SIENA college

BJORKLUND FUND

November 1, 2017

Five Below: FIVE

Hunter Sanna

Sector: Consumer Goods
Industry: Apparel Stores
Current Price: $56.90
Target Price: $62.88

Company Description: Five below is a specialty retailer who offers a range of trend-right, high-quality merchandise targeted to the teen and pre-teen customer. The offer a dynamic, edited assortment of products, all priced $5 and below. Five Below offers select brands and licensed merchandise over specific categories, which are transforming the shopping experience to a target demographic group.

BUY

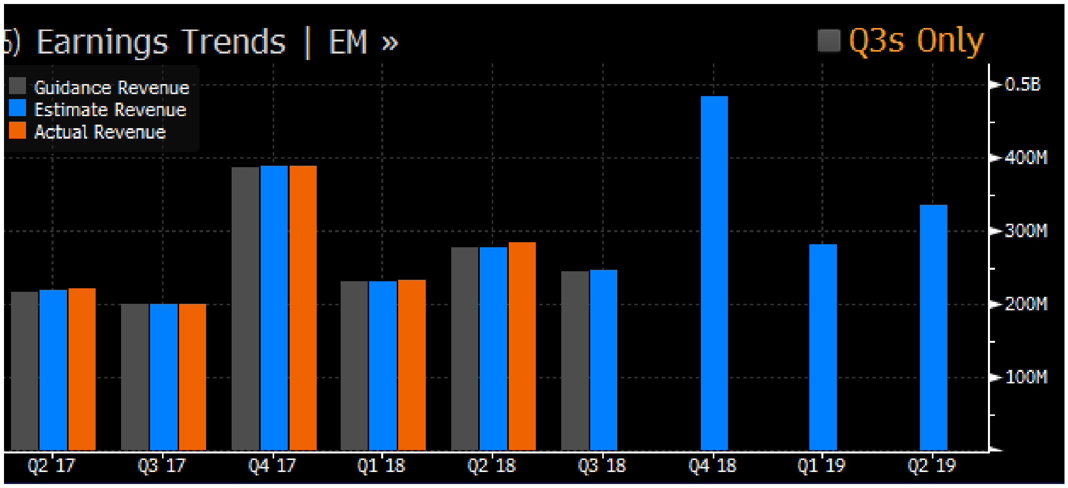
Current Price:	$56.90
Target Price:	$62.88
Market Cap:	$3.04B
Volume:	729,551
Profit Margin:	33.18%
EBITDA Margin:	14.13%
ROIC:	24.99%
WACC:	8.31%

Catalysts:

- **Short Term**: With the holiday season approaching, Five Below is expecting to see a large jump in sales.
- **Mid Term**: Management will keep up with trendy items in the market to gain more sales.
- **Long Term**: An increase in store locations should let Five Below maintain organic growth, which allows for sustainable foot traffic at various locations.

Thesis: Five Below has proven to outpace competitors by nearly 10% in revenue growth, while outpacing industry-operating margins by around 3%. Management is currently expanding into the market place by opening 100 new stores this year. At a low valuation, Five Below's formidable past figures and success during a busy holiday season bring about a positive outlook for shareholders.

Earnings Performance:



Five below has been experiencing solid growth in the past year and in the previous quarter. They have increased their net sales 28.7% to \$283.3 million. Along with this, opened 33 new stores and experienced an increase of two more stores in the previous quarter of 2017. They ended quarter two with 584 stores and are on track to reach their 100-store roll out by the end of the year. Comparable sales for the quarter increased 9.3%, which is a significant difference compared to their competitors who are currently at 3.1%. This comparable sales increase was likely due to an increase in comparable transactions. Another growth driver this quarter was the trendy product the fidget spinner, which is hard to quantify, but it did introduce many new customers to the Five Below brand.

Gross profits increased 34.4% this quarter to \$98.5 million up from \$73.4 million during last years second quarter. Additionally, gross margin was positively impacted last quarter jumping 145 basis points to 34.8%. This jump in margins was due to improved merchandise margins from more profitable spinner sales. SG&A costs also decreased from 26.2% to 25.5% compared to the second quarter, which was due to a leveraging of expense on higher sales results. Operating income as a percent of sales increased to 9.3% up from last years quarter two which was at 7.1% of sales. Net income increased 70.7% to \$16.8 Million, which resulted in generation of \$167.5 million. Inventory was relatively flat compared to the second quarter last year.

During the hurricane season, hurricane Harvey put the city of Houston underwater, which resulted in the temporary close of 23 store locations within the metro area. As of today, four stores have reopened and they believe that only a handful of stores were seriously damaged.

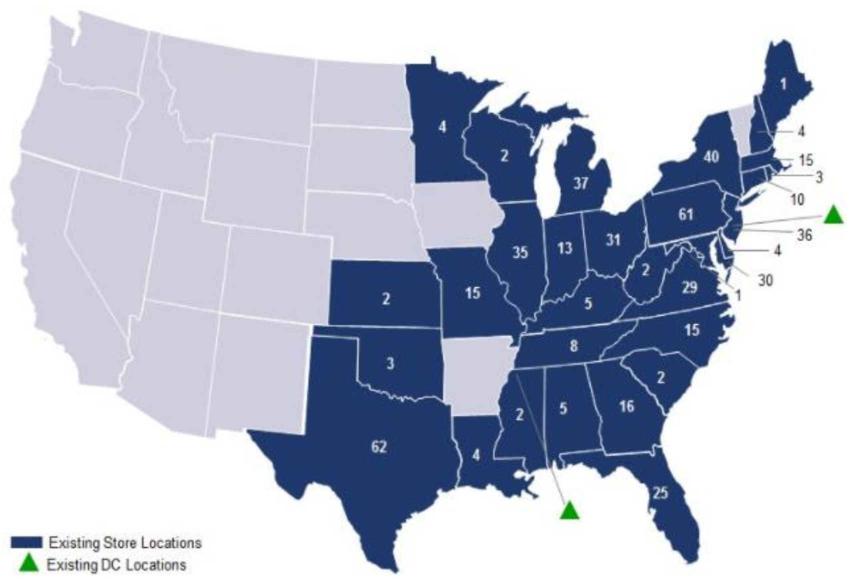
Industry Outlook:

The retail industry is an extremely stable market and results should thus remain relatively steady. The biggest competitor to retailers currently is Amazon, who has been preforming well throughout the years. Since Five Below only offers products that are below five dollars, they are not as affected as much other brands. This is due to the fee that one has to pay Amazon to hold and ship their products. The current fee is around $2.99 to outsourcing to amazon which makes profit margins low so there is very little upside to have products that are this cheap to be on Amazons market. Innovation within this market is the key success factor and many companies position themselves on the cutting edge of innovation to stay relevant.

The economics of retail is strong, as consumers spending appears to be solid as of late. The labor market also continues to strengthen which leads to more disposable income for people to buy products. The average hour rate is also strong which means that all retails should see growth rates in the positive numbers. With consumer confidence also at an all-time high there should be strong performance in this sector especially with the holiday season around the corner.

Store Location:

Five Below currently has opened more than 522 stores and plans to expand by opening 100 more store this year. When they are determining where to open new stores they are very specific on how they lease out real estate. They only open new stores that contain at least three big box retailers (stores with floor space over 50,000 square feet) nearby and various smaller retailers with a common parking area. In addition to target their demographic they try to open in suburban areas that combines the traditional retail functions of a shopping mall with amenities oriented towards upscale customers. Five Below also targets community shopping centers that have a variety of discount, junior department and supermarkets to receive the maximum foot traffic past their stores. Another area they try to target are trade areas which can vary based on geographic size, population density, demographics and proximity to alternative shopping opportunities. Currently, Five Below is located across 32 states and based in the northeastern and southeastern but at the end of 2017 they plan on opening 15 stores into California, which is a very trendy area and a growth opportunity.



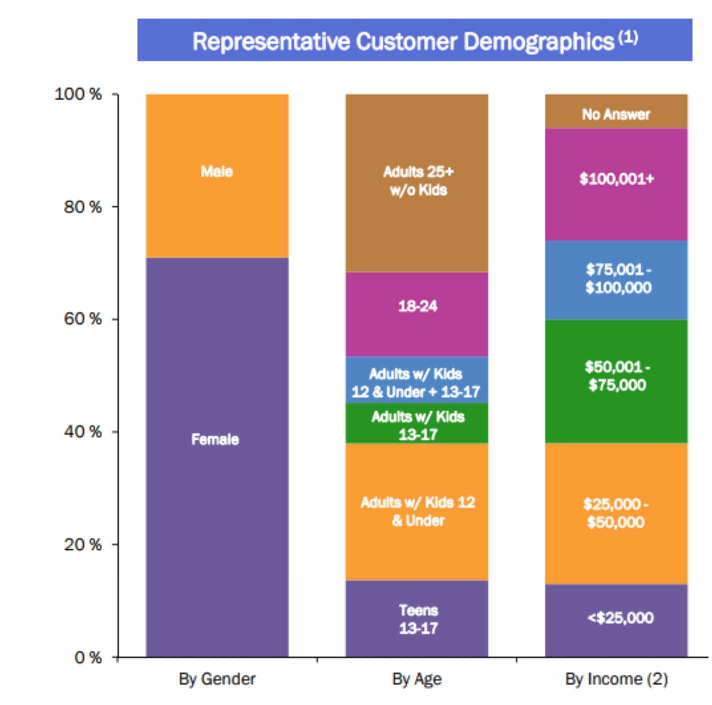
Company Strengths:

Unique focus on Customer:

The target audience for Five Below is mainly teens and pre-teens, which they leverage with trendy products that have high demand. They have built their entire concept around appealing specifically to their market and at a differentiated price point. The store layout also has an upbeat and lively ambience to drive foot traffic into the store, while keeping the customer engaged in the store. Five Below is consistently analyzing trends within the changing teen and pre-teen market space to be responsive to the market and have products that become mainstream. The pricing of their products also allow teens to shop independently at Five Below and to be a repeat customer of these trendy products. Five

Trend right Products:

Five Below offers trend-right and everyday products to the customers in each category world they operate in. They positon themselves so that the products that are in high demand can be easily accessible for a cheap price. With a broad range of vendor mainly sourced domestically, they can easily obtain these trendy products at a fast rate and limit the cyclical period the product has. With these trendy products, they can be in extreme high demand where many other retailers will sell out due to the response time Five Below has with their domestic vendors. However, this does not happen quite as often.



Value Items for Customers:

Due to the unique pricing model Five Below has, there is a clear value proposition to their customer base. With their target audience, it is hard for teens to buy items that are pricy due to various reasons, but at Five Below they can get many products for the same amount of cash they would spend on one item elsewhere. Along with this, they have an opportunistic buying strategy to capitalize on excess inventory with their vendor. Many other vendors do not have this advantage.

Management Team:

Five Below has a very experienced management team with a wide variety of skills which include merchandising, real estate, store operations, finance, supply chain management, and information technology. With this teams background they drive a strong operating philosophy, which is focused on providing their customers with high quality merchandise at a great value.

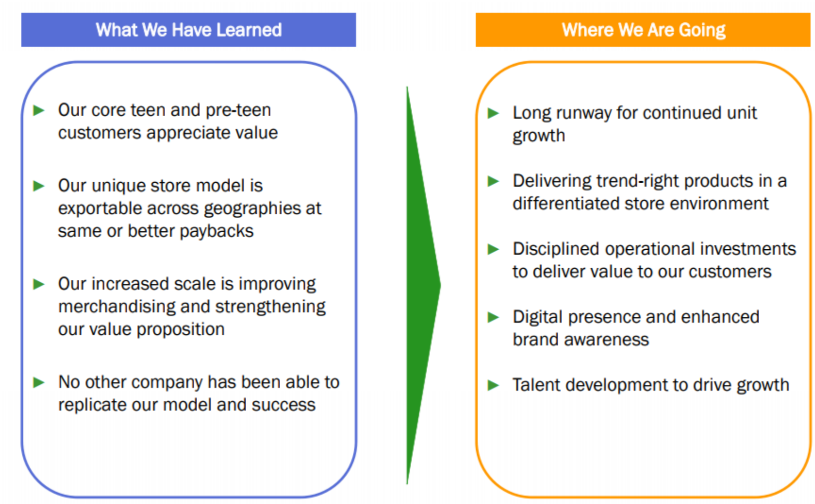
Growth Strategy:

Grow Store Base:

A major driver of growth within the retail industry is to expand store bases to draw more foot traffic into their stores. Management plans on opening 100 new stores across a wider geographic base this year to extend their reach and drive their brand awareness. Their long-term goal is to grow their store base to 2,000 locations within the United States. Their main store size is about 8,000 square feet, which is specifically strategized to have customers buy their products. Five Below also has a talented real estate management team who picks their locations based on their strict guidelines. When opening new stores the team looks at performance of surrounding stores, foot traffic, and other site characteristics to ensure success at the location.

Drive Comparable Sales:

Comparable sales are the amount of revenue a store generates compared to its similar period in the past. This measure is a good indicator of growth within the retail industry because there are seasonality effects within this space and can skew the number if looked at by prior period. Where Five Below differentiates themselves with competitors is in this segment. This current year Five Below has produced comparable sales of 2%, while their main competitors Dollar tree and Dollar genera are at 1.8% and .9% respectfully. Five Below does this much better than their competitors by refining their merchandising offerings and a differentiated in-store shopping experience. To drive people back to these stores, they have an efficient marketing efforts and good customer engagement.



Increase Brand Awareness:

While capitalizing on marketing is a key success factor to raise brand awareness it is useless if not done properly. Five Below's current marketing strategy is mainly focused in the digital platforms that teens are consistently using. A major player for their campaign is to drive their social media presence to increase brand awareness at a decent cost. They also have an operating website to drive customers into their stores and increase their email list to get data on customer's needs.

Holiday Season:

Due to major events in the fourth quarter, the retail sector experiences a positive seasonality effect. Starting after thanksgiving, with the huge sale day of black Friday consumers are on the hunt to start buying bargains and gifts for their significant others. With these large shopping days ahead and how Five Below positions their stores near large retailers and heavy foot traffic areas the chance of them capitalizing on other stores customers are very high. Based on surveys, about 61% of people plan to shop on black Friday either online or going to stores to take advantage of these sales. Many people like the idea of e-commerce but with Gen-xer's and baby boomer still accounting for the majority of the population, people will still go into retail stores to buy their kids toys and stocking stuffers. With a cheap price and small toys to fill up the stockings on Christmas Five Below will capitalize on the upcoming holidays approaching. In addition, Five has historical seen almost double the revenue they receive in the fourth quarter compared to any other quarter.

Conclusion:

Five Below is a smart buy before their biggest earnings period hits. The majority of their revenue is based in the last quarter of the year due to the holiday season, which we will be able to see in the stock price. With growth rates above competitors and the continue opening of new stores, Five Below is in a growing trend which we will see in the years ahead.

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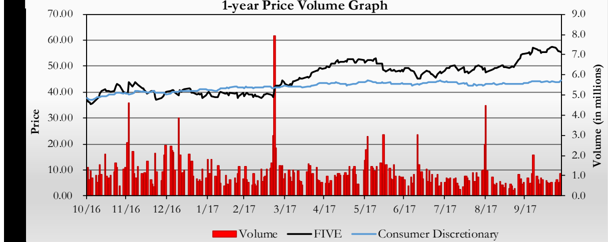
Five Below, Inc. (FIVE) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by Hunter Sanna	Current Price:	$55.25	Intrinsic Value	$56.95	Target 1 year Return: 14.27%
11/2/2017	Divident Yield:	0.5%	Target Price	$62.88	Probability of Price Increase: 85%

1-year Price Volume Graph



Description

Five Below, Inc. operates as a specialty value retailer in the United States.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	December 2, 2017
Estimated Country Risk Premium	4.88%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data

Market Capitalization	$3,049.78
Daily volume (mil)	0.65
Shares outstanding (mil)	55.20
Diluted shares outstanding (mil)	55.32
% shares held by institutions	116%
% shares held by investments Managers	100%
% shares held by hedge funds	7%
% shares held by insiders	2.52%
Short interest	13.25%
Days to cover short interest	8.60
52 week high	$58.07
52-week low	$35.03
Volatility	37.19%

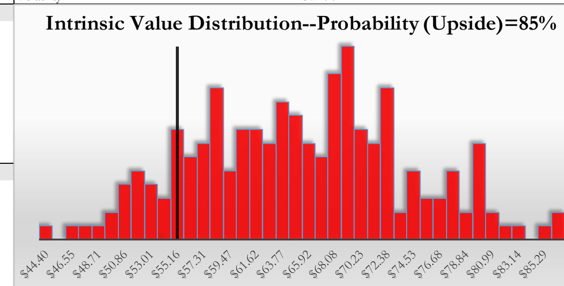
Past Earning Surprises

Quarter ending	Revenue	EBITDA
7/30/2016	0.56%	1.26%
10/29/2016	-0.81%	2.67%
1/28/2017	0.18%	0.06%
4/29/2017	0.99%	2.70%
7/29/2017	2.50%	13.12%
Mean	0.68%	3.96%
Standard error	0.5%	2.3%

Peers

- Dollar General Corporation
- Dollar Tree, Inc.
- Tractor Supply Company

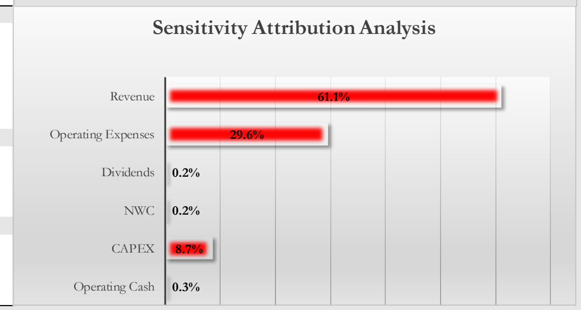
Intrinsic Value Distribution--Probability (Upside)=85%



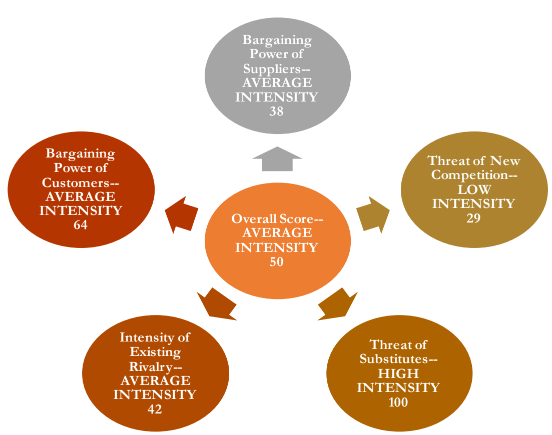
Management	Position	Total compensations growth	Total return to shareholders
Vellios, Thomas	Co-Founder & Executive Chair	-25.52% per annum over 5y	N/M
Anderson, Joel	President, CEO & Director	-28.56% per annum over 2y	-1.96% per annum over 2y
Bull, Kenneth	CFO & Treasurer	17.96% per annum over 5y	N/M
Specter, Eric	Chief Administrative Officer	-27.11% per annum over 2y	-1.96% per annum over 2y
Romanko, Michael	Executive Vice President of	20.56% per annum over 2y	-1.96% per annum over 2y
Rosadino, Eugene	Senior Vice President of Sup	N/M	N/M

Profitability	FIVE (LTM)	FIVE (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	17.1%	32.75%	9.53%
Operating Margin	6%	6.00%	4.49%
Revenue/Capital (GAAP)	2.67	5.46	2.12
ROE (GAAP)	18.0%	-88.7%	22.1%
Net margin	6.1%	5.5%	4.9%
Revenue/Book Value (GAAP)	2.95	-16.27	4.54
Invested Funds	**FIVE (LTM)**	**FIVE (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	16.9%	42.3%	2.4%
NWC/Capital	10.9%	18.9%	14.4%
Operating Assets/Capital	72.2%	38.9%	59.5%
Goodwill/Capital	0.0%	0.0%	23.7%
Capital Structure	**FIVE (LTM)**	**FIVE (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.35	0.53	0.58
Cost of Existing Debt	11.5%	10.8%	4.6%
CGFS Rating (F-score, Z-score, and default Probability)	AA	BB	BBB
WACC	15.5%	16.2%	8.3%

Sensitivity Attribution Analysis



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



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	21%	10.0%	2.13
7/29/2018	21%	10.7%	1.96
7/29/2019	20%	10.6%	1.78
7/29/2020	5%	10.2%	1.50
7/29/2021	23%	9.5%	1.51
7/29/2022	10%	9.6%	1.45
7/29/2023	9%	9.9%	1.34
7/29/2024	8%	10.2%	1.24
7/29/2025	7%	10.4%	1.16
7/29/2026	5%	10.7%	1.09
7/29/2027	4%	11.0%	1.01
Continuing Period	3%	11.2%	0.94

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	21.3%	15.5%	$57.02
7/29/2018	21.0%	8.7%	$62.71
7/29/2019	18.9%	9.2%	$68.65
7/29/2020	15.4%	8.2%	$74.17
7/29/2021	14.3%	8.6%	$80.31
7/29/2022	13.8%	8.6%	$86.74
7/29/2023	13.2%	8.0%	$93.13
7/29/2024	12.6%	8.0%	$99.80
7/29/2025	12.1%	8.1%	$106.79
7/29/2026	11.6%	8.1%	$113.90
7/29/2027	11.1%	8.1%	$121.33
Continuing Period	10.5%	8.0%	

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October 31, 2017

Globus Medical, Inc: GMED

Nico Dumas

Sector: Healthcare
Industry: Healthcare Equipment & Supplies
Current Price: $31.21
Target Price: $36.87

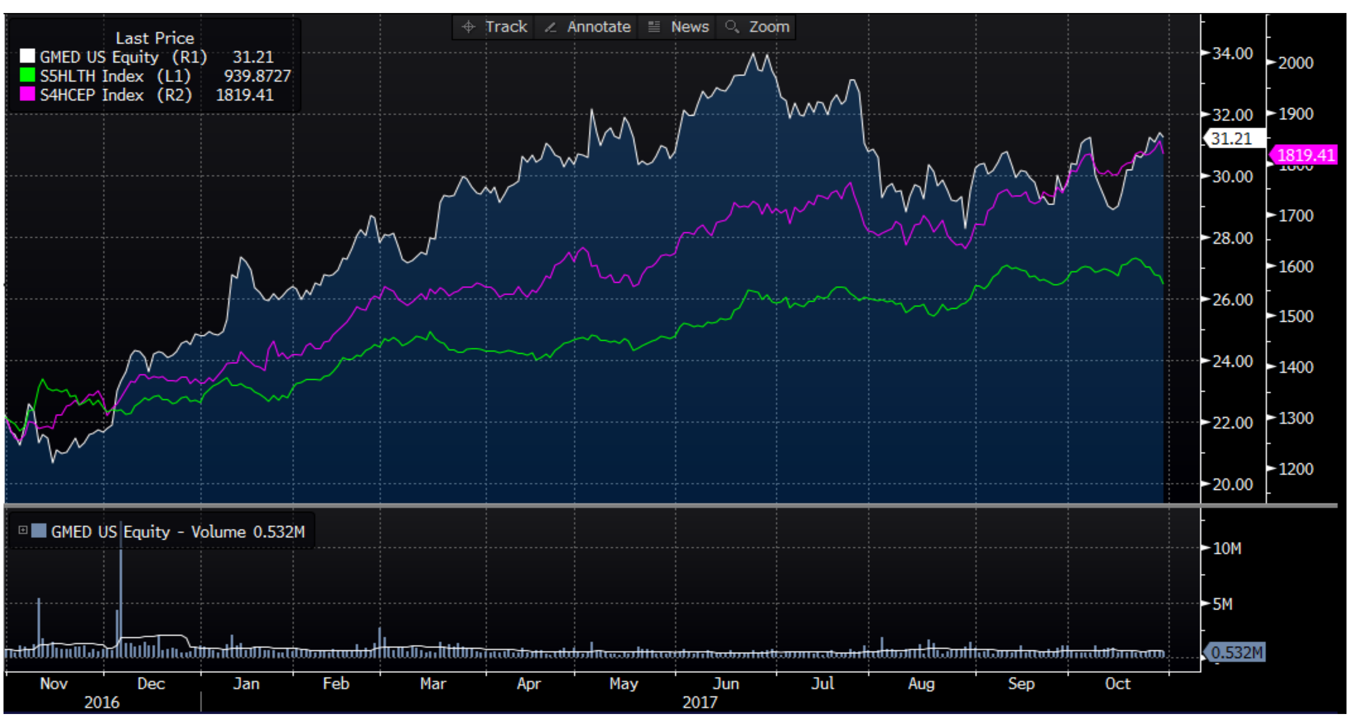
Globus Medical, Inc. is a mid-cap medical device company that focuses on the design, development, and commercialization of musculoskeletal implants for patents with spinal issues. Founded in 2003, they have been the fastest growing company in the history of orthopedics. Globus is engineer-driven, with a history of rapidly developing innovative products and procedures to assist surgeons in effectively treating their patients. They have developed over 170 differentiated products that address a broad array of spinal treatments since inception. Globus strives on providing the highest quality products to improve techniques and outcomes of spine surgery to ensure patient satisfaction. They have a single-minded focus on further enhancing spinal surgery and this is what sets them apart from competition within the industry.

BUY/HOLD/SELL

Current Price:	$31.21
Target Price:	$36.87
Market Cap:	3B
Volume	.532M
52 week spread	$19.25-$34.03
EBITDA Margin	34.8%
Net Income Margin	18.1%
ROIC	13.2%
WACC	9.4%

Catalysts:

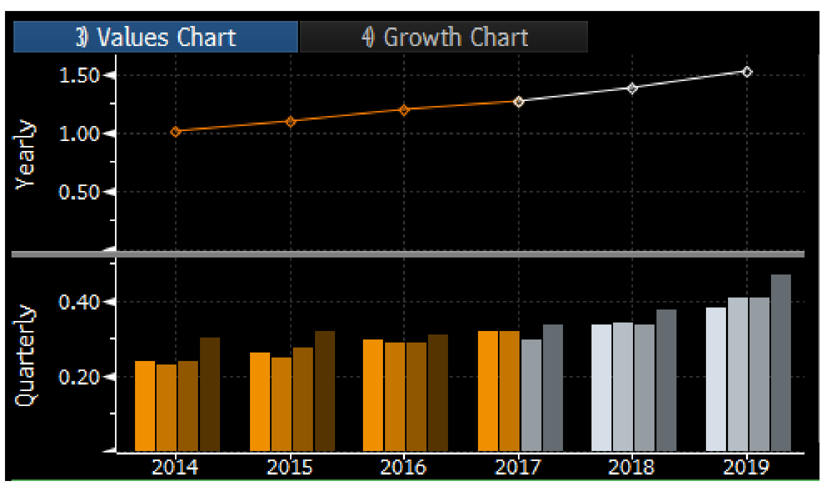
- **Short Term (within the year):** The introduction of robotic and orthopedic trauma products along with new product development.
- **Mid Term (1-2 years):** Mergers, acquisitions, and international expansion.
- **Long Term (3+):** Increasing sales force size and improvements to the standard of care outside of the United States.



Thesis: Two of the leading drivers related to healthcare costs include expensive technologies and lack of cost consideration from patients. Individuals with spinal problems want the best products available; having little concern over price when it comes to their health. Patents want the latest, most advanced technology, and this is what Globus Medical provides. Spine disorders range anywhere from mild pain and loss of feeling to extreme pain and paralysis. Globus has developed over 170 different products accustomed to whichever spinal trauma a patient might have. Headquartered in Audubon, Pennsylvania, the company markets and sells their products within North, Central, & South America, Europe, Asia, Africa, and parts of Australia. With the introduction of Globus' robotic surgical devices and orthopedic trauma products, stock appreciation will be noticed. These products have yet to come to the market, still waiting on clearance from the U.S. Food and Drug Administration. International expansion is another target, acquiring Alphatec Holdings, Inc accompanied with international sales professionals and distribution channels.

Earnings Performance:

Adjusted earnings have been consistently increasing over the previous three and a half years and are projected to stay on this path. Analysts are forecasting an adjusted EPS of .47 by the fourth quarter of 2019. Current adjusted earnings for 2017 have been stable at .32 over the first two quarters. If you notice on the values chart there is a cyclical theme found in EPS concerning fourth quarters. After doing some research, I found out that the top two reasons for spinal injuries are motor vehicle accidents and slips or falls. These motor vehicle accidents usually occur from rainy/icy roads, which come in the fourth quarter generally. Slips and falls are also much more predominant in the fall and winter months, leading to fourth quarter sales of spinal treatment products. Buying Globus now is not only a good idea due to the upcoming fourth quarter cyclical boost in earnings. From the second quarter of 2015 to the second quarter of 2017, adjusted EPS has increased by a CAGR of 14%. If this CAGR stays constant, by quarter two of 2019 adjusted EPS should reach .42. This is slightly above analysts' projections of .41, suggesting an undervaluation. Actual adjusted earnings per share have exceeded estimated earnings per share in both quarters of 2017 as well. Globus has been undervalued, beating both EPS targets and revenue over the first two quarters of 2017. The company is starting to develop a global footprint, increasing revenues and earnings.



Globalization:

In the second quarter earnings report, for the three months ended July 30, 2017, international sales reached $26.1 million compared to $12.8 million in quarter two of 2016. This is a 104.5% increase in international sales. Globus Medical, Inc. acquired the international operations and distribution channels of a company called Alphatec Holdings, Inc. on September 1st, 2016. Alphatec's total sales in 2015 amounted to $71 million. This acquisition, bought for $80.1 million cash, provided immediate access to Japan and other key geographical areas. Globus also extended a five-year senior secured credit facility allowing $30 million to support Alphatec's current working capital needs. Alphatec will continue to sell their products until Globus begins infusing their products into the distribution channel. Globus has already started globalization and Alphatec has yet to begin distributing their medical products. A large part of this increase in international revenue was Globus' acquisition of a substantial pool of international sales professionals as well as an extensive network of international distributors. In GMED's 10-k, they predicted the results of these acquisitions would essentially double international sales. International sales have increased approximately 72% through the following three quarters since the acquisition. If this pace continues, international sales will have a CAGR of 95.6%. Along with international sales increasing, Globus' selling, general, and administrative expenses have increased 21% compared to SG&A expenses in the second quarter of 2016. The company is building a sales force. In quarter two of 2017, they spent $8.8 million strictly on Alphatec International sales, building the Emerging Technologies sales force, and increasing the size of their current U.S sales force. A key success factor within the Healthcare Equipment and Supplies industry is the ability to sell your company's products. Having a strong sales team is an important part of growth, and Globus is investing in this growth strategy. They have increased their SG&A expenses $36.5 million within two years; a 17.3% increase. The number of patents that Globus has brought in has more than doubled between the last two 10-k's. They served 342 million people in 2014 and in 2016; they reported having 688 million patents. This is a 104% increase within two years.

Medical Products:

Globus Medical spent $41.3 million on research and development within their last twelve months from June 30th, 2017. Their only segment labelled "Medical Products," contains two different categories: "Innovative Fusion" and "Disruptive Technology". In Globus Medical's last earnings report from 2017, total sales between these two categories increased 11.4% from the first two quarters of 2016. Innovative fusion has increased by 16% compared to an increase of 6.7% in the disruptive technology category. GMED's innovative fusion products are used to treat a wide variety of spinal disorders for the entire spine and can be used in a variety of surgical approaches. The company's disruptive technologies category consists of products improving current surgical procedures and targeting spinal disorders earlier in the care process. Globus allocates the same amount of resources to both categories, focused on launching five to ten new products per year. The company also keeps thirty products in development each year, focused on providing the latest medical products available. This is what allows rapid growth; consistently introducing new, innovative products to the market. In Globus Medical's latest 10-k, disruptive technology grew $19.7 million, primarily due to products launched within the past three years. Both categories contain relatively the same margins, consisting of the same materials and sales prices. The only difference is the use of the products that each category provides; innovative fusion having to deal with new approaches to spinal treatment whereas disruptive technology deals with altering existing methods.

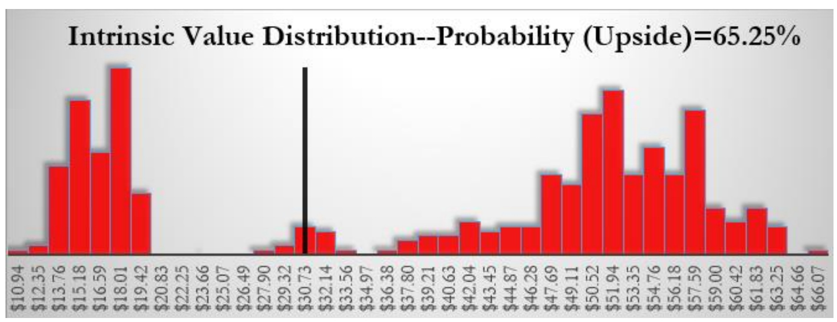
Robotic Surgical and Orthopedic Trauma Products:

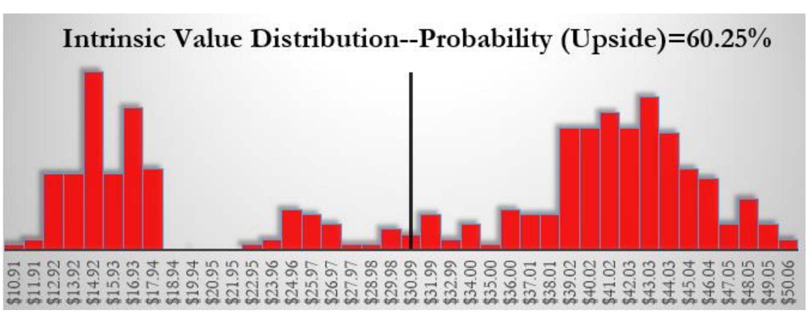
GMED launched seventeen new products in 2016 and have thirty potential new products in various stages of development. Of these products in development, included is their robotic surgical devices and orthopedic trauma products. The U.S. Food and Drug Administration have not yet fully cleared these two categories. When these products do clear, Globus will essentially be opening a new category of products; a new revenue stream. They have already begun the process of building an exclusive sales force for their robotic surgical and orthopedic trauma businesses and expect to expand these teams within the U.S. and abroad. Globus mentioned in their 10-k concerning fiscal year 2016, that they planned to launch these products within 2017. So far, there has been one successful case concerning their orthopedic trauma products. On September 14th, 2017, Globus announced the first case where an orthopedic surgeon used their newly developed product named "ANTHEM™". This device allowed the hand surgeon to see a clear view of a fracture line for improved diagnosis and care. This product can be used for trauma areas outside of the spinal system. This is a huge factor, previous products only concerning with spinal treatment.

GMED's price per share has only increased $1.45 since this announcement, which I believe resembles an undervaluation concerning the current stock price of $31.21. On June 13th, Globus acquired KB Medical SA; a private company that designs, manufactures, and markets robotic assistance systems for the healthcare industry. Surgical practices will most likely shift within the next decade, turning towards robotic assistance in the operating room. These devices allow extreme precision, precision that the typical human surgeon is incapable of performing. Globus took notice of this and is beginning to further invest in robotic technology. The company bought KB Medical SA for $31.5 million cash. The stock price reached it's 52 week high of $34.03 a week and a half after the acquisition. It does not make sense that the stock is still hovering around $30-$31 per share. KB Medical is going to help Globus penetrate a completely new market.

Upside/Downside:

Based on my evaluations of Globus Medical, I created both upside and downside intrinsic value distributions. For the upside forecast, I used an increase of 2% per year for the revenue growth rate for four years until maturity, where the company's growth rate would begin to slow. I also projected a 5% cut in operating cost to revenue within an eleven-year spread. In the preceding four years from where my projections began, the company cut operating costs to revenue by approximately 2%. If this trend continues, we could see operating costs to revenue even lower than my forecast, creating more value. The Monte Carlo simulation resulted in a one-year target of $36.87 with a 65.25% probability of upside. For my downside forecast, I only projected the revenue growth rate continuing to increase until 2019, effectively predicting maturity within two years, which is extremely unlikely due to their most recent acquisition. This growth rate would again increase by 2% but only for two years, followed by a gradual decrease. I also increased operating cost to revenue 2%, concluding that they may maximize cost cutting at 61% operating costs to revenue. This simulation created a one-year target price of $29.74, yet still encompassing a probable upside of 60.25%. Even with conservative projections, both of these simulations resulted in a probable increase in stock value. The possible upside from my projections resulted in an 18.1% gain compared to a 4.7% loss. Concerning price per share, Globus Medical's stock could either increase by $5.66 per share or decrease by $1.47 per share. This upside simulation is extremely conservative, not taking into account their international revenue's growth rate of 104% between the second quarter of 2017 and the second quarter of 2016. I decided to change the return on cash invested more towards their historical average and increase revenue growth. Seeing how Globus already has a relatively large presence in the United States market, so I decided to keep a CAGR of 6%; which they have maintained through the preceding three quarters. They had an international





CAGR of 95.6% over these same three quarters (average of 23.9% revenue increase per quarter). Knowing that this would be practically impossible to maintain as you can see below, I forecasted a 30% decrease of the original growth rate per year. After running a new Monte Carlo simulation to forecast this international growth scenario, the one-year target price came out as $41.35. This is a 32.5% possible appreciation in stock price. A $10.14 increase from the current price per share of $31.21.

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
International Rev	63.80	124.80	208.33	326.85	484.91	684.22	923.27	1197.46	1499.72	1821.51	2153.71
US Revenue	500.20	530.21	562.02	595.75	631.49	669.38	709.54	752.12	797.24	845.08	895.78
Total Revenues	**564.00**	**655.01**	**770.36**	**922.60**	**1116.40**	**1353.60**	**1632.81**	**1949.57**	**2296.97**	**2666.58**	**3049.49**
		16%	18%	20%	21%	21%	21%	19%	18%	16%	14%
International Growth Rate		96%	67%	57%	48%	41%	35%	30%	25%	21%	18%

Relative Valuation:

Name (BI Peers)	Ticker	Mkt Cap	EBITDA to Net Sales LF	ROIC LF	WACC	OPM LF	NI Mrgn Adj LF
Median		1.76B	13.84%	3.17%	8.57%	9.89%	6.06%
100) GLOBUS MEDICAL IN...	GMED US	3.02B	31.54%	12.57%	9.42%	24.52%	19.39%
101) STRAUMANN HOLDIN...	STMN SW	11.11B	28.72%	26.31%	7.30%	25.36%	22.29%
102) NUVASIVE INC	NUVA US	2.91B	24.59%	6.37%	8.29%	12.37%	6.78%
103) EXACTECH INC	EXAC US	613.15M	14.37%	-0.02%	9.47%	6.40%	4.72%
104) PRIM SA	PRM SM	206.91M	13.23%	11.26%	5.53%	11.20%	9.14%
105) ORTHOFIX INTERNAT...	OFIX US	946.02M	13.31%	-3.86%	8.85%	8.58%	5.34%
106) WRIGHT MEDICAL GR...	WMGI US	2.58B	2.15%	-4.69%	10.04%	-10.86%	-20.72%
107) ALPHATEC HOLDINGS...	ATEC US	58.96M	4.66%	-38.49%	7.26%	-3.01%	-11.66%

Compared to their competitors, Globus Medical is one of the top performers in EBITDA to net sales, operating margin, and net income margin. Their ROIC from the latest filing is also well above the median of their competition at 12.57%. The company has maintained consistent revenue growth year over year, almost reaching $600 million in 2016. Over the last five years, they have maintained a compounded annual growth rate of 10.85%. If the growth rate continues at this pace, which I believe is being very conservative, they should generate total revenues of over $1 billion by 2022 ($1.1 billion). Globus Medical's officers and presidents receive fair compensation as well. Globus is a $3 billion company, with its main officers/presidents making below $2 million a year. Their Co-Founder, David Paul, established the company in 2003; and is only making $1.7 million a year. David Demski recently took over as Chief Executive Officer on August 29th, 2017. He has been with the company since inception as a senior executive, serving initially as Chief Financial Officer. In 2008, he was appointed President and Chief Operating Officer of the company. During Mr. Demski's tenure as President and COO, Globus Medical consistently delivered above average growth and profit margins, creating a successful IPO in 2012.

Compensation Analysis		2016
Name	Title	Total Compensation
1) Daniel Scavilla	Senior VP/CFO	1,784,456 (USD)
2) David Paul	Chairman/CEO/Co-Foun...	1,678,183 (USD)
3) David Demski	President:Emerging Tec...	1,206,343 (USD)
4) A Murphy	President:Commercial O...	1,194,110 (USD)
5) Anthony Williams	President	1,164,584 (USD)

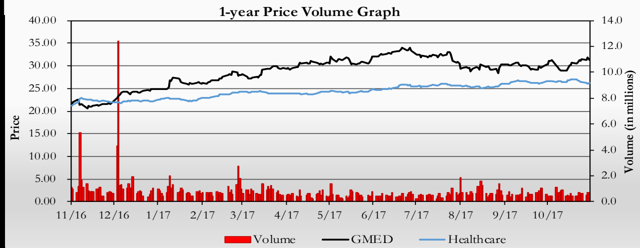
Conclusion:

Globus is a best in class spinal treatment company that is about to expand globally. They will also be introducing a new segment to their company, concerning robotic surgical and orthopedic trauma products. Globus has recently acquired both Alphatec Holdings, Inc. and KB Medical SA. These acquisitions will not only help international growth, but also penetrate markets that they have yet to touch. With the help of the sales force that they have been building, selling newly developed products should be quick and at large. Globus Medical, Inc.'s current stock price of $31.21 is a complete undervaluation. This cheap stock certainly deserves to be bought at its current price.

CENTER FOR GLOBAL FINANCIAL STUDIES

Globus Medical, Inc. (GMED) — **NEUTRAL**

Analysis by Nico Dumas	Current Price: $31.21	Intrinsic Value $33.37	Target 1 year Return: 17.5%
11/3/2017	Divident Yield: 0.0%	Target Price $36.67	Probability of Price Increase: 65.25%



Description

Globus Medical, Inc., a medical device company, focuses on the design, development, and commercialization of musculoskeletal implants that promote healing in patients with spine disorders.

General Information

Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	November 3, 2015
Next earnings date	November 8, 2017
Estimated Country Risk Premium	5.36%
Effective Tax rate	21%
Effective Operating Tax rate	21%

Market Data

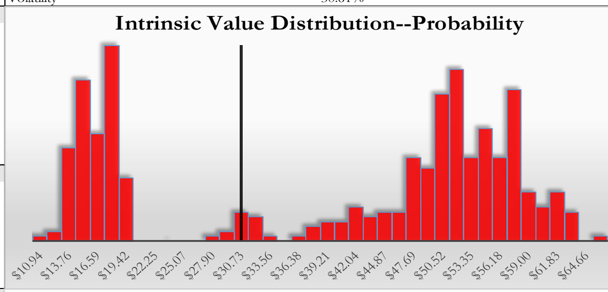
Market Capitalization	$2,994.68
Daily volume (mil)	0.26
Shares outstanding (mil)	96.29
Diluted shares outstanding (mil)	96.99
% shares held by institutions	72%
% shares held by investments Managers	56%
% shares held by hedge funds	3%
% shares held by insiders	27.25%
Short interest	9.16%
Days to cover short interest	13.04
52 week high	$34.03
52-week low	$19.25
Volatility	30.61%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
6/30/2016	-2.95%	-5.07%
9/30/2016	-2.41%	-3.46%
12/31/2016	1.16%	0.67%
3/31/2017	4.37%	1.92%
6/30/2017	1.26%	-7.02%
Mean	0.28%	-2.59%
Standard error	1.3%	1.7%

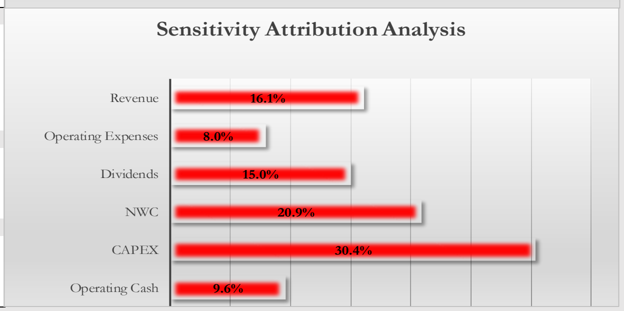
Peers

- NuVasive, Inc.
- Wright Medical Group N.V.
- K2M Group Holdings, Inc.
- Stryker Corporation
- Nevro Corp.
- Zimmer Biomet Holdings, Inc.
- Orthofix International N.V.
- Exactech, Inc.

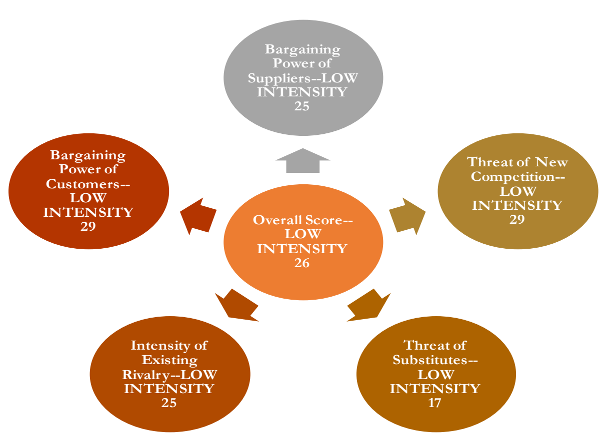


Management	Position	Total compensations growth	Total return to shareholders
Paul, David	Co-Founder & Executive Chair	21.43% per annum over 4y	N/M
Demski, David	CEO, Group President of Emer	20.52% per annum over 4y	N/M
Williams, Anthony	President and Corporate Secr	N/M	0% per annum over 0y
Davidar, David	Co-Founder and Director	15.57% per annum over 4y	N/M
Scavilla, Daniel	CFO & Senior VP	N/M	0% per annum over 0y
Murphy, A.	Group President of Commercia	20.23% per annum over 4y	N/M

Profitability	GMED (LTM)	GMED (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	19.9%	111.11%	6.36%
Operating Margin	20%	16.38%	7.75%
Revenue/Capital (GAAP)	1.01	6.78	0.82
ROE (GAAP)	16.0%	19.6%	7.3%
Net margin	23.4%	22.2%	8.7%
Revenue/Book Value (GAAP)	0.69	0.88	0.84
Invested Funds	**GMED (LTM)**	**GMED (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	32.0%	67.8%	21.1%
NWC/Capital	20.4%	21.0%	16.6%
Operating Assets/Capital	36.4%	6.6%	36.6%
Goodwill/Capital	11.1%	4.7%	25.8%
Capital Structure	**GMED (LTM)**	**GMED (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.00	0.01	0.37
Cost of Existing Debt	7.0%	7.0%	6.6%
CGFS Rating (F-score, Z-score, and default Probability)	B	BB	BBB
WACC	12.4%	12.0%	10.6%



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



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	7%	25.8%	0.72
6/30/2018	13%	20.4%	0.65
6/30/2019	15%	21.7%	0.64
6/30/2020	17%	22.5%	0.65
6/30/2021	18%	22.7%	0.65
6/30/2022	16%	25.4%	0.65
6/30/2023	15%	26.4%	0.63
6/30/2024	13%	27.3%	0.60
6/30/2025	10%	28.1%	0.57
6/30/2026	7%	28.9%	0.52
6/30/2027	5%	29.6%	0.47
Continuing Period	2%	30.3%	0.42

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	18.6%	12.4%	$46.44
6/30/2018	13.2%	9.0%	$51.69
6/30/2019	13.9%	9.2%	$56.35
6/30/2020	14.5%	9.2%	$61.34
6/30/2021	14.9%	9.5%	$66.84
6/30/2022	16.5%	9.3%	$72.61
6/30/2023	16.7%	9.3%	$78.76
6/30/2024	16.5%	9.3%	$85.24
6/30/2025	15.9%	9.3%	$92.03
6/30/2026	15.0%	9.4%	$99.08
6/30/2027	14.0%	9.4%	$106.32
Continuing Period	12.8%	9.4%	

October 20, 2017

Mercury Systems, Inc: MRCY

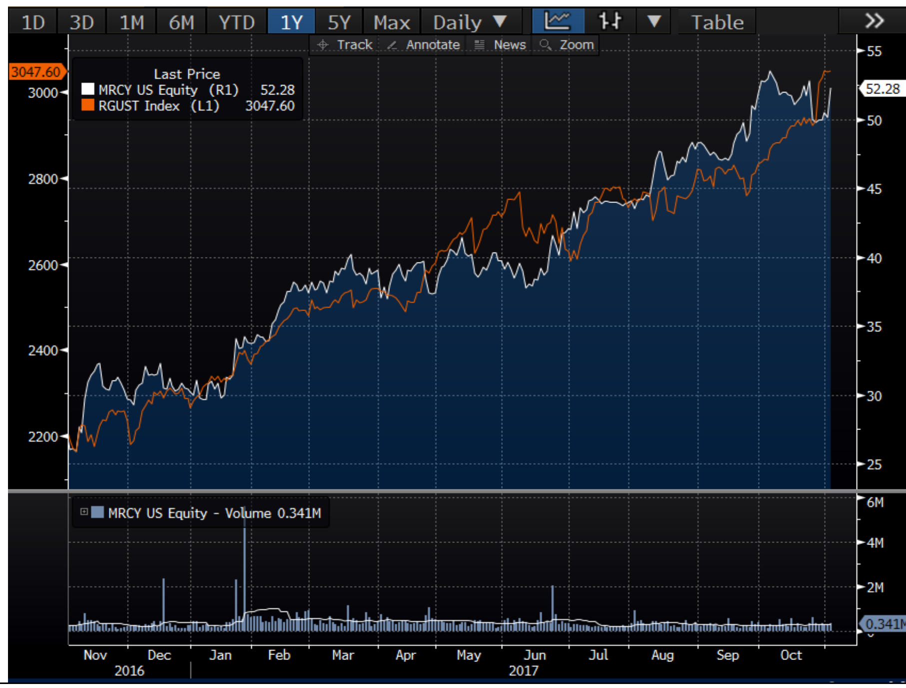
Nicholas Matzelevich

Sector: Technology
Industry: Computer Peripherals
Current Price: $52.28
Target Price: $59.47

Company Description: Mercury Systems, Inc. is a leading commercial provider of secure sensor and safety critical mission processing subsystems for the United States and International defense industries. The company is a pioneer in the next generation defense electronics business model and contracts their products to various large defense contractors for implementation into military products such as missiles, radar, and fighter jets.

BUY

Current Price:	$52.28
Target Price:	$59.47
Market Cap:	$2.41B
ROIC:	6.20%
1yr Revenue Growth:	52.24%

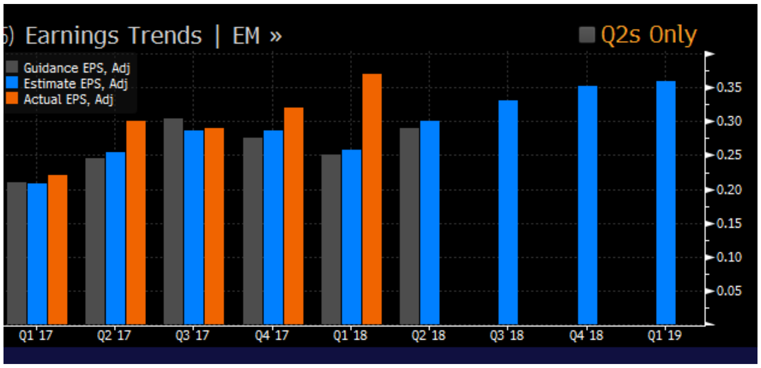


Thesis: Mercury Systems, Inc. is an industry leader in defense security electronics. The company is poised for significant growth in the near future based on their numerous orders from large defense contractors, further solidifying their concrete customer base. Additionally, Mercury Systems, Inc. has developed a cutting-edge business model that will further their customer base and revenues within the defense sector.

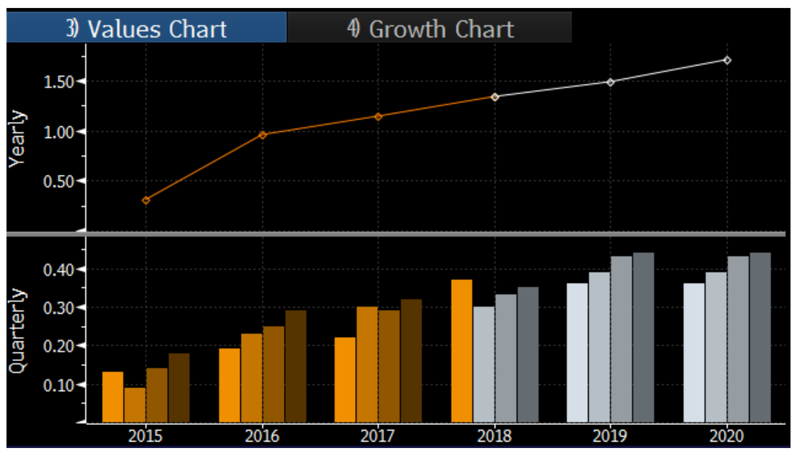
Catalysts: Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

- Short Term (within the year): Numerous orders in Q2 2018 from leading defense contractors.
- Mid Term (1-2 years): Continued customer relationships with leading defense contractors.
- Long Term (3+): Continued implementation of Mercury Systems, Inc.'s new business model.

Earnings Performance:



Mercury Systems, Inc. has impressively beaten all their estimates over the past eight quarters. Most recently, the company beat their estimated EPS of 0.2556 by approximately 0.12 for a total of 0.37. This significant beat in EPS is in part due to the acquisition of Richland Technologies LLC, an integrated hardware, software, and certifications services company for the defense, aerospace, automotive, medical, and industrial industries. Richland Technologies was acquired for $6,000 through a membership purchasing agreement. Mercury Systems also brought in a net income of $17.95M for Q1 2018, a large increase from $3.8M in Q1 2017 one year ago. This trend of beating quarterly EPS is expected to continue in the near future, as shown through Mercury Systems' historical significant increases in revenue, as shown in the graph below.



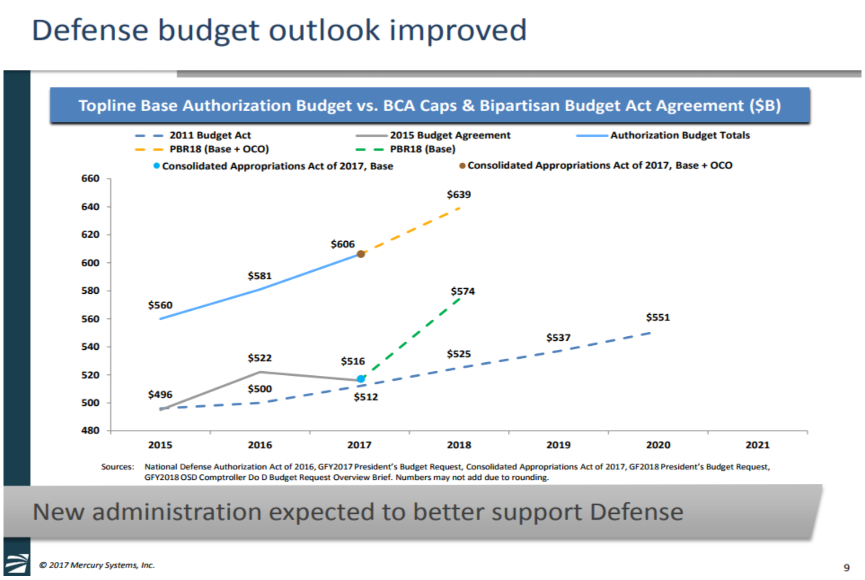
Business Description:

Mercury Systems, Inc. is a leading commercial provider of sensor and safety electronic equipment for the defense and aerospace industry. The company manufactures a variety of electronic products, including software, processing equipment, memory devices, mission computing, and many more. Many of these affordable and innovative products are currently in use in military defense systems such as the Predator UAV drone, E2D Hawkeye Reconnaissance Aircraft, and F-35 fighter jet.

Mercury Systems customer base is not the U.S. or foreign governments and militaries. Instead, the company receives most of its revenue from outsourcing by large defense companies such as Lockheed Martin, Raytheon, and Northrup Grumman. These large defense corporations will then use Mercury Systems' products in their radar systems, fighter jets, or any other product they develop for numerous militaries in the world. Mercury Systems' largest custo-2017mers, Lockheed Martin, Raytheon, and Northrop Grumman, typically account for 10% of revenue. However, from 2015-2017, these three companies accounted for 44%, 51%, and 61% of revenue respectively for the years mentioned. These revenue sales are spread across multiple platforms. For example, Mercury will sell several different products, such as software or microchips, to be implemented in multiple products manufactured by their customers. This large revenue segment by Mercury Systems' top three customers is viewed as a commitment to a long and prosperous relationship between the two companies that is expected to continue into the foreseeable future. Indeed,

Industry Outlook:

Mercury Systems operates in the defense and aerospace industry. Recently, this industry has experienced a surge in growth due to rising global tensions. The three most active defense markets are the Middle East, India, and the United States. The United States is of particular interest due to most of Mercury Systems' clients provide products for the U.S. military.



After years of defense budget cuts, President Trump is expected to grow the defense budget in response to increased military threats, such as ISIS and Russia. In the U.S. defense budget is expected in increase anywhere from $551B-$639B. However, the defense industry still faces overall challenges. Political dysfunction in Congress has driven the Department of Defense to numerous budget cuts, causing the industry to spend less on R&D expenses. This has led to increased dividends and stock buybacks from various defense corporations.

Overall, the defense industry is a highly competitive market, which is characterized by rapidly changing technology, frequent product performance improvements, speed of deployment of systems to align with customer needs, and evolving industry standards from the U.S. Department of Defense (DoD).

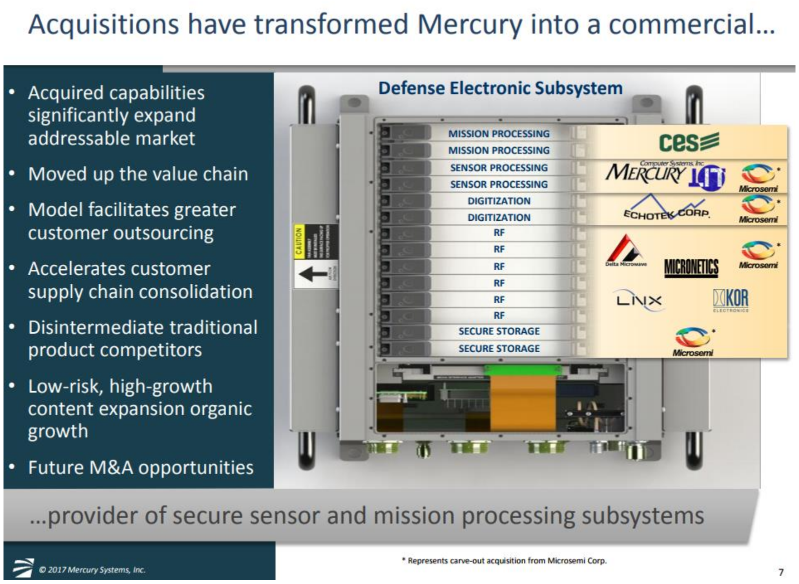
Business Model:

As mentioned in the business description, Mercury Systems has implemented a revolutionary business model in the defense electronics industry, which it implemented at the beginning of 2017. Traditionally, most defense companies have invested around 2%-3% of their revenues into R&D. This has led to several problems in the defense industry, such as fewer engineers, an aging workforce, and aging military platforms requiring increased O&M costs. Seeing the need for newer and faster development, Mercury Systems has adopted the commercial electronics industry's standard of investing 12%-15% of their annual revenue into R&D costs. This has led to a time to market of around 12 months for their products. Compared to their competitors' time to market of 36+ months, this presents a significant comparative advantage for Mercury Systems. Furthermore, this adopted strategy of investing more revenues into R&D has paid off significantly for Mercury Systems, as they have one of the highest ROICs among their competitors.

	Name	Mkt Cap↑ (USD)	Rev - 1 Yr Gr:Y	P/E	ROIC LF
	Median	2.48B	14.19%	42.59	1.86%
100)	MERCURY SYSTEMS INC	2.48B	51.24%	65.88	6.20%
101)	CRAY INC	792.59M	-13.09%	--	1.48%
102)	SUPER MICRO COMPUTER...	984.82M	14.19%	15.04	7.93%
103)	PURE STORAGE INC - CL...	3.49B	65.32%	--	-51.60%
104)	BROCADE COMMUNICATIO...	5.16B	3.63%	42.59	1.86%

Another significant differentiator in Mercury Systems' business model is their use of company acquisitions and investment. Over the past several years, Mercury Systems has acquired several commercial technology companies with the expressed purpose of applying their own technologies to their acquired company's products. Ultimately, Mercury System's goal is to build technologies that fit the specific needs of the DoD, but through leveraging commercially developed technologies and integrating them directly into the projects and products required by Mercury Systems' customers, such as Lockheed Martin, Raytheon, and Northrop Grumman.

Recent Acquisitions:



As previously mentioned, part of Mercury Systems' new business plan is to acquire commercial electronics companies and apply their technology to meet the needs of the DoD and Mercury Systems' customers. Over the past several years, Mercury Systems has been achieving this goal with resounding success. Since FYE 2015, the company has acquired five companies, they are outlined in detail below:

<u>Lewis Innovative Technologies LLC (LIT):</u>

Bought in December 2015, LIT is an embedded systems security company. Embedded systems security has become an increasingly important in an increasingly technological world. Mercury Systems has combined LIT's technology with their own Intel server-class product line in order to meet customer needs. Financially, this acquisition was funded entirely through cash. Mercury Systems paid $9.8M for LIT and it is continuing to be integrated into Mercury Systems' product lines.

<u>Microsemi Carve-Out Business:</u>

In May 2016, Mercury Systems bought Mircosemi Corporation's custom microelectronics, RF and microwave solutions, and embedded security systems divisions. These divisions have been designated "the Carve-Out Business" by Mercury Systems, and were bought primarily for the customer relationships and technology. This acquisition cost $300M for Mercury Systems, and was funded $200M through a term loan and $100M through Mercury System's existing cash reserves.

<u>Creative Electronic Systems (CES):</u>

Mercury Systems bough CES in November 2016. Based in Geneva, Switzerland, CES produces embedded security systems for the military and aerospace mission critical computing applications. This acquisition will substantially expand Mercury Systems' customer base into the aerospace industry and international military markets. Financially, Mercury Systems paid $38.8M in cash from their reserves for CES.

<u>Delta Microwave LLC:</u>

In April 2017, Mercury Systems acquired Delta for $40.5M, all paid in cash from their reserves. Delta is a leading manufacturer in RF, microwave, and millimeter wave subassemblies that are currently used in the F-35 fighter jet, Paveway laser-guided bomb, and MALD decoy missile. Furthermore, the acquisition of Delta provides a market expansion opportunity into commercial and military satellite programs.

<u>Richland Technologies LLC (RTL):</u>

Mercury Systems most recent acquisition, RTL, was acquired in July 2017 for $6,000, barely making a dent in FYE 2017 Revenue. RTL specializes in critical safety and high integrity systems, software, and hardware development for mission-critical applications. Mercury Systems bought RTL with the goal to leverage RTL's presence in the U.S. safety-critical avionics market.

While Mercury Systems has acquired five companies since FYE 2015, they do not have any debt as of FYE 2017, save a $400M revolving line of credit that has not been drawn upon. This is due to the fact that most of the acquisitions have been paid for using their cash reserves. The one exception to this is the Carve-Out Business acquisition, which was paid in-part using a $200M loan. This caused Mercury Systems to end FYE 2016 with $182.3M in long term debt. However, to repay their loan, the company issued a follow on offering in 2017, issuing 6.9M shares at $33.00 per share. This follow on offer generated $215.7M in cash, $11.3M of which was left over after a single repayment of the long term debt.

Overall, Mercury Systems is successfully carrying out their revolutionary business model by acquiring numerous companies to adopt their technologies for Mercury Systems' customers' needs. These revenue streams will eventually lead to significant organic revenue growth in the near future.

Revenue Growth:

Over the last 12 months, Mercury Systems has experienced 52.24% revenue growth, making it one of the leaders among its competitors. From FYE 2013- FYE 2017, Mercury Systems has experienced significant revenue growth, as evidenced by their CAGR of 20%, or from $194.2M-$408.6M in the same time period. While most of this can be attributed to inorganic growth form company acquisitions, the inorganic growth will become organic growth after four fiscal quarters, according to Mercury Systems' 10-K.This means that CES, the Carve-Out Business, and LIT are now considered organic growth by the company.

Name	Mkt Cap (USD)	Last Px	Rev - 1 Yr↓
Median	2.47B	19.13	14.19%
100) MERCURY SYSTEMS INC	2.47B	51.12	51.24%
101) PURE STORAGE INC - CL...	3.49B	16.49	65.32%
102) SUPER MICRO COMPUTER...	986.03M	20.25	14.19%
103) BROCADE COMMUNICATIO...	5.10B	12.34	3.63%
104) CRAY INC	773.38M	19.13	-13.09%

Quarterly, Mercury System's Q1 2018 results of $106.1M have increased by $18.6M from their Q1 2017 revenue of $87.6M. Q1 2018 revenue is mostly attributed to ground based radar system sales, sold under the ProVision product line. Additionally, international sales revenue was $66.9M (19%) of Q1 2018 revenue. This is an increase from Q1 2017 international revenue, which was $49.9M (16%). This increase shows that

Mercury System's acquisitions and penetration into international markets is growing and should continue to grow in the future.

Despite the budget cuts by the DoD and Congress, Mercury Systems can continue to grow their revenue. Organically, the company can continue to grow their revenue by improving sensors, electronic protection and attack, and on-board exploitation for onboard processing systems, as there has been a greater demand for these units recently. Mercury Systems can also upgrade their subsystems with security for export to expand their growing international market.

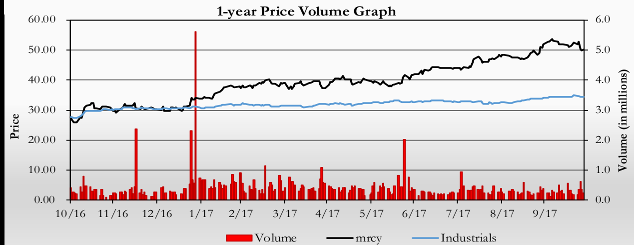
The growth strategies put in place by Mercury Systems are working, as shown by the numerous orders placed in the past couple months by defense firms. Most recently, Mercury Systems announced the sale of $4.7M in orders for airborne radio frequency subsystems. Additionally, the company announced $3.2M in sales for memory devices to a leading defense prime contractor and a $6.2M order from a leading defense contractor for advanced RF subsystems. All of these sales will help contribute to the $115.3M projected revenue for Q2 2018, an increase from Q1 2018.

Conclusion:

Mercury Systems, Inc. is a well-managed company with a revolutionary business model for the defense industry. Their adoption of the commercial technology sector's standard of 12%-15% R&D, coupled with their multiple acquisitions have allowed them to gain a competitive edge in the defense industry. This internal R&D is used to adopt commercial electronics for the defense market, which has led to inorganic growth that turns into organic growth, shown by the 20% CAGR from FYE 2013-FYE 2017 and their one-year revenue growth rate of 52.24%. Furthermore, Mercury Systems has one of the highest ROICs among their competitors at 6.20%. If Mercury Systems can continue to follow their business model, the company should expect significant growth in the near future.

Mercury Systems, Inc. (mrcy) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by Nick Matzelevich	Current Price:	$50.47	Intrinsic Value	$52.28	Target 1 year Return: 17.83%
11/3/2017	Divident Yield:	0.0%	Target Price	$59.47	Probability of Price Increase: 97.5%



Description

Mercury Systems, Inc. provides sensor and safety critical mission processing subsystems for various critical defense and intelligence programs in the United States.

General Information

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	November 3, 2015
Next earnings date	January 25, 2018
Estimated Country Risk Premium	7.39%
Effective Tax rate	24%
Effective Operating Tax rate	24%

Market Data

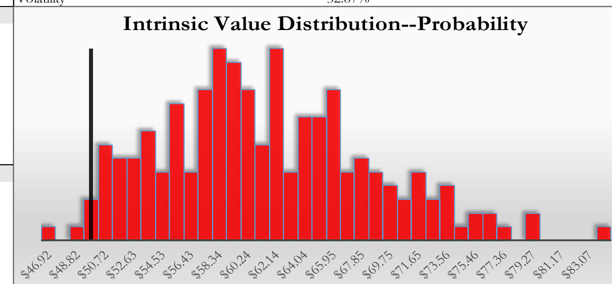
Market Capitalization	$2,427.87
Daily volume (mil)	0.31
Shares outstanding (mil)	48.11
Diluted shares outstanding (mil)	44.92
% shares held by institutions	116%
% shares held by investments Managers	90%
% shares held by hedge funds	3%
% shares held by insiders	3.46%
Short interest	4.54%
Days to cover short interest	6.85
52 week high	$54.49
52-week low	$25.69
Volatility	32.87%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/30/2016	2.81%	-22.84%
12/31/2016	5.27%	-9.19%
3/31/2017	1.94%	-13.72%
6/30/2017	1.01%	-10.12%
9/30/2017	0.79%	-10.81%
Mean	2.36%	-13.34%
Standard error	0.8%	2.5%

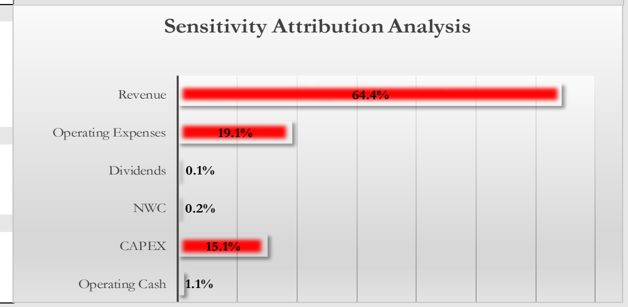
Peers

Kratos Defense & Security Solutions, Inc.
The KEYW Holding Corporation
Rockwell Collins, Inc.
Astronics Corporation
Ducommun Incorporated
AeroVironment, Inc.
Sparton Corporation
L3 Technologies, Inc.

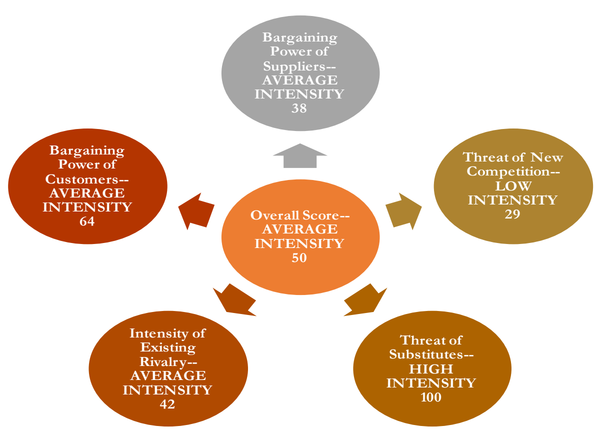


Management	Position	Total compensations growth	Total return to shareholders
Aslett, Mark	President, CEO & Director	12.42% per annum over 6y	-6.61% per annum over 6y
Haines, Gerald	Executive VP, CFO & Treasure	5.77% per annum over 6y	-6.61% per annum over 6y
Thibaud, Didier	Executive VP & COO	11.72% per annum over 6y	-6.61% per annum over 6y
Speicher, Charles	VP, Controller, Chief Accoun	-0.85% per annum over 6y	-6.61% per annum over 6y
Cambria, Christopher	Executive VP, General Counse	N/M	N/M
Ryan, Jamie	Chief Information Officer an	N/M	N/M

Profitability	mrcy (LTM)	mrcy (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	8.5%	-1.34%	4.07%
Operating Margin	15%	-0.15%	4.35%
Revenue/Capital (GAAP)	0.57	9.04	0.94
ROE (GAAP)	7.7%	3.7%	5.8%
Net margin	11.1%	7.1%	6.6%
Revenue/Book Value (GAAP)	0.69	0.52	0.87
Invested Funds	**mrcy (LTM)**	**mrcy (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	3.3%	15.7%	19.2%
NWC/Capital	13.8%	18.1%	17.3%
Operating Assets/Capital	42.5%	35.8%	45.0%
Goodwill/Capital	40.4%	30.4%	18.5%
Capital Structure	**mrcy (LTM)**	**mrcy (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.02	0.07	0.20
Cost of Existing Debt	5.2%	5.2%	5.1%
CGFS Rating (F-score, Z-score, and default Probability)	A	BBB	B
WACC	10.0%	10.8%	10.4%



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



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	43%	19.1%	0.44
9/30/2018	13%	12.0%	0.44
9/30/2019	10%	13.7%	0.44
9/30/2020	11%	14.7%	0.46
9/30/2021	9%	15.3%	0.46
9/30/2022	9%	15.8%	0.46
9/30/2023	8%	16.3%	0.46
9/30/2024	8%	16.9%	0.45
9/30/2025	8%	23.8%	0.45
9/30/2026	8%	23.9%	0.43
9/30/2027	8%	24.0%	0.42
Continuing Period	8%	24.2%	0.41

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	8.3%	10.0%	$52.88
9/30/2018	5.3%	10.0%	$59.89
9/30/2019	6.1%	10.0%	$66.14
9/30/2020	6.7%	10.0%	$72.79
9/30/2021	7.0%	10.0%	$79.85
9/30/2022	7.2%	10.0%	$87.30
9/30/2023	7.4%	10.0%	$95.15
9/30/2024	7.7%	10.0%	$103.44
9/30/2025	10.7%	10.0%	$112.21
9/30/2026	10.4%	10.0%	$121.46
9/30/2027	10.1%	10.0%	$131.20
Continuing Period	9.8%	11.3%	

November, 2, 2017

PVH Corp: PVH

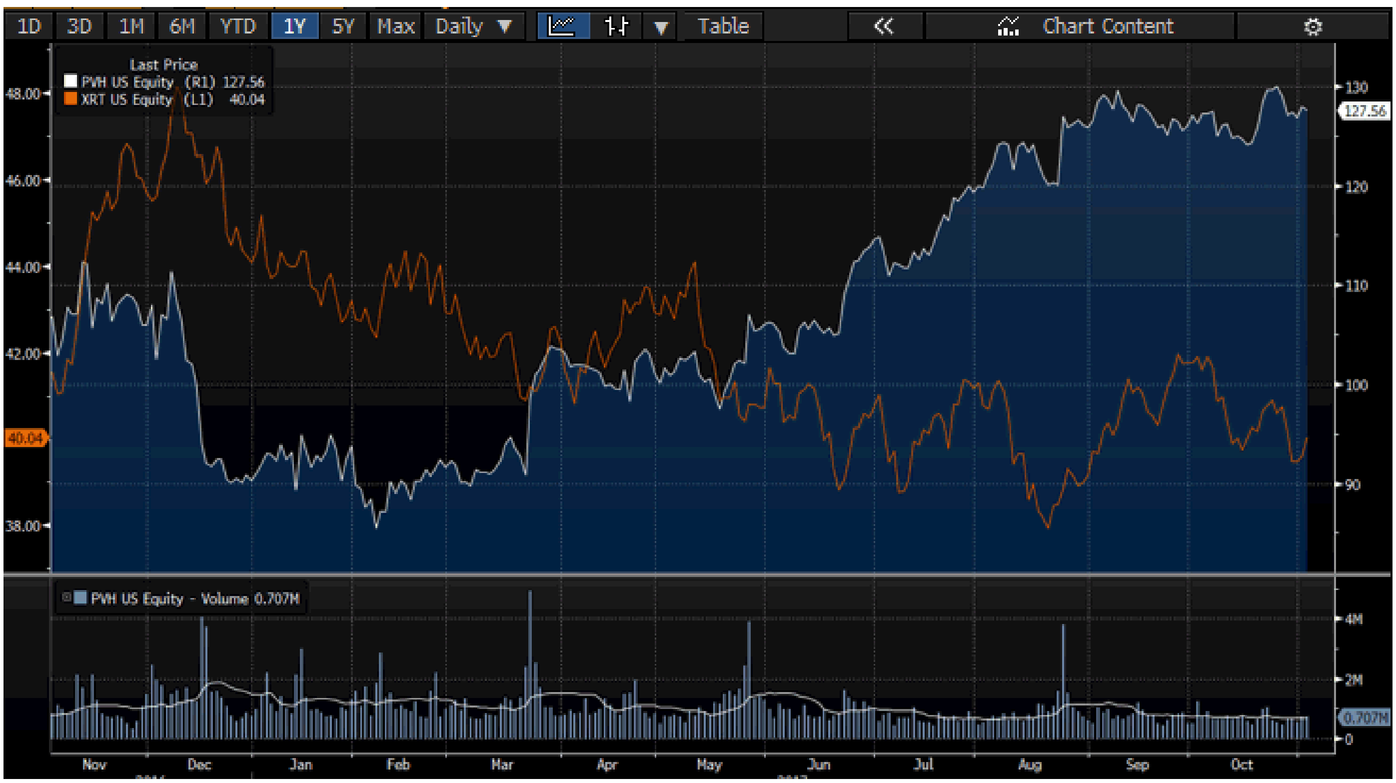
John Graziano

Sector: Consumer Discretionary
Industry: Textiles, Apparel, and Luxury Goods
Current Price: $127.84
Target Price: $147.72

Company Description: PVH Corp. designs, sources, manufactures, and markets men's women's and children's apparel and footwear. The Company markets its products at a wholesale level through department store chains and directly to consumers through retail stores. PVH offers that includes dress shirts, sportswear, neckwear, and footwear

BUY

Current Price:	$127.84
Target Price:	$147.72
Market Cap:	9.8B
Average Volume:	0.69M
D/E Ratio:	0.63



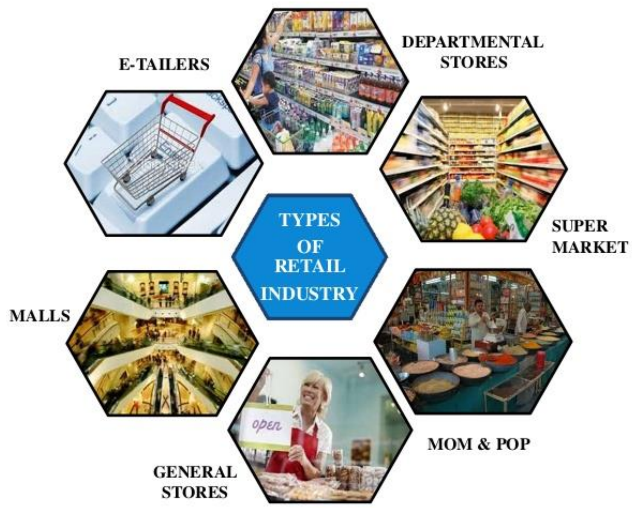
Thesis:

PVH Corp. is the best positioned retailer in a consolidating industry. PVH has been able to get low single digit revenue growth in the United States compared to the rest of the industry seeing flat to negative comps. The international growth, specifically in Europe and Asia will continue to add value to the company. The aforementioned revenue growth along with efficient cost management will lead to an increase in share price in the short and long term

Catalysts:

- **Short Term(within the year):** International Business Growth and Outperformance of Competition in U.S
- **Mid Term(1-2 years):** Growth in the consolidating Retail Industry
- **Long Term(3+):** Investment opportunities within the international business

Industry Performance and Outlook:



It is no secret that the retail industry is much maligned however, there are bright spots such as PVH Corp. the retail sector has been impaired by Amazon's success and the sector wide move towards technology and DTC sales. The retail tracking ETF XRT is down 4.2% YTD compared to the Russell 2000 which is up 11%. Going forward, companies will have to adapt and expand within a few key categories. First, technology will be a major driver in the industry both on the companies' side with increased operating efficiency and on the customer side in terms of how they purchase product. Second will be the creation of a meaningful experience for the customer within the store as foot traffic numbers are down across the board. Third there needs to be an increased customization in both the online and in store channels a report by KPMG stated "The importance of personalization in retail, shows that businesses that are currently personalizing online user journeys, and who are also able to quantify the improvement, are seeing an increase in sales of 19 percent on average." Last, as is the case within any industry the recruitment and retention of employees is key. This is especially true within the consolidating retail industry. PVH has addressed these issues and is well positioned to take advantage of the ever evolving landscape in retail.

Business Description:

PVH Corp. designs, sources, manufactures, and markets men's women's and children's apparel and footwear. The Company markets its products at a wholesale level through department store chains and directly to consumers through retail stores. PVH offers that includes dress shirts, sportswear, neckwear, and footwear. PVH is broken down into three major business segments, Tommy Hilfiger, Calvin Klein, and Heritage. The company does business in the United States and internationally, operating in 40 countries. PVH gets roughly 52% of its revenue from the United States, 29% from Europe, 11% from Asia-Pacific, and 8% from the Americas (excluding the U.S). Interestingly, only 25% of PVH's EBIT comes from the United States, this is due to the need for a great deal of promotional activity within the United States retail market. Europe makes up 40% of EBIT, with Asia-Pacific accounting for 23%, and 12% from the Americas (excluding U.S). The performance in these three segments will continue to drive share price growth in the near and long term.

Tommy Hilfiger:

Tommy Hilfiger is a world leader in designer lifestyle brands with strong global brand awareness. Within Tommy there are four specific targets. The Hilfiger Collection which targets 25 to 40-year-old consumers and includes designs that premiere on the runway during New York Fashion Week. Tommy Hilfiger Tailored which targets the same 25 to 40-year-old demographic offering everything from typical structured suiting to relaxed tailoring. The core line, Tommy Hilfiger. Last, there is the Hilfiger Denim line which targets 18-30 year olds focusing on premium denim separates, footwear, bags, accessories, eyewear and fragrance.

Tommy Hilfiger makes up 43% of both PVH's revenue and EBIT. This is with a currency constant EBIT margin of 13.4% excluding non recurring cost. The operating margin for the whole Tommy Hilfiger segment is 11.1% with the North America business contributing 8.69% and the international business contributing 16.86%. This is important because the international business is outpacing the growth in North America and with less promotional activity needed overseas it follows that margins would be larger. This segment has been growing at just over 2% YOY since 2013 and revenue growth for the Tommy Hilfiger segment should begin to accelerate moving forward due to the international portion.

Calvin Klein:

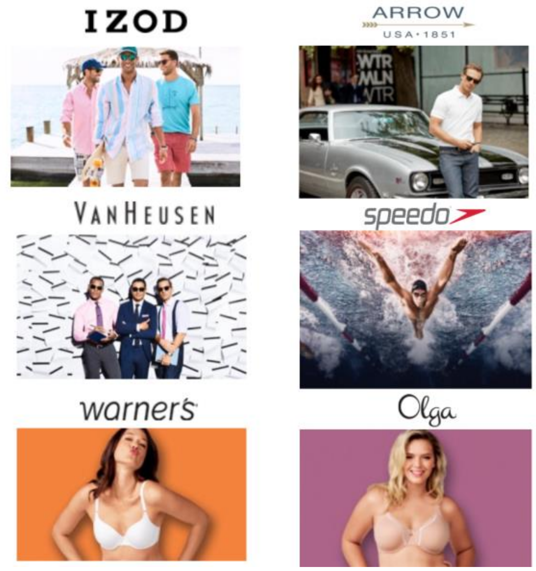
Calvin Klein is one of the most recognizable and well known brands world wide. Similar to Tommy Hilfiger, Calvin Klein has targeted brands within the umbrella of Calvin Klein. There is Calvin Klein 205W39NYC, which is high-end designer apparel and accessories. Next, there is CK Calvin Klein which management considers the contemporary brand where Calvin Klein is "offering modern, sophisticated, fashionable items including apparel and accessories." Third there is the master brand which encompasses most of Calvin Klein's offerings from men's sportswear to women's handbags. Last there are the two brands Calvin Klein Jeans and Calvin Klein Underwear which are self-explanatory.

Calvin Klein contributes 38% of revenue and 46% of EBIT with the highest EBIT and operating margins within PVH. This segment reported constant currency EBIT margin of 15.2%. The North American segment contributes 12.5% operating margin and the international portion contributes 14.9%. Calvin Klein is an opportunity for aggressive growth with 28% CAGR from 2013 onward. This is especially evident within the international portion. This is again where growth and margins are strongest which further shows the opportunity for share price growth within PVH

Heritage:

The Heritage segment of PVH consists of a variety of different brands under the PVH umbrella. Included are: IZOD, VanHeusen, Arrow, Speedo, and Warners. All of these brands are recognized across the globe. Within the Heritage segment there are four sub categories, underwear/ core intimates, sportswear, dress furnishings, and swimwear.

The Heritage segment comprises 19% of revenue and 11% of EBIT with a 6.6% EBIT margin. Heritage is the smallest segment with 1.6B in revenue total, it also is the worst performing segment with a total operating margin of 6.36% and declining. Revenue is however increasing at around 6% YOY which is a positive sign in the ultra-competitive retail sector. Investment in this segment in terms of cost cutting is needed and could become a problem down the line but as of now is not a major issue.



Competition:

As mentioned earlier, retail is an ultra-competitive industry with pressure coming from the largest players such as Amazon and the smaller specialty mom and pop stores as well. Recently this competition has caused enormous promotional activity within the United States which cuts into margins and stock prices have taken a hit. As you can see in the table below roughly half of the comp group have negative total return to date with PVH out pacing everyone the same can be said in price change YTD. This is driven by revenue and EPS growth where PVH places first and second respectively. In consumer discretionary stocks, especialy retail, earnings drive much of the price movement and with those types of growth it is no wonder that PVH is beating all of the comps. The most interesting part is PVH is doing this without leading margins which means there is room for even more improvement in a company that is already beating the comps.

	Name	Ticker	Mkt Cap	Rev - 1 Yr Gr:Q	EPS - 1 Yr Gr:Q	OPM:Y	Total Return YTD (I)	Chg YTD
	Median		6.84B	0.41%	5.00%	10.14%	7.51	3.40
100)	PVH CORP	PVH US	9.88B	7.07%	37.50%	9.29%	41.51	37.32
101)	UNDER ARMOUR INC-CL	UAA US	4.97B	-4.48%	-58.03%	9.16%	-59.45	-17.27
102)	PERRY ELLIS INTERNATI	PERY US	353.69M	2.46%	--	4.95%	-9.63	-2.40
103)	HANESBRANDS INC	HBI US	7.32B	2.17%	21.74%	15.16%	-4.99	-1.49
104)	RALPH LAUREN CORP	RL US	7.45B	-8.61%	220.00%	7.11%	3.45	1.41
105)	COLUMBIA SPORTSWEAR	COLM US	4.33B	0.22%	5.00%	10.99%	7.31	3.66
106)	OXFORD INDUSTRIES IN	OXM US	1.07B	0.61%	-5.52%	8.92%	7.72	3.46
107)	MICHAEL KORS HOLDIN	KORS US	7.27B	-3.59%	-3.57%	20.11%	11.52	4.95

(Accounting Adjustments: Adjusted for Abnormal Items When Applicable) 10) Analyze List

Debt:

PVH has 2.5 billion dollars of debt outstanding. This consists of two different classes of debt two senior secured term loans and a debenture. The first of these term loans was originally issued in 2014 and then amended in 2016 for 700M at 4.5% that comes due in 2022. The second term loan is a euro denominated term loan for 350M at 3.625%. Last, a debenture comes due in 2023 for 100M at 7.75%. This leads to a D/E ratio of 0.63, which is above the industry average of 0.43. This is due to the operational effectiveness of PVH, the company has been able to expertly navigate the ultra-competitive and now consolidating retail industry while keeping a leverage level that they deem acceptable.

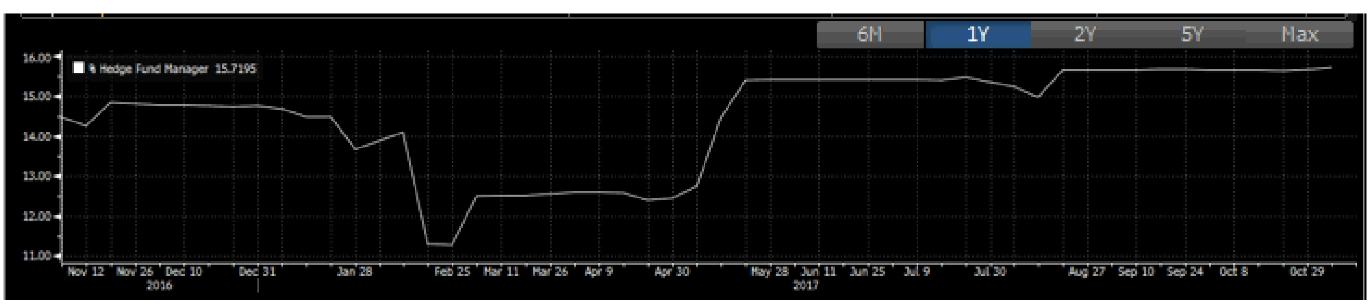
Name	Ticker	Mkt Cap ↑	Debt/Equity LF	Net Debt to EBITDA LF
Median		6.84B	29.37%	0.98
100) PVH CORP	PVH US	9.88B	62.84%	2.72
101) PERRY ELLIS INTERNATI	PERY US	353.69M	25.09%	0.77
102) OXFORD INDUSTRIES IN	OXM US	1.07B	9.19%	0.25
103) COLUMBIA SPORTSWEAR	COLM US	4.33B	0.00%	-1.37
104) UNDER ARMOUR INC-CL	UAA US	4.97B	50.86%	1.50
105) GILDAN ACTIVEWEAR IN	GIL CN	6.41B	33.65%	1.18
106) MICHAEL KORS HOLDING	KORS US	7.27B	9.85%	-0.14
107) HANESBRANDS INC	HBI US	7.32B	324.56%	3.88
108) RALPH LAUREN CORP	RL US	7.45B	16.82%	-2.32
109) VF CORP	VFC US	27.52B	111.33%	1.83

(Accounting Adjustments: Adjusted for Abnormal Items When Applicable) 10) Analyze List

Ownership:

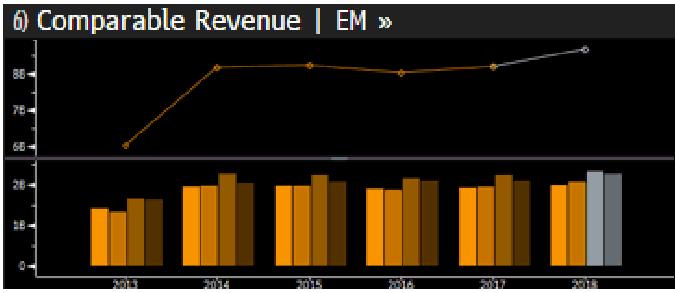
Institutions own 97.8% of the float of PVH. Investment advisors own 74.57% of the total float with Vanguard Group being the largest holder at 9.95%, this is a large amount but Vanguard remains a passive shareholder. Hedge funds own 15.72% of total float with D E Shaw and CO owning 2.6% of shares outstanding. Hedge funds have been steadily adding to their positions beginning in February of this year. This shows that hedge funds see this stock as a safe haven within the retail space. Short interest is low at 1.36% of float, meaning holders are in the stock expecting growth.

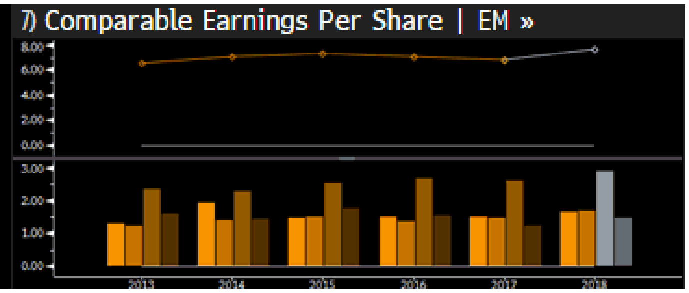
54) Ownership Type	10/29/17	Curr	Change
41) Investment Advisor	74.57	74.64	+0.07
42) Hedge Fund Manager	15.67	15.72	+0.05
43) Pension Fund	2.73	2.61	-0.12
44) Bank	2.33	2.32	-0.01
45) Government	1.60	1.62	+0.02
46) Sovereign Wealth Fund	1.49	1.49	0.00
47) Insurance Company	0.59	0.60	+0.01
48) Individual	0.58	0.58	0.00
49) Brokerage	0.12	0.12	0.00



Earnings:

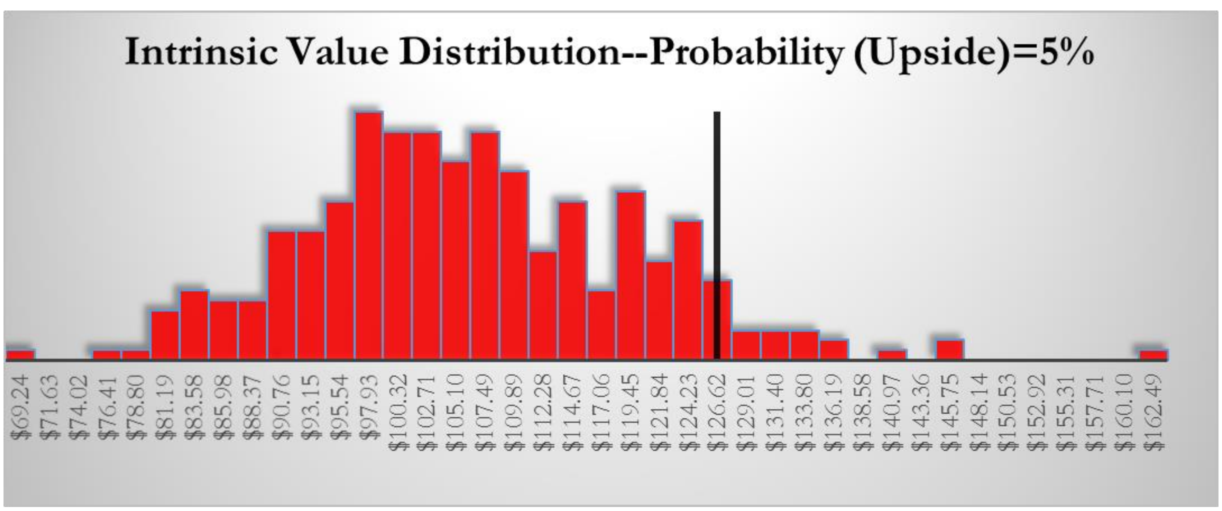
Earnings generally drive price for most stocks but this is especially true for consumer discretionary and even truer for the retail sector. This is evident in the chart of PVH as the last three quarters have beaten both revenue and EPS estimates which lead to one-day price jumps of 6, 5, and 7.6 percent. PVH is estimating EPS from \$2.88 to \$2.92, which is a 10-11% increase YoY. The company is projecting worldwide segment growth of 5% for Calvin Klein and 8% for Tommy Hilfiger with the Heritage brand losing around 8% due to the timing of product shipment. If PVH can outpace these metrics as they have done in their last eight reports, the stock price will see a major one-day move. As of right now, it is estimated that PVH will report on November 29.





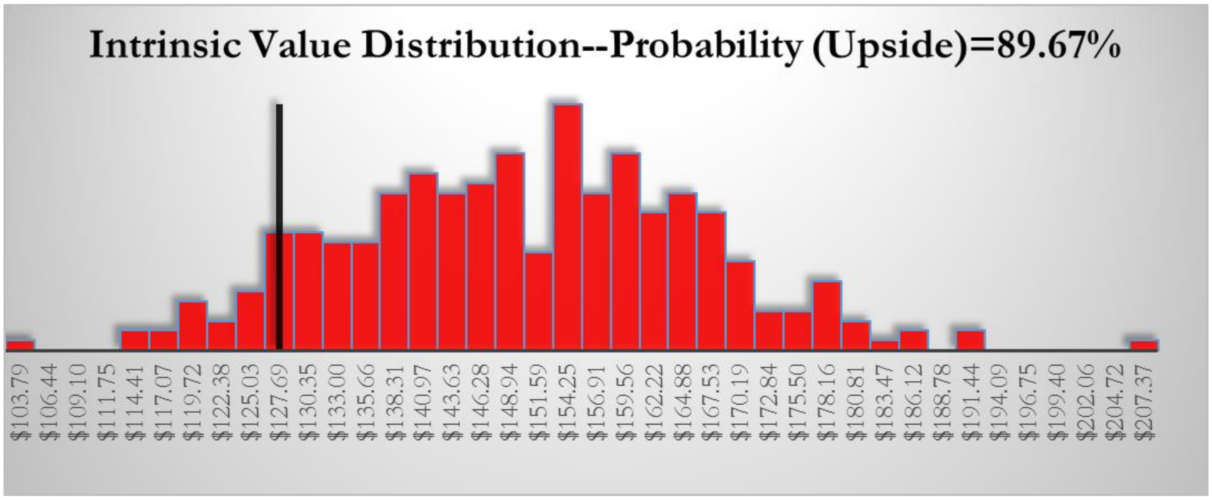
Bear Case:

Considering everything there is a possibility that PVH sees a price decline. In order for this to happen, there would have to be three distinct triggers. These triggers would be very evident in the next quarterly earnings report. The first of these triggers would be North American revenue growth being either flat or negative versus the mid-single digits that it has been. Second, the international businesses would be suffering and therefore revenue growth would slow. Last and most important would be if management were to cut full year guidance there would be a large negative move in price. The result of all of this would be a 1-year price target of 104.29 which would result in a 18% loss.



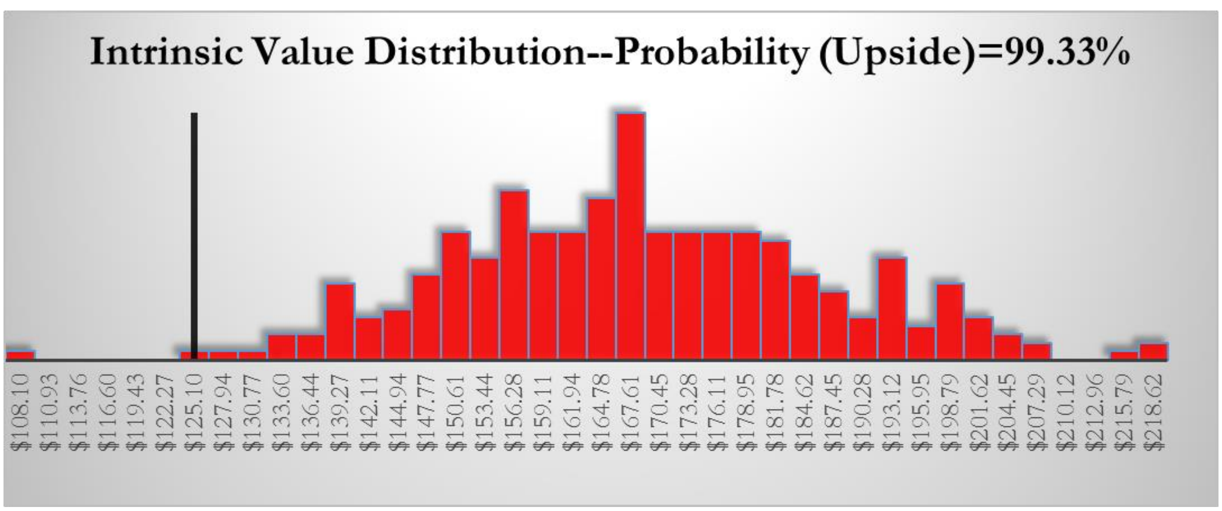
Realistic Case:

The more realistic case for PVH is that the trends in growth and margin from above maintain course. This would be shown be a small beat on revenue and EPS and guidance consistent with that of Q2 when they report earnings. This would mean that PVH would continue to be one of the most successful retailers in North America while seeing aggressive growth in the higher margin international portion of business. This would result in a 1-year price target of 147.72 for a gain of 16%.



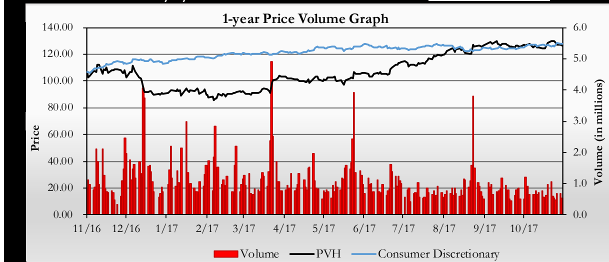
Bull Case:

The bull case for PVH would come if the company can exceed expectations in the coming quarter, which would be very evident in the earnings report for Q3. This would need to be a beat and raise for PVH. If the North American portion saw accelerated growth from 2% to mid-single digits while keeping margins constant. This would also need to be paired with management raising full year guidance or signs that the retail industry is recovering. If this were the case, the 1-year price target would be 167.60 for a return of 32%.



PVH Corp. (PVH) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by John Graziano	Current Price:	$127.84	Intrinsic Value	$126.07	Target 1 year Return: 15.68%
11/2/2017	Divident Yield:	0.1%	Target Price	$147.72	Probability of Price Increase: 90.67%



Description

PVH Corp. operates as an apparel company in the United States and internationally.

General Information

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	November 15, 2017
Estimated Country Risk Premium	7.49%
Effective Tax rate	23%
Effective Operating Tax rate	23%

Market Data

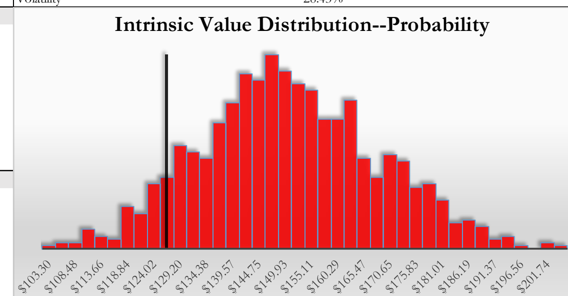
Market Capitalization	$9,903.36
Daily volume (mil)	0.06
Shares outstanding (mil)	77.42
Diluted shares outstanding (mil)	79.50
% shares held by institutions	90%
% shares held by investments Managers	77%
% shares held by hedge funds	16%
% shares held by insiders	0.31%
Short interest	1.35%
Days to cover short interest	1.27
52 week high	$133.24
52-week low	$84.53
Volatility	28.43%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
7/31/2016	-0.18%	6.82%
10/30/2016	0.65%	8.13%
1/29/2017	0.86%	12.93%
4/30/2017	1.58%	1.48%
7/30/2017	2.32%	-0.51%
Mean	1.05%	5.77%
Standard error	0.4%	2.4%

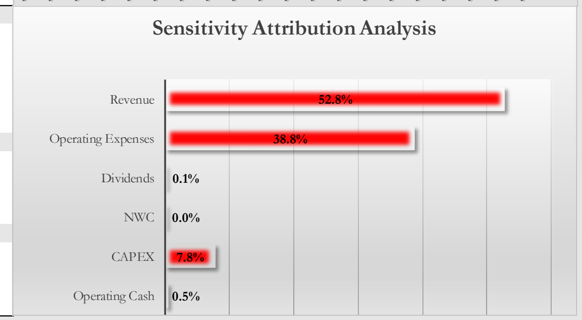
Peers

- V.F. Corporation
- Ralph Lauren Corporation
- Hanesbrands Inc.
- Under Armour, Inc.
- Tapestry, Inc.
- Foot Locker, Inc.
- L Brands, Inc.
- Burlington Stores, Inc.

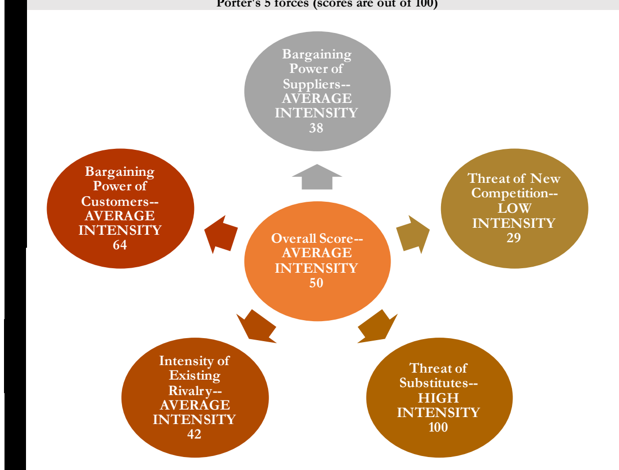


Management	Position	Total compensations growth	Total return to shareholders
Chirico, Emanuel	Chairman and Chief Executive	13.65% per annum over 5y	7.63% per annum over 5y
Shaffer, Michael	Chief Operating & Financial	8.73% per annum over 5y	7.63% per annum over 5y
Duane, Francis	Chief Executive Officer of H	7.72% per annum over 5y	7.63% per annum over 5y
Shiffman, Steven	Chief Executive Officer of C	18.15% per annum over 2y	-21.95% per annum over 2y
Grieder, Daniel	Chief Executive Officer of P	16.05% per annum over 2y	-21.95% per annum over 2y
Mahoney, Eileen	Chief Information Officer an	N/M	N/M

Profitability	PVH (LTM)	PVH (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	5.2%	5.51%	13.19%
Operating Margin	6%	5.90%	7.99%
Revenue/Capital (GAAP)	0.88	0.93	1.65
ROE (GAAP)	7.9%	9.9%	-206.2%
Net margin	4.6%	4.8%	7.9%
Revenue/Book Value (GAAP)	1.73	2.06	-26.10
Invested Funds	**PVH (LTM)**	**PVH (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	4.1%	6.3%	22.0%
NWC/Capital	9.0%	8.8%	11.7%
Operating Assets/Capital	50.4%	55.6%	56.0%
Goodwill/Capital	36.5%	29.3%	10.4%
Capital Structure	**PVH (LTM)**	**PVH (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.55	0.56	0.64
Cost of Existing Debt	3.7%	5.7%	4.0%
CGFS Rating (F-score, Z-score, and default Probability)	A	BB	BBB
WACC	7.6%	9.7%	9.3%



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



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	3%	12.9%	0.86
7/30/2018	3%	-3.4%	0.82
7/30/2019	3%	-2.9%	0.86
7/30/2020	2%	-2.6%	0.88
7/30/2021	2%	-1.8%	0.91
7/30/2022	2%	13.6%	0.93
7/30/2023	2%	13.7%	0.83
7/30/2024	2%	13.7%	0.76
7/30/2025	2%	13.8%	0.69
7/30/2026	2%	13.8%	0.65
7/30/2027	2%	13.9%	0.60
Continuing Period	2%	13.9%	0.57

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	11.0%	7.6%	$121.64
7/30/2018	-2.8%	10.0%	$143.06
7/30/2019	-2.5%	10.3%	$163.47
7/30/2020	-2.3%	10.1%	$183.40
7/30/2021	-1.7%	10.0%	$203.13
7/30/2022	12.6%	10.1%	$222.72
7/30/2023	11.4%	10.1%	$242.35
7/30/2024	10.4%	10.0%	$262.02
7/30/2025	9.6%	10.2%	$282.01
7/30/2026	8.9%	10.3%	$302.34
7/30/2027	8.4%	10.3%	$322.68
Continuing Period	7.9%	10.4%	

SIENA college

BJORKLUND FUND

November, 1, 2017

O'Reilly Automotive, Inc. ORLY

Marco Kloster

O'Reilly AUTO PARTS

Sector: Services
Industry: Aftermarket Auto Parts
Current Price: 213.90
Target Price: 243.99

O'Reilly Automotive, Inc., together with its subsidiaries, engages in the retail of automotive aftermarket parts, tools, supplies, equipment, and accessories in the United States. The company provides new and remanufactured automotive hard parts.

BUY

Current Price:	$213.90
Target Price:	$243.91
Market Cap:	$18.9B
EBITDA Margin	22.1%
Gross Margin	52.4%
Operating Margin	19.4%
D/E	4.72

Catalysts:

Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

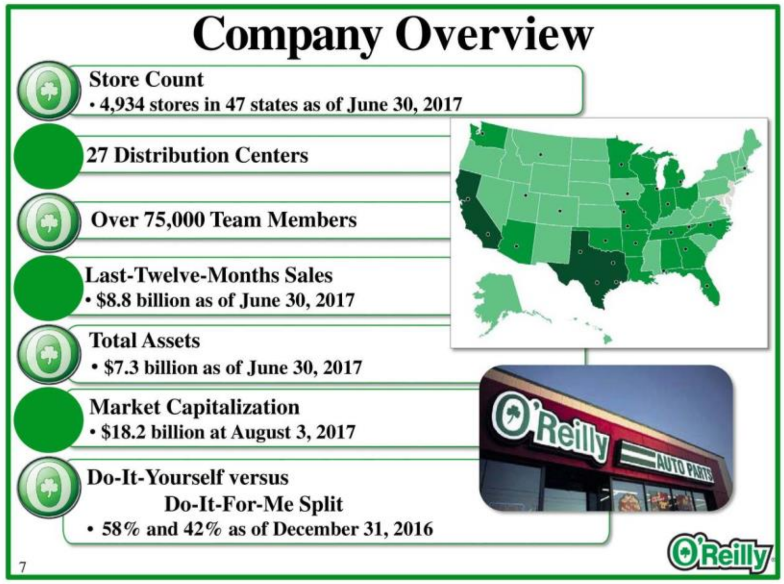
- Short Term: Success in new store revenue will drive up total revenue
- Mid Term: An increased number of stores will bust revenue in the mid and long term
- Long Term: A higher annual miles driven will increase the demand for auto parts service in the United States.

Thesis:

O'Reilly's Q3 upsetting results and Amazon's threat of gaining market shared as an auto part distributer have put some pressure on auto part service retailers. However, I am confident in the long-term outlook for the automotive aftermarket. A continued aging of U.S. light vehicle population and ORLY's service segment will guarantee O'Reilly a successful organic grown and an increase profit margins consequently. In my opinion, ORLY is a "buy", with a 1-year price target of $243.91.

Company Overview

O'Reilly Automotive, Inc., incorporated on December 20, 2010, is a specialty retailer of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States. The Company sells its products to both do-it-yourself (DIY) and professional service provider customers. The Company's product line includes new and remanufactured automotive hard parts. Currently, O'Reilly operates nearly 5,000 stores in 47 states.



In 2016, they derived approximately 58% of their sales from DIY customers and approximately 42% of their sales from their professional service provider customers. Historically, they have increased their sales to professional service provider customers at a faster pace than the increase in their sales to DIY customers due to the more fragmented nature of the professional service provider business, which offers a greater opportunity for consolidation.

Q3 Financial Results

Sales for the third quarter ended September 30, 2017, increased $119 million, or 5%, to $2.34 billion from $2.22 billion for the same period one year ago. Gross profit for the third quarter increased to $1.23 billion (or 52.6% of sales) from $1.17 billion (or 52.7% of sales) for the same period one year ago, representing an increase of 5%. However, selling, general and administrative expenses ("SG&A") for the third quarter increased to $768 million (or 32.8% of sales) from $722 million (or 32.5% of sales) for the same period one year ago, representing an increase of 6%. Operating income for the third quarter increased to $462 million (or 19.7% of sales) from $448 million (or 20.2% of sales) for the same period one year ago, representing an increase of 3%.

Net income for the third quarter ended September 30, 2017, increased $5 million, or 2%, to $284 million (or 12.1% of sales) from $278 million (or 12.5% of sales) for the same period one year ago. Diluted earnings per common share for the third quarter increased 11% to $3.22 on 88 million shares versus $2.90 on 96 million shares for the same period one year ago.

Comparable Store Sales

Comparable store sales increased only by +1.8% compared to the estimated +4.2% LY. The slowdown in same stores decrease in sales negatively affected the profit margins. The third quarter gross margin of 52.6% came in at the bottom end of ORLY's guidance expectation as result of the pressure to their gross margins from deleverage of fixed cost on low sales volumes weather-driven obstacles.

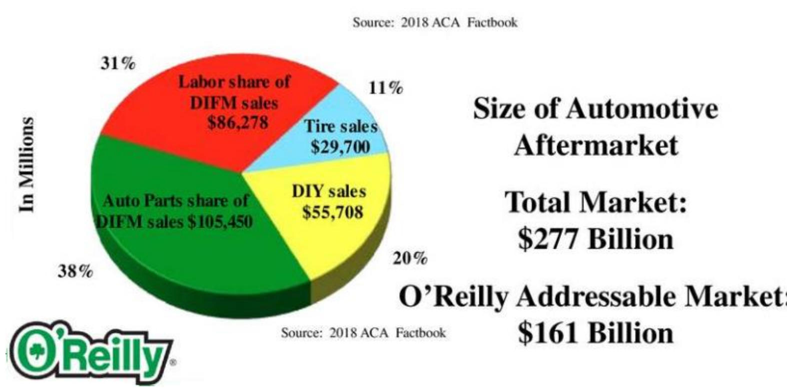
Hurricane Harvey and Hurricane Irma affected approximately 450 stores. The stores had to be closed in average three to four days. In addition, distribution centers in Houston, Texas, and Lakeland, Florida were also impacted for a short period during the storms. Even though nearly 10% of the stores were affected by the storms, they were closed for four days and ORLY was able to make up for lost volume during the closure period. As reported in the Earnings Call Transcript, the storm-related losses in the third quarter, but they should not expect these costs to be material going forward. Excluding the timing impact of the hurricanes, the results for the quarter were relatively steady with September finishing as the strongest month of the quarter.

Moreover, the impact of two consecutive mild winters coupled with a mild summer in 2017 also did not help O'Reilly with their profitability. Cold winters and hot weather increases the demand for auto parts. Consumers need to replace A/C units and batteries more often at such circumstances. The impact to the addressable vehicle population from depressed new vehicle sales totals during the period from 2008 to 2011 and the significant economic pressure and uncertainty faced by many of their customers.

Industry Outlook

The automotive aftermarket industry includes products and services purchased all types of vehicles after the original sale. The total size of the automotive aftermarket is estimated to be approximately $277 billion. This market is made up of four segments: labor share of professional service provider sales, auto parts share of professional service provider sales, DIY (Do-it-Yourself) sales and tire sales. O'Reilly's addressable market within this industry is approximately $161 billion, which includes the auto parts share of professional service provider sales and DIY sales. They do not sell tires or perform for-fee automotive repairs or installations.

The industry is currently facing normal cyclical short-term pressures, but it is still very stable and healthy condition will return to the long-term growth rates in the industry as the industry has historically experienced. As a result, all the companies in the sector have suffered macroeconomic pressure, and ORLY being one of the better performers according to their peers.



Looking at the broader automotive aftermarket, ORLY have benefited from solid macroeconomic trends and the core underlying drivers of business in their industry. Total miles driven is the main industry driver. Since 2008 miles driven have been flat due to economic pressures, but staring in 2014, there has been an increase in miles driven once again. Total miles driven in the U.S. is up 1.7% year-to-date through August and gas prices continue to remain stable at low historical levels.

Competition

Top Ten Auto Parts Chains

1. AutoZone Inc. (5,381) [1]
2. Advance Auto Parts (5,189) [2]
3. O'Reilly Auto Parts (4,934)
4. Genuine Parts/NAPA (1,368) [2]
5. Pep Boys/Auto Plus (1,069) [2]
6. Fisher Auto Parts (500) [2]
7. Auto-Wares (172) [2]
8. Replacement Parts (170)
9. Automotive Parts Headquarters (121)
10. Hahn Automotive (89)

[1] U.S. Domestic stores
[2] Company owned stores

Source: 2018 ACA Factbook or latest SEC filing

The sale of automotive aftermarket items is highly competitive in many areas, including customer service, product availability, store location, brand recognition and price. O'Reilly competes in both the DIY and professional service provider portions of the automotive aftermarket and are one of the largest specialty retailers within that market. ORLY competes primarily with national retail and wholesale automotive parts chains (such as AutoZone, Inc. (AZO), Advance Auto Parts (AAP), CARQUEST, NAPA, etc.). Regional retail and wholesale automotive parts chains and wholesalers also represent a competition towards ORLY. Now, more than ever, online retailers that carry automotive replacement parts, maintenance items and accessories (such as Wal-Mart Stores, Inc. and Amazon, Inc.) are also taking part of the auto parts market share battle, in which have put some pressure on ORLY, AZO and AAP specifically.

O'Reilly competes on the basis of customer service, which includes merchandise selection and availability, technical proficiency and helpfulness of store personnel, price, store layout and convenient and accessible store locations. Their dual market strategy requires significant capital, such as the capital expenditures required for their distribution and store networks and working capital needed to maintain inventory levels necessary for providing products to both the DIY and professional service provider portions of the automotive aftermarket.

The professional service provider segment have shown a more significant sales growth compared to the DIY segment. I believe an investment on the service segment is a game changer for O'Reilly and a reason for my bullish view on this stock. While Amazon auto parts will soon gain more and more market share in the DIY segment, current Auto Parts Retailers would have a hard time competing with the tech giant. ORLY's revenue deviation from DIY to service would ensure that they do not compete head on with Amazon, like the AZO and AAP will.

Amazon Auto Parts Pressure

Amazon.com (AMZN) is quietly penetrating the $50 billion Do-It-Yourself auto parts market where the top auto parts stores have long been dominant. ORLY's CEO, Greg Henslee, commented that the company has faced a more challenging sales environment than it expected for the quarter due to continued headwinds. Henslee's comment could refer to its brick-and-mortar competition in Advance Auto and AutoZone, but it seems more appropriate to consider Amazon's entrance into this industry as a big headwind for those involved.

Within the past year, Amazon has made deals with the largest auto parts makers in the United States. Moreover, at this point, most large auto parts suppliers are selling to Amazon. Just this past September, Jefferies issued a report saying that Amazon was offering same-day delivery for auto parts in 40 major U.S. cities. Not only this, but the firm also noted that the prices were on average 23% less than these major chains.

O'Reilly Automotive, Inc. currently derived approximately 58% of their sales from their DIY customers and approximately 42% of their sales from their professional service provider customers. An increased of sales in the professional service segment would ensure that ORLY would feel less pressure from largest retailer compared to AutoZone Parts and Advance Auto Parts. In my opinion, auto parts have an advantage over Amazon by offering customers the option of talking to a knowledgeable staff member in-store. As millennials are less and less knowledgeable about cars, customers will continue to frequent Auto Part stores (especially the ones that are specializing in professional service, such as ORLY).

Growth Strategy

O'Reilly's rapid expansion is due to their ability to strategically open new stores to consolidate the fragmented automotive aftermarket. During 2016, they opened 210 net, new stores and acquired 48

Bond Auto Parts stores and they plan to open approximately 190 net, new stores in 2017, which will increase their penetration in existing markets and allow for expansion into new, contiguous markets. Growth through the number of stores is directly related to constructing a new facility or renovating existing ones and by acquiring independently owned auto parts stores, typically by the purchase of substantially the entire inventory of such stores.

Continually enhance the growth and functionality of their e-commerce website is crucial to compete with online retailers that are jumping in the DIY segment. Although O'Reilly have been investing more in their professional service, their user-friendly website they have the ability to retain and acquire new customers in the DIY segment. The website allows the customers to search product and repair content, check the in-store availability of their products, and place orders for either home delivery or in-store pickup. Improving the functionality of their website will ensure that O'Reilly remains very competitive when Amazon starts gaining market share in the DIY segment.

Ownership

Compare Current Stats Against 11/02/16			
Ownership Type	10/30/16	Curr	Change
11) Investment Advisor	80.92	81.94	+1.02
12) Hedge Fund Manager	5.72	8.14	+2.42
13) Pension Fund	2.75	2.44	-0.31
14) Individual	2.38	2.03	-0.35
15) Bank	3.62	1.87	-1.75
16) Government	2.13	1.34	-0.79
17) Sovereign Wealth Fund		0.94	
18) Insurance Company	0.81	0.86	+0.05
19) Brokerage	1.30	0.13	-1.17
20) Holding Company	0.12	0.13	+0.01
21) Corporation	0.08	0.05	-0.03

Currently, 86.64% of O'Reilly is owned institutionally, with 80.92% coming from advisors and 5.72% from hedge funds. Investment Advisors have increased their position by 1% over the past year. Hedge Funds have been increasing their position by 2.42% in the last twelve months. Even though the cyclical auto parts industry had a sluggish growth in the past year, investors are betting on the increase of number of aged cars in the United States is going to drive the value of the company higher in the future.

Conclusion:

I am very confident in the long-term outlook for the automotive aftermarket. A steady increase in total miles driven along with growth in the total vehicle population in the U.S. and will continue to benefit as the high quality vehicle engineering and manufacturing supports demand for parts laid into vehicles lifecycle. An increase in total miles driven will ensure that the U.S. demand for aftermarket auto parts continues to increase at around 1.5% annually, offering a chance to ORLY to continue growing at a constant rate. As ORLY specializes more in the services segment, they would be able to continue growing and acquiring other companies, even if Amazon stablish themselves in the DIY market. My price target for ORLY is $243.91 PT. In addition, I made a chart that shows a pessimistic and an optimistic outcome relative to my prediction. For the pessimistic outcome, I assumed a decrease of 1% in my total revenue, and an increase of 1% in operating costs and capital expenditure deviation from my original and realistic assumption. The new evaluation resulted in a possible 12.68% decrease in the share value. On the contrary, for my optimistic version, a 1% increase in total revenue, and a 1% decrease in operating costs and capital expenditure would result in an increase of 29.93% in the share price compared to the current price.

Assumtption	1-yr Price Target	% change from current price
Pessimistic	186.77	-12.68%
Realistic	243.99	14.07%
Optimistic	277.7	29.83%

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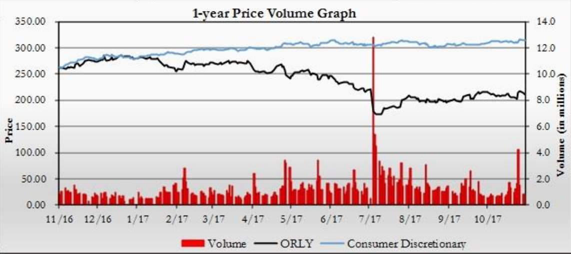
CENTER FOR GLOBAL FINANCIAL STUDIES

O'Reilly Automotive, Inc. (ORLY)

BUY

Analysis by RICK	Current Price: $214.52	Intrinsic Value $219.30		Target 1 year Return: 13.51%
11/6/2017	Divident Yield: 0.1%	Target Price $243.40		Probability of Price Increase: 94.32%



Description

O'Reilly Automotive, Inc., together with its subsidiaries, engages in the retail of automotive aftermarket parts, tools, supplies, equipment, and accessories in the United States.

General Information	
Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	February 7, 2018
Estimated Country Risk Premium	6.19%
Effective Tax rate	24%
Effective Operating Tax rate	24%

Market Data	
Market Capitalization	$18,881.34
Daily volume (mil)	1.08
Shares outstanding (mil)	88.02
Diluted shares outstanding (mil)	91.89
% shares held by institutions	116%
% shares held by investments Managers	81%
% shares held by hedge funds	9%
% shares held by insiders	2.18%
Short interest	6.16%
Days to cover short interest	4.41
52 week high	$286.57
52-week low	$169.43
Volatility	22.99%

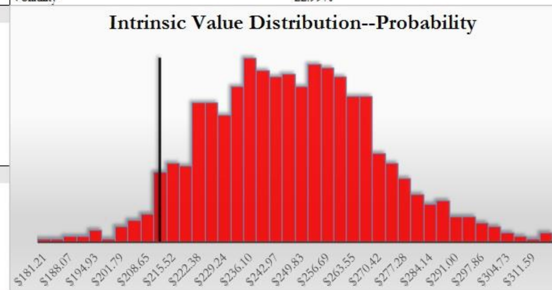
Past Earning Surprises

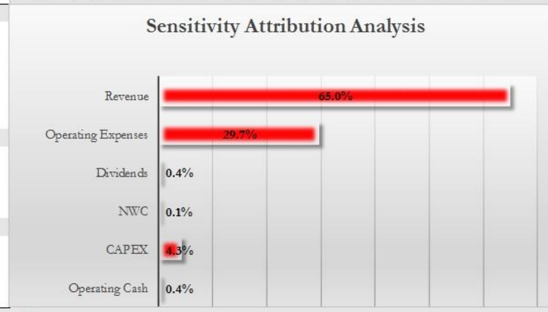
Quarter ending	Revenue	EBITDA
9/30/2016	-0.16%	-1.15%
12/31/2016	0.54%	2.38%
3/31/2017	-2.70%	-8.52%
6/30/2017	0.19%	3.03%
9/30/2017	-0.05%	-0.71%
Mean	-0.44%	-1.00%
Standard error	0.6%	2.1%

Peers
Advance Auto Parts, Inc.
AutoZone, Inc.
Lithia Motors, Inc.
Asbury Automotive Group, Inc.
Sonic Automotive, Inc.
Group 1 Automotive, Inc.
CarMax Inc.
AutoNation, Inc.

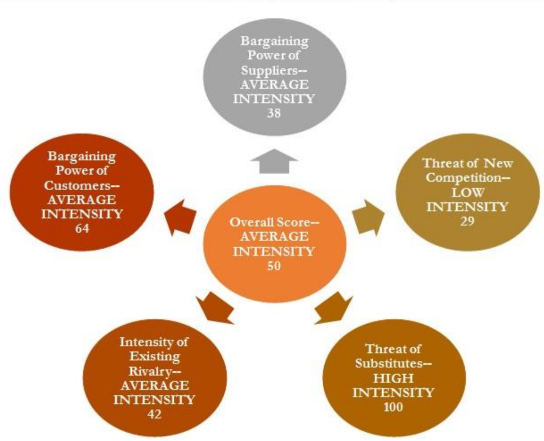
Management	Position	Total compensations growth	Total return to shareholders
Henslee, Gregory	Chief Executive Officer	1.66% per annum over 5y	7.61% per annum over 5y
Shaw, Jeff	Co-President	33.85% per annum over 5y	7.61% per annum over 5y
Johnson, Gregory	Co-President	N/M	0% per annum over 0y
McFall, Thomas	Chief Financial Officer and	3.99% per annum over 5y	7.61% per annum over 5y
Groves, Jeffrey	Senior Vice President of Leg	N/M	N/M
Johnson, Randy	Senior Vice President of Inv	N/M	N/M

Profitability	ORLY (LTM)	ORLY (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	19.6%	12.90%	4.74%
Operating Margin	10%	8.24%	2.24%
Revenue/Capital (GAAP)	2.00	1.57	2.12
ROE (GAAP)	64.9%	34.0%	4.8%
Net margin	13.7%	11.7%	2.6%
Revenue/Book Value (GAAP)	4.75	2.90	1.82
Invested Funds	**ORLY (LTM)**	**ORLY (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	-12.1%	4.5%	3.4%
NWC/Capital	-7.0%	8.9%	28.4%
Operating Assets/Capital	100.4%	70.2%	63.6%
Goodwill/Capital	18.8%	16.4%	4.6%
Capital Structure	**ORLY (LTM)**	**ORLY (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.97	0.47	0.73
Cost of Existing Debt	3.5%	6.0%	3.4%
CGFS Rating (F-score, Z-score, and default Probability)	A	AA	BBB
WACC	9.0%	11.2%	6.6%





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



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	5%	16.3%	1.94
9/30/2018	6%	16.0%	2.02
9/30/2019	5%	15.8%	1.48
9/30/2020	5%	15.9%	1.17
9/30/2021	4%	15.9%	0.98
9/30/2022	4%	15.7%	0.85
9/30/2023	4%	16.2%	0.76
9/30/2024	3%	17.4%	0.68
9/30/2025	3%	17.8%	0.62
9/30/2026	3%	18.2%	0.57
9/30/2027	3%	18.5%	0.53
Continuing Period	2%	18.9%	0.49

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	31.7%	9.0%	$241.76
9/30/2018	32.3%	8.7%	$274.72
9/30/2019	23.2%	8.6%	$307.21
9/30/2020	18.7%	8.7%	$340.47
9/30/2021	15.6%	8.7%	$374.49
9/30/2022	13.4%	8.8%	$409.25
9/30/2023	12.3%	9.0%	$445.11
9/30/2024	11.9%	9.1%	$481.76
9/30/2025	11.0%	9.1%	$519.17
9/30/2026	10.4%	9.2%	$557.29
9/30/2027	9.9%	9.4%	$596.63
Continuing Period	9.3%	9.5%	

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BJORKLUND FUND

November, 04, 2017

Prestige Brands Holdings Inc.: PBH

Ryan Rosmarin

Sector: Healthcare
Industry: Specialty Pharmaceuticals
Current Price: $42.30
Target Price: $60.94

Company Description: Prestige Brands Holdings Inc. is a leading provider of over-the-counter (OTC) healthcare and household cleaning products. Through its subsidiaries, Prestige markets, sells, manufactures, and distributes its products primarily in North America and Australia with its large portfolio of top performing brands. With an established retail distribution network and low-cost operating model, Prestige delivers #1 products to mass merchandisers, drug, food, convenience, and club stores on a global scale.

BUY

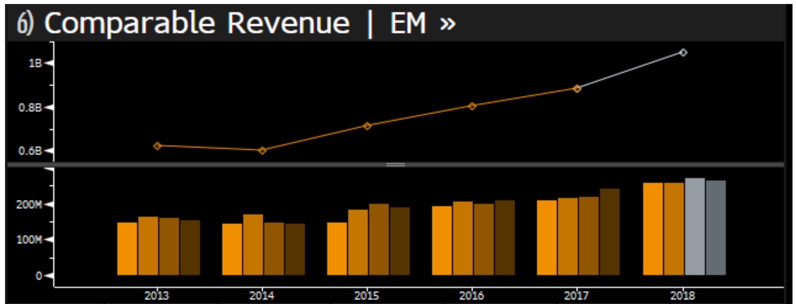
Current Price:	$46.90
Target Price:	$60.94
Market Cap:	2.48B
52 Week Range:	$42.30-$59.63
Average Volume:	630,000
D/E Ratio:	2.66
EBITDA Margin:	34.2%
12M Total Return:	2.36%
ROIC:	10.4%
WACC:	9.0%

Catalysts:

- **Short-Term** (within the year): Organic growth opportunity & Q218 Earnings announcement
- **Mid-Term** (1-2 years): Growth potential within the Healthcare sector along with economic optimism under Trump administration
- **Long-Term** (3+years): Innovation and development of top line products and brand expansion

Thesis:

Prestige Brands Holdings Inc. is a global distributer of industry leading OTC healthcare and household products. In a recovering healthcare industry, Prestige is currently undervalued trading near its 52-week low of $42.30, presenting a great buy opportunity for stock appreciation. Consistently driving bottom line performance and generating strong free cash flow, Prestige is well aligned with their long-term growth targets. Industry leading margins along with the effective use of financial leverage allows Prestige to grow organically and create value for shareholders. With a current bull market environment, Prestige is an attractive short-term/mid-term investment opportunity.

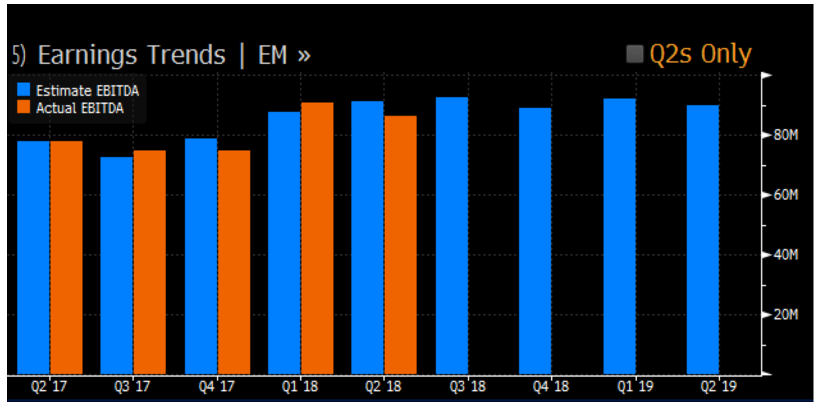


(USD)	2013	2014	2015	2016	2017	2018
FY	623.6M	601.9M	714.6M	806.2M	882.1M	1.0B
Q1	147.0M	143.0M	145.7M	192.1M	209.6M	256.6M
Q2	161.9M	168.4M	181.3M	206.1M	215.1M	258.0M
Q3	160.2M	146.2M	197.6M	200.2M	216.8M	270.2M
Q4	154.5M	144.3M	190.0M	207.9M	240.7M	262.2M

Business Overview:

Prestige Brands Holdings Inc. is engaged in the marketing, sales, manufacturing, and distribution of well-known, brand name OTC healthcare and household cleaning products primarily in North America and other international markets. With a strong brand portfolio and an established retail distribution network, Prestige is able to operate with high margins and a low-cost operating model. Prestige's operating model provides them with a competitive advantage over its competitors with their ability to integrate acquired brands, innovate new ones, and respond to technological advances in the pharmaceuticals industry. Prestige distributes leading brands across all market segments of the specialty pharmaceuticals industry, including Chloraseptic, Clear Eyes, Compound W, Dramamine, Efferdent, Luden's, and many others. North American and International OTC healthcare products accounted for 78.9% of Prestige's net revenues for 2017. In addition, Prestige's portfolio of brands includes Comet, the #1 abrasive tub and tile cleaner in the household cleaning products industry. Prestige continues investing in new product lines to grow its portfolio organically and through the completion of strategic acquisitions. Prestige creates value through acquiring previous "non-core" products at discount and reviving their post-acquisition performance with management expertise. Prestige then increases its sales, market share and distribution in both new and exisiting markets through its established network of retail distribution. Prestige achieves this through increased spending on advertising, new marketing strategies, improved packaging, and the development of brand extensions. Products are sold through multiple channels such as mass merchandisers, drug, food, club, and convenience store across three business segments. Large customers include Walmart, Target, CVS, Walgreens, BJ's, Sam's Club, and many others. Prestige operates in three business segments; North American OTC, International OTC, and Household Cleaning.

Q2 2018 Earnings Performance:



Prestige Brands Holdings Inc. missed earnings estimates by $0.05 EPS due to the heavy impacts from the timing of quarter end shipments. Despite shipping headwinds, Prestige increased revenue 20% year-over-year to $258mn. Timing of customer deliveries hindered top line performance by $8.0mn, but factors delaying shipment time are expected to be only temporary. Prestige's newly acquired Fleet brand contributed $51.7mn in Q2, which has grown 7.5% yoy adjusted for the timing of deliveries. As customer deliveries normalize, the pro forma revenue growth rate is likely to be higher in the second half. Adjusted gross margins were in line with expectations at 56.3%, down 1.3% from Q217 due to the acquisition of Fleet. Adjusted EBITDA margins increased 10.7% to 33.5% ($86.5mn) and Operating Margins increased 8.1% to 30.2% ($78.0mn). Q2 Adjusted A&P expense was 15.3% of revenue and 14.8% YTD, as Prestige increasingly shifts focus towards their invest for growth brands and continue to invest in long-term brand building. Adjusted G&A costs came in at 8% of total revenue, in line with expectations. Depreciation and amortization expense increased 19.4% yoy to $35mn as well. Q2 adjusted free cash flow came in at $54.8mn, increasing 10.5% yoy from $49.6mn. Prestige has generated free cash flow of $2.08 per share, attributable to their industry leading financial profile, low CAPEX requirements, and cash tax benefits from previous structured acquisition deals. Prestige's industry leading FCF conversion of 164% helped reduce net debt by $105mn in the first half, with an expected reduction of the leverage ratio to 5.0x by year end. Earnings per share for Q2 decreased $0.02 to $0.61 and is expected to be $2.62 by FY18.

Growth Strategy & FY18 Outlook:

Prestige plans to continually drive organic growth through its long-term brand building strategy. Leading the industry in margins, Prestige can expect an increase in sales and reduction in costs as delivery patterns normalize over the next few months. To enhance brand recognition and customer sales, Prestige invests heavily in advertising and promotion to drive the growth of their core brands. Prestige also gains market share by developing new products to expand existing successful brand lines. With the success of Summer's Eve *Simply* and Nix's *Ultra*, Prestige looks to expand its product line extension across all segments. Innovation is driven by the macro health & wellness trends and the desire to fulfill unmet consumer needs. Sales are also being driven online as Prestige invests in e-commerce with the growing trends of the online shopping industry. Although e-commerce is currently a small source of revenues in the OTC industry, consumers are gradually adding OTC products in their online shopping patterns. Prestige plans to increase its international presence beyond North American borders by developing products for specific foreign markets in addition to its DenTek and Hydralyte brands. Prestige will also continue to take advantage of strategic acquisition opportunities, as M&A has led to valuable growth in its history. Prestige creates value for shareholders as they invest in companies the will enhance their portfolio, and reduce costs by selling products that are unsuccessful.

Prestige's FY18 outlook remains unchanged as they expect continued solid consumption trends in their largest category leading brands and expansion of new product lines. Although the consumer retail market remains challenging, Prestige is cautious in expenditures and will continue to win customers in the industry. FY18 revenue is expected to grow 20% to $1.06bn, driven by their invest for growth portfolio. Normalization in the delivery market should increase earnings between 3.5-4% and free cash flow is anticipated to be $205mn, equating $3.83 per share. Prestige will create value by sticking to their three business pillars of winning customers, growing market share, and reducing interest expense to provide resources for M&A.

Industry Analysis:

The overall forecast for the Healthcare sector on the Russell 2000 index continues to look promising as recent underperformance has left a significant opportunity for growth as the industry heads into recovery. Underpricing within the sector was largely due to volatility and uncertainties in healthcare reform leading up to the U.S. Presidential election of Donald Trump. This volatility creates growth opportunity for single-stock picks, as intra-sector correlations in healthcare tend to be low. Through the end of October, pharmaceuticals have been trading around 4% below the market. Investors readily await upcoming Q3 earnings with expectations of underperformance and the belief in a potential relief rally due to the relatively cheap prices of healthcare compared historically to other sectors. Investors remain uneasy with reoccurring themes in the industry such as high leverage and an inflationary U.S. generic pricing environment. Specialty pharmaceuticals continue to trade at a significant discount of 35% compared to major pharmaceuticals YTD. With a growth rate of 18.36% YTD in the Russell 2000 Pharmaceuticals Index (RGUSHSPH), the pharma index has traded at a discount compared to the RTY Index as well. The underperformance of the RGUSHSPH vs the RTY creates growth potential for Prestige as the index recovers. Another driver of the industry is the economic optimism under the Trump Administration. Markets continue to act bullish despite geopolitical concerns and a projected increasing rate environment. Trump's pro-growth strategy, tax-cuts, and deregulation should have a positive influence on Prestige, enabling them easier access to new products and patents.

Competitors:

Compared to its competitors, Prestige Brands Holdings leads the industry in sales growth and margins, making them a high growth opportunity for potential investors. Prestige has grown its sales and EBITDA 16.74% and 9.65% respectively TTM, much larger than the industry medians of 0.14% and -9.95%. EBITDA and Operating margins were 33.69% and 21.8% respectively with a Net Profit margin of 12.59%. Prestige's dominance in industry margins is a result of management ability to effectively manage costs, shown by their low CAPEX/Sales ratio of 0.34%. Margins are slightly down in Fiscal Year 2018 for Prestige due to their acquisition of Fleet, but are forecasted to return to normal levels as costs in the segment decrease. Prestige currently trading at a P/E ratio of 18.82, compared to the industry median of 14.46, showing that it is underpriced relative to the industry.

	Name	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating↓ Income Margin	Net Profit Margin	Net Income	Capex/Sales (%)
	Median	0.14%	-9.95%	31.41%	21.80%	11.34%	-10.38%	4.20%
100)	PRESTIGE BRANDS HOLDI...	16.74%	9.65%	33.69%	30.61%	12.59%	1.72%	0.34%
101)	JOHNSON & JOHNSON	3.86%	8.98%	35.83%	29.34%	23.77%	1.67%	4.49%
102)	COLGATE-PALMOLIVE CO	-0.59%	0.32%	28.90%	25.84%	16.70%	1.71%	3.90%
103)	AKORN INC	-15.68%	-37.43%	31.41%	22.27%	11.34%	-51.78%	6.71%
104)	PROCTER & GAMBLE CO/...	-0.15%	-0.96%	26.07%	21.80%	16.27%	0.64%	5.20%
105)	MALLINCKRODT PLC	0.42%	--	41.66%	17.24%	11.06%	-10.38%	13.12%
106)	VALEANT PHARMACEUTIC...	-11.02%	-30.86%	36.97%	9.60%	-8.40%	-428.60%	2.43%
107)	HORIZON PHARMA PLC	10.32%	-18.94%	23.10%	-2.39%	-9.95%	-13.75k%	1.60%

Financial Leverage:

Although the use of debt financing is common within the HC specialty pharmaceuticals industry, Prestige carries a large amount compared to its competition with net debt totaling $2.07bn. At Q218 end, net debt consisted of cash, term loans, and bonds of $43mn, $1.36bn, and $750mn respectively. This adds a large degree of financial risk to Prestige's operations, as they are currently levered 5.5x. Prestige consistently works to reduce their debt financing as they have paid down $105mn in the first half and expect to reduce their leverage ratio to 5.0x by the end of fiscal year 2018. Prestige has consistently been able to operate with their leveraged capital structure due to their large levels of free cash flow, and will reduce its level of debt financing if it becomes necessary. In the current macro-environment, Prestige feels that being 5x levered is the optimal capital structure that will create operational efficiency. With an ROIC of 10.4% and WACC of 9%, Prestige is effectively creating value with its financing.

Conclusion:

Forecasts of recovery within the Healthcare sector provide a positive outlook for Prestige Brands Holdings Inc., one of the leading distributers of specialty pharmaceuticals. Growth opportunity looks especially promising within specialty pharmaceuticals as they are trading around 35% below major pharma YTD. With a portfolio of several industry-leading brands, Prestige continues to win customers in an industry that is highly unlikely to lose demand due to the necessity of its products. Low operating costs and consistent sales growth allow Prestige to operate on high margins, creating higher profits relative to its competitors. Currently trading at its 52-week low, Prestige is an attractive short/mid-term investment that can return near 30% as the stock price appreciates back to normal levels.

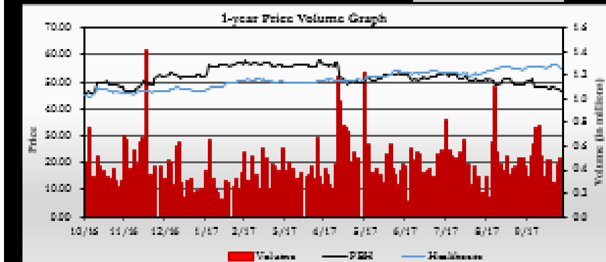
Prestige Brands Holdings, Inc. (PBH)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by RYAN ROSMARIN	Current Price:	$46.90	Intrinsic Value	$53.15
11/1/2017	Divident Yield:	0.0%	Target Price	$60.94

Target 1 year Return: 29.95%
Probability of Price Increase: 10



Description

Prestige Brands Holdings, Inc., through its subsidiaries, markets, sells, manufactures, and distributes over-the-counter (OTC) healthcare and household cleaning products in North America, Australia, and internationally.

General Information

Sector	Healthcare
Industry	Pharmaceuticals
Last Guidance	November 3, 2015
Next earnings date	November 2, 2017
Estimated Country Risk Premium	6.51%
Effective Tax rate	21%
Effective Operating Tax rate	21%

Market Data

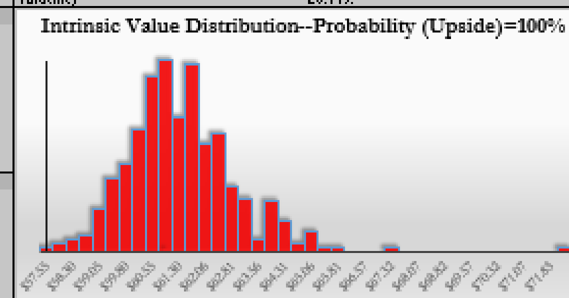
Market Capitalization	$2,485.71
Daily volume (mil)	0.63
Shares outstanding (mil)	53.00
Diluted shares outstanding (mil)	53.52
% shares held by institutions	116%
% shares held by investments Managers	90%
% shares held by hedge funds	11%
% shares held by insiders	0.29%
Short interest	11.53%
Days to cover short interest	13.92
52 week high	$59.63
52-week low	$44.64
Volatility	26.77%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
6/30/2016	0.44%	-3.08%
9/30/2016	-0.87%	-2.43%
12/31/2016	2.73%	-1.46%
3/31/2017	2.13%	4.30%
6/30/2017	0.76%	-0.41%
Mean	1.04%	-0.62%
Standard error	0.6%	1.3%

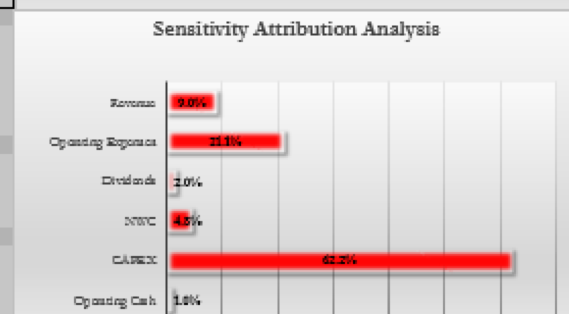
Peers

Akorn, Inc.
Impax Laboratories, Inc.
Inter Parfums, Inc.
Church & Dwight Co., Inc.
Taro Pharmaceutical Industries Ltd.

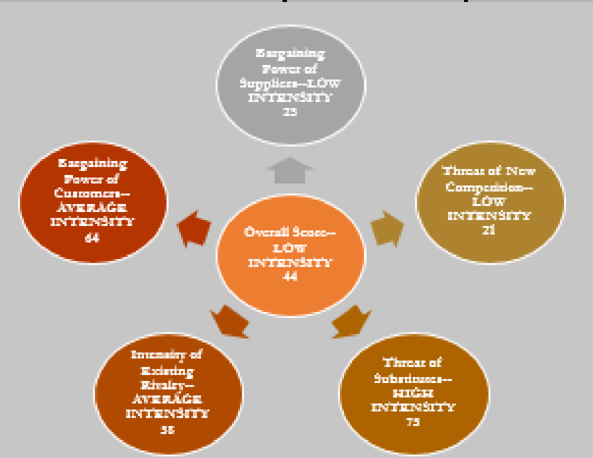


Management	Position	Total compensation growth	Total return to shareholders
Lombardi, Ronald	Chairman, President & CEO	40.39% per annum over 6y	8.83% per annum over 6y
Sacco, Christine	Chief Financial Officer	N/M	N/M
Connors, Timothy	Executive Vice President of	1.84% per annum over 6y	8.83% per annum over 6y
Parkinson, John	Senior Vice President of Int	2.55% per annum over 6y	8.83% per annum over 6y
Hoye, Christopher	Senior Vice President of Con	N/M	N/M
Hochuli, Thomas	Vice President of Operations	N/M	N/M

Profitability	PBH (LTM)	PBH (5 years historical a	Peers' Median (LTM)
Return on Capital (GAAP)	5.4%	7.02%	198.57%
Operating Margin	14%	14.90%	11.41%
Revenue/Capital (GAAP)	0.39	0.47	17.41
ROE (GAAP)	16.1%	14.3%	-47.9%
Net margin	13.4%	10.2%	13.7%
Revenue/Book Value (GAAP)	1.20	1.40	-3.50
Invested Funds	**PBH (LTM)**	**PBH (5 years historical a**	**Peers' Median (LTM)**
Cash/Capital	1.4%	1.3%	41.7%
NWC/Capital	4.3%	7.1%	-5.3%
Operating Assets/Capital	74.4%	77.6%	53.5%
Goodwill/Capital	19.8%	14.0%	10.0%
Capital Structure	**PBH (LTM)**	**PBH (5 years historical a**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.69	0.68	0.37
Cost of Existing Debt	5.3%	6.5%	4.6%
CGFS Rating (F-score, Z-score, and default Prob	CCC	BB	BBB
WACC	9.0%	9.2%	9.6%



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



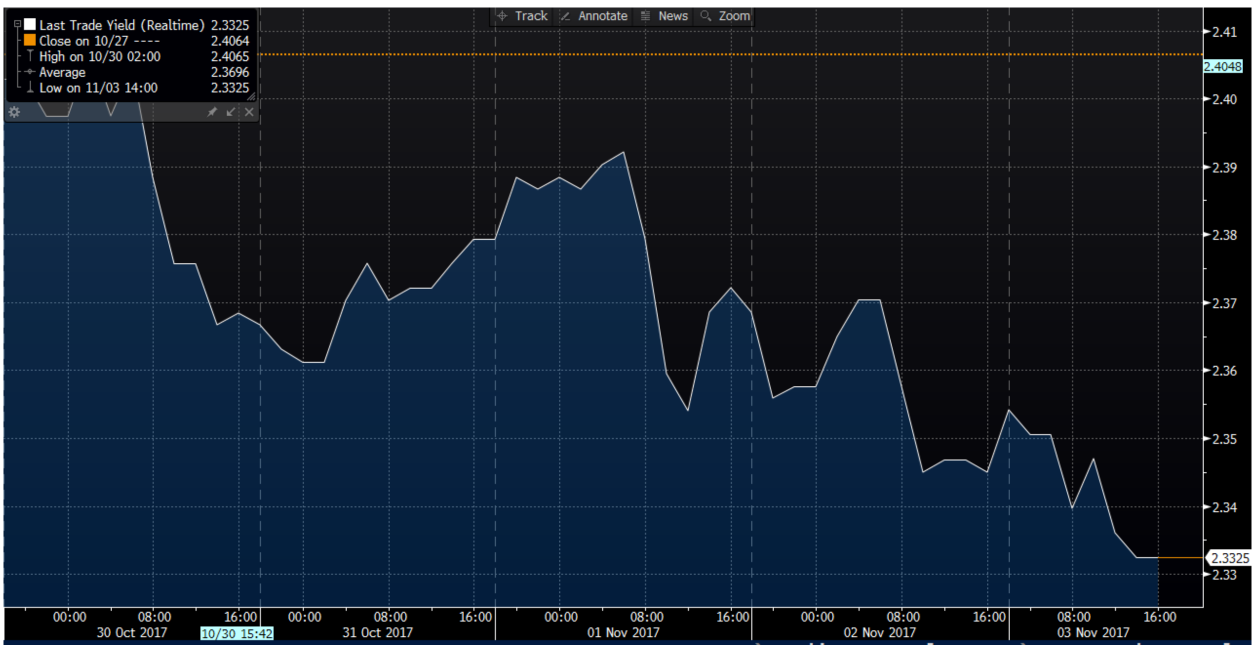
Valuation

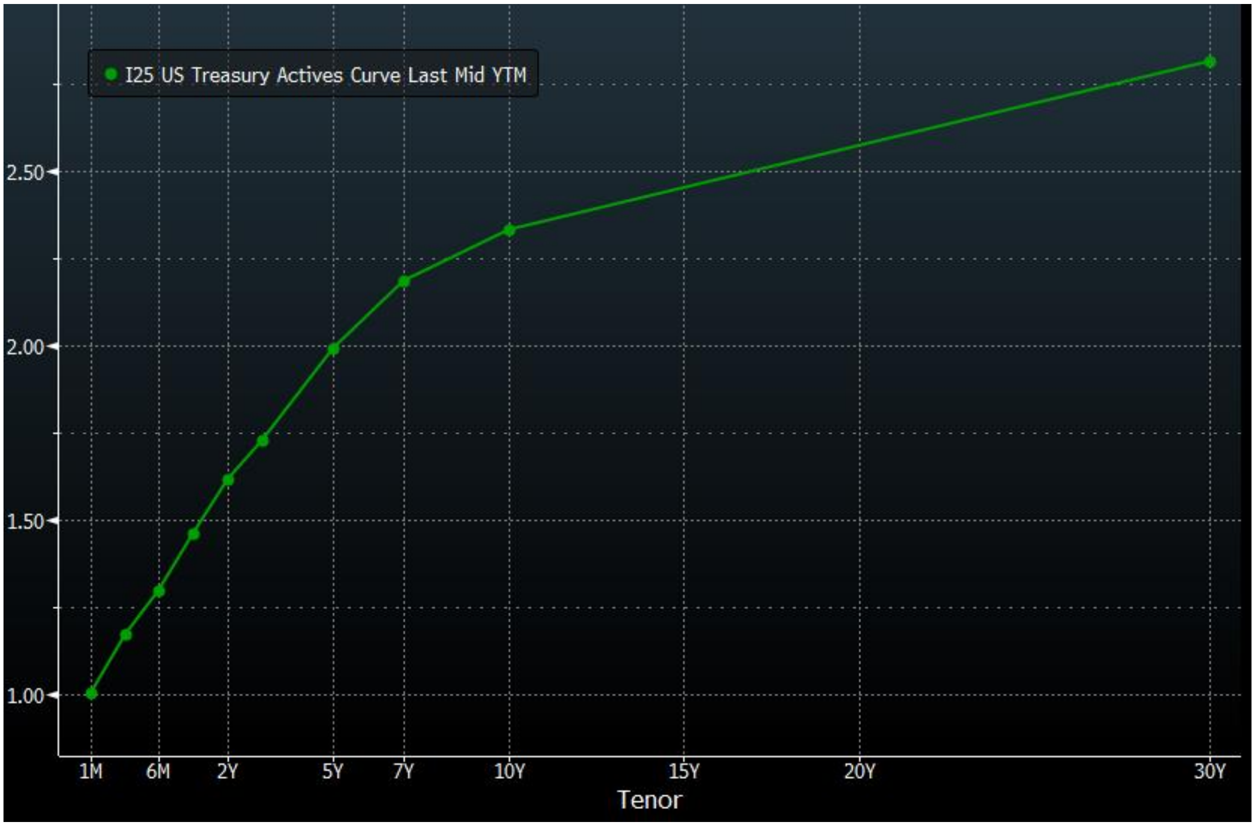
Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	13%	27.6%	0.37
6/30/2018	15%	-37.7%	0.34
6/30/2019	2%	-36.1%	0.40
6/30/2020	3%	-33.8%	0.50
6/30/2021	3%	-31.8%	0.63
6/30/2022	2%	28.4%	0.84
6/30/2023	2%	25.9%	0.72
6/30/2024	2%	23.4%	0.64
6/30/2025	2%	20.9%	0.59
6/30/2026	2%	18.4%	0.55
6/30/2027	2%	15.9%	0.53
Continuing Period	3%	13.4%	0.51

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	10.4%	9.0%	$50.72
6/30/2018	-12.8%	8.0%	$58.46
6/30/2019	-14.4%	7.6%	$64.08
6/30/2020	-16.7%	7.2%	$69.31
6/30/2021	-20.1%	6.7%	$74.03
6/30/2022	23.9%	6.6%	$78.54
6/30/2023	18.6%	6.4%	$82.84
6/30/2024	15.0%	6.2%	$86.99
6/30/2025	12.3%	6.2%	$91.15
6/30/2026	10.2%	6.1%	$95.24
6/30/2027	8.4%	5.9%	$99.30
Continuing Period	6.9%	5.8%	

Bond Report

This week's bond trading has been dominated by two main events. The first event was the election of Jerome Powell as Fed Chair. The markets main reaction to the election actually came early in the week even though the official announcement did not come until Thursday. The markets had anticipated this early in the week and was the main push behind longer term treasury yields falling. The markets were seemingly unhappy about this decision. The consensus is that Powell is much more apt to follow in the wishes of Janet Yellen, while John Taylor would have been a much more aggressive choice. Markets believed John Taylor held values very similar to Trump and with the head of the Fed aligned with Trump the seats would have been much more productive. The second event that dominated the week was that there has been a fear instilled of the flattening of the yield curve with longer term yields dropping off so much this week. The yield curve flattening could be the market reacting to expected interest rate rises; or that the market has larger concerns for the future. These concerns are most likely macro-economic concerns. Of course, it is still very early to tell but is something to be cognizant of. The closing treasury yields for this week were 2 year note yield – 1.624%, 10 year treasury note yield – 2.343%, and 30 year treasury bond – 2.822%.





What's next and key events?

In the week to come we will receive the consumer credit release on Tuesday. The consumer credit release will indicate where the country is in terms of individual's ability to spend. With knowing how individual will and/or can spend in the future, trades can make some estimates as to how this will affect inflation. Consumer credit can also be indicative of how wages are currently fairing. Consumers are forced to borrow when they are under paid. On Wednesday we will receive the bank reserve settlement. This settlement will be telling for how much banks are lending. The bank reserve settlement will also be felt in federal funds rate. If banks are over levered they will have to borrow at the federal funds rate. On Thursday the jobless claims will be released. Jobless claims is a leading indicator of unemployment which is an indicator of the overall economy. A strong jobless claims report should solve any macroeconomic worry that may be coming from the small flattening of the yield curve.