that caught their eye. The company uses a less price-sensitive approach with the 12 year old and older consumer base, who account for 20% of sales. Sales for this age group typically consist of gift-able, affinity and collectible products. Build-A-Bear has recently seen an increase in value of transactions. The company credits this to having the right balance of entry-level priced bears from $10-12, but also having the add-ons and accessories desired by many that can lead to transactions over $60 for one bear.

In order to keep customers returning multiple times, the company must come out with new, attractive products. Since CEO Sharon Price John took over in 2013, the company has been expanding the chain's licensing to include popular movie characters to the product line. Movie characters from "Frozen" and "Teenage Mutant Ninja Turtles" have been highly successful in terms of revenue for the company as of recent. Prior to the release of Marvel's "Avengers: Age of Ultron" movie that will be in theatres May 1st, 2015, Build-A-Bear has just launched a new Hulk Bear into the product line. With the high estimate of people who will be going to see this movie, there are high sales expectations for this Hulk Bear. Perhaps higher expectations should be expected for the series of limited edition collectible Disney Princess bears that were recently launched into the product line. Disney released a newer edition of its original classic movie "Cinderella" on March 13th, 2015, and Build-A-Bear released its limited edition Cinderella Bear with it. The bear is priced at $80, and appeals to both younger girls and the over 12 year old consumer base. The company has also recently released a series of Star Wars Bears. The target market for this series is younger boys, and even boys over 12 years old who collect items from the movie series. Another recent launch that targets both boys and girls of both the younger and older consumer base is a line called "Promise Pets." It differs from the typical, cartoonish animals that the company sells, as it looks more realistic. "Promise Pets" comes with an app that allows the stuffed animal to virtually come to life. It intertwines the real world and virtual world, allowing the customer to play with their pet physically and virtually. Build-A-Bear works to have the right balance of bears that will appeal to both boys and girls of all ages. The company has a powerful license roster, and plans to continue to grow and update the roster, including "minions" from the popular movie "Despicable Me" this summer.

Growing Demand in Toy Industry

The toy industry is forecasted to grow at a CAGR of 4.2% over the next four years. Part of this can be credited to the recent decline in oil prices, which will help the industry in the short run. Build-A-Bear benefitted from the fall in oil prices during their previous quarter, but does not expect it to be as significant in 2015. The real growth opportunity lies in the growing world population. Approximately 250 million families are forecasted to join the middle and upper class within the next four years. With the continuous introduction of new products, Build-A-Bear will come out with creative products that will appeal to children and families all over the world. Build-A-Bear is one of a kind in the toy industry, and will reap the benefits of the growing demand in the industry.

Expansion to New Areas

Currently, Build-A-Bear has approximately 400 operating stores, with 35% of the store locations outside of the United States. Still, the company lacks a presence in key global markets, and has plans to correct this. As previously discussed, the global population is growing fast and Build-A-Bear plans to take advantage of this opportunity. They have recently acquired franchise agreements of its stores in Austria and Switzerland, and restructured the Nordic franchise agreements which included converting the store in Tivoli Gardens into an owned and operated enterprise. Tivoli Gardens is a huge tourist attraction in Northern Europe for both in Denmark and Northern Germany. The company sees this as an extremely successful opportunity, and expects great results from it.

On top of international expansion, one of Build-A-Bear's key strategies for 2015 is to expand into more places in the United States. Since taking over in 2013, John has closed dozens of underperforming stores. Tourist locations, outlet malls and shop-in-shops tend to bring in more revenue than traditional mall stores, so the strategy is to open more stores in these locations. The addition of these stores will continue to increase revenue growth for the company. Along with these new stores will also be a new look. The company will introduce a new store design, aimed to improve productivity and profitability. One of the biggest design changes stores will be making is by moving the "stuffing" machine from the back to the front of the store to increase its visibility. The "stuffing" machine is where customers fill their toys with fluff based on the desired softness they want the toy to possess. This is the most unique aspect of the store, and is a large part of the overall experience at Build-A-Bear. Moving it to the front will allow more people to see the uniqueness of the store, and attract them inside to not only buy a toy, but to create a memory.

Aside from the design of the store itself, Build-A-Bear is also working to redesign their brand design. The current logo and colors reflect the time period when the company began in the 90's. The company feels now is the time to refresh the look to be more relevant to the millennial consumer, and will unveil the new brand design in the second half of 2015. These new marketing ploys combined with expansion into new shopping locations and new countries will help Build-A-Bear to continue their consistent revenue growth.

Financials

Build-A-Bear's fourth quarter financial results posted net sales of $130 million, up 23% from the fourth quarter of the previous year. Same-store sales increase 9.9% from the fourth quarter of the previous year, as well as net income spiking to $11.8 million compared to the previous year quarter net income of $5.45 million. Aside from an extremely successful quarter, the company has shown continual improvement over the past few years. Both revenue growth and EBITDA growth have consistently grown year by year. EBITDA growth has also been outgrowing revenue growth each year, which shows that the company is creating value, and eliminating operating expenses that are eating into their bottom line. EBITDA growth is expected to continue to outgrow revenue in the upcoming years as well. Also noteworthy is that the company has zero debt, and has positive free cash flow. This is important because it allows Build-A-Bear to pursue more opportunities in the toy industry that will help grow shareholders value.

Conclusion

I am recommending a buy on Build-A-Bear Workshop, Inc. because they will continue their strong financial growth as a result of the introduction of new products to their already successful product line, and their expansion into new locations and new countries. In an industry that is growing in demand, Build-A-Bear will increase the value of both their company and share price.

CENTER FOR GLOBAL FINANCIAL STUDIES

Build-A-Bear Workshop Inc.	bbw	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Mark Papuzza	$20.05	$21.78	$23.59	0%	1-y Return: 17.64%	

General Info

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	Feb-11-2015
Next earnings date	5/5/2015

Market Data

Enterprise value	$283.56
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	17.43
Diluted shares outstanding	17.13
% shares held by institutions	99.58%
% shares held by insiders	8.01%
Short interest	11.20%
Days to cover short interest	8.20
52 week high	$23.00
52-week low	$10.07
5y Beta	1.51
6-month volatility	54.18%

Peers

Peers	Market Cap.
Toys "R" Us Inc.	
Jamba, Inc.	$264.80
JAKKS Pacific, Inc.	$132.68
Hasbro Inc.	$8,938.71
Jumbo SA	$1,069.43
Mattel, Inc.	$9,595.35
Imaginarium SA	$16.13
Good Times Restaurants Inc.	$76.55
WonderCorporation	$5,673.96
Harley-Davidson, Inc.	$11,864.36

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	#DIV/0!
Interest Coverage	3.8x
Altman Z	3.82
Debt Rating	AAA
Levered Beta	0.96
WACC (based on market value we	6.69%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2015
John, Sharon	Chief Executive Officer, Chief	$0	$2,677,841	$0
Clark, Maxine	Founder and Director	$1,138,717	$1,370,263	$0
Todorovic, Voin	Chief Financial Officer	$0	$0	$0
Fencl, Eric	Chief Administrative Officer, (	$423,783	$525,804	$0
Collins, Gina	Chief Marketing Officer	$0	$0	$0
Kretchmar, Jennifer	Chief Product Officer	$0	$0	$0

Historical Median Performance

	bbw	Peers	Industry	All U.S. firms
Growth	-0.6%	1.2%	6.4%	7.4%
ROIC	2.1%	8.2%	14.3%	14.3%
NOPLAT Margin	2.6%	7.3%	6.1%	10.4%
Revenue/Invested Capital	0.84	1.12	2.35	1.37
Excess Cash/Rev.	13.5%	13.3%	13.5%	12.9%
Total Cash /Rev.	14.0%	13.3%	12.3%	15.2%
Unlevered Beta	0.67	0.86	1.04	0.95
TEV/REV	0.3x	1.0x	1.6x	2.5x
TEV/EBITA	9.4x	13.2x	11.9x	13.1x
PE (normalized and diluted EF	24.8x	15.3x	23.4x	23.5x
P/BV	1.4x	3.0x	2.8x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	1.1%	-5.2%	15.9%
Last Quarter-1	3.4%	16.0%	114.3%
Last Quarter -2	-5.6%	-26.7%	NM
Last Quarter -3	-0.6%	39.1%	181.8%
Last Quarter -4	1.0%	0.0%	11.1%

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	0.54%
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.	5%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	1.6%
Base Year Unlevered Beta	is equal to 0.86
Long term Unlevered Beta	0.86

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	3.5%	90.2%	$438.73	5%	4.3%	6.7%
NTM	6.7%	90.2%	$466.55	5%	5.0%	5.3%
NTM+1	5.2%	90.1%	$489.70	5%	5.1%	5.3%
NTM+2	4.4%	90.1%	$510.38	5%	5.1%	5.4%
NTM+3	3.5%	90.1%	$527.74	5%	5.1%	5.5%
NTM+4	3.0%	90.1%	$543.25	6%	5.1%	5.6%
NTM+5	2.8%	90.1%	$558.12	6%	5.1%	5.8%
NTM+6	2.2%	90.1%	$570.35	6%	5.1%	5.9%
NTM+7	2.0%	90.0%	$581.77	6%	5.1%	6.0%
NTM+8	1.8%	90.0%	$592.34	6%	5.1%	6.1%
Continuing Period	1.7%	90.0%	$671.30	5%	10.0%	6.2%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	ıer non-interest bearing clai	Shares Outstanding
LTM	$0.00	$0.00	$351.69	17.43
NTM	-$0.93	$0.00	$360.89	17.43
NTM+1	-$1.05	$0.00	$367.14	17.43
NTM+2	-$1.44	$0.00	$370.38	17.43
NTM+3	-$2.02	$0.00	$369.71	17.43
NTM+4	-$2.66	$0.00	$366.64	17.43
NTM+5	-$3.30	$0.00	$354.76	17.43
NTM+6	-$4.13	$0.00	$347.28	17.43
NTM+7	-$4.92	$0.00	$338.32	17.43
NTM+8	-$5.48	$0.00	$327.86	17.43
Continuing Value	$468.51			

Pricing Model

DCF (Weight = 100%)	Relative (Weight =	Distress (Weight :	Weighted Average Price F
$22.17	$1.96	$27.21	$22.17
$23.98	$3.46	$28.86	$23.98
$25.89	$4.74	$30.74	$25.89
$27.99	$6.01	$32.72	$27.99
$30.24	$7.23	$34.78	$30.24
$32.86	$8.45	$36.98	$32.86
$35.64	$10.15	$39.23	$35.64
$38.41	$11.37	$41.08	$38.41
$41.38	$12.61	$42.85	$41.38
$43.57	$13.87	$44.61	$43.57

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	2%	N/A	-1%	7%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$22.17	$23.98
σ(ε)	$0.13	$0.13
σ(ε) adjusted pric	$21.78	$23.59
Current Price	$20.05	
Analysts' median est.		$25.40