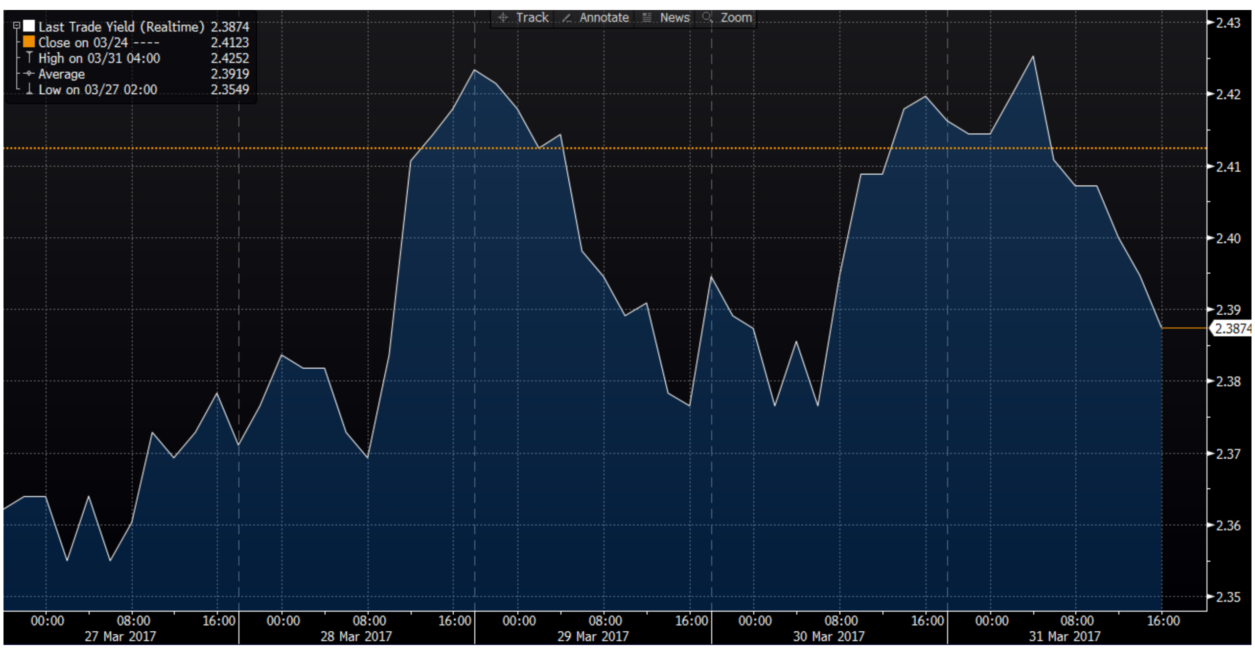
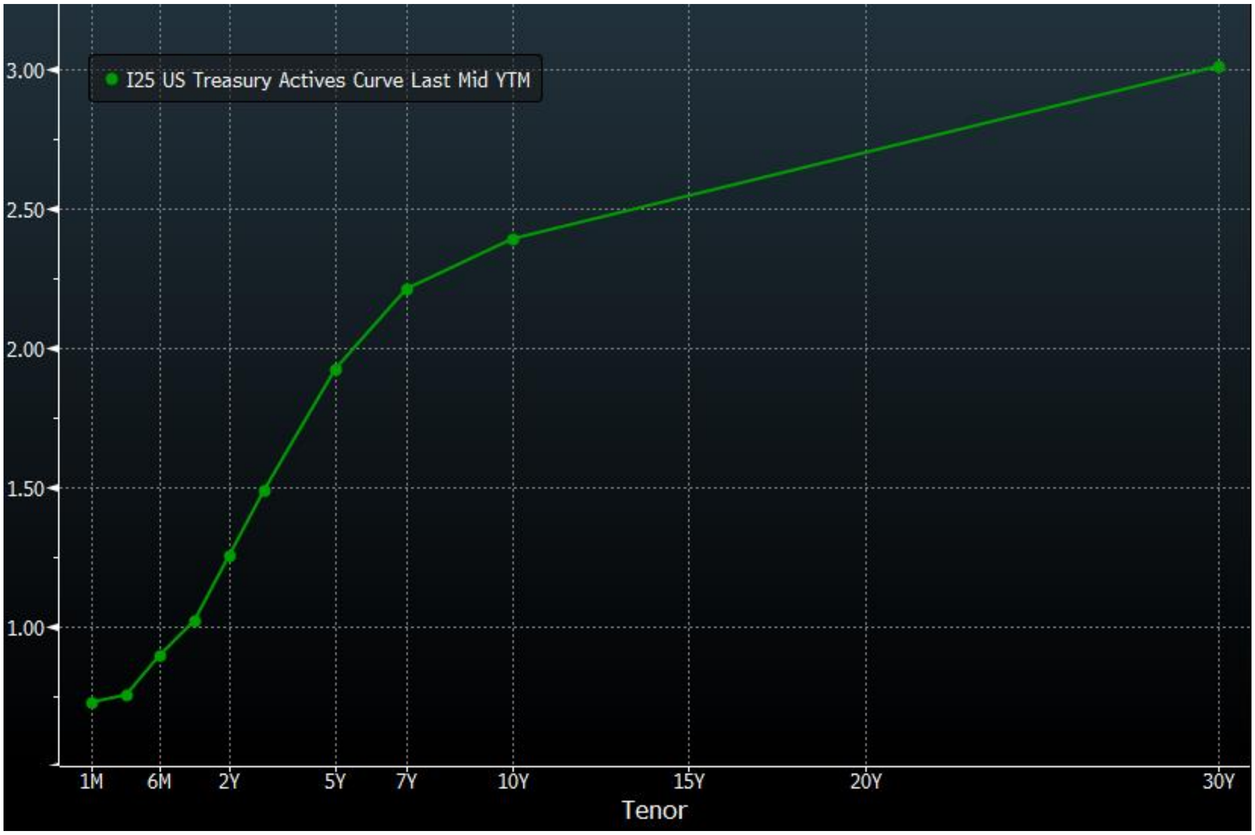
Bond Report

This past week, there was significant volatility in the market from uncertain sentiment of a hawkish fed outlook. On Monday Chicago Fed President Charles Evans mentioned a possibility of a four rate hike year if the economy shows signs of it being necessary, however this remark had little impact on the day's trading. The defeat of the replacement bill for the Affordable Care Act and the sentiment of the Trump administration from that voting ended up having larger impact on Monday. The market finished the day with 10-year notes most notably dropping 3.7 basis points and the 30-year note dropping 2 basis points. Tuesday, news of consumer confidence being the highest in 16 years drove yields up, with news of inflation expectations being raised gave confidence in Monday's remark by Evans and the yields followed. The demand of "safer" investments also drew attraction to investors with uncertainty of the stock markets position throughout the trading day. Wednesday, input from the Fed was speaking of the 4 hike year, but the most influential was Vice Chairman Stanley Fischer's confirmation of only a 3 hike year. Yields fell on average 3.5 basis points, as confidence in the Fed again fell about a hawkish approach for the remainder of the year. On Thursday, yields rose from news of a rise in crude oil barrels pricing over $50 for the highest trading price in weeks. Also, good news about economic conditions including the jobless rate falling to near low in decades helped move yields. Friday's trading brought yields back down from the NY Federal Reserve President, William Dudley, remarks confirming again that the hawkish approach is out of line. The sentiment from the comments is that the economy is fine and tightening isn't currently necessary. Over the week, the 2 year note closed down 2.2 basis points, finishing the weeks yield at 1.258%. The 10 year notes also slipped 2.2 basis points to close the week at 2.396%. Lastly, the 30 year note yield finished the week at 3.02%





What's next and key events

Next week, we can look forward to the weekly Consumer Confidence report on Tuesday to guide overall sentiment in the economy. Overall market sentiment and oil prices have been moving the market, so we need to closely watch the Petroleum Status Report released on Wednesday. On Thursday, GDP estimates are going to be changed or released for the 3rd time for the 4th quarter. Reaction to these estimates could potentially create volatility even though investors have been repeatedly told a hawkish approach is out of reach. That fact hasn't been well received and we should continue to see volatility from this. This week's Jobless claims report will be also important to follow, as it will align with the other events like GDP estimates. Looking forward we need to follow the sentiment of investors, because the uncertainty is creating volatility and moving yields significantly intraday.

Macroeconomic Overview

Domestic

United States	Price		Day	Weekly	Monthly	Yearly
Dow Jones	20665	▼ 62	-0.30 %	0.32%	-2.14%	16.13%
S&P 500	2362	▼ 6	-0.24 %	0.80%	-1.39%	13.99%
NASDAQ 100	5436	▼ 3	-0.06 %	1.35%	0.84%	19.95%
NASDAQ	5912	▼ 3	-0.04 %	1.42%	0.13%	20.29%
Russell 2000	1390	▲ 8	0.55 %	2.31%	-1.96%	24.00%
S&P VIX	12.37	▲ 0.83	0.83%	-0.59%	-0.17%	-0.73%

Many professional and retail investors were expecting a large correction in the major indices after the GOP failed to repeal and replace Obamacare. We did experience a small dip on Monday morning but not what many were expecting and possibly turned out to be a buying opportunity for many bulls. Volatility remains low during this time of extreme political and economic uncertainty and I believe I can provide a brief explanation to why. We all know the proposed corporate tax cut and deregulation will boost bottom line earnings and the infrastructure spending expectations combined will lead to economic expansion. We also know republicans are facing jealous democrats that will disagree with anything that is proposed out of spite and are also facing challenges within their own party. This type of regulatory action will greatly affect markets and that is why we are overwhelmed with political news on a daily basis because we could experience a large move to the upside relatively fast. Yes, there is a downside but how big is it really? Bears will argue that we are heading towards a recession because of our current state in the market cycle which implies a large move downward. We have to ask ourselves realistically if that is the case even though the economy is already posting positive signals such as GDP growth which exceeded expectations of 2% in the 4th quarter. University of Michigan's consumer sentiment signals a growth in confidence from February to 96.9, which is near the 13 year high, even though it missed its excessively high expectations of 97.6. The unemployment rate continues to be stable around 4.7% while those participating in the labor force continues to rise. Now I understand there are better/more indicators that can be used to gauge the market direction but if you look at it from a basic point of view you can see that underlying fundamentals are relatively stable (even slightly positive) and any correction would be a long term buying opportunity because our markets are stable at the least. The great opportunity for the markets are the regulatory actions that may or may not take place and even if they don't happen or the extent that we expect our markets are still strong and, as a long-term investment, still a good opportunity but not the best. Now, if corporate and personal income taxes are reduced to what we were promised or at least what we could realistically expect then corporate profits will dramatically increase. With all of that free cash flow available to companies, investors will have a field day jumping into companies with high effective tax rates and to a lesser extent those not at the highest tax rate. This is an opportunity that professionals do not want to miss and plan to take full advantage of. How are they going to take full advantage of it? My theory is pretty simple; professionals are waiting for retail investors and traders to get scared out of positions which they can then buy at a discount to the current price.

In conclusion, volatility cannot increase because on any downward move there will be buyers for those fleeing scared giving support to the underlying. Once we receive more information regarding the tax plan and when/if it is going to make it through the house and senate we can be more confident in establishing a position. If you are already in a position that allows you to take advantage of this huge upward movement you would want definitive evidence that your theory is incorrect to make you exit the position; right? So, for now I suggest you stay calm and take advantage of others fears because the move will happen fast and you will not want to miss the upside.

March, 31, 2017

Omnicell, Inc.: OMCL

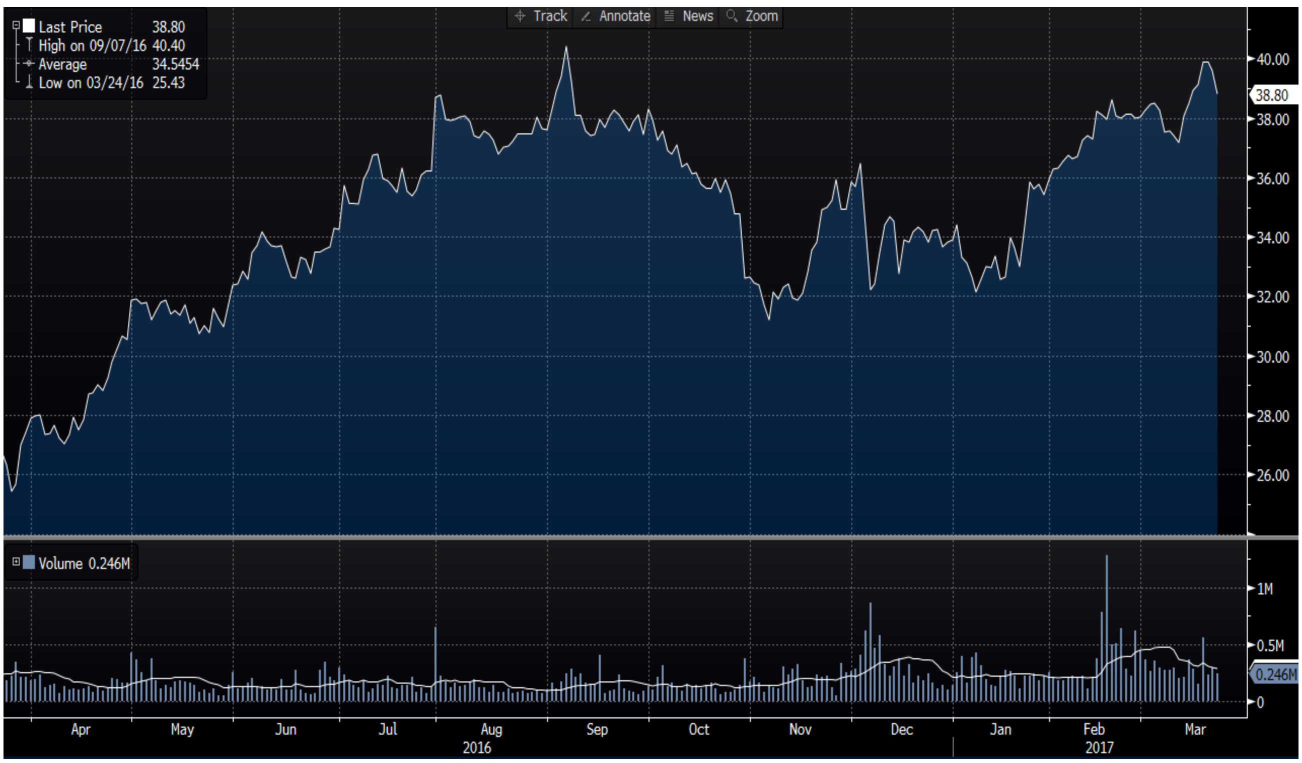
Joseph Carey

Sector: Technology
Industry: Health Care Software
Current Price: $40.65
Target Price: $48.06

Company Description: Omnicell, Inc. provides healthcare facilities with machines and systems to automate tasks such as providing medications to patients as well as making the medicines themselves. Omnicell also makes mobile workstations that dispense medications in correct dosage and timing to best serve the patient and take the burden off of nurses. Parts of their services include inventory management, medication adherence, decision support, and remote servicing capabilities.

Long

Current Price:	$40.65
Target Price:	$48.06
Market Cap:	1.43B
Average Volume:	246,000
D/E Ratio:	0.59
ROIC:	7.4%
EBITA Margin:	9.1%



Thesis: This upcoming year Omnicell will lower their operating costs and thus increasing margins. This is based on their recent acquisitions and integration of these models and systems into their product line. The continual backlog growth and XT product line will increase revenues this upcoming year as well. EBITA margin will increase and ROIC will increase, creating significant value for Omnicell. I would suggest buying this stock based on its vertical integration strategy that will lower costs, thus growing and creating value in the long run.

Catalysts::

- **Short Term (within the year):** Production Ramp up of XT series
- **Mid Term (1-2 years):** Implementation of XT series with Backlog sales continual increase, as well as further operating cost decreases
- **Long Term (3+):** Further M&A activity to promote revenue growth and market expansion

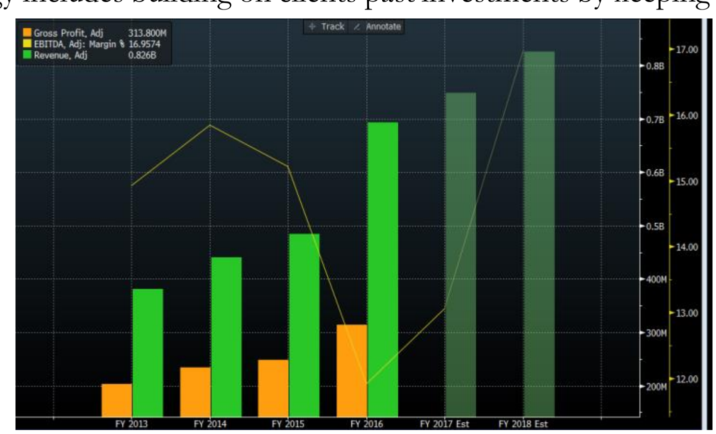
Product Descriptions:

Omnicell offers a complete product line to hospitals and other medical facilities that ranges from physically producing medication to packaging and dispensing patient specific medications. The IV solutions offered include both non-hazardous and hazardous compounding that is safer, more cost effective and quicker than

manual compounding. In this product market, Omnicell offers the cheapest ones out of the industry, allowing customer base to get access to this technology as cost effectively as possible. They also have a complete pharmacy replacement system that makes inventory management, medication preparation, and security much more fluent and efficient. Their medical dispensing systems have recently been upgraded to their new XT enterprise systems. This system makes the nurses job much easier, eliminating the guess work of medication adherence as well as eliminating the need for narcotic counts because of single dose dispensing. These unique products fill a special gap that patients need from hospitals and in home. On average 11% of hospital admissions with an annual cost of $105 Billion, comes from medication non-adherence. In the hospital setting, medication errors kill at least one person a day, and injuries 1.3 million people annually. These products fill that need and reduce errors by at least 50%, and this is just the beginning. As Omnicell grows and systems get stronger, the elimination of errors is soon to come and that is their sole mission.

Growth Strategy:

Omnicell, Inc. has a vertical integration strategy in place to develop a complete system, unlike any of its competitors. By combining all aspects together under a single system, health care facilities can reduce costs and improve efficiency. Omnicell is the only company to offer a complete system beginning with making medications to dispensing it, with different operations that can adapt to meet customers needs whether it be a hospital or in-home care. Part of their growth strategy includes building on clients past investments by keeping prior systems and slowly shifting to the new intuitively without total systems and product replacement, which reduces training time and improves smooth integration when new products are introduced. This process helps Omnicell be so successful with their systems integration and really helps in backlog numbers. Backlogs are revenue that is soon to be recognized from prospect clients that have shown a level of interest to consider them to be future clients in the near term. Their backlog also includes booked sales. The growth in client interest



has grown substantially in the past years. In 2015 they had backlog of $205 million and by the end of 2016, that backlog grew to $301 million. That 47% growth would have a substantial impact on revenue if only a small portion of the prospects become customers. In 2016, the conversion rate for these backlogs was 30%, so if that number is similarly replicated then we can see large growth from Omnicell. One key metric that must be mentioned and will create opportunity for Omnicell, is lower operating costs through their acquisitions by bringing a complete product to their customers. They are also condensing 2 offices, which will be totally shut down by the end of 2017. On top of expanding their product line and cognitive ability as a system, the operating cost reduction will boost profitability and allow further growth and expansion in future years.

2016 Acquisitions:

Omnicell has recently bought two companies that provide similar products, but will work in better conjunction in house for Omnicell. Their strategy, as mentioned above is to implement systems that cognitively work together with medical facilities has grown to include IV compounding, inventory management, pharmaceutical processing, and medication dispensing. In January, they acquired Aesynt, which is a leader in pharmaceutical automation and IV compounding solutions. Prior to the acquisition, Omnicell had no market exposure in this area, so the acquisition allowed expansion of their product line but more importantly, a major puzzle piece in their complete systems. They $275 million for this acquisition, with $75 million coming from cash reserves. The second acquisition came in the 4th quarter of 2016, closing the deal at the end of December with Ateb.

Ateb offers a patient-pharamacy relationship that includes medication synchronization to develop appointment based pharmacy visits and consultation. The idea behind this is to improve their newly developed relationship with Aesynt, but to help with patient medical adherence outside the health facilities. Ateb's products included systems that interactively help medication timing and blister packing, which is medications that are packaged together if they need to be taken together. Ateb was acquired using mostly cash for a total of $41 million. Through last years acquisitions, Omnicell has grown to offer the complete system that will help patients from the hospital to home with more accurate and easier medication process.

Profitability Margins:

Omnicell is on track to experience substantial revenue growth from client acquisition and product line diversity. Their LTM financial data is significantly skewed from multiple acquisitions in 2016, which has historically been shown to happen in the same manner in years prior. Last year they acquired two companies, one in the beginning of January and the other in the end of December. These acquisitions severely affected last year's financials so I believe we must look past it, and value the growth that is to come moving forward.
The EBITA margins trend upwards on years after acquisitions at a rate between 1 to 2%. While not significant, the growth in margin constitutes a lower cost model approach to be accepted because acquisition history showcases this trend, therefore we should use this modeling when valuing Omnicell. The company has been rapidly increasing revenue year after year, with an average of 18.7% historical growth, yet they were able to grow revenue by 42% last year. Estimates suggest 8-12% growth in 2017, but I believe this is low with their

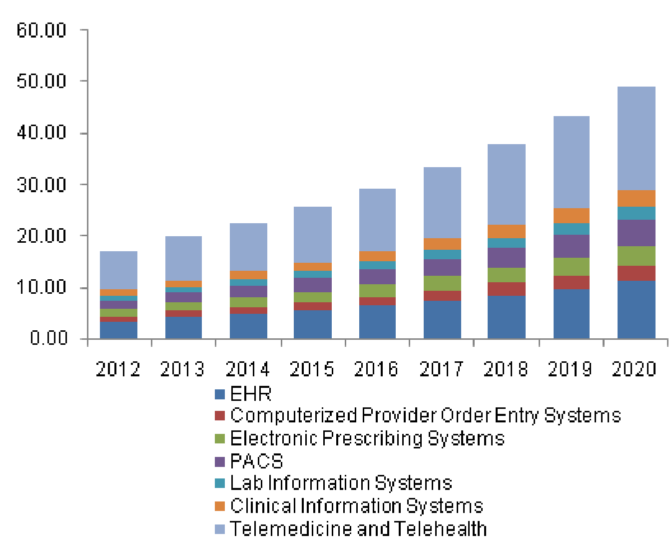
product scaling, backlog growth and plans to enter 3 new markets. Their margins getting larger will bring this company to the top of their competitors, because as of now they are averaging out to be in line with industry averages. Their EBITDA Growth last year was roughly 12%, which is on par with the industry, even though

Name (BICS Best Fit)	Ticker	Mkt Cap (USD)	EBITDA Gr Adj YoY:Y	EBITDA Mgn 3Yr Avg	OPM:Y	NI Mrgn Adj:Y
Median		2.18B	12.56%	14.25%	4.25%	3.09%
100) OMNICELL INC	OMCL US	1.49B	11.97%	14.33%	3.49%	2.35%
101) EVOLENT HEALTH INC - A	EVH US	1.44B	-53.82%	-30.49%	-22.93%	5.75%
102) QUALITY SYSTEMS INC	QSII US	947.80M	9.72%	16.33%	10.02%	6.72%
103) ALLSCRIPTS HEALTHCARE...	MDRX US	2.29B	13.16%	14.47%	4.78%	-1.00%
104) ATHENAHEALTH INC	ATHN US	4.43B	51.71%	14.18%	3.72%	2.68%
105) CERNER CORP	CERN US	19.49B	7.46%	31.20%	20.26%	14.15%
106) HUBSPOT INC	HUBS US	2.08B	14.43%	-23.63%	-16.48%	-16.81%
107) ENVESTNET INC	ENV US	1.37B	-0.34%	11.94%	-1.06%	-7.58%
108) CLONE ALGO TECHNOLOGI...	CATI US	--	--	--	--	--

significant SG&A expenses were incurred from expansion. Omnicell expanded their SG&A accounts for new market experts. The expense will be justified as they enter more of their target markets like India, Europe and South America and revenue growth follows. The EBITDA margin has beat the industry average in the last three years at 14.33%. Again, this is without reaping the benefits from their most recent acquisitions that are geared towards long term growth and significant operating costs reduction. When these cognitive pieces start to fluently work together, they will be the front runner of their competition, and others will be in a race to try and match their results. Another note is that Omnicell is historically a debt free company, but in 2016 they took on $245 million of low interest variable debt. This obviously impacts their net income margin, but they don't have long term plans to continue to use debt because historically they expand using strictly cash.

Industry Outlook:

Omnicell is classified under the Information Technology sector, however they are strictly tied to the Health Care industry with their product line and services. The forward outlook for 2017 and years after is rather still uncertain at this point. The Trump administration, as of last week, failed to get the Affordable Care Act replaced with his team's proposal. This was a rather big blow to the market, but a bit settling for the Health Care industry as it can continue to move forward with no immediate change in policy. Omnicell uses the reform to their advantage though, because patient needs and hospital standards always rise with reform separate from the actual coverage that is usually mostly addressed by new administrations. With the reform comes higher costs for our medical facilities in the form of increased regulation and higher staffing needs. Omnicell's units can work proficiently within the standards as well as aiding staff, reducing costs and helping precision in hospitals. I believe looking forward, regardless of administration health care reform, that the Health Care industry will continue to expand. Forecasts on average expect a CAGR of 15.9% until 2021. This is because of increasing medical ailments that require more attention or are never seen before which will need new technology to address, as well as the constant



demand from hospitals to improve from regulatory authority that requires them to look for external help to increase precision as cost effectively as possible. At the absolute worst, we can only see this industry stall in my opinion. General consensus in the market is overall uncertainty, but investors do prospect growth with a trend throughout the industry. In the graph, I believe it is worth mentioning that Omnicell has large market share in the Clinical IS, Electronic Prescribing Systems, Lab IS and systems that work in line with EHR, so they are going to capture significant growth moving forward.

Ownership Summary:

Omnicell is predominately controlled by Investment Advisors at major firms like BlackRock. This stock is not heavily followed by the market as can be told by average volume, but that is all the reason to buy now. This company is taking all the right steps to increase market share and become the leading company in the industry. Corporate insider trading has not been significant to mention any activity other than few individuals converting

Compare Current Stats Against 02/26/17

Ownership Type	02/26/17	Curr	Change
11) Investment Advisor	90.05	89.36	-0.69
12) Individual	2.84	3.09	+0.25
13) Pension Fund	2.16	2.41	+0.25
14) Insurance Company	1.43	1.55	+0.12
15) Hedge Fund Manager	1.38	1.32	-0.06
16) Sovereign Wealth Fund	0.80	0.80	0.00
17) Bank	0.72	0.80	+0.08
18) Government	0.37	0.41	+0.04
19) Brokerage	0.16	0.18	+0.02
20) Endowment	0.06	0.07	+0.01
21) Other	0.00	0.00	0.00

options in November. The analysts that do follow the stock all have buy ratings with target prices ranging from $45 to $55 dollars by the end of 2017. The performance historically and management decisions has helped gain a positive sentiment on the stock appreciation potential. Like mentioned before, before this stock blows up, it is a great value well not heavily followed. This industry is in need of a company like Omnicell, and looking forward they will fill that need.

Conclusion:

Omnicell is currently a good investment to make. They have growth potential that will surpass the industry expectations of 16% CAGR, because they have the proprietary complete system, that is being showcased all over the world and integrated into hospitals daily. The potential upside of the company significantly overweighs any downside risk there is. The revenue growth, even if it matches expectations, will create significant value creation from significantly reduced operating costs. I believe estimates are low and that their first quarter earnings will surprise the market. As the year progresses, the implementation of the XT systems from backlog sales and new market entry, they will expand much faster than expected and their complete system will uniquely make them preferred over their competitors. This industry is becoming heavily regulated and medication errors are the cause of billions of wasted dollars. Omnicell is addressing that issue seriously and taking the correct steps to intuitively help medical staff with their jobs and boost hospitals reputations. Omnicell will lower their operating costs and grow significantly in the next few years, and with that the stock price will appreciate so now is the time to buy.

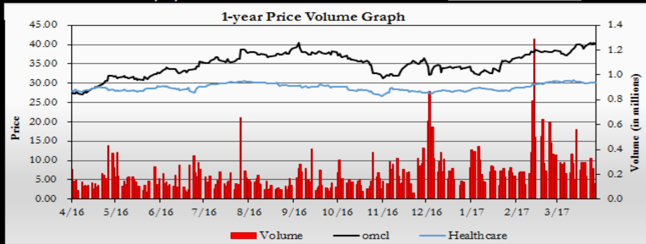
Omnicell, Inc. (omcl)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Joseph Carey	Current Price:	$40.65	Intrinsic Value	$39.10	Target 1 year Return: 18.24%
4/2/2017	Divident Yield:	0.0%	Target Price	$48.06	Probability of Price Increase: 86.6%

1-year Price Volume Graph



Description

Omnicell, Inc. provides automation and business analytics software solutions for medication and supply management in healthcare worldwide.

General Information

Sector	Healthcare
Industry	Health Care Technology
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.85%
Effective Tax rate	38%
Effective Operating Tax rate	15%

Market Data

Market Capitalization	$1,502.16
Daily volume (mil)	0.22
Shares outstanding (mil)	36.95
Diluted shares outstanding (mil)	36.86
% shares held by institutions	98%
% shares held by investments Managers	88%
% shares held by hedge funds	2%
% shares held by insiders	3.37%
Short interest	10.78%
Days to cover short interest	13.24
52 week high	$41.15
52-week low	$26.46
Levered Beta	0.00
Volatility	27.35%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	1.06%	-38.48%
3/31/2016	1.20%	-19.08%
6/30/2016	0.16%	-31.98%
9/30/2016	-3.37%	-35.86%
12/31/2016	-7.91%	-81.68%
Mean	-1.77%	-41.42%
Standard error	1.7%	10.6%

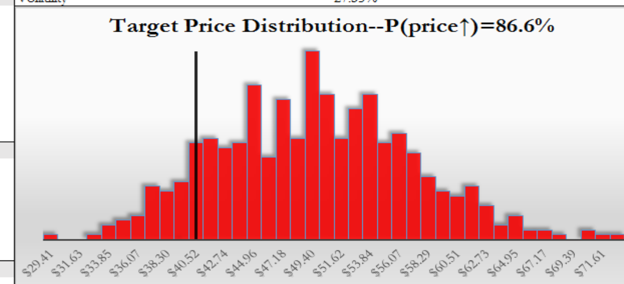
Peers

Quality Systems, Inc.
athenahealth, Inc.
Allscripts Healthcare Solutions, Inc.
Computer Programs and Systems, Inc.
Vocera Communications, Inc.
Medidata Solutions, Inc.
Cerner Corporation
HealthStream, Inc.

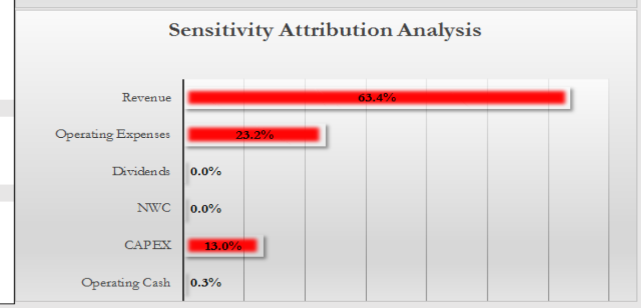
Management	Position	Total compensations growth	Total return to shareholders
Lipps, Randall	Founder, Executive Chairman,	11.87% per annum over 5y	3.27% per annum over 5y
Kuipers, Peter	Chief Financial Officer and	N/M	0% per annum over 0y
Johnston, Daniel	Chief Legal & Administrative	6.35% per annum over 5y	3.27% per annum over 5y
Ngo, Nhat	Executive Vice President of	7.13% per annum over 5y	3.27% per annum over 5y
Drew, J.	President of North American	13.71% per annum over 5y	3.27% per annum over 5y
Seim, Robin	President of Global Automati	13.25% per annum over 5y	3.27% per annum over 5y

Profitability	omcl (LTM)	omcl (5 years historical average)	Industry (LTM)
ROIC	22.9%	43.69%	13.15%
NOPAT Margin	19%	17.48%	14.1%
Revenue/Invested Capital	1.20	2.50	0.93
ROE	21.1%	22.27%	13.50%
Adjusted net margin	18%	17.21%	13.8%
Revenue/Adjusted Book Value	1.17	1.29	0.98
Invested Funds	**omcl (LTM)**	**omcl (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	5.2%	13.4%	8%
Estimated Operating Cash/Total Capital	2.7%	2.9%	N/A
Non-cash working Capital/Total Capital	8.5%	8.2%	10%
Invested Capital/Total Capital	97.4%	89.5%	90%
Capital Structure	**omcl (LTM)**	**omcl (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.25	0.04	0.03
Cost of Existing Debt	9.62%	9.08%	1.32%
Estimated Cost of new Borrowing	3.63%	4.43%	1.32%
CGFS Risk Rating	BB	CCC	CC
Unlevered Beta (LTM)	0.00		0.94
WACC	16.04%	15.51%	10.34%

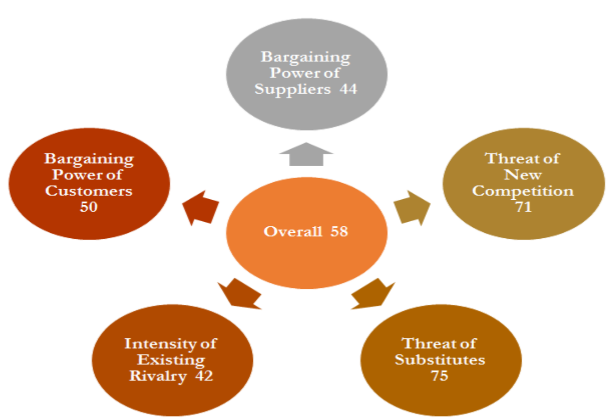
Target Price Distribution--P(price↑)=86.6%



Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	42.9%	19.0%	1.43
12/31/2017	6.9%	5.8%	0.31
12/31/2018	8.4%	8.0%	0.46
12/31/2019	10.0%	10.8%	0.69
12/31/2020	10.5%	11.6%	0.83
12/31/2021	11.0%	12.4%	1.00
12/31/2022	11.5%	13.3%	1.21
12/31/2023	9.1%	14.0%	1.41
12/31/2024	5.0%	14.5%	1.55
12/31/2025	3.0%	14.9%	1.67
12/31/2026	2.0%	15.2%	1.81
Continuing Period	4.0%	15.9%	2.06

Period	Invested Capital	Net Claims	Price per share
Base Year	$129.64	$340.29	$37.82
12/31/2017	$362.74	$245.50	$46.31
12/31/2018	$423.29	$132.38	$55.61
12/31/2019	$489.68	-$20.88	$65.45
12/31/2020	$576.19	-$186.62	$75.72
12/31/2021	$1,013.36	-$369.94	$86.40
12/31/2022	$1,033.61	-$576.75	$97.51
12/31/2023	$1,065.21	-$806.81	$108.91
12/31/2024	$1,087.04	-$1,093.74	$121.26
12/31/2025	$1,114.10	-$1,363.85	$132.44
12/31/2026	$1,145.34	-$1,643.45	$143.34
Continuing Period			

March 31, 2017

Cantel Medical Corp: CMD (Long)

John Garrity

Sector: Industrials
Industry: Medical Devices
Current Price: $79.87
Target Price: $85.00

Company Description:

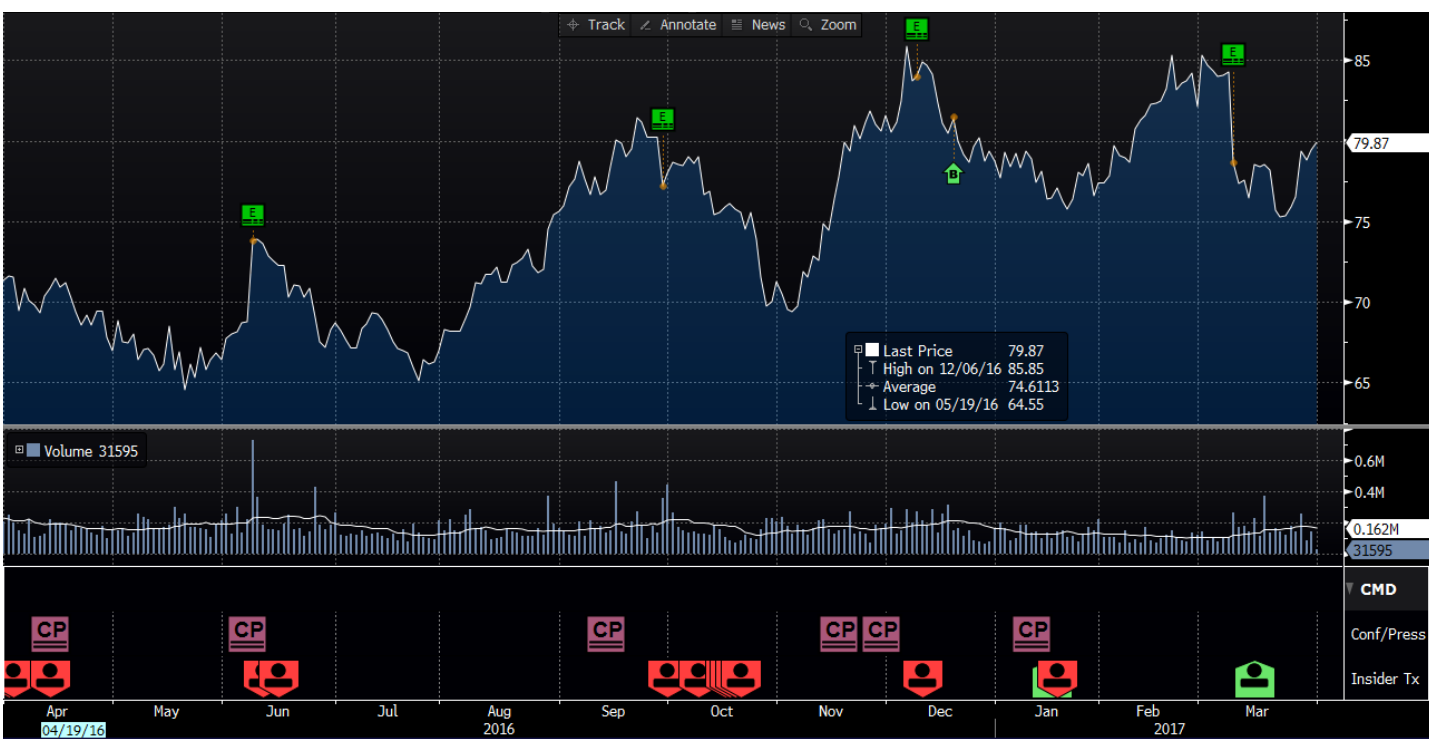
Cantel Medical Corp is a provider of infection prevention products and services in the healthcare market for patients, caregivers, and other health care providers. The company specializes in the Endoscopy, Water Purification/Filtration. Healthcare Disposables, and Dialysis segments. Cantel Medical provides medical device reprocessing systems, disinfectants, detergents, and other supplies in the Endoscopy segment. The Water Purification/Filtration segment includes water purification products and services, filtration and separation products, and decontamination products and services. The Healthcare Disposables segment includes single-use, infection prevention healthcare products. The Dialysis segment for Cantel Medical includes medical device reprocessing systems, sterilants/disinfectants, dialysate concentrates, and other supplies for renal dialysis. Cantel Medical also provides technical maintenance services, image and analysis hardware and software, and remote visual inspection devices. Cantel Medical employs an active acquisition strategy.

Key Statistics:

Market Price:	$79.87	ROE:	14.75%
Market Cap:	$3.33B	Net Income Margin:	13.17%
WACC:	8.98%	P/E:	46.51x
ROIC:	11.66%	Short Interest	2.8%
EBITDA Margin:	18.32%	Short Interest:	6.5x
Ke:	9.29%		

Catalysts:

> Focus on single use products
> Transition from manual to automatic reprocessing in emerging markets
> Heat based disinfecting technology
> Higher compliance standards
> Product development
> Integrate, leverage, and grow acquired businesses



Thesis:

Cantel Medical has gradually increased its exposure to the Endoscope Reprocessing segment, which now makes up slightly more than half of Cantel Medical's business. A key factor of the growth in the medical device industry can be attributed to endoscopy. Endoscopy is a nonsurgical procedure that examines a person's digestive tract. The demand for such products has increased in the past few years due to the minimal invasive procedure and its uses for treatment and diagnosis purposes. This demand not only reaches the aging population in the United States, but growing economies such as Brazil, Russia, India, and China as well due to an increasing middle class population with increased wealth. New product development is key to their business strategy, as half of their organic growth is determinant on these sales between 2015 and 2021. Another key driver for Cantel Medical is establish themselves outside the US. Domestic sales have been around 78.5 percent past two years, compared to 83.4 percent between 2013 & 2014. The fastest growing segment to Cantel, according to Bloomberg, is Europe/Africa/Middle East, with sales growing at 11 percent in 2015 and 13.3 percent in 2016. . The management team has been able to successfully acquire other businesses and mold them into their strategies in the past, and can anticipate this as being a big part of the company's growth. Management's goal is to double sales between 2016 and 2021, with international sales growing at almost double the rate of domestic sales. Today, physicians regard endoscopy as the primary method of diagnosis and treatment, trumping imaging scans. Cantel Medical has been able to grow at least 10 percent growth in 11 of their past 13 quarters, and are the self-proclaimed leading pure-play in the global infection prevention market.

Industry Outlook:

There are many different segments that make up the Medical Devices Industry, but Cantel focuses on Endoscopy, Water Purification/Filtration, and Healthcare disposables. Endoscopy is estimated at a 4.5 billion dollar market, and Cantel Medical saw revenues of 364 million in 2016. There are more than 80 million endoscopic procedures worldwide, and are growing at an estimated 7 percent CAGR. Colorectal cancer is the third most common cancer and the fourth leading cause of cancer deaths globally, and is an example of a common procedure that uses endoscopic procedures. Cantel medical is only pure play infection prevention provider in this market due to their full-circle product solutions for infections and 3 new AER platforms. Drivers in this market are the increasing use of single use-products and the transition from manual reprocessing to automated, specifically in emerging markets. The Water Purification/Filtration market is worth a billion dollars, and Cantel Medical owns slightly more than 18 percent of that market, and has been growing at around 5 percent per year. End Stage Renal Disease, or kidney failure, effects 3.6 people world-wide and grows at 3-4 percent annually. Unfortunately, a majority of ESRD clinics in the US still use old technology. Today the standard technology for ESRD treatment and prevent use heat-based water disinfection technology, while opportunities are being

In Millions of USD except Per Share	FY 2015		FY 2016	
12 Months Ending	07/31/2015		07/31/2016	
Revenue	565.0	100.0%	664.8	100.0%
Endoscope Reprocessing	248.7	44.0%	341.8	51.4%
Water Purification and Filtration	173.8	30.8%	177.7	26.7%
Healthcare Disposables (Dental)	106.9	18.9%	112.6	16.9%
Dialysis	31.2	5.5%	32.8	4.9%
Other	4.4	0.8%	0.0	
Operating Income	99.2	100.0%	97.3	100.0%
Endoscope Reprocessing	40.9	41.2%	61.0	49.2%
Water Purification and Filtration	30.6	30.8%	30.6	24.7%
Healthcare Disposables (Dental)	19.9	20.1%	24.5	19.7%
Dialysis	6.7	6.8%	7.9	6.4%
Other	1.1	1.1%	0.0	
General Corporate	–		-26.8	

explored in filtration and chemical sterilants. Water Purification/Filtration products provide doctors, caretakers, and patients the ability to cope with the disease, and Cantel is the leader in Hemodialysis water treatment that provides US-based service centers that are available 24/7/365. Another billion dollar business is Healthcare Disposables, which experiences an annual growth of just under 3 percent. Products and services in this market are generally sold to dental practitioners, of which Cantel sold 122 million dollars to this segment in 2016. The single largest market is the United States for dental infection prevention products. The aging US population will only drive up the patient volumes. Cantel is a leading branded player in this dental infection prevention as well as education and training amongst the dental community, and are expanding their high margin, Circle of Protection products.

Products:

As of August 31, 2016, Cantel holds 55 US patents and 167 foreign patents, with 38 pending in the US, and 82 pending in foreign countries. These patents includes total of 1,941 trademark registrations in the US and other countries:

Medivators- this product portfolio for Cantel offers capital equipment, chemistries, consumables, and services used to pre-clean, leak test, clean, disinfect, store, and electronically track flexible endoscopes from the removal of one patient to the next patient. The flagship product in this product portfolio are automated endoscope reprocessors (AERs) and high-level disinfectant chemistries. The top selling Medivators AERs are Advantage Plus systems, which are single use systems designed to clean the endoscopes. In June and November of 2016, Cantel acquired Puricore International and International Medical Service, respectively. These acquisitions have helped Cantel gain a presence in the international markets. Other products in this market segment are RAPICIDE and ADASPOR disinfectants, leak detection devices, detergents and wipes, ENDODRY storage and drying cabinets, and ENDORA tracking systems. A new product Cantel intends to launch is AmplifEYE, which improves a physician's ability to examine colonoscopy.

Gambro- this product line includes systems that utilize either chemical or heat disinfection to sanitize equipment. These water purification systems are designed to produce biologically pure water designed for use in healthcare, life sciences, food and beverage and commercial industrial markets. Cantel has significant expertise in the water purification process, including designing systems capable of delivering water for hemodialysis to meet government standards.

FIBERFLO- Fiberflo filters remove impurities such as bacteria and other contaminants in medical environments to provide protection for the patient. Fiberflo filters are used in a variety of industries such as pharmaceutical manufacturing, food and beverage processing, cosmetic manufacturing, and electronic manufacturing.

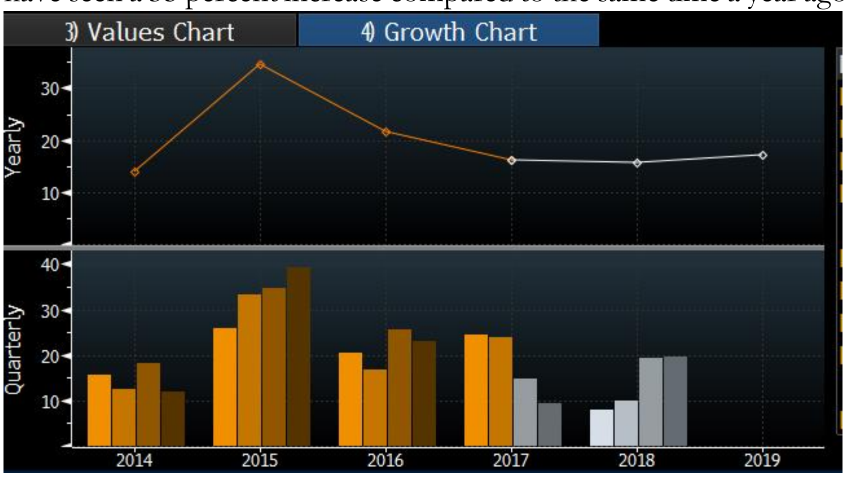
Healthcare Disposables- Cantel is the leading manufacturer of single-use, infection prevention products including face masks, sterilization pouches, biological monitoring systems, towels/bibs, tray covers, germicidal wipes, surface barriers, hand care products, needles, and syringes. Cantel has recently been able to fill orders for US- manufactured masks, disinfectants, and other products to China and the Far East, mostly due to Middle East Respiratory Syndrome.

Dialysis Reprocessing Products- Cantel designs, manufactures, and sells reprocessing systems and sterilants for dialyzers, as well as other supplies needed for renal dialysis. This is one of the markets where Cantel is not the leader, as they make reusable dialysis equipment, but the market is slowly shifting to single use dialysis equipment. This explains why it is a decreasing part of their business

Revenue:

YTD '16 Revenue	$153.1	$88.0	$53.4	$17.6	$312.1
Organic	21.3%	10.6%	7.5%	-14.9%	13.9%
M&A	3.7%	0.0%	27.5%	0.0%	6.5%
FX	-2.1%	0.0%	0.0%	-0.1%	-1.0%
YTD '17 Revenue	$188.2	$97.3	$72.1	$15.0	$372.5
Total Growth	22.9%	10.6%	35.0%	-15.0%	19.4%

Roughly 72 percent of Cantel's revenue came from organic growth, and 5.8 percent coming from acquisitions. As of the second quarter of 2017, their organic revenue growth hit double digits in 12 of the past 14 quarters. Net income has been growing at a rate just below 10 percent for the last few years. Most of this profitability has come through the Endoscopy segment, which posted double digit organic growth for its 15th consecutive quarter due to strong global demand for chemistry and procedural products. The Endoscopy segment experienced a 2.2% increase in gross margins, and 4.1% increase in the gross margin for Healthcare Disposables. Gross margins increased due to improving efficiency by increasing the R&D expense by almost 10 percent from 2016, as well as selling higher margin products. Cantel can expect more revenue from Water Purification & Filtration, as sales are up 36% in that segment, due to the acquisition of Accutron. Healthcare Disposables have seen a 35 percent increase compared to the same time a year ago. Sales increased 17.7 percent, with organic



sales increasing 12.7 percent in 2016, while net income increased 25% under the GAAP rules. Cantel Medical's EPS has consistently beat out analysists estimates, and has grown every year including 25.2 percent over the past year to $1.44. The chart to the right shows that ESP growth is expected to be around 16 percent through 2019.However, some of these factors were offset by an increase in the interest expense due to the acquisitions, the impact of atypical items like the retirement package for the CEO, and the strategic expansion into new markets in the Endoscopy, Healthcare Disposables, and Water Purification/Filtration segments.

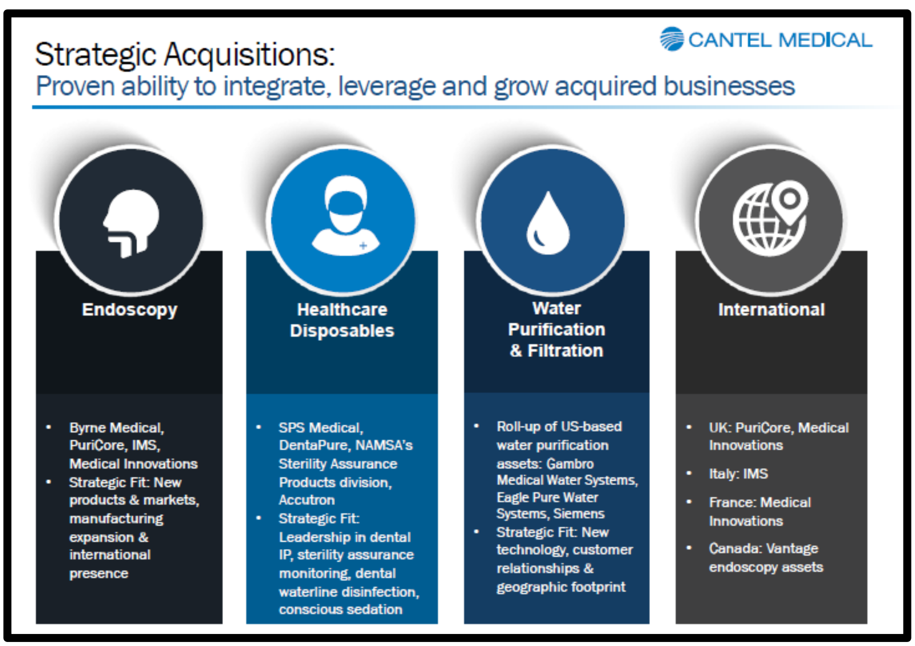
Competitors:

The markets for the products Cantel Medical makes is highly competitive, and the long term position in their segments depends on success in product design, quality, safety, ease of use service, and cost. Cantel acknowledges that many of their competitors are much larger than they are, and with greater resources. But Cantel believes that their innovation and reputation for providing quality product service gives them a competitive advantage. In the Endoscopy market, Cantel Medical competes with Steris, Olympus, and a division of Johnson and Johnson called ASP, and Metrex, among others. In the United States, Cantel holds a significant advantage over competitors through acquisitions of both large and small companies. Cantel is attempting to bundle their products with kidney dialysis machine suppliers to gain a competitive advantage outside the US.

The Healthcare Disposables market includes a wide range of products, and no company competes with Cantel over all their products, but the main competitors are Steris, Amcor, and 3M, among others. Cantel's successful Crosstex brand has proven to be a long-standing trusted product by dental and medical professionals around the world. Overall, Cantel is not the largest company competing in their markets, but for years they have been trusted around the world for their careful and efficient practices.

Acquisitions:

Acquiring existing companies is a large part of Cantel Medical's business. The largest, recent acquisition was the purchase of Medical Innovations group for 79.5 million dollars. Medical Innovations provided Cantel with more resources needed to better compete in with endoscopy prevention products. In early 2016, Cantel Medical bought Sterility Assurance Monitoring Products division of North American Science Associates for 13.5 million. SAMP manufactured monitor sterilization effectiveness for industrial markets, which helped them improve the Healthcare Disposables segment. Also in 2016, Cantel bought certain assets from Vantage, including its Medivators product line, which is one of the largest foreign endoscopic products as well as the acquisition of Accutron, which makes sedation equipment and single use nasal masks for dental procedures. Accutron cost Cantel 52.5 million and funded partly through debt, but has created opportunities to further broaden the brand. Between Vantage and Accutron, Cantel borrowed 61 million in July of 2016, but results have not been reported in 2016 fiscal year. Other companies acquired in recent years that have improved product lines and innovation are Sterilator Company, Jet Prep, PuriCore International, and Pure Water Solutions. In the upcoming years, Cantel will be able to fully integrate all of their acquisitions into their business plan, which will provide significant growth across the globe.



Other:

Cantel Medical have been actively acquiring companies, and have spent over 166 million on acquisition on the past two fiscal years on the Cash Flow statement. Cantel has also spent 59 million in the past two years for repayment of debt. Aside from these expenses, Cantel has increased cash the past two years, thanks largely to the rapid growth in net income. The growth can be better displayed by showing the growth in key margins such as net income margin and gross margin in the recent years. With the increase in long term debt, Cantel Medical has seen a significant increase in short interest. Since September of 2016, short interest has increased from 2.2 to 6.5. This can be seen as an opportunity for bullish Cantel investors because it means it would take longer for those who are short to buy back their shares. A short squeeze could work in bullish investors favor, as Cantel keeps rising with higher short interest, demand increases, as supply for Cantel stock decreases, driving the price higher.

Conclusion:

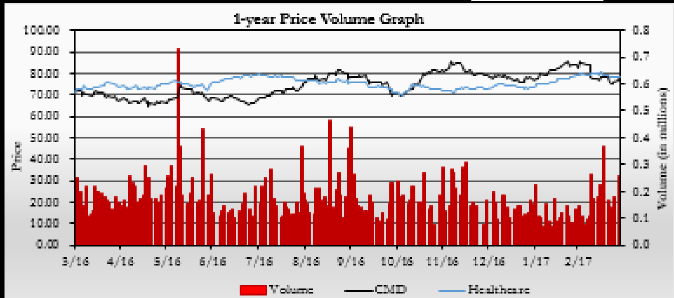
Cantel Medical is not one of the largest companies where they operate, but they are well trusted by their customers and suppliers. Cantel has a broad offering of products, and is continuing to increase in number and in quality through their active acquisition strategy. They have a stable brand in the United States and Canada, producing healthy sales, but the entrance into foreign markets can really spur growth. Cantel is a leader in infection prevention and cleanliness, and the recent entrance into new markets in the Middle East, China and Europe will further increase sales and margins. One of the biggest factors in Cantel Medical's growth will be the development of new products and the acceptance of new products in their respective markets. Cantel is a leader in quality with high standards, which will prove helpful when dealing with the larger competitors.

SIENA college

BJORKLUND FUND

Cantel Medical Corp. (CMD) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by John Garrity	Current Price:	$79.77	Intrinsic Value	$281.24	Target 1 year Return: 271.09%
4/1/2017	Divident Yield:	0.3%	Target Price	$295.74	Probability of Price Increase: 100%



Description

Cantel Medical Corp. provides infection prevention products and services for patients, caregivers, and other healthcare providers worldwide.

General Information

Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	November 3, 2015
Next earnings date	June 6, 2017
Estimated Country Risk Premium	1.22%
Effective Tax rate	31%
Effective Operating Tax rate	31%

Market Data

Market Capitalization	$3,313.31
Daily volume (mil)	0.02
Shares outstanding (mil)	41.72
Diluted shares outstanding (mil)	41.47
% shares held by institutions	74%
% shares held by investments Managers	75%
% shares held by hedge funds	5%
% shares held by insiders	13.83%
Short interest	2.25%
Days to cover short interest	6.98
52 week high	$88.81
52-week low	$64.52
Levered Beta	1.38
Volatility	26.50%

Past Earning Surprises

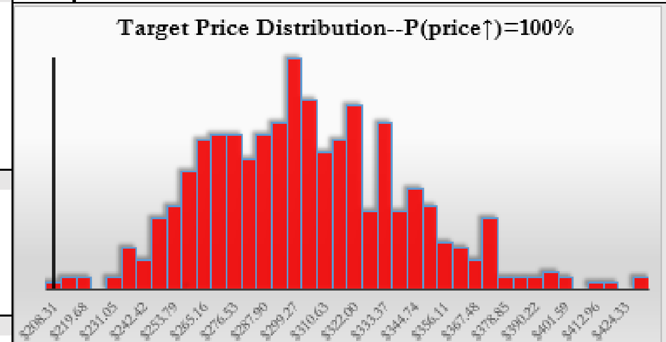
Quarter ending	Revenue	EBITDA
1/31/2016	1.36%	0.95%
4/30/2016	6.46%	-0.30%
7/31/2016	-1.30%	-8.45%
10/31/2016	0.52%	-5.33%
1/31/2017	-3.50%	-7.80%
Mean	0.71%	-4.18%
Standard error	1.7%	1.9%

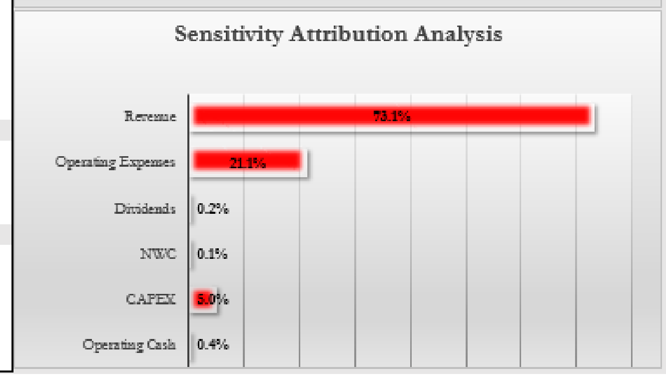
Peers

Steris Plc
Masimo Corporation
CONMED Corporation
Hill-Rom Holdings, Inc.
DexCom, Inc.
Analogic Corporation
Teleflex Incorporated
NuVasive, Inc.

Management	Position	Total compensations grow	Total return to shareholders
Diker, Charles	Chairman and Member of Offic	5.07% per annum over 5y	12.98% per annum over 5y
Hansen, Jorgen	Chief Executive Officer, Pre	14.69% per annum over 3y	21.49% per annum over 3y
Clifford, Peter	Chief Financial Officer, Exe	38.34% per annum over 1y	22.21% per annum over 1y
Nodiff, Eric	Executive Vice President, Ge	7.29% per annum over 5y	12.98% per annum over 5y
Helms, Paul	Executive Vice President of	N/M	N/M
Anaya, Steven	Chief Accounting Officer and	-100% per annum over 1y	22.21% per annum over 1y

Profitability	CMD (LTM)	CMD (5 years historical ave	Industry (LTM)
ROIC	25.1%	30.11%	8.90%
NOPAT Margin	15%	16.67%	16.9%
Revenue/Invested Capital	1.68	1.81	0.53
ROE	38.2%	52.86%	10.10%
Adjusted net margin	14%	16.10%	15.3%
Revenue/Adjusted Book Value	2.65	3.28	0.66
Invested Funds	**CMD (LTM)**	**CMD (5 years historical ave**	**Industry (LTM)**
Total Cash/Total Capital	2.6%	4.2%	19%
Estimated Operating Cash/Total Capital	2.6%	3.9%	N/A
Non-cash working Capital/Total Capital	12.7%	12.1%	9%
Invested Capital/Total Capital	53.5%	50.8%	77%
Capital Structure	**CMD (LTM)**	**CMD (5 years historical ave**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.06	0.07	0.18
Cost of Existing Debt	3.82%	3.46%	3.07%
Estimated Cost of new Borrowing	4.64%	4.51%	3.07%
CGFS Risk Rating	CC	CC	BB
Unlevered Beta (LTM)	1.33	1.39	0.77
WACC	5.58%	5.39%	4.73%





March 31, 2017

MercadoLibre, Inc.: MELI

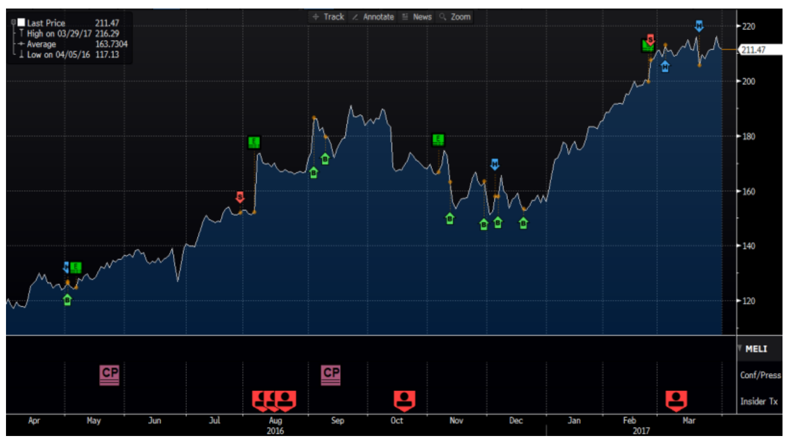
Mateo Valdivieso

Sector: **Information Technology**
Industry: **Internet Software and Services**
Current Price: **$212.30**
Target Price: **$257.80**

MercadoLibre, Inc. is one of the largest online commerce ecosystems in Latin America. MELI platform is designed to provide users with a complete portfolio of services to facilitate commercial transactions. They are a market leader in e-commerce in each of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on number of unique visitors and page views. MELI also operate online commerce platforms in the Dominican Republic, Honduras, Nicaragua, Salvador, Panama, Bolivia, Guatemala, Paraguay and Portugal. Through their platform, they provide buyers and sellers with a robust environment that fosters the development of a large e-commerce community in Latin America, a region with a population of over 610 million people and one of the fastest-growing Internet penetration rates in the world. MELI offer technological and commercial solutions that address the distinctive cultural and geographic challenges of operating an online commerce platform in Latin America. Their services consist of six integrated e-commerce services: the MercadoLibre Marketplace, the MercadoLibre Classifieds Service, the Mercado Pago payments solution, the MercadoLibre advertising program, the Mercado Shops online webstores solution and the MercadoEnvios shipping service.

Long

Current Price:	$212.30
Target Price:	$257.80
Market Cap:	9.39B
52-week range:	$115.81-$218.75
Beta:	2.4
Average Volume:	0.385 million
D/E Ratio:	.05
EBITA Margin:	23.5%
ROIC:	72.0%
ROIC/WACC:	5.35%



Thesis:

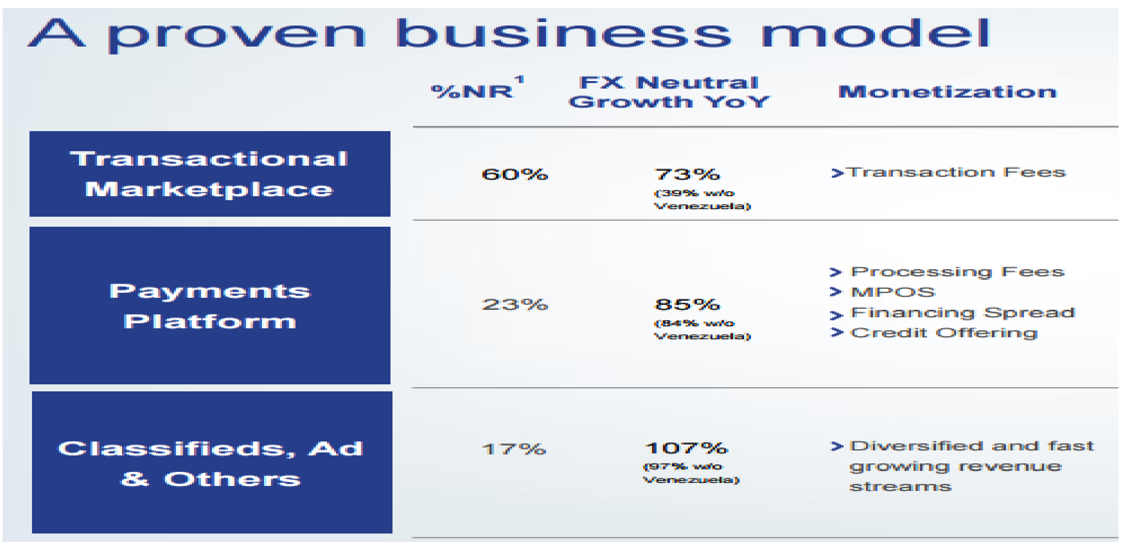
MercadoLibre is at the forefront of an early stage e-commerce market that is not developed as Asian and U.S. E-commerce markets. MELI is the leader in E-commerce in Latin America where they provide their services to the whole region. Their developed payment services and logistics service will continue to add to their growing business as they are focused on enhancing the market place and customer experience. MELI continues to grow year over year in user basis, gross merchandise value has continued to grow. Projected growths for E-retail look favorable, expect MELI to capitalize on this on top of MELI expanding there MercadoPago services to all users of their market place but also non marketplace users, which will help the company with continued growth.

Catalysts:

- E-Commerce is at early stages in Latin America, will continue to develop. Accounts for 4.3% global E-commerce sales.
- Growth in E-commerce sales is expected to grow to $80B by year 2019.
- MercadoLibre has potential to increase user base further as there are around 360 million internet users in Latin American region, MELI has a user base of around 179 million as of 2016.

Business Model:

MELI seek to serve people in Latin America by offering diverse e-commerce services that provide users with online commerce tools that foster entrepreneurship and social mobility, with the goal of creating significant value for stockholders. MELI serves buyers by giving them access to a broad and affordable variety of products and services, a selection that is believed to be larger than otherwise available to them via other online and offline sources serving Latin American markets. MELI believe they serve sellers by giving them access to a larger and more geographically diverse user base at a lower overall cost and investment than offline venues serving the Latin American markets. MELI also provides payment settlement services to facilitate such transactions, and advertising solutions to promote them. More broadly, they strive to make inefficient markets more efficient and in that process generate value for our stockholders. This business model has proven to be fruitful throughout the overview of the business, which has catapulted MELI to grow within their all of their segments of operation. Below is a graph displaying the percentage growth of MELI segments as a percentage of net revenues in comparison to previous year.



Unpenetrated Market:

MercadoLibre had over 174.2 million registered users as of the end of quarter four in comparison to the previous, while the population in Latin America is estimated at around 627 million people out of these people 360 million are internet users. The e-commerce industry in the region is still less developed than in the U.S., Europe, or Asia, and most Latin American countries are significantly underpenetrated. Over the long term, a rising middle class and a growing e-commerce industry in Latin America should provide MercadoLibre with substantial growth opportunities. Thus by looking at Figure 2, its evident that the countries in which MELI operates (highlighted in yellow) have a small penetrated market as a total of retail, this is to say that E-commerce in these Latin American countries are small in equivalency to other countries that have higher penetration of their e-commerce market within their retail markets. There is however room for E-commerce in Latin America to grow, the CAGR for E-commerce in Latin America is 19%. When looking at Figure 1 we see there is a tremendous growth within the E-commerce markets in all the segments in which MELI operates in. This shows a significant growth opportunity for MELI as it's the leader in the E-commerce in all these regions, thus it is evident that in terms of earnings potential MELI could grow substantially if it continues to capitalize using its E-commerce segments it provides within its business.

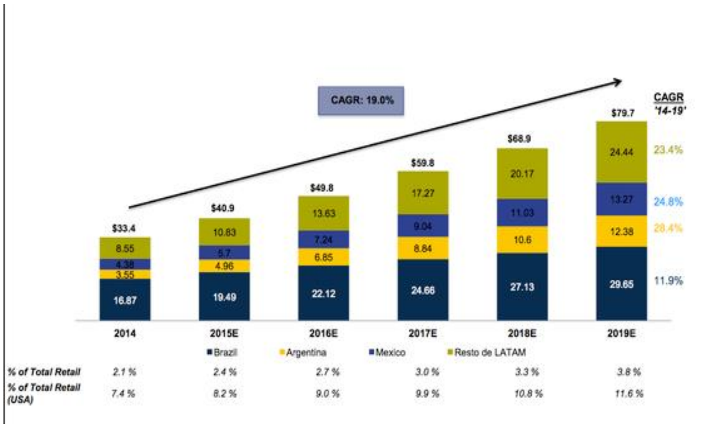


Figure 1 Figure 2

Growing Operational Metrics:

MELI main markets are Brazil, Argentina, Mexico and Venezuela. As of late Latin America economies are going through significant volatility. Brazil has experienced sluggish economic growth and rising inflation levels over the past several years; in Argentina, inflation is up while GDP has contracted; and the situation in Venezuela is horrifying from an economic and political perspective. MELI generates revenues in local currencies, and it reports financial performance in U.S. dollars, thus fluctuating exchange rates can have a considerable impact on MercadoLibre financial figures. It's important to also take into account mew economic policies in the U.S. under the Trump administration that would hurt Latin American currencies, this will materially drag on MercadoLibre performance. Thus looking at key operational metrics such as sold items and payment transactions can purpose better outlays of monitoring performance leaving macroeconomic considerations aside, MELI is clearly firing on all cylinders. Items sold on the platform reached 51.6 million units during the fourth quarter of 2016, growing by 40.2% versus the same quarter in the prior year. Items sold in Brazil and Mexico increased to 62% and 47% YoY, both countries reaching multi-year highs. Gross merchandise volume was $2.2 billion growing 10.8% in U.S. dollars on a YoY basis and 48.3% YoY basis in local currencies. MELI payment business, Mercado Pago is also providing substantial growth. MELI processed 42.5 million transactions in the fourth quarter, growing 67% in comparison to the same quarter in the previous year. The total payment volume was $2.4 billion a 57.5% increase YoY in U.S. dollars and 84% YoY growth in local currencies. This growth is attributed to the successful commercial efforts in onboarding large clients, increased cross border payments, successful open platform integrations and increasing payment volume form Mobile point of sales solutions in Brazil. Mercado Pago on platform penetration rose to 77.8% in the fourth quarter, penetration beyond Brazil continues to increase as a result of improved transactions quality and reflected in increased frequency on the platform.

Growing revenue and strong profitability:

The positive operational metrics performance has been effectively translated into growing sales and earnings for investors. Net revenues for the year 2016 were $844.4 million, which is a 29.6% increase in USD YoY, which was due to increases in the number of items sold and gross merchandise volume through MercadoLibre segment and Mercado Pago segments also helped with the increased net revenues with higher total payment transactions as well as total payment volume. MELI is keen on continuing their growth with these segments as they are looking to further implementing there Mercado Pago services beyond marketplace platforms. Thus its expected revenues for MELI will grow $1.168 billion in 2017 and $1.487 billion in 2018 as seen in Figure 1. This also adds to MELI compelling future growth, MELI could see further growth as retail E-commerce sales are expected to grow in Latin America as seen in Figure 2. For the fourth quarter net revenues continued to see increase for the third consecutive quarter to $256 million, up 41.8% in USD and 68% in local currencies. This is well but disclosing a compelling story for investors who are keen on long term growth.

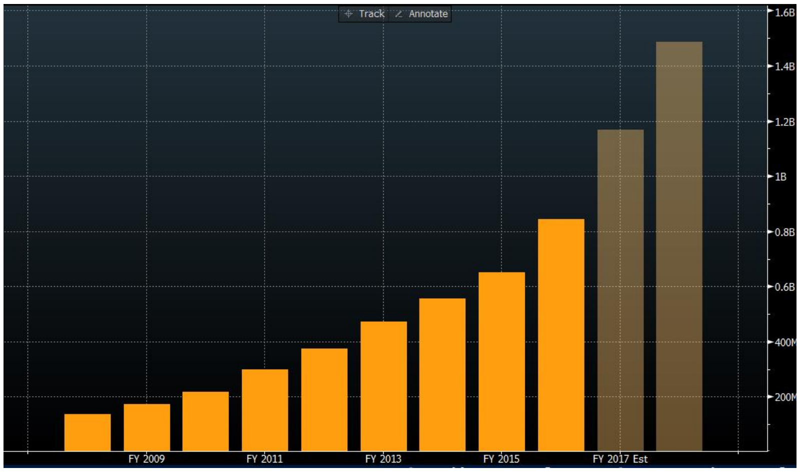


Figure 1

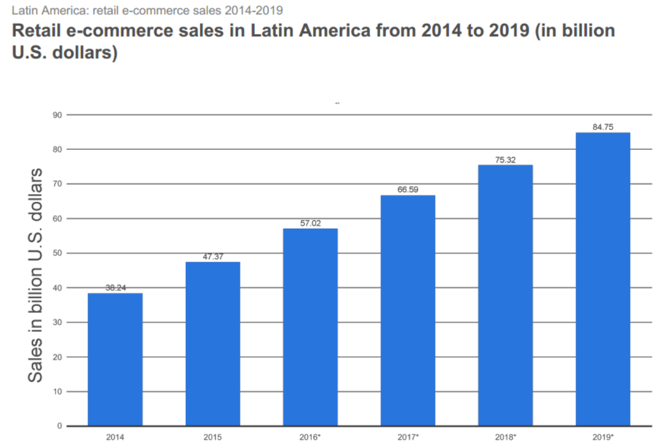


Figure 2

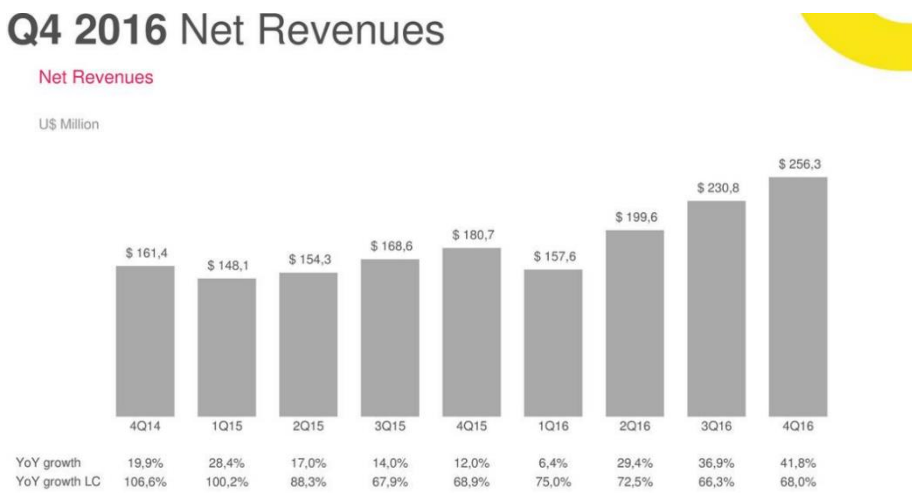


Figure 3

Strong Profitability:

Profit Margins have been enduring some pressure in between quarters. Fourth quarter gross profits decreased from 65.1% in q4 2015 to 63.58% q4 2016, however Gross profit continues to grow in YoY in Q4. EBIT has continued to see growth for q4 YoY, EBIT Margin has seen also an increased growth from q4 2015 as seen in Figure 1. The decrease in gross profit margin has be due to higher sales tax that has increased because of adaptation of financing, credit a shipping services investments in hosting, as well as costs related to the sale of Mobile Point of Sale payment devices. This compression in margins due to the stated factors have still allowed for MELI to have sustained annual profitability, Gross profit for the 2016 was $536.858 million which is an increase from 2015 which saw MELI gross profits of $436.79 million. Gross profits are expected to grow up to $924.57million in 2018 as seen in Figure 2. Gross Profit margin for the year has decreased to 63.58% from 67.01% in 2015 again this is due the investment in key initiatives. However this still shows MELI still retaining 63.58% of revenues as gross profit. EBIT margin for the year 2016 was 21.44% as compared to 21.36% meaning MELI is retaining has done slightly better job at retaining sales in terms of earnings before interest and taxes. EBIT margins are expected to grow to 22.62% by 2018. MELI has also stated its continued investment in key initiatives that have driven them to success, MELI will continue to investing payment solutions (MercadoPago) both on and offline as well as logistics (MercadoEnvios) for fulfillment and free subsidized shipping, expanding credit offerings and continue to focus on customer service and experience within the market place.

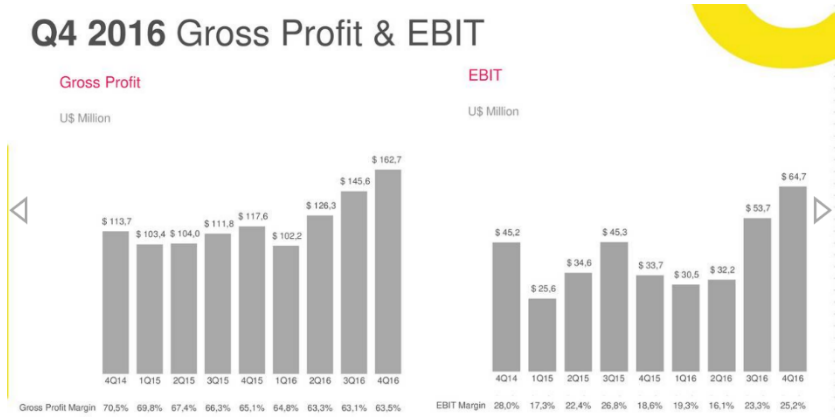


Figure 1

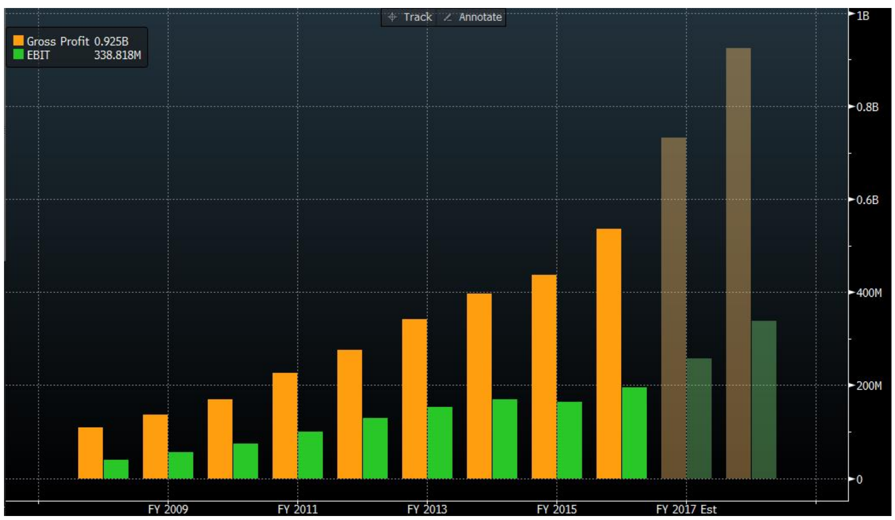


Figure 2

Abundant Growth:

When looking at other successful E-commerce giants in terms of expected revenue and market capitalization, MELI is a small player against Amazon, eBay and Alibaba. The Main idea is clear, MercadoLibre still has substantial growing to do and revalorization before it can even compare to the size of its larger rivals. The table provide below can show investors the outlook MELI could have if they continue revolutionizing E-commerce in a growing Latin American market.

Company	Market Capitalization	2017 Revenue Estimate
MercadoLibre	$8.4 Billion	$1.12 Billion
Amazon	$397.8 Billion	$165.5 Billion
eBay	$35.7 Billion	$9.4 Billion
Alibaba	$250.74 Billion	$22.74 Billion

Data sources: FinViz and Yahoo! Finance.

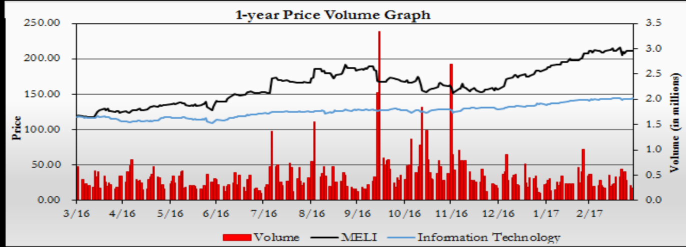
Conclusion:

MercadoLibre is the market leader within an unpenetrated E-commerce market. The rapid continued growth, financial indicators such as sales and profits have shown to be moving in the right direction. Thus for investors who have a long-term approach to growth investing, there is a huge upside potential to be made with an Investment in MercadoLibre, as it's a company that will only continue to grow.

SIENAcollege BJORKLUND FUND

Mercadolibre, Inc. (MELI) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by	Current Price:	$211.63	Intrinsic Value	$230.87	Target 1 year Return: 21.93%
3/31/2017	Divident Yield:	0.4%	Target Price	$257.28	Probability of Price Increase: 96.2%



Description

MercadoLibre, Inc. hosts online commerce platforms in Latin America.

General Information

Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	November 3, 2015
Next earnings date	May 4, 2017
Estimated Country Risk Premium	2.87%
Effective Tax rate	11%
Effective Operating Tax rate	14%

Market Data

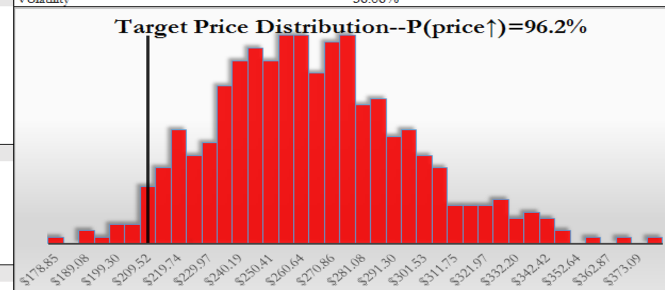
Market Capitalization	$9,386.09
Daily volume (mil)	0.14
Shares outstanding (mil)	44.16
Diluted shares outstanding (mil)	44.16
% shares held by institutions	73%
% shares held by investments Managers	84%
% shares held by hedge funds	6%
% shares held by insiders	0.32%
Short interest	4.38%
Days to cover short interest	4.87
52 week high	$218.75
52-week low	$115.81
Levered Beta	2.15
Volatility	36.06%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	-2.52%	-12.02%
3/31/2016	-2.77%	-20.82%
6/30/2016	4.53%	12.64%
9/30/2016	0.37%	-8.06%
12/31/2016	-6.24%	1.58%
Mean	-1.33%	-5.33%
Standard error	1.8%	5.8%

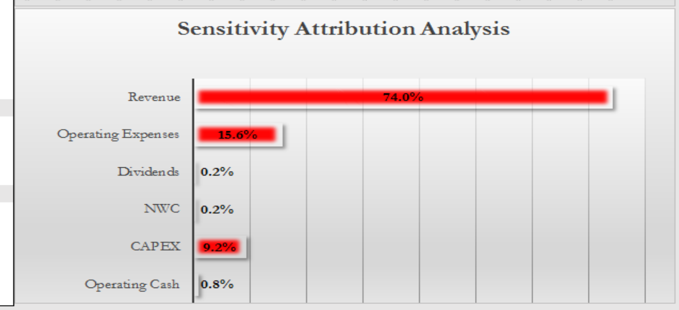
Peers

eBay Inc.
Autohome Inc.
Bitauto Holdings Limited
CoStar Group, Inc.
WebMD Health Corp.
58.com Inc.
Yelp Inc.
Nutanix, Inc.

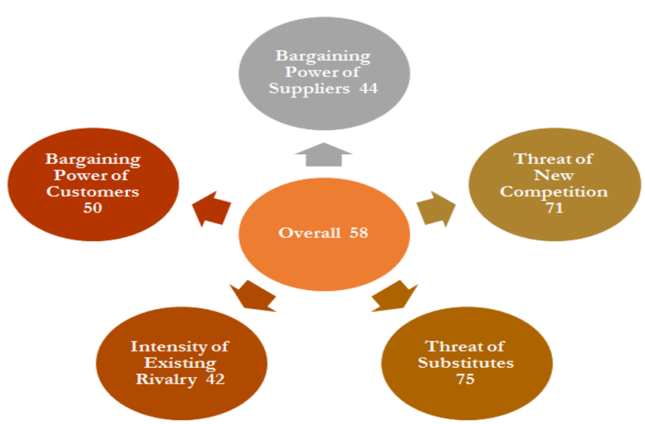


Management	Position	Total compensations growth	Total return to shareholders
Galperin, Marcos	Co-Founder, Chairman, Chief	27.39% per annum over 5y	4.26% per annum over 5y
Arnt, Pedro	Chief Financial Officer and	27.09% per annum over 4y	2.83% per annum over 4y
Tolda, Stelleo	Chief Operating Officer and	14.76% per annum over 5y	4.26% per annum over 5y
Rabinovich, Daniel	Chief Technology Officer and	43.44% per annum over 4y	2.83% per annum over 4y
Giménez, Osvaldo	Executive Vice President of	30.82% per annum over 5y	4.26% per annum over 5y
Melamud, Marcelo	Chief Accounting Officer and	N/M	0% per annum over 0y

Profitability	MELI (LTM)	MELI (5 years historical average)	Industry (LTM)
ROIC	53.5%	110.10%	22.99%
NOPAT Margin	31%	40.18%	26.5%
Revenue/Invested Capital	1.75	2.74	0.87
ROE	45.2%	57.15%	24.60%
Adjusted net margin	28%	38.73%	25.0%
Revenue/Adjusted Book Value	1.63	1.48	0.98
Invested Funds	**MELI (LTM)**	**MELI (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	42.6%	42.5%	74%
Estimated Operating Cash/Total Capital	16.0%	17.7%	N/A
Non-cash working Capital/Total Capital	-16.0%	-16.8%	-17%
Invested Capital/Total Capital	57.7%	52.4%	45%
Capital Structure	**MELI (LTM)**	**MELI (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.05	0.03	0.08
Cost of Existing Debt	8.41%	96.61%	3.11%
Estimated Cost of new Borrowing	4.62%	4.80%	3.11%
CGFS Risk Rating	CC	CC	BB
Unlevered Beta (LTM)	2.04	1.76	1.01
WACC	10.01%	9.22%	6.75%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	29.6%	30.6%	5.35
12/31/2017	18.2%	31.1%	4.71
12/31/2018	21.4%	31.3%	4.03
12/31/2019	40.8%	33.3%	4.74
12/31/2020	18.8%	30.8%	3.83
12/31/2021	21.8%	34.7%	4.20
12/31/2022	13.8%	34.1%	3.77
12/31/2023	11.9%	34.3%	3.55
12/31/2024	10.1%	34.5%	3.36
12/31/2025	8.2%	34.5%	3.17
12/31/2026	6.1%	35.9%	3.10
Continuing Period	4.0%	37.2%	3.01

Period	Invested Capital	Net Claims	Price per share
Base Year	$99.94	$764.24	$225.83
12/31/2017	$142.81	$633.41	$252.46
12/31/2018	$313.45	$400.34	$281.62
12/31/2019	$424.33	$118.89	$313.87
12/31/2020	$482.32	-$194.68	$347.73
12/31/2021	$660.20	-$629.28	$383.90
12/31/2022	$944.34	-$1,113.34	$421.29
12/31/2023	$1,203.56	-$2,302.83	$475.00
12/31/2024	$1,634.74	-$2,832.45	$513.96
12/31/2025	$2,047.39	-$3,372.24	$553.59
12/31/2026	$2,556.23	-$3,973.50	$593.64
Continuing Period			

SIENAcollege BJORKLUND FUND

March 31, 2017

Columbia Sportswear: COLM

Analyst: Joseph Nastasi

Sector: Consumer Discretionary
Industry: Textiles, Apparel, and Luxury Goods

Company Description:

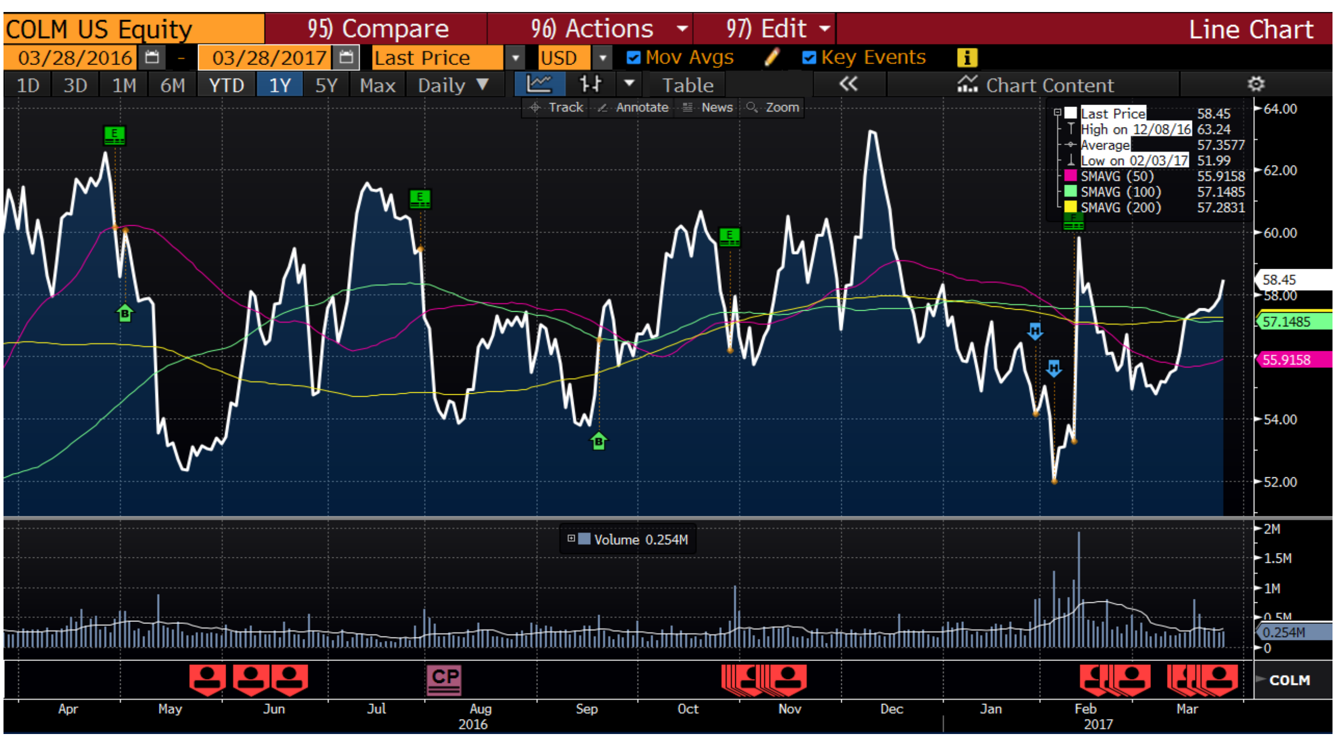
Columbia Sportswear Company engages in designing, sourcing, marketing, and distributing outdoor and active lifestyle apparel, footwear, accessories, and equipment. The Columbia family of brands include the flagship Columbia brand, Sorel, Mountain Hardwear, and prAna. The durability and functionality of the company's products make them ideal for a range of outdoor and active lifestyle activities. Columbia sells its products through wholesale distribution channels, direct-to-consumer channels, independent distributors and licenses, as well as directly to consumers through its network of branded and outlet retail stores in approximately 90 countries. The Company was founded in 1938 and incorporated in 1961.

BUY

Current Price:	$58.88
Target Price:	$63.50
Market Cap:	4.06B
Volume:	428,711
Ke:	9.6%
ROE:	13.0%
Net Income Margin:	8.2%
Total Asset Turnover:	1.20
Equity Multiplier	1.27
Cash/Total Assets:	27.4%

Catalysts:

- **Short Term (within the year):** Q1 2017 Earnings on April 27th
- **Mid Term (1-2 years):** Marketing campaign with numerous strategic partnerships and potential of global ecommerce business to expand brand recognition and market share
- **Long Term (3+):** Innovative new products that will lead to improving margins and differentiation from its competitors

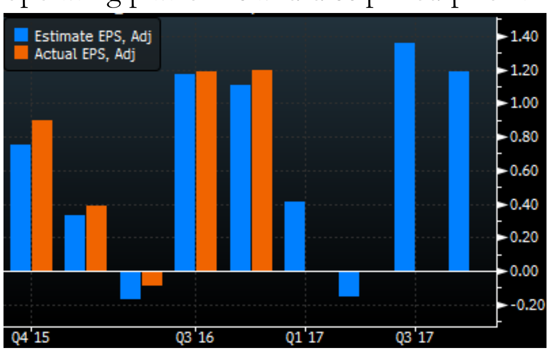


Thesis:

Columbia Sportswear has an international reputation for innovation, quality, and performance. Columbia has seen growth in a challenging retail environment with significant headwinds from customer bankruptcies, changing consumer shopping behavior, and unreasonably warm weather. Columbia's 4th quarter earnings increased net sales, operating income, net income, gross margin, and a record operating cash flow of $275.2 million. The global ecommerce business grew more than 20% to representing 9% of global sales and has potential for further growth to counteract the loss of square feet of sporting goods leaving the retail landscape. The Sorel and prAna brands have potential for rapid continual growth, while the realignment of the Mountain Hardwear through innovative marketing strategies has great potential as well. Columbia is able to distinguish itself from its competitors due to its technologically advanced products like the OutDry Extreme Eco and Omni-Heat Reflective Garments. Marketing strategies like the partnership with Macklemore, Manchester United, Disney, and the Tested Tough Platform will expand brand recognition and market share. Columbia has an unleveraged capitalization and high profitability margins that will continue to grow. Columbia Sportswear has succeeded in a difficult operating environment and is underpriced right now.

4th Quarter Earnings Performance:

Columbia's CEO Tim Boyle stated, "We are very proud of our fourth quarter results and full year 2016 performance despite significant headwinds from customer bankruptcies, changing consumer shopping behavior, unseasonably warm weather, and cautious wholesale customers. Record net sales, record gross margins, expanded operating margin, and record net income reflect our powerful brand portfolio, robust operating platforms and disciplined prioritization of investments."



For the 4th quarter, net sales increased 3% to $717.4M. Operating income increased 22% to $100.4M. Net income increased 34% to $84.7M. SG&A expenses increased 2% to $241.2M. Gross margin expanded 175 basis points to 47.1%. This was due to a favorable mix of full price versus closeout discount price and selective price increases. The board of directors approved a regular quarterly dividend of $0.18 per share. For the fiscal year of 2016, net sales increased 2% to $2.38B. Operating income increased 3% to $256.5M. Record operating cash flow of $275.2M was reported. Net income increased 10% to 191.9M. In total, $48.1M in dividends were paid. Guidance for fiscal year 2017, net sales growth of approximately 4%. Operating income growth of up to 5% to between $260M and $270M. This guidance is based on Spring and Fall season advance wholesale orders. There is a planned addition of 13 outlet stores. Also, mid-single digit sales growth from the Columbia brand, low-double digit sales growth from the Sorel brand, and low-double digit sales growth for the prAna brand.

Industry Outlook:

The markets for outdoor and active lifestyle apparel, footwear, accessories, and equipment are highly competitive. The primary competitive factors are brand strength, product innovation, product design, functionality, durability, effectiveness of marketing efforts and price. This industry is highly dependent on consumer discretionary spending and retail traffic pattern. Weakness in this industry has resulted in numerous retailers, customers of Columbia, filing for protection under bankruptcy laws. Columbia extends credit to its customers (retailers), which can lead to an increase of exposure of uncollectable receivables. The outdoor and active lifestyle industry is dependent on weather conditions, which have led to order cancellations due to winter arriving late this year. From the Q4 earnings call, investors were concerned about the loss of square footage of retailers. Timothy Boyle stated, "I've heard the quote that 20 million square feet of sporting goods has left the retail landscape in the U.S." The retail landscape is shifting to channels that are direct-to-consumers. This trend is shown with Amazon now representing 3.11% of Columbia's total revenue. An area of growth for Columbia is its direct-to-consumer channels, which grew more than 10% and represented 37% of global sales in FY 2016. The global ecommerce business grew more than 20% to approximately $220 million which represented more than 9% of global sales. Columbia Sportswear is able to distinguish itself from its competitors due to its international reputation for innovation, quality, and performance. Columbia research and development efforts for higher quality products include strong relationships with specialist in the field of chemistry, biochemistry, engineering, industrial design, material research, and graphical design.

Business Model:

Columbia Sportswear develops and manages merchandise in two principle categories: (1) apparel, accessories, and equipment and (2) footwear. Apparel, accessories, and equipment represent 78.5% of revenue and grew in revenue by 2.5% from FY 2015 to FY2016. Footwear represents 21.5% of revenue and remained constant in growth. Columbia operates under four primary brands that complement each other to address the diverse need of consumers. The Columbia brand represents 80.4% of total revenue, offering performance and casual products for a wide variety of activities and consumers. The Columbia grew by 2.5% from FY 2015 to FY 2016. The Sorel brand was acquired in 2000 and represents 9% of total revenue, offering cold weather footwear and accessories with an emphasis on young fashion-forward female consumers. The Sorel brand grew at only 1.8% due to the late arrival of winter. The Mountain Hardwear brand was acquired in 2003 and represents 4.4% of total revenue, offering premium outdoor apparel and equipment for the worst weather conditions. This brand fell 10%. The prAna brand acquired in 2014 represents 5.9% of revenue, offering mindfully-designed and stylish clothing that prioritizes sustainable practices. This brand grew at 12% from FY 2015 to FY 2016.

In Millions of USD except Per Share	FY 2013		FY 2014		FY 2015		FY 2016	
12 Months Ending	12/31/2013		12/31/2014		12/31/2015		12/31/2016	
Revenue	1,685.0	100.0%	2,100.6	100.0%	2,326.2	100.0%	2,377.0	100.0%
Apparel, Accessories & Equipment	1,374.6	81.6%	1,676.2	79.8%	1,821.2	78.3%	1,865.4	78.5%
Footwear	310.4	18.4%	424.4	20.2%	505.0	21.7%	511.6	21.5%

Revenue - Supplementary Breakd...	1,685.0	100.0%	2,100.6	100.0%	2,326.2	100.0%	2,377.0	100.0%
Columbia	1,412.9	83.9%	1,750.3	83.3%	1,864.7	80.2%	1,910.1	80.4%
Sorel	128.7	7.6%	166.2	7.9%	209.2	9.0%	213.0	9.0%
prAna	–		53.7	2.6%	125.3	5.4%	139.9	5.9%
Mountain Hardwear	132.5	7.9%	119.8	5.7%	116.3	5.0%	104.0	4.4%
Other	10.9	0.6%	10.6	0.5%	10.7	0.5%	10.0	0.4%

The 2016 net sales by geography are 63.3% in the U.S, 19.1% in LAAP (Latin America & Asia Pacific), 10.7% in EMEA (Europe, Middle East, and Africa), and 6.9% in Canada. Columbia's greatest wholesale distributors as a percent of revenue are Dick's Sporting Goods at 5.36%, Cabela's at 3.83%, Kohl's at 3.36%, Amazon at 3.11%, Macy's at 2.7%, and JC Penny at 1.72%. Columbia's strategy is to invest in its brands, which include the continual flow of new, innovative products and demand creative initiatives intended to strengthen consumers' emotional connection with the brands.

Innovative Products:

Columbia Sportswear takes the lifestyle approach of measuring, managing, and improving its products based on social, environmental, ethical, and chemical impacts. Vigorous materials and product testing ensure the longevity of the products. The preferred environmentally material used by Columbia in its products are recycled polyesters (nearly 80% of material used), insulation materials, and leather. Some of Columbia's innovative products are described below.

- **OutDry Extreme Eco Jacket:** CEO Timothy Boyle stated, "OutDry Extreme Eco represents the most functionally raingear with the least impact on the environment." This sandwiched the membrane (microporous fabric that is about 70% air and whose pores are small enough to keep drops of water out) with an outer fabric that protects it from abrasion, and a lighter inner liner that provides next-to-skin comfort. This product does not use PFCs, which Columbia's competitors use, which is a durable water-repellent that is harmful to the environment. Also non-dyed materials are used, which saves 13 gallons of water per garment. The product is made of byproducts of recycled water bottles. Men's Health and Digital Trends recognized the jacket for its eco-conscious design and high performance.
- **Omni-Heat Reflective Garments:** This patented lining is comprised of a pattern of tiny silver dots with aluminum that reflects a percentage of your radiant, infrared body heat back into you to keep you warm. The dots only cover about 33 percent of the fabric, which makes the technology breathable and keeps you from overheating. The Omi-Heat Reflective garments reduce your need for bulky layers. Columbia has used the lining for many of its products, including base layers, gloves, hats, and jackets. This product displays Columbia's message of keeping you warm, but not sweaty.

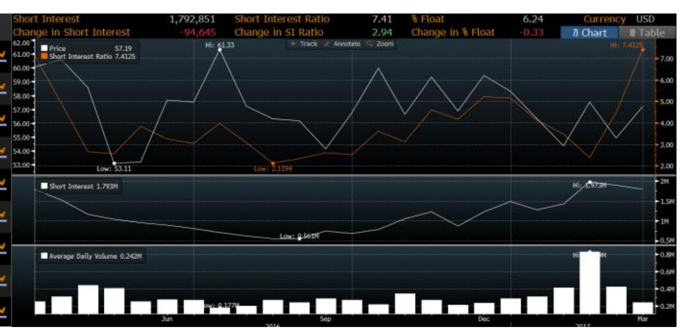
Marketing Strategy:

Columbia's slogan is "Helping consumers everywhere stay outdoors longer." Marketing supports and enables Columbia's competitive position in the marketplace by stimulating consumer demand for its products worldwide. During 2016, Columbia invested approximately 5% of net sales in marketing programs. Columbia's target audience varies by brand. Columbia's OutDry Extreme Eco Jacket marketing campaign features a partnership with hip-hop artist Macklemore, which drove over 40 million impressions and numerous placements in major publications. Columbia initiated the Global Tested Tough brand campaign with a global penetration across approximately 100 countries, where Columbia shows how its products allow people to enjoy the outdoors longer. Columbia has expanded its reach in European markets with its partnership with Manchester United as its official global outerwear. Also, Columbia sealed a multi-year agreement to be the presenting sponsor of the Ultra-Trail du Mont Blanc, which is a ultra-trail running event held annually in Chamonix, France. Columbia, under the Directors of Toughness, hires adventurous individuals to travel the world testing Columbia gear in some of the most challenging conditions on the planet and documenting their experiences for social media. The Directors of Toughness Campaign has driven more than 200 million editorial impressions and millions of views on YouTube, Facebook, and Instagram. Columbia's Sorel brand has launched a successful pilot of a spring line in partnership with Nordstrom, which is a step to de-winterize the brand. Lastly, Columbia has an exclusive partnership with Disney's Star Wars franchise, as the exclusive designer and distributor of Rogue One inspired apparel.


Ownership:

The ownership chart is shown below. Individuals own 55.31% of outstanding shares, investment advisors own 39.58%, and hedge fund managers own 2.66%. There has been an increasing position in shares outstanding by individuals and a decreasing position by investment advisors. The individual holders are the CEO Timothy Boyle who owns 37.44% of outstanding shares and board member Gertrude Boyle who owns 14.20% of outstanding shares. Upper management objectives are closely aligned with Columbia's shareholders since both are highly dependent on the share price. Columbia has a total short interest of 1,792,851. The short interest ratio is 7.41, which has rapidly increased in recent months. These shorts will have to cover and will bring upward pressure on the stock price.

54) Ownership Type	03/26/17	Curr	Change
41) Individual	52.42	55.31	+2.89
42) Investment Advisor	42.74	39.58	-3.16
43) Hedge Fund Manager	2.52	2.66	+0.14
44) Bank	0.91	0.96	+0.05
45) Pension Fund	0.76	0.80	+0.04
46) Sovereign Wealth Fund	0.27	0.28	+0.01
47) Insurance Company	0.24	0.25	+0.01
48) Brokerage	0.06	0.07	+0.01
49) Government	0.06	0.06	0.00



Holder Name	Portfolio Name	Source	Opt	Position	% Out	Latest Chg	File Dt
		All	All				
1. BOYLE TIMOTHY P		13G		26,014,521	37.44	0	12/31/16
2. BOYLE GERTRUDE		Form 5		9,863,783	14.20	-373,345	12/31/16
3. EATON VANCE CORP		13G		4,171,263	6.00	0	12/31/16
4. BANY SARAH A		Form 4		2,383,554	3.43	-5,290	11/14/16
5. VANGUARD GROUP		ULT-AGG		2,106,492	3.03	69,831	12/31/16

Capital Allocation Comparison:

Columbia Sportswear uses a small amount of debt and has high liquidity. For FY 2016, Columbia has $14.1 million in total debt compared to $551.9 million in cash & equivalents. Total debt has decreased by 17% and cash & equivalents have increased by 49% from FY 2015 to FY 2016. Columbia's cash to total assets ratio is 27.4%. This low amount of debt is due to that most of Columbia's capital is invested in short-term working capital assets and does not own or operate manufacturing facilities. Columbia's WACC is 12.6% and cost of debt is 6.7%, which are both higher than its competitors. Columbia's capitalization is lower compared to its competitors due to its minimal amount of debt usage. Columbia's return on capital to WACC is at 1.03, which is lower than its competitors. The minimal usage of debt and high amount of cash gives Columbia maximum flexibility compared to its competitors.

In Millions of USD	FY 2013	FY 2014	FY 2015	FY 2016	Current/LTM
12 Months Ending	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2016
Market Capitalization	2,724.4	3,110.1	3,377.9	4,073.6	4,047.5
- Cash & Equivalents	529.2	440.8	370.4	551.9	551.9
+ Preferred & Other	7.4	11.6	16.0	20.7	20.7
+ Total Debt	0.0	15.7	17.0	14.1	14.1
Enterprise Value	2,202.6	2,696.7	3,040.5	3,556.5	3,530.4

WACC	*History*	*LFY*
COLM	10.7%	12.6%
Competitors	10.6%	10.7%

Kd	*History*	*LFY*
COLM	3.0%	6.7%
Competitors	4.7%	5.2%

Capitalization (Debt/Equity)	*History*	*LFY*
COLM	0.00	0.00
Competitors	0.06	0.08

ROC /WACC	*History*	*LFY*
COLM	1.02	1.03
Competitors	1.77	1.43

Profitability and Activity Comparison:

Columbia's revenue, gross profit, EBITDA, net income, and EPS are shown below. Revenue grew 2.2% from FY 2015 to FY 2016. Gross profit increased 3.5% and gross profit margin increased to 46.7%. EBITDA increased 3.8% and EBITDA margin increased to 13.5%. Net income increased 14.7% and net income margin increased to 8.2%. Despite significant headwinds in the retail industry, Columbia was able to improve its revenue, gross profit, EBITDA, net income, and EPS along with its margins. Columbia's revenue to total employees is $0.39, which is almost double its competitors average. Columbia's profitability ratios are close to the industry median, but a higher profit margin than its competitors. Compared directly to Under Armour, Columbia has a higher return on equity, return on assets, gross margin, profit margin, and EBITDA to net sales. Columbia with its activity ratios has a lower inventory turnover, lower accounts receivable turnover, lower accounts payable turnover, thus having a higher cash conversion cycle than its competitors.

In Millions of USD	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue, Adj	1,685.0	2,100.6	2,326.2	2,377.0
Growth %, YoY	0.9	24.7	10.7	2.2
Gross Profit, Adj	743.7	955.0	1,073.5	1,110.3
Margin %	44.1	45.5	46.1	46.7
EBITDA, Adj	186.3	256.3	309.5	321.3
Margin %	11.1	12.2	13.3	13.5
Net Income, Adj	103.6	133.8	170.8	195.0
Margin %	6.2	6.4	7.3	8.2
EPS, Adj	1.49	1.89	2.40	2.76
Growth %, YoY	-1.8	26.7	26.8	15.1

Revenue/Total Employees	*History*	*LFY*
COLM	$ 0.39	$ 0.39
Competitors	$ 0.21	$ 0.21

Name (BI Peers)	ROE:Y	ROA:Y	GM:Y	PM:Y	EBITDA to Net Sales:Y	Ast TO:Y	A/R Trnovr:Y	Inv Turnover:Y	A/P Turnover:Y	Cash Conversion Cycle:Y
Median	14.66%	10.14%	46.57%	7.49%	13.43%	1.28	11.94	3.16	6.24	97.99
COLUMBIA SPORTSWEAR CO	13.17%	10.10%	46.71%	8.20%	13.32%	1.23	6.74	2.63	5.93	131.50
UNDER ARMOUR INC-CLA...	11.48%	8.34%	46.43%	5.62%	11.65%	1.48	9.14	3.04	8.91	119.40
PVH CORP	11.04%	4.75%	53.37%	6.30%	13.54%	0.75	12.89	2.90	5.81	90.93
HANESBRANDS INC	56.93%	11.38%	38.41%	11.80%	14.58%	0.96	8.07	2.05	5.27	153.31
CARTER'S INC	31.12%	13.21%	43.11%	8.15%	15.63%	1.62	15.60	3.80	11.63	87.77
PERRY ELLIS INTERNATI...	10.27%	5.12%	37.18%	3.61%	4.30%	1.42	6.51	3.25	5.20	97.99
KATE SPADE & CO	46.67%	15.11%	59.86%	11.40%	16.86%	1.32	15.85	3.09	5.24	71.39
OXFORD INDUSTRIES INC	15.57%	8.73%	56.99%	5.41%	12.92%	1.61	17.43	3.24	6.24	74.83

Summary:

In conclusion, Columbia Sportswear is a buy at its current price due to its upward growth potential. The durability and functionality of Columbia's products make them ideal for a range of outdoor and active lifestyle activities, which help consumers stay outdoors longer. Columbia has a competitive advantage due to combining technological innovations with its products. Columbia's innovative marketing campaigns and partnerships will help develop the Columbia brand, Sorel brand, Mountain Hardwear brand, and prAna brand. The goal for future growth is to de-winterize the Sorel brand, re-align the Mountain Hardwear brand with marketing strategies like being the official sponsor of the Ultra-Trail du Mont Blanc, and gain market share with the prAna brand with its partnership with Nordstrom. The global ecommerce business is also an area of value creation. Columbia Sportswear's one-year target price of $63.50 is reasonable due to their upward growth potential.

SIENA college

BJORKLUND FUND

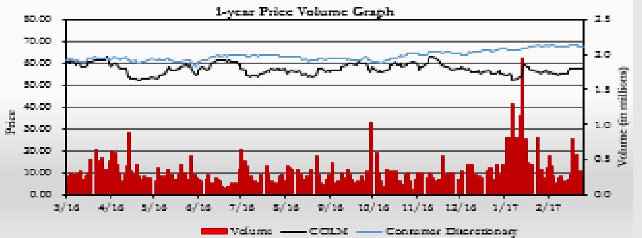
CENTER FOR GLOBAL FINANCIAL STUDIES

Columbia Sportswear Company (COLM)

NEUTRAL

Analysis by Joseph Nastasi	Current Price:	$59.37	Intrinsic Value	$62.43
3/29/2017	Divident Yield:	1.2%	Target Price	$63.50

Target 1 year Return: 8.15%
Probability of Price Increase: 77



Description

Columbia Sportswear Company designs, sources, markets, and distributes outdoor and active lifestyle apparel, footwear, accessories, and equipment in the United States, Latin America, the Asia Pacific, Europe, the Middle East, Africa, and Canada.

General Information

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	April 27, 2017
Estimated Country Risk Premium	5.93%
Effective Tax rate	30%
Effective Operating Tax rate	35%

Market Data

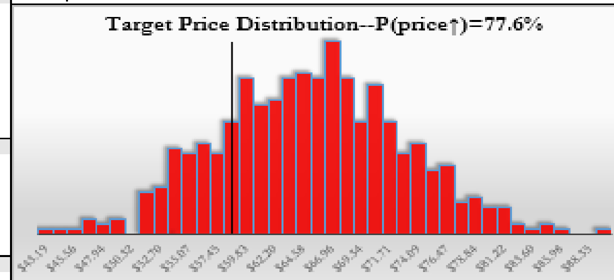
Market Capitalization	$4,047.50
Daily volume (mil)	0.18
Shares outstanding (mil)	69.49
Diluted shares outstanding (mil)	70.63
% shares held by institutions	41%
% shares held by investments Managers	37%
% shares held by hedge funds	1%
% shares held by insiders	58.66%
Short interest	2.58%
Days to cover short interest	4.15
52 week high	$63.55
52-week low	$51.70
Levered Beta	0.79
Volatility	29.17%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	-1.77%	6.97%
3/31/2016	5.07%	8.49%
6/30/2016	-3.24%	210.48%
9/30/2016	-5.96%	1.17%
12/31/2016	-6.82%	-2.51%
Mean	-2.54%	44.92%
Standard error	2.1%	41.4%

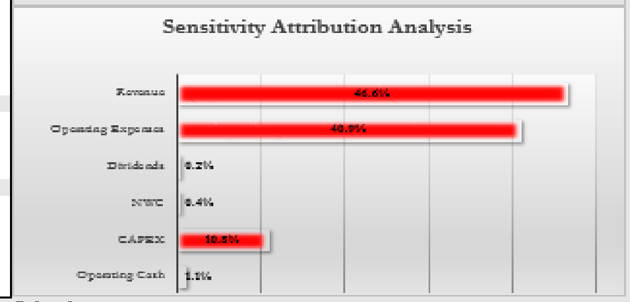
Peers

- Lululemon Athletica Inc.
- Wolverine World Wide, Inc.
- Under Armour, Inc.
- G-III Apparel Group, Ltd.
- DSW Inc.
- Carter's, Inc.
- Express, Inc.
- The Finish Line, Inc.

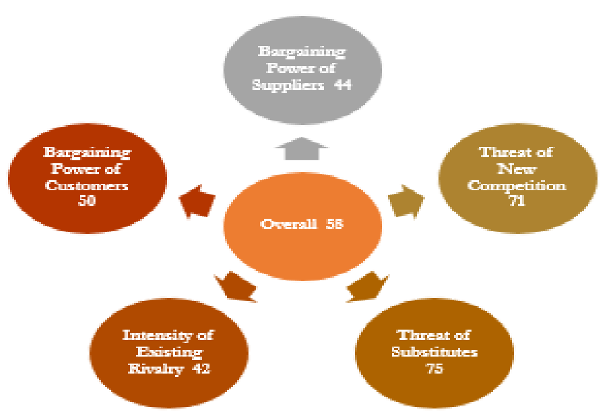


Management	Position	Total compensation growth	Total return to shareholders
Boyle, Timothy	Chief Executive Officer and	6.15% per annum over 5y	-3.12% per annum over 5y
Timm, Bryan	President and Chief Operatin	9.95% per annum over 5y	-3.12% per annum over 5y
Cusick, Thomas	Chief Financial Officer, Exe	12.3% per annum over 5y	-3.12% per annum over 5y
Bragdon, Peter	Chief Administrative Officer	23.91% per annum over 3y	19.02% per annum over 3y
Rauch, Peter	Chief Accounting Officer and	N/M	N/M
Hirt, Michael	Chief Information Officer an	N/M	N/M

Profitability	COLM (LTM)	COLM (5 years historical avg.)	Industry (LTM)
ROIC	10.4%	9.03%	15.04%
NOPAT Margin	8%	9.79%	9.2%
Revenue/Invested Capital	1.24	0.92	1.63
ROE	11.9%	9.90%	17.00%
Adjusted net margin	8%	9.25%	8.6%
Revenue/Adjusted Book Value	1.58	1.07	1.99
Invested Funds	**COLM (LTM)**	**COLM (5 years historical avg.)**	**Industry (LTM)**
Total Cash/Total Capital	24.1%	22.1%	22%
Estimated Operating Cash/Total Capital	19.2%	17.9%	N/A
Non-cash working Capital/Total Capital	21.7%	24.0%	23%
Invested Capital/Total Capital	87.4%	89.2%	78%
Capital Structure	**COLM (LTM)**	**COLM (5 years historical avg.)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.10	0.14	0.16
Cost of Existing Debt	7.49%	5.35%	3.81%
Estimated Cost of new Borrowing	5.03%	4.86%	3.81%
CGFS Risk Rating	C	C	CC
Unlevered Beta (LTM)	0.73	1.13	0.46
WACC	8.33%	10.09%	6.48%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	2.2%	8.4%	1.25
12/31/2017	3.6%	10.6%	1.60
12/31/2018	4.2%	10.5%	1.56
12/31/2019	4.7%	10.2%	1.55
12/31/2020	4.9%	11.1%	1.74
12/31/2021	4.6%	11.0%	1.77
12/31/2022	4.5%	11.2%	1.87
12/31/2023	4.4%	11.4%	1.97
12/31/2024	4.3%	11.7%	2.11
12/31/2025	4.2%	11.9%	2.24
12/31/2026	4.1%	12.1%	2.37
Continuing Period	4.0%	12.4%	1.79

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,569.60	$382.47	$62.85
12/31/2017	$1,629.65	$517.38	$64.87
12/31/2018	$1,607.50	$950.03	$62.08
12/31/2019	$1,818.21	$1,620.94	$55.61
12/31/2020	$1,919.56	$2,457.21	$46.71
12/31/2021	$2,003.85	$3,407.99	$35.86
12/31/2022	$2,148.66	$4,388.54	$24.21
12/31/2023	$2,244.82	$5,268.64	$13.48
12/31/2024	$2,312.21	$6,066.52	$3.86
12/31/2025	$2,401.22	$6,609.30	-$2.54
12/31/2026	$2,472.49	$6,774.60	-$4.04
Continuing Period			

SIENA college

BJORKLUND FUND

March, 31, 2017

Burlington Stores, Inc.: BURL

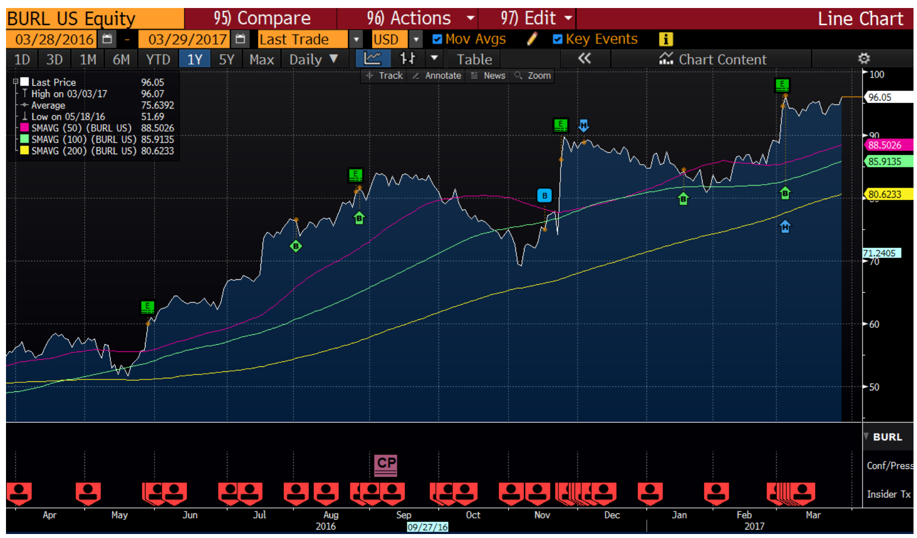
Michael Capozzi

Sector: Services
Industry: Discount, Variety Stores
Current Price: $96.05
Target Price: $110.42

Company Description: Burlington Stores, Inc. is a retailer of branded apparel products in 40 states and Puerto Rico. Their merchandise includes ladies sportswear, menswear, youth apparel, baby furniture, footwear, accessories, home décor and gifts, and coats.

BUY

Current Price:	$96.05
Target Price:	$110.42
Market Cap:	6.7B
Beta:	0.18
52 week range:	$51.19-$97.94
Average Volume:	916,818
WACC:	9.5%
EBITDA Margin:	10.32%
D/E Ratio:	0.2



Thesis:

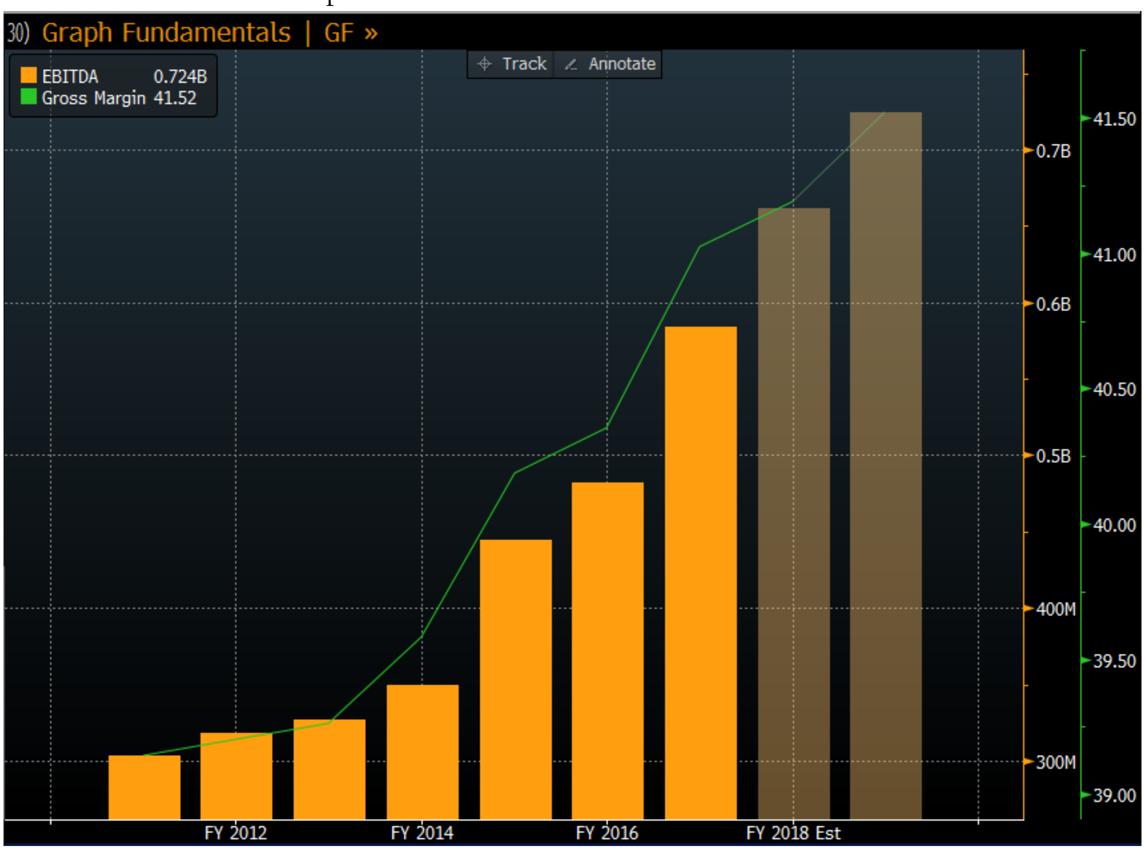
Burlington Stores Inc. has been able to create significant value in an industry that has proved otherwise. They have continued to increase revenues for the last 5 fiscal years. 2016 proved to be another successful year for the company, increasing revenues 6% and increasing EPS 40.4%. Margins have also continued to increase due to the successful strategies the company has taken on in recent years. They have been able to steer customers away from the computer and into the stores. They have done this by offering value that not even Amazon can match. While competitors like Macy's and JC Penney's are closing stores, Burlington is opening more. Within their stores they are able to create more revenue per square foot and increase same store sale percentages. The company has been successful in diversifying its products by rebranding itself as a retailer of various clothing and home products. Burlington has also been able to increase margins by reducing inventories through new inventory strategy. Diversity in products have also allowed Burlington to sell products that have higher markups. Due to these factors BURL should have no trouble reaching their target price of $110.42.

Catalysts:

- Short Term(within the year): Expansion into more diverse products and efficient inventory strategies, will increase revenues and margins
- Medium Term(1-2 years): Introduction of new stores. The company's ability to create more value in their stores than their competitors
- Long Term(3+): Trump's tax benefits can help increase future margins

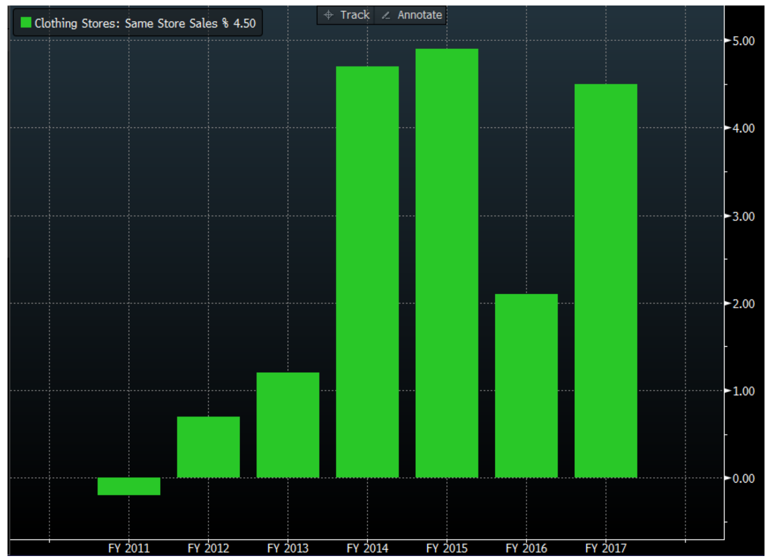
Earnings Performance:

Many analysts may consider BURL to be a growth stock because of its recent earning calls and the way they have positioned themselves for growth in future earnings. The company has continued to record increased revenues for the last 5 years. In 2016, BURL posted a 6% growth in revenues to $1.3B, while their EPS grew at 40.4%. Net income and cash flows from operating activities also grew at 128% and 8% respectively. These results were due to 4.6% rise in comparable sales and a gross margin increase in gross margins to 42.02% for the three months ending 1/28/17. BURL has also been able to increase EBITDA margins consistently over the last 5 years. For the 12 months ending 1/28/2017, BURL reported EBITDA margins at 10.32. In regards for the upcoming year, forecasters see more growth for BURL. Revenues are estimated $6.053B. EBITDA and Gross margins are both forecasted to rise in the upcoming year. Their success can be attributed to their ability to increase revenues and keep costs low.

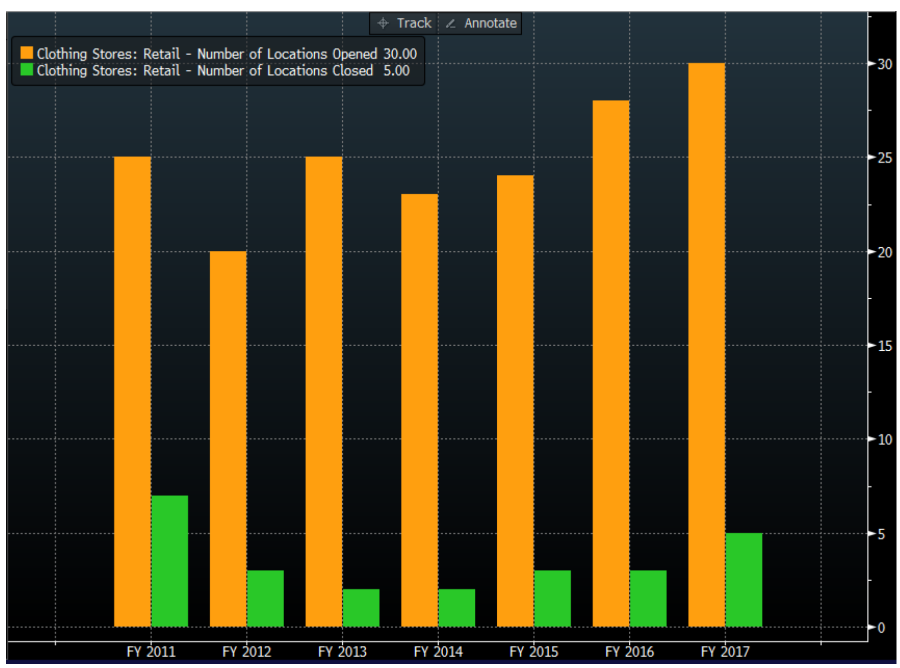


Store Growth:

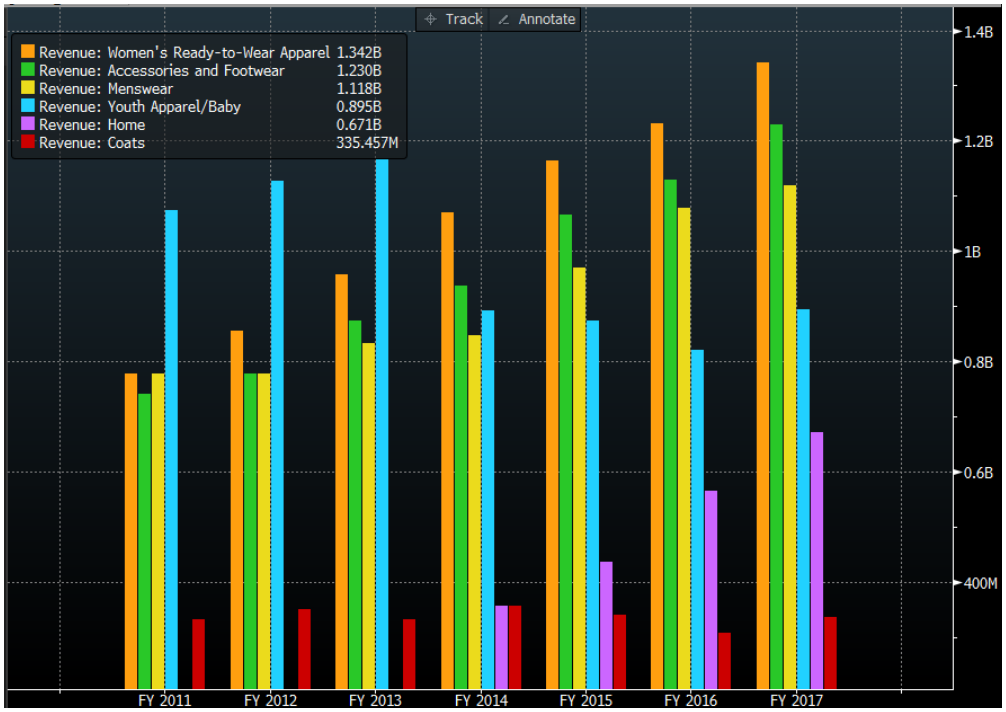
Retail has not proved to be a great industry for investors. Although Burlington has been thriving in a difficult market. They have proved that people are still willing to leave their homes and shop at a physical location. This is because they are able to offer prices on fashionable-focused merchandise that rivals competitors such as Amazon. This value creation attracts customers to turn to Burlington for their fashion needs. While competitors like Macy's, Sears, and JC Penney's continue to close stores, Burlington plans on opening more. The company added 28 stores and plans on opening an additional 25 in 2017. They currently have 592 locations in 40 states and Puerto Rico. Revenues in existing store have increased in their latest earning report as well. Same store sales percentage, which indicates the increase or decrease in revenues in stores that have existed for over a year, have been consistently increasing despite a slight dip in 2016. Their same store sales increased 4.5% for their last fiscal year reported. Sales per retail square footage has also increased 5.6% since the previous fiscal year. In compassion to competitors, Macy's has seen a 3.5% decrease and has opened 27 stores, while closing 68. JC Penney's same store sales saw no growth and closed 9 stores, while only opening 9. And Sears, who has probably seen the most trouble over the last few years, has seen a 9.3% decrease in same store sales



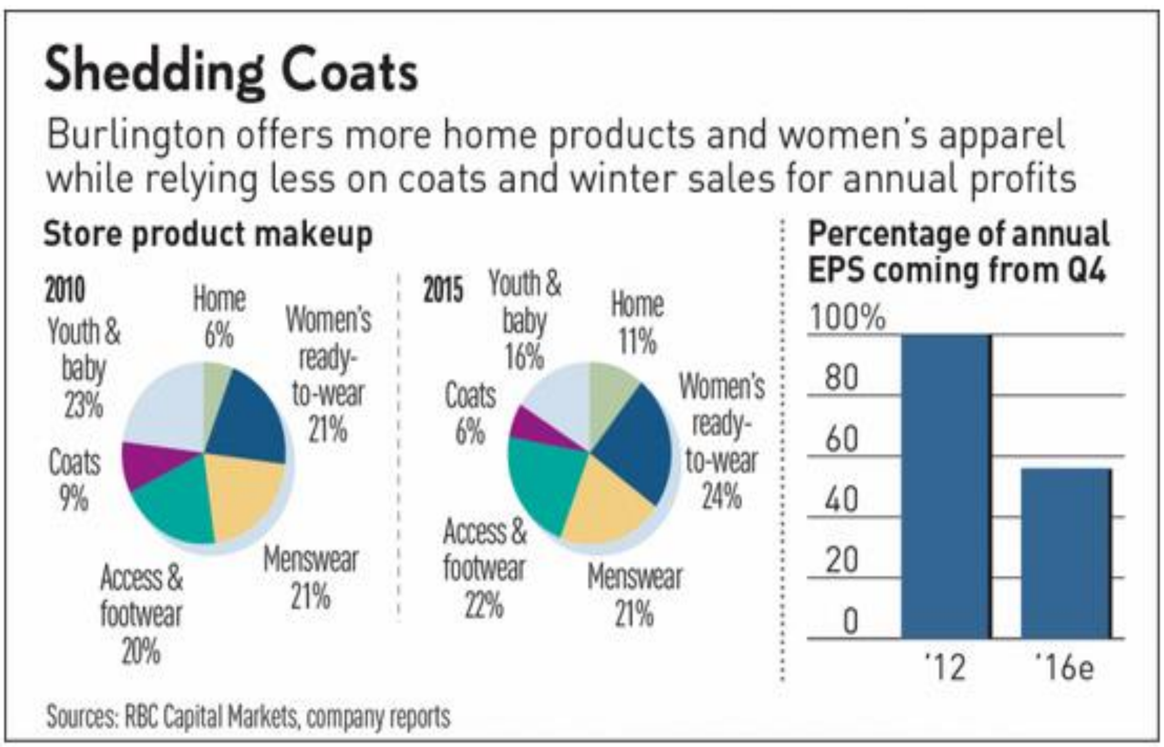
Burlington is able to provide value for their customers to travel to a physical location in much better way than their competitors. Even online giant, Amazon, cannot compete. Burlington's sale of winter coats at 75% off was much cheaper than anything Amazon had to offer. And finally, the stores themselves are esthetically pleasing for their customers.



Revenue by Segments:

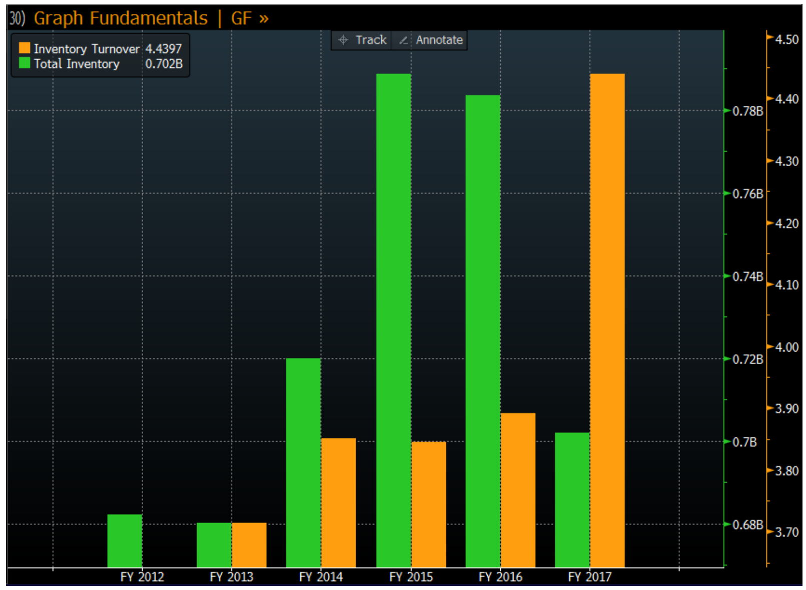


Burlington Stores provide much more than just coats. Their revenues come from women's ready-to-wear apparel, accessories and footwear, menswear, youth apparel/baby, home, and of course coats. The move to rebrand themselves as more than just coats has been a very successful strategy. The ability to do this has helped them avoid being a cyclical company that is only successful in the winter months. In 2010, coats made up 9% of their revenue, today it only makes up 6%. Majority of their sales come from women's ready-to-wear apparel, accessories and footwear, menswear, and youth apparel/baby. This move to focus on other products has benefited margins because of the coat's added inventory costs.



Inventories:

Due to Burlington current strategies, they are able to reduce inventories, in turn reducing costs associated with inventory. First, the company has focused less on selling coats, this has ultimately led to lower inventory costs and store sizes for the company. The company has also began to use a "pack away" inventory strategy, which is when a company purchases products on a major discount and then sell them at a later date. Over the last few years, Burlington has been able to increase its inventory turnover from 3.71 to 4.44. The company has also been able to decrease it overall inventory -10.4% compared to the last fiscal year. In comparison, Macy's inventory turnover has decreased from 3.19 to 2.86 since 2012. Burlington has been able to manage inventories more efficiently than competitors, thus reducing costs.



Profit Margins:

One of Burlington's most successful strategies, has been to focus on more than just coats. By doing this they have been able to reduce costs, increase revenues, and increase profit margins. Coats have high inventory costs associated with them, as discussed earlier. By reducing the amount of coats in inventory, Burlington has been able to decrease their COGS. They have also been able to offer more products that they can sell at a higher markup. Especially, products like footwear and accessories, which carry huge markups. Gross margins have climbed to 41.02% and EBITDA margins have also increased to 10.32%. In comparison to their competitors, Burlington has been as profitable as or more profitable than their competitors.

Name	GM:Y	EBITDA to Net Sales:Y	OPM:Y
Median	32.33%	9.76%	7.25%
100) BURLINGTON STORES INC	41.02%	10.32%	7.16%
101) ROSS STORES INC	28.70%	16.36%	14.01%
102) TJX COMPANIES INC	28.98%	13.59%	11.62%
103) MACY'S INC	39.40%	9.21%	7.34%
104) J.C. PENNEY CO INC	35.67%	8.00%	3.32%
105) SEARS HOLDINGS CORP	22.04%	-7.24%	-4.76%

Conclusion:

Due to catalysts provided, BURL can continue to create value for investors. More importantly they have been able to create significant value for their customers. Burlington is one of the few companies that can still create value in their stores instead of through e-commerce. This competitive advantage has allowed them open more stores, while their competitors find themselves closing stores. Their consistency in increasing revenues and margins has made this stock a buy for many firms and individual investors. A reasonable target price of around $110 is very achievable for BURL.

Current Price	$96.05
Intrinsic Value	$101.90
Target Price	$110.42
Target 1 Year Return	14.96%
Probablility of Price Increase	82.4%

SIENAcollege | BJORKLUND FUND

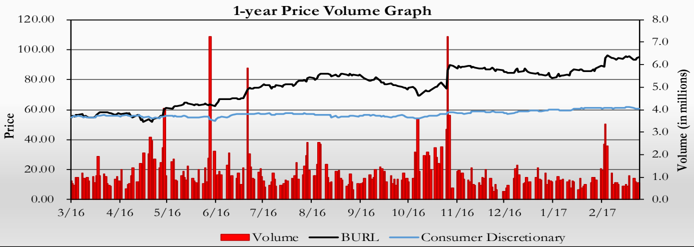
CENTER FOR GLOBAL FINANCIAL STUDIES

Burlington Stores, Inc. (BURL)

NEUTRAL

Analysis by Michael Capozzi	Current Price:	$96.05	Intrinsic Value	$101.90	Target 1 year Return: 14.96%
3/28/2017	Divident Yield:	0.0%	Target Price	$110.42	Probability of Price Increase: 82.4%

1-year Price Volume Graph



Description

Burlington Stores, Inc. operates as a retailer of branded apparel products in the United States.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	May 22, 2017
Estimated Country Risk Premium	6.25%
Effective Tax rate	20%
Effective Operating Tax rate	20%

Market Data

Market Capitalization	$6,740.86
Daily volume (mil)	0.60
Shares outstanding (mil)	70.18
Diluted shares outstanding (mil)	71.72
% shares held by institutions	74%
% shares held by investments Managers	85%
% shares held by hedge funds	17%
% shares held by insiders	1.48%
Short interest	7.50%
Days to cover short interest	5.68
52 week high	$97.94
52-week low	$51.19
Levered Beta	0.54
Volatility	0.00%

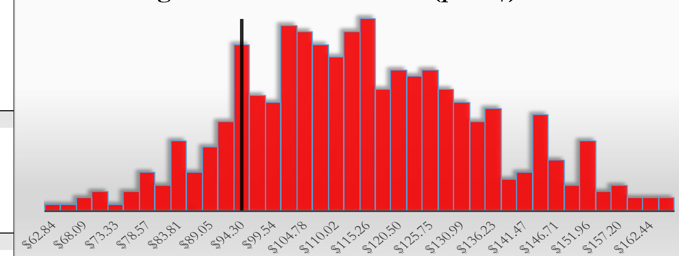
Past Earning Surprises

Quarter ending	Revenue	EBITDA
1/30/2016	0.71%	-10.45%
4/30/2016	0.29%	-0.44%
7/30/2016	0.68%	8.02%
10/29/2016	0.57%	15.64%
1/28/2017	1.55%	-8.82%
Mean	0.76%	0.79%
Standard error	0.2%	5.0%

Peers

Urban Outfitters, Inc.
Coach, Inc.
The Gap, Inc.
Ross Stores, Inc.
L Brands, Inc.
The TJX Companies, Inc.
American Eagle Outfitters, Inc.
Ascena Retail Group, Inc.

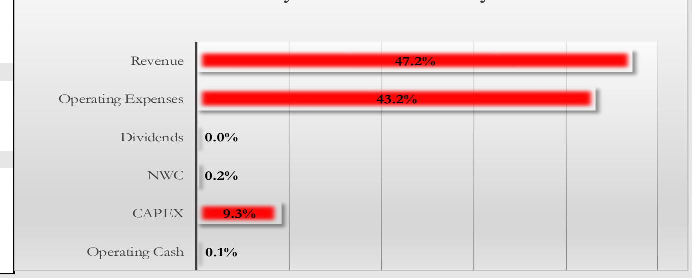
Target Price Distribution--P(price↑)=82.4%



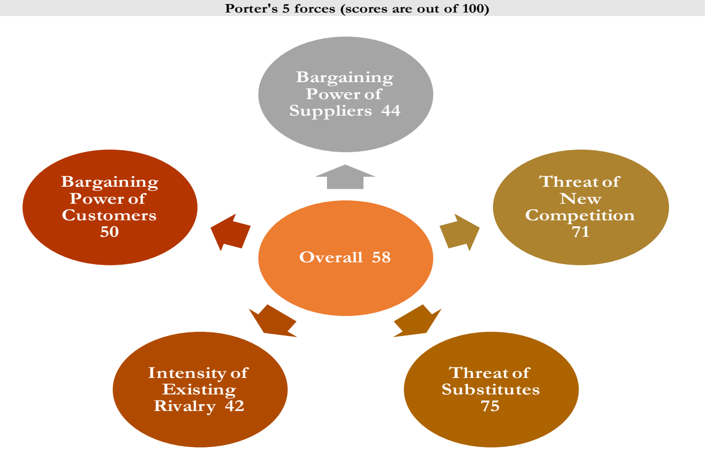
Management	Position	Total compensations growth	Total return to shareholders
Kingsbury, Thomas	Chairman, Chief Executive Of	-100% per annum over 4y	N/M
Katz, Marc	Chief Financial Officer and	-100% per annum over 4y	N/M
Hand, Fred	Chief Customer Officer and P	-100% per annum over 4y	N/M
Seeger, Rick	Executive Vice President of	-100% per annum over 1y	7.7% per annum over 1y
Vecchio, Jennifer	Chief Merchandising Officer	N/M	0% per annum over 0y
Crimmins, John	Chief Accounting Officer and	N/M	N/M

Profitability	BURL (LTM)	BURL (5 years historical average)	Industry (LTM)
ROIC	15.0%	13.87%	27.31%
NOPAT Margin	9%	9.33%	9.1%
Revenue/Invested Capital	1.60	1.49	3.02
ROE	83.7%	25.03%	33.15%
Adjusted net margin	7%	6.35%	8.1%
Revenue/Adjusted Book Value	11.29	3.94	4.08
Invested Funds	**BURL (LTM)**	**BURL (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	2.0%	1.7%	21%
Estimated Operating Cash/Total Capital	2.0%	1.3%	N/A
Non-cash working Capital/Total Capital	-3.7%	0.3%	18%
Invested Capital/Total Capital	87.7%	83.8%	80%
Capital Structure	**BURL (LTM)**	**BURL (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.51	0.73	0.25
Cost of Existing Debt	4.82%	6.41%	4.65%
Estimated Cost of new Borrowing	15.18%	15.18%	4.65%
CGFS Risk Rating	F	F	D
Unlevered Beta (LTM)	0.33	0.77	0.87
WACC	5.88%	9.07%	9.60%

Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	9.2%	9.4%	2.56
1/28/2018	7.6%	6.8%	1.83
1/28/2019	4.2%	9.4%	2.86
1/28/2020	5.0%	9.2%	2.11
1/28/2021	4.1%	10.3%	2.22
1/28/2022	4.1%	10.5%	2.14
1/28/2023	4.1%	10.9%	2.11
1/28/2024	4.1%	11.3%	2.08
1/28/2025	4.1%	11.7%	2.04
1/28/2026	4.1%	12.1%	2.01
1/28/2027	4.1%	12.5%	1.98
Continuing Period	4.1%	12.9%	1.95

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,992.75	$3,525.43	$102.26
1/28/2018	$1,699.86	$2,779.10	$110.21
1/28/2019	$2,809.06	$3,136.29	$120.76
1/28/2020	$3,184.94	$2,710.08	$132.49
1/28/2021	$3,496.52	$2,219.41	$145.07
1/28/2022	$3,560.35	$1,700.88	$158.62
1/28/2023	$3,109.95	$1,139.96	$173.24
1/28/2024	$4,104.02	$2.86	$196.40
1/28/2025	$4,298.88	-$637.54	$213.20
1/28/2026	$4,516.06	-$1,325.32	$231.29
1/28/2027	$4,741.27	-$2,061.99	$250.75
Continuing Period			

March 31, 2017

Sears Holdings: SHLD

Alexandre Thiam

Sector: Consumer Discretionary
Industry: Retailing
Current Price: $11.49
Target Price: $1.57

Sears Holdings (NYSE:SHLD) is a holding composed primarily by two US based retail stores called Sears and Kmart. The holding was created by Edward Lampart in early 2000's when I acquired both of these firms though his investing firm called ESL investment. Both Sears and Kmart are selling consumer discretionary in approximatively 1,500 stores altogether.

SELL

Current Price:	$11.49
Target Price:	$1.57
Market Cap:	1.23B
Beta:	0.99

Thesis:

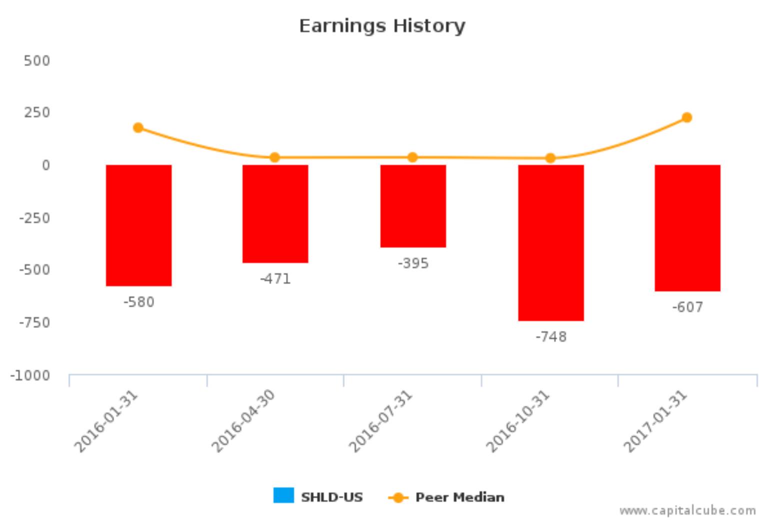
In all of the company's recent public statement, management has been trying to appease investors and the market as a whole despite reporting frightening quarterly results. But one can argue that at this point in struggle, only figures and number can talk, and in that case earnings call from the last 2 years speak for themselves. In addition, the company admitted for the very first time that "substantial doubts exist related to company's ability to continue as a going concern" The company has been poorly performing for years, therefore that are a lot of reasonable doubt that the company could go bankrupt by the end of 2017. Hence the reason I believe that Sears Holding is currently depicting a perfect sell opportunity.

Catalysts:

- **2017 earnings call coming in may**
- **Debt (bonds) refinancing with a lower credit rating might turn out to be too expensive.**
- **Wal-Mart and Target growth will slowly kill Sears no matter what**

Earnings Performance:

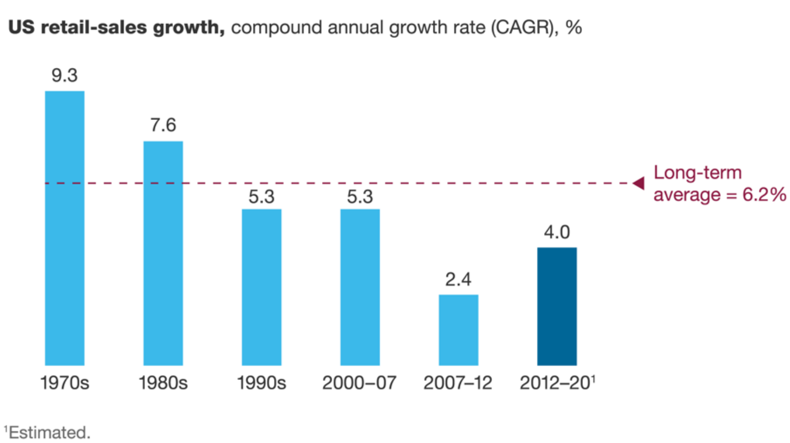
During the last 2 years, Sears has continuously been falling short on recovery expectations. If the company has been beating estimates over the last 4 consecutive quarters it is solely on the back of extremely low yearly guidance. Long story short, the revenues has been steadily dropping but simply less than anticipated. In Q3 2016, revenue fell 12.5% to $5b representing a loss of $748 million. In Q4 of the same year, revenue fell by 10.3% overall with a decline in sales in both Kmart and Sears. In Q3 cash equivalent fell to $258 million from above $1.5 b TTM. In regards to the horrific results posted by Sears the growing idea in the market's mind is that it is now most likely too late to reverse it, and it is therefore the time to jump out the sinking boat.



"We understand the concerns related to our operating performance, we have fallen short on our own timetable for achieving the profitability that we believe the company is capable of generating. With that said, the team remains fully committed to restoring profitability to our company and creating meaningful value." Said James Hollar, CFO of Sears holdings in their most recent earnings call transcript.

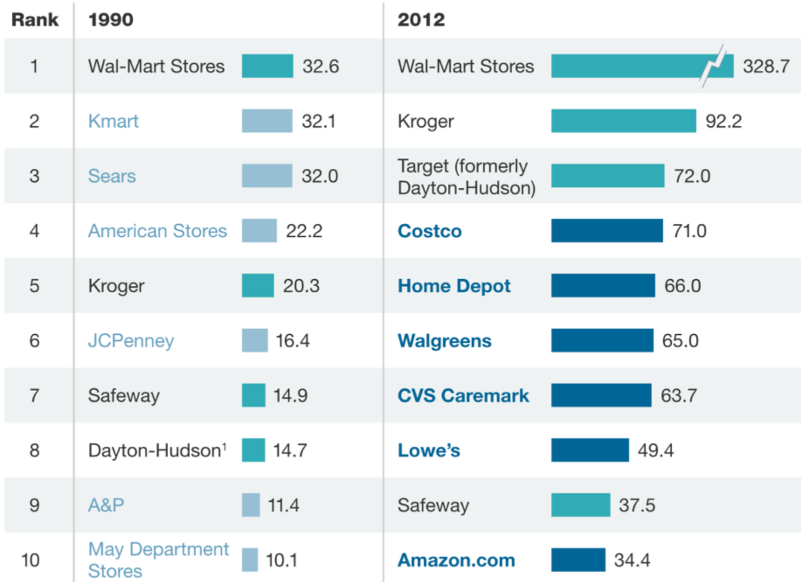
Retail Industry:

Sears Holdings is operating in one of the toughest sector in the last 2 decades. The chart here is depicting the inevitable decrease in growth of the industry. In an increasing globalized economy, consumers are seeing their shopping experience enhanced, when retailers on their end or suffering from an increasing competition. As seen on the graph, the CAGR went down to 4% from roughly 10% in the 1970's. It is hard to refer this industry as a dying industry purely based on the fact that consumers will forever have to consume by definition. On the other hand, it is clear that a paradigm shift has happened and companies that did not adapt their business model accordingly are taking a hit these days. Indeed, as I mentioned earlier a globalized economy made it tougher for domestic retailers, but more recently, the advent the Internet era also operated another shift in the sector. In this transforming, low growth market, companies



are trying to find any possible ways to boost their profits and expand both growth and market shares. Unfortunately for Sears, if the market is viewed as a pie, then the thriving firms (Wal-Mart, Target etc.) are slowly but surely killing competitors. There are four major catalyst tied to the retailing industry. Those catalysts are by definition triggering positive or negative impact on companies results. Those catalysts are as follows:

- Technology
- The Economy
- Consumers confidences
- The Platform (shopping experience)



Many analysts, and the finest industry connoisseurs are sharing the idea that both Kmart and Sears missed the technological train hence the reason why the Holding lost all its market shares. As you can spot on the graph on the left, Kmart and Sears went to second and third biggest market competitors respectively in 1990 to one the weakest 20 years later. Management of the firm indicated in early 2017 that their restructuring plan would aim at rectifying the missed shot at increase AI support in the coming years, but we will touch on this matter later on. Just like Kodak and the numerical revolution in the 2000's, I believe that Sears and Kmart missed the technological train, and it is therefore too late the catch-up with the eight hundred pound gorillas such as Wal-Mart, Kroger and Target. To go back to the industry outlook, the consumer confidence as well as the Economy are set to increase in a near future, but regarding the two other catalysts (Tech and Platforms) Sears and Kmart are less likely to benefits from the positive outlook as consumers will likely turn their heels towards to best performers with the most shopping enabling technologies and platforms.

Suppliers:

In completion of operating in what appears like as on the toughest industry, Sears also has a business model that heavily relies on its suppliers. Sears is selling products that varies on a wide range from Electrical appliances to apparel, and home furniture. All those different products are implying as much different suppliers. Now with increasing concerns over bankruptcy Sears and Kmart suppliers mostly decided to cut shipments and inventory delivery. Indeed, these suppliers are highly exposed to the bankruptcy risk attached to the companies they do business with. In case the company fill for bankruptcy Sears obligation to pay for the services completed and products delivered vanish into thin air. In that particular case, the major suppliers (Samsung, Apple, Under Armour etc.) could suffer from a loss of several millions of dollars. All in all, Sears has entered an awful vicious circle that can't seem to have end. Investors had fears over the business, but the seeing the suppliers expressing the same concerns are only making things worse. If some suppliers are reducing deal amount to hedge themselves from risk, some others are going further by simply suspending sales of their products. The name of Jakks Pacific Inc. (Toy manufacturer) ceased doing business with Kmart due to concerns over the company's financial health. Jason Hollar CFO of Sears responded that this was due to a dispute on other factors such as prices, allocation of products etc. The concerns of suppliers are based to reports made the major credit rating agencies. Fitch said that the default risk of Sears was increasing and the company could likely go bankrupt in the next 12 to 24 month. Moody's simply downgraded the company to C showing increase risk of default on loans. In order to reinsure its suppliers (and investors) Jason Hollar emphasized on the fact that the company always paid for its orders and never defaulted to this day.

Restructuring Plan:

In February 2017, Eddie Lampart announced what appears to be the last rescue plan. The company presented its 2017 restructuring plan aiming as improve profitability of the firm. The plan announces savings approaching $1b mainly it cost savings from inventory management and supply chain. There are many things that indicates from the very beginning that this number seems unrealistic, first one being that supplier are not backing up the company's initiatives. As I mentioned above, suppliers are cutting their amount of supplies which makes it more difficult for sears cost efficiencies (the lower the amount of transaction, the higher the price per items) this relationship indicates that sears margins and therefore profitability will most likely suffer a hit. Sears Holdings CEO Eddie Lampart Said "To capture these savings, we plan to reduce our corporate overhead, more closely integrate our Sears and Kmart operations and improve our merchandising, supply chain and inventory management (…) we believe the actions outlined ... will reduce our overall cash funding requirements and ensure that Sears Holdings becomes a more agile and competitive retailer with a clear path toward profitability." The first step to ignition is to close 150 stores in the United States (both Kmart and Sears).

- 108 Kmart stores
- 42 Sears stores

The company had a little bit less than 2,000 stores in 2015 with more than 1,300 Kmart and 600 Sears stores spread throughout the north American continent. This restructuring plan intend to simplify the companies structure as well as the consolidation of Sears and Kmart corporate functions. The company also wants to improve accountability of profitability in stores but also online (brick and mortar and e-com). Furthermore, the companies want to adopt the AI cited as a catalyst and implement an integrated model in order to enhance pricing, supply chain and inventory management. Ultimately the plan aims at using enhancing technologies to analyze data (data analytics software) in order to focus on their best-selling departments and highest returns categories. The company said in a statement "We expect these actions will enable us to focus our investments on driving our strategic transformation and enhancing the value of our Shop Your Way program for our millions of members and the strategic partners that we attract to the program," But this plan was not what the market wanted judging by the selloff that occurred the following days (-15%). as I mentioned earlier I believe that now is too late, in a sense that tech employed but the firm is to far behind its competitors.

Doom to Fail:

All in all, the restructuring plan of Sears is largely seen as a last attempt to bail the company but is doom to fail for so many reasons. As a said earlier, suppliers are feeling confidents which makes things more difficult for Sears. Furthermore, Sears wants to update and enhance both inventory and supply chain management but these are time as well as cash consuming, two variables than Sears cannot afford at the present moment. Indeed, the plan is the save $1b over the course of the year but the plan is going to come with sinking cost that sears did purposely not disclosed to the public. These costs attached outweighs the savings by a lot and are not visible on Sears NPV for the restructuring plan. Yet these costs are going to have to appear on the company's operating cash flow and Income Statement. Forecasts are already projecting the company to burn $1.6 b (in cash) for 2107 altogether while seeing its credit downgraded to a C due to increasing risk of default. In completion to this endless vicious circle, the company has accumulated a massive amount of debt that only worsen the equation. In 2015, sears debt reached $5b against $126m in shareholder's equity. The debt to equity showed a horrific ratio of 29.12 in 2015. The current ratio stands below 1 which says that the company will be unable to cover its short-term debt with its current assets. Approximately 3$ billion of the debt is due in October of next years, which means that the company have to refinance them with a bad credit rating. In 2015, the bonds maturing after 2027 were trading slightly above $50 cents which shows that the market firm believe that the company will not be around by then. The debt rating has been downgrading not less than 20 times over the last 15 years by all the rating agencies and his presently rates as junk. The company has maintained decent gross margins (that's before suppliers abandon) but their massive SG&A over the last 4 years resulted in operating loss and EBIT going south. Presently the business model of sears is literally eating cash which is never a good sign.

DEFAULT PROBABILITY	
HY1	0.52% - 0.88%
HY2	0.88% - 1.50%
HY3	1.50% - 2.40%
HY4	2.40% - 4.00%
HY5	4.00% - 6.00%
HY6	6.00% - 10.00%

Table 1. Bloomberg rankings of default probability. Bloomberg

Name (BI Peers)	Sales Growth Yoy (%)	EBITDA Margin (%)	5Y CAGR Sales Growth	Sales Growth (Qtr %)	Same Store Sales	Sales Spread (Qtr %)	Inv. to Sales Spread	# of Locations (Qtr)	Advertising Expenses (Ann)	Rental Expenses (Ann)
Average	-5.61%	6.44%	-3.29%	-6.58%	-5.01%	-1.56	2.50	829.86	484.38M	237.11M
SEARS HOLDINGS CORP	-11.96%	-3.15%	-13.48%	-17.13%	-10.30%	-6.83	-6.32	1.43k	850.00M	623.00M
DILLARDS INC-CL A	-4.98%	8.92%	-0.28%	-6.30%	-6.00%	-0.30	8.63	293.00	43.00M	25.95M
BON-TON STORES INC/THE	-4.13%	4.18%	-2.26%	-5.29%	-4.70%	-0.59	7.09	263.00	137.29M	87.61M
J.C. PENNEY CO INC	-0.62%	8.17%	-6.10%	-0.88%	-0.70%	-0.18	5.76	1.01k	769.00M	241.00M
STAGE STORES INC	-10.08%	3.95%	-1.05%	-9.59%	-8.50%	-1.09	3.48	798.00	91.00M	87.23M
KOHLS CORP	-2.70%	11.56%	0.61%	-2.85%	-2.20%	-0.65	-3.17	1.18k	1.02B	276.00M
MACY'S INC	-4.80%	11.42%	-0.48%	-3.99%	-2.70%	-1.29	2.05	829.00	--	319.00M

The table above shows horrific figures even the entire industry is taking a hit, Sears clearly appears as the worst-in-class. Sales declined at 12% against 5% for the industry. Other companies manage to generate positive EBITDA margins which indicates a slightly positive trend, but Sears is still dying here with a decrease of 3.15%. Same store sales decreased by 10.3% accordingly to their last earnings call. The number of stores is still well above competitors and here closing premises as mentioned in the restructuring plan appears to be fit to save the ship.

Conclusion:

There is nothing left to conclude with the full company breakdown is showing an inevitable fate for sears. ESL investments (own by Lampart) bailed out Sears by investing $300 million that the cash consuming business model will eat in the blink of eye. This rescue from ESL received positive feedback from the markets with the stock price shooting up 15% this week. Most naïve investors believed that proof of insider transactions showed confidence on the hand of management (insiders). But I strongly believe that this was exactly Lampart's idea and I view this as a lure, throwing dust in people's eyes. Numbers are self-explanatory, and it is only natural that management tries everything on their power to save the day. I believe that now is perfect time to sell Sears as there is little or no upside potential, besides market overreaction that would end corrected within days. At some point the company will most likely be worth more dead than alive if managers fill for bankruptcy before it's too late. Hence the reason I believe that the document will be filed rather soon. All in all, it is only a matter of time before the company collapse, so it might be time for current stakeholders to call it a day and leave the boat, and let the short sellers do their job.

SIENA college

BJORKLUND FUND

Sears Holdings Corporation (SHLD)

CENTER FOR GLOBAL FINANCIAL STUDIES

BEARISH

Analysis by Alexandre Thiam	Current Price:	$11.49	Intrinsic Value	$0.65	Target 1 year Return: -75.63%
3/31/2017	Divident Yield:	10.8%	Target Price	$1.57	Probability of Price Increase: 25.2%

Description

Sears Holdings Corporation operates as an integrated retailer in the United States.

General Information

Sector	Consumer Discretionary
Industry	Multiline Retail
Last Guidance	November 3, 2015
Next earnings date	June 8, 2017
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	26%

Market Data

Market Capitalization	$1,259.01
Daily volume (mil)	2.15
Shares outstanding (mil)	107.15
Diluted shares outstanding (mil)	106.90
% shares held by institutions	62%
% shares held by investments Managers	10%
% shares held by hedge funds	69%
% shares held by insiders	34.85%
Short interest	16.39%
Days to cover short interest	8.65
52 week high	$19.12
52-week low	$5.50
Levered Beta	2.06
Volatility	64.74%

Past Earning Surprises

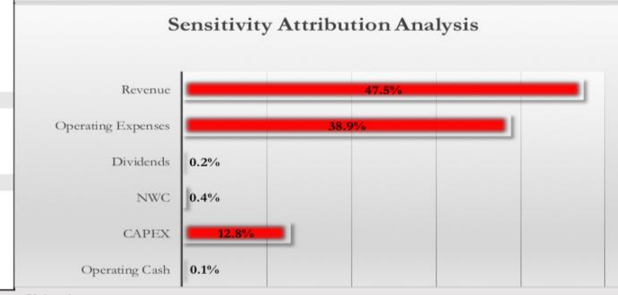
Quarter ending	Revenue	EBITDA
1/30/2016	0.61%	-144.81%
4/30/2016	2.63%	-218.20%
7/30/2016	4.23%	-208.18%
10/29/2016	1.65%	-287.42%
1/28/2017	-0.79%	-247.54%
Mean	1.67%	-221.23%
Standard error	0.9%	23.6%

Peers

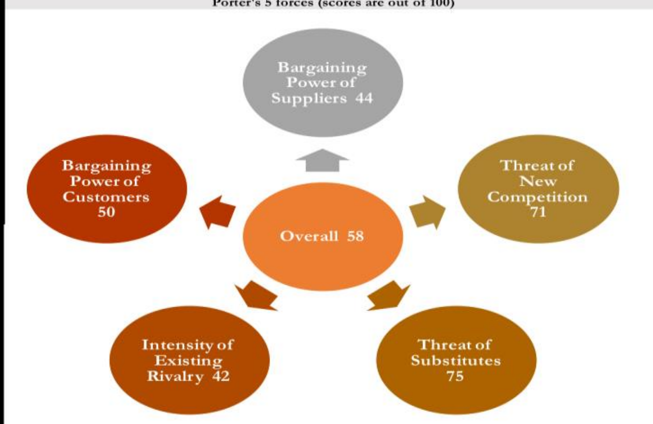
Macy's, Inc.
J. C. Penney Company, Inc.
Nordstrom, Inc.
Ross Stores, Inc.
Kohl's Corporation
Costco Wholesale Corporation
Amazon.com, Inc.
Wal-Mart Stores, Inc.

Management	Position	Total compensations growth	Total return to shareholders
Lampert, Edward	Chairman and Chief Executive	-100% per annum over 2y	-31.73% per annum over 2y
Munjal, Leena	Senior Vice President of Cus	N/M	0% per annum over 0y
Lakshman, Girish	President of Fulfillment for	N/M	0% per annum over 0y
Hollar, Jason	Chief Financial Officer	N/M	N/M
Babb, Jonathan	Deputy General Counsel, Vice	N/M	N/M
Brathwaite, Chris	Vice President of Corporate	N/M	N/M

Profitability	SHLD (LTM)	SHLD (5 years historical average)	Industry (LTM)
ROIC	-18.2%	-3.96%	11.69%
NOPAT Margin	-4%	-0.24%	4.7%
Revenue/Invested Capital	4.27	16.18	2.51
ROE	396.3%	-34.22%	15.36%
Adjusted net margin	-6%	-1.31%	4.0%
Revenue/Adjusted Book Value	-61.84	26.09	3.86
Invested Funds	**SHLD (LTM)**	**SHLD (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	4.5%	4.5%	12%
Estimated Operating Cash/Total Capital	4.5%	3.7%	N/A
Non-cash working Capital/Total Capital	9.7%	9.7%	3%
Invested Capital/Total Capital	76.3%	78.5%	93%
Capital Structure	**SHLD (LTM)**	**SHLD (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	9.25	1.99	0.45
Cost of Existing Debt	13.02%	10.05%	5.95%
Estimated Cost of new Borrowing	12.16%	9.65%	5.95%
CGFS Risk Rating	F	F	C
Unlevered Beta (LTM)	0.75	1.28	0.62
WACC	10.11%	11.18%	7.16%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-12.0%	-4.3%	-1.80
1/28/2018	-18.0%	-4.1%	-1.13
1/28/2019	-8.2%	-2.1%	-0.58
1/28/2020	-8.6%	-2.3%	-0.44
1/28/2021	-7.0%	0.0%	0.00
1/28/2022	-5.4%	2.2%	0.39
1/28/2023	-3.9%	4.4%	0.78
1/28/2024	-2.3%	6.7%	1.16
1/28/2025	-0.7%	8.9%	1.51
1/28/2026	0.8%	11.1%	1.87
1/28/2027	2.4%	13.4%	2.30
Continuing Period	4.0%	15.7%	2.74

Period	Invested Capital	Net Claims	Price per share
Base Year	$12,294.98	$7,731.82	-$13.70
1/28/2018	$11,835.70	$7,808.09	-$2.31
1/28/2019	$11,761.06	$9,669.42	$5.92
1/28/2020	$7,935.27	$10,064.36	$16.05
1/28/2021	$5,179.98	$10,371.28	$27.48
1/28/2022	$4,882.49	$10,394.55	$39.72
1/28/2023	$4,596.74	$10,306.11	$52.69
1/28/2024	$5,973.79	$10,215.65	$66.41
1/28/2025	$5,728.70	$9,943.37	$80.86
1/28/2026	$5,696.04	$9,424.32	$95.74
1/28/2027	$5,561.15	$8,795.03	$110.71
Continuing Period			