Macroeconomic Overview

United States	Price		Day	Week	Month	Year
Dow Jones	20814	▲ 4	0.02 %	2.73%	5.14%	26.86%
S&P 500	2367	▲ 3	0.13 %	0.69%	3.00%	21.30%
NASDAQ 100	5342	▲ 10	0.18 %	0.35%	3.72%	25.99%
NASDAQ	5845	▲ 10	0.17 %	0.12%	3.34%	27.57%
Russell 2000	1395	▼ 0	-0.01 %	-1.12%	0.87%	35.18%
S&P VIX	11.47	▼ 0.24	-0.24%	-0.02%	0.66%	-7.64%

Domestic

This past week we continued to see strength in the equity markets driven in part by growing confidence with improving economic conditions and business friendly fiscal policy. Capital is flowing into passively managed funds as investors are gearing up for an economic expansion. The belief is that the overall market will, on average, outperform actively managed funds. Janet Yellen's testimony pointed to another increase in the federal funds rate in May and markets reacted positively with the Dow continuing its climb upwards. Typically, a raise in interest rates would cause markets to dip but investors are focused on the potential economic growth that would result in the Fed having to tighten monetary policy to control inflation. The VIX continues to fall as positive investor confidence has limited market volatility and pushes major indexes to new highs day after day. Looking forward, investors are waiting for the Fed to follow through with raising rates relatively soon and continued increase in the 3 month LIBOR rate. Also, we want to see an increase in loan activity especially business lending and an increase in the labor force participation. As for fiscal policy, we must wait until the renegotiations of trade agreements are complete and further information on new corporate and individual tax rates.

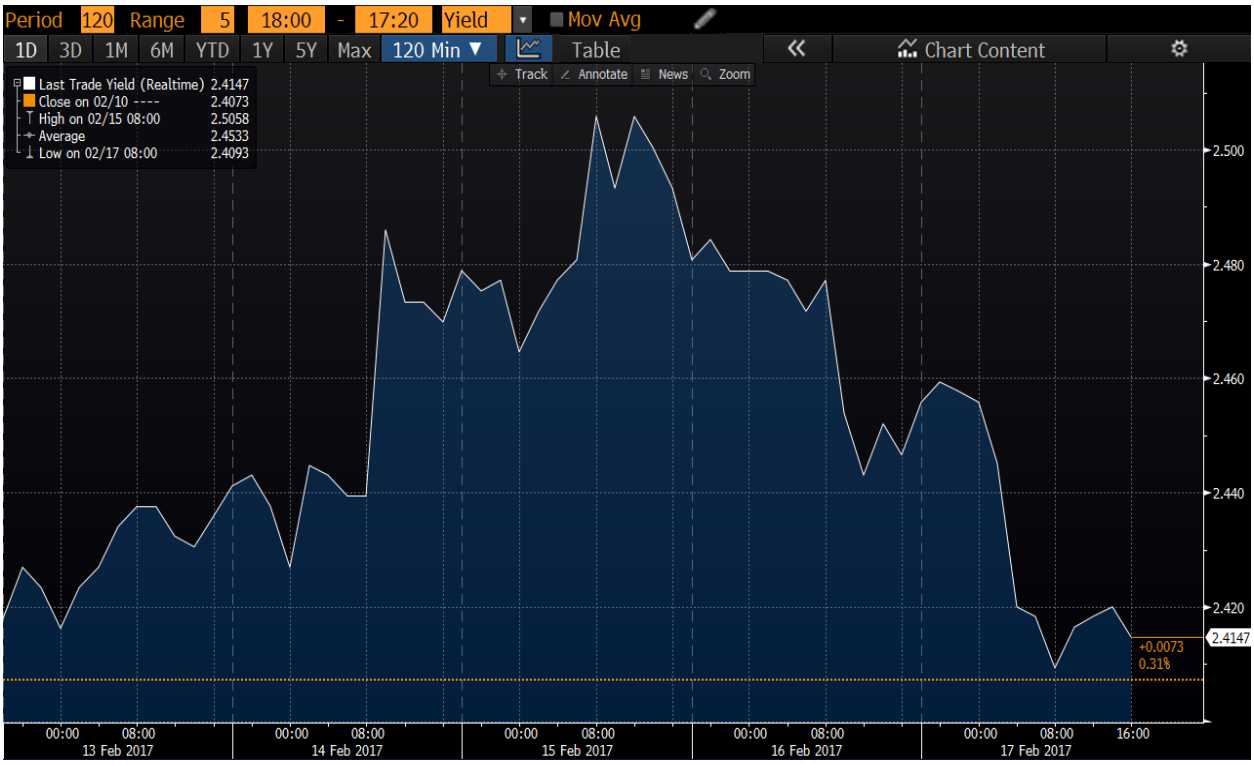
Foreign Markets

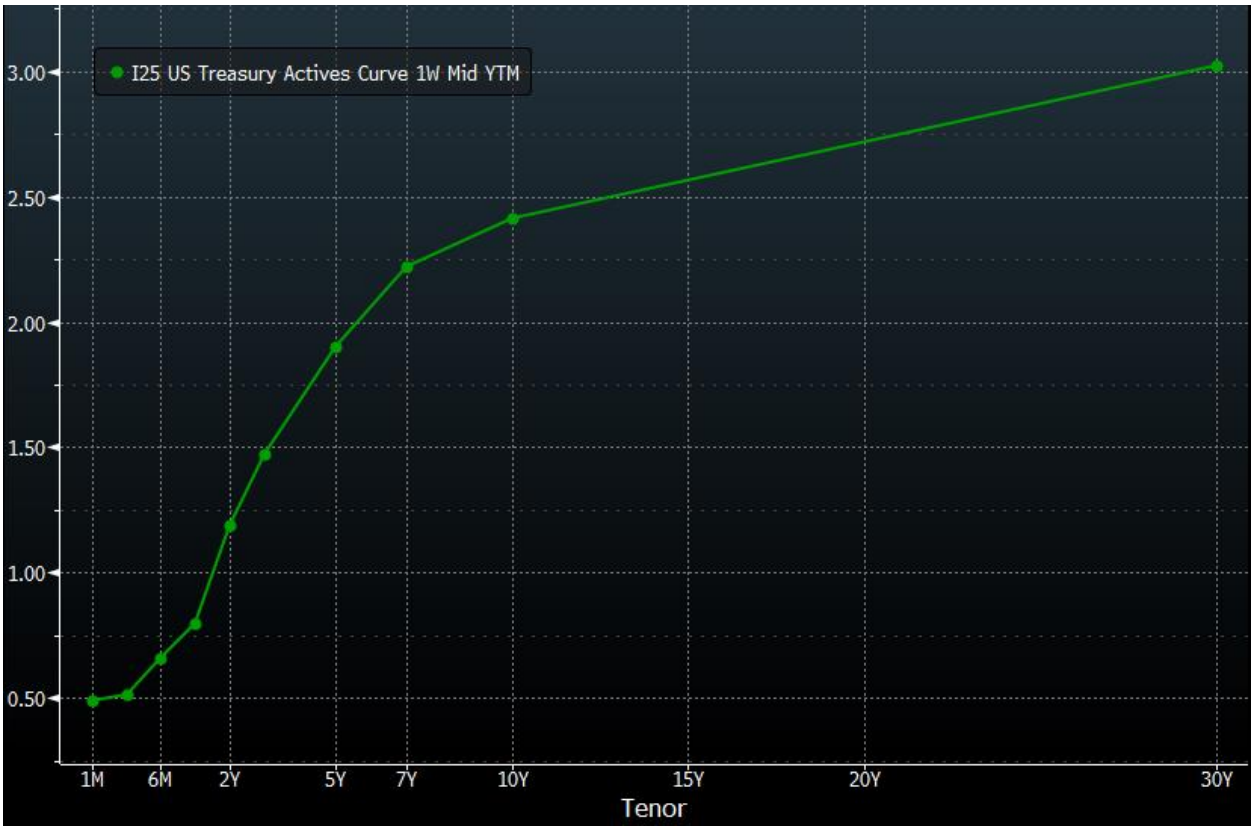
FTSE 100	7263	▼ 6	-0.08 %	-0.77%	1.11%	20.47%
FTSE All	3939	▼ 14	-0.36 %	-0.78%	1.34%	19.35%
DAX	11838	▼ 109	-0.91 %	0.40%	-0.02%	26.50%
CAC 40	4863	▼ 28	-0.56 %	-0.46%	-0.66%	14.05%
FTSE MIB	18597	▼ 223	-1.18 %	-2.16%	-5.03%	8.72%
IBEX 35	9459	▼ 30	-0.32 %	-0.43%	-0.95%	15.14%

European markets have lost some steam on the week as the government debt issues in Greece, Spain, and Italy are increasingly becoming an issue for all of the Euro-zone. Although indices are up year over year, economic growth is still slow and uncertainty of Brexit and future trade agreements loom over the markets. ECB quantitative easing is expected to end in 2017 and if economic activity and inflation do not pick up then the will cause trouble in European markets. Interest rates are already at an unsustainably low level if government debt and unemployment don't increase then we don't expect any organic growth in the region. That does not mean that domestic growth cannot aid in European economic activity which is likely.

Bond Report

This past week, the main concern of the bond market was related to Janet Yellen's semiannual testimony regarding the Fed's monetary policy that was to take place on Tuesday. On Monday, yields rose higher, as the market deemed likely that the chairman of the Fed would not close the door to a Fed-Funds rate hike as soon as March. On Tuesday, two events contributed to a fourth straight day of Treasury yields increase. First, during her testimony, Janet Yellen actually confirmed that a March hike was still considered, surprising most of the market that estimated that a March increase was only 20% likely. As a matter of fact, she stated that the negative impact of waiting too long to raise interest rates was greater than those of not waiting long enough. Then, official data regarding producer-price growth showed that, over the last month, it had been accelerating at its fastest pace in almost 5 years. Yields being directly correlated to inflation, this information contributed to make them increase. On Wednesday, the main event was the release of the Consumer-Price Index data. It showed that, since January 2016, inflation has accelerated to as high as 2.5%, faster than expectations, and most importantly faster than the Fed's inflation target of 2%. This sent yields higher for a fifth straight day, and the 10-year yield went back above 2.5%, for the first time in almost three weeks. Also, Patrick Harker, chairman of Philadelphia Fed, confirmed the expectations of the market by stating that three interest rate hikes in 2017 were likely as long as the economy remains stable through the year. On the last two days of the weeks, U.S. Treasury yields were sent lower as the equity market retreated on both Thursday and Friday after weeks of records. Investors invested in assets considered as safe havens like Treasuries after this bullish run. In the same time, yields also dropped in major European markets as worries emerged regarding the growing influential power of populist parties in Eurozone member countries. Overall this week, while shorter term Treasury yields remained rather constant (2-year yield up by only 0.1 basis point), long-term Treasury yields advanced, as both 10-year and 30-year yields advanced by 1.6 basis point and 1.9 basis point respectively. These have shown increases in four of the past five weeks.





What's next and key events

Next week, as Monday is President's day, the first even to look for will take place on Wednesday, as Tuesday will be comprised mainly of speeches of local Fed chairmen like Patrick Harker. On that day, data about MBA (Mortgage Bankers' Association) Mortgage Application will be released. This indicator not only gives the general state of the housing market, but also gives indications about households' confidence. Last week, MBA applications had fallen by 3.7%. On Thursday, Initial Jobless claims numbers will be under scrutiny, as this indicator been below 240,000 new claims for the past two weeks, being the sign of a strengthening labor market. Current estimates for this week are 244,000, a 5,000 increase from last week. Finally, on Friday, the final Consumer Sentiment Index will be released, currently estimated at 95.7, almost 3 percentage points lower than a month ago, potentially due to the end of the post-election surge. However, this indicator is hard to read as it is highly polarized, Republicans and Democrats having different views on the economy.

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BJORKLUND FUND

February, 17, 2017

Regal Entertainment Group (RGC)

Analyst: Edward Stumm

Sector: Consumer Discretionary
Industry: Media

Company Description:

Regal Entertainment Group (RGC) is one of the leading and most geographically diverse movie theater companies in the United States. Regal Entertainment was founded in Knoxville, Tennessee in 2002. The main brands that make up Regal Entertainment Group are Regal Cinemas, United Artists, Edwards, Great Escape Theatres, and Hollywood Theaters. Regal Entertainment operates primarily in mid-sized metropolitan area and suburban growth areas of larger metropolitan markets. Regal Entertainment strides to provide each customer with a premium movie-going experience by continuously introducing new premium amenities.

BUY

Current Price:	$21.28
Target Price:	$24.36
Market Cap:	3.39B
S&P Debt Rating	B+

Catalysts:

- **Regal Crown Club App**
- **Geographic Expansion**
- **Premium Amenities Additions**

Thesis:

- **Regal Entertainment is the domestic industry leader for operating multi-screen theaters and providing a premium movie-going experience.**
- **In a mature industry, Regal has proven they are not done producing with an EBITDA compounded annual growth rate of 5% over several years**
- **Gross margins are forecasted to increase with the investment of premium amenities alongside the slate of movies in 2017**
- **Acquire more assets through the addition of 3-5 new theaters with the closure of 6-10 with an open mind to an acquisition**

Industry Outlook:

The movie production industry is primarily impacted by seasonal fluctuations in ticket revenue, with the summer and holidays being their high points. Revenue is directly affected by the amount of disposable income available per capita. As seen in the chart, disposable income per capita is forecasted to increase at a rate of 2.4% per year up until 2024.The industry is expected to remain in the mature phase with slow growth, and economic stability. With theaters like Regal Cinemas already offering the highest quality technology the most they can do is improve the movie- going experience in another category. There has been an increase in competition for the movie theater industry because of video on demand, and streaming sites. At this current stage in the industry, when a company isn't profitable anymore they will start to consolidate, which can open the door for new opportunities for Regal Entertainment Holdings.

Disposable personal income	5,244.2	9,002.3	12,985.8	19,874.5	-	-	-	-	5.6	3.7	4.3
Disposable personal income, chained 2009 dollars	7,010.6	10,035.6	11,939.5	15,108.2	-	-	-	-	3.7	1.8	2.4
Per capita disposable income	19,900.7	30,709.4	40,698.0	57,791.4	-	-	-	-	4.4	2.9	3.6
Per capita disposable income, chained 2009 dollars	26,603.3	34,233.8	37,418.4	43,931.3	-	-	-	-	2.6	0.9	1.6
Savings rate (percent)	6.3	4.5	4.8	4.7	-	-	-	-	-3.3	0.7	-0.4

Business Model:

The target market that Regal Entertainment Group is trying to reach out to is the mid-sized metropolitan area and large suburban growth areas. This is in part to the fact that Regal averages the highest ticket price at $9.78. The company's strategy is to pull customers out of their living rooms and into the movie theater through digital cinema. Regal has added IMAX, 3D, and RPX throughout the years to make the movie-going experience exceptional. Another feature they use to pull customers away from the house is by offering the regal crown club loyalty card which allows the consumer to redeem points for items at the concession or souvenirs. Regal entertainment currently operates solely in the United States, which they have become the largest presence in. Regal currently has 565 theaters, and 7,267 screens spanning across the United States. The company generates significant free cash flow which is approximately $250 million for the past five years meaning that Regal is excelling at generating cash after all capital expenditures.

Ownership:

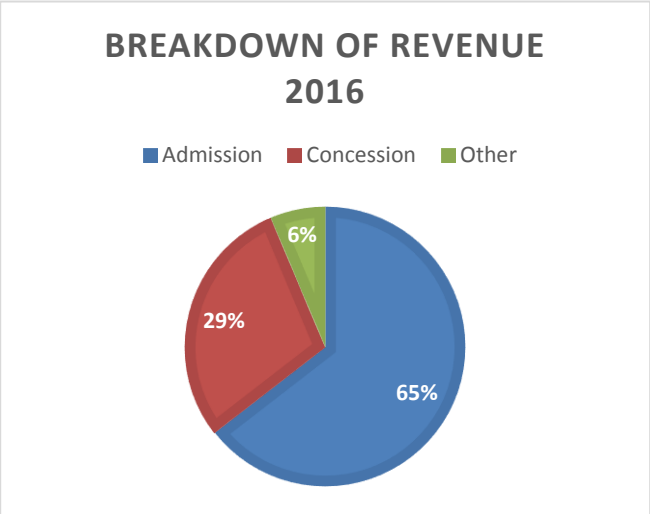
Amy Miles currently serves as the Chief Executive Officer and Director of Regal Entertainment Group. Amy Miles has held this position since June 2009. Before becoming the Chief Executive Officer and Director of Regal, Amy held other positions such as Chief Financial Officer, Chief Executive Officer, Executive Vice President, and Treasurer of Regal Cinemas Inc., a subsidiary of the company.

Gregory Dunn current serves as the President and Chief Operating Officer for the company. Gregory Dunn became President of the company in May of 2005 and became the Chief Operating Officer in March of 2002. Prior to holding these positions, Mr. Dunn served as Vice President of Marketing and Concessions of Regal Cinema Inc.

Peter Brandow is the Executive Vice President, General Counsel, and Secretary of Regal Entertainment Group. Mr. Brandow has held these positions since July of 2001. Prior to serving these positions, Mr. Brandow was an associate with the law firm Simpson Thatcher & Bartlett.
David Ownby is the Executive Vice President, Chief Financial Officer, and Treasurer. He has served these positions since June of 2009. Prior to joining the company, Mr. Ownby served with Ernst & Young from September of 1992 to October of 1999.

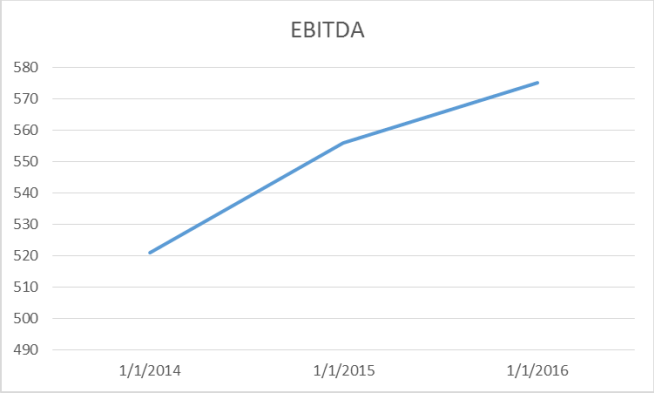
Financials:

Regal Entertainment Group generated $3,197,100,000 in revenue for fiscal 2016 which grew 2.23 percent from the prior year's revenue. The breakdown of the revenue shows that Regal primarily depends on ticket sales at 65% to generate the revenue they do, they also make about 29% of their sales in the concession area, and 6% coming from other areas such as arcades, vending machines, etc. Despite the increased cost of concessions, rent expense, and general and administrative expenses, Regal entertainment group was still about to make a $170,500,000 profit which is better than Fiscal year 2015 by 11.29%. In the fourth quarter, Regal had underperformed their last year's performance by $36,000,000. Film rental and advertising costs were 34.63% of their total sales. There is a slight measure of seasonality in the movie theater industry which can be seen in the quarter 2 revenues compared to the quarter 4 revenues which were $26,700,000 higher. This is partially due to the fact that it's the holiday season and families tend to spend more during this season. In the movie theater industry, advertising plays a key role in drawing in revenue. Regal has a significant amount of cash on hand which indicates they have the ability to take on the expansion they desire through acquisitions. As you can see in the chart, Regal Entertainment Group has a ROIC/WACC ratio that exceeds 1. This is a positive sign for the future of this company because they are creating value with the money they are investing, as opposed to their competitors who are destroying value in their company. Regal's EBITDA grew at a compounded annual growth rate of 5% since 2014 which is due to the investment of premium amenities allowing the company to strategically raise prices. The concessions also reported a 32% per cap growth with



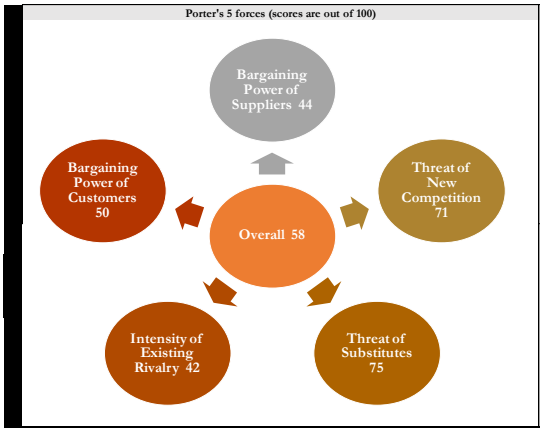
ROIC /WACC		
	History	***LTM***
RGC	**1.98**	**2.42**
Competitors	**1.30**	**0.77**

the addition of alcohol and other menu items. In a mature industry, Regal has proven that there is still room for growth.



Porters Five Forces:

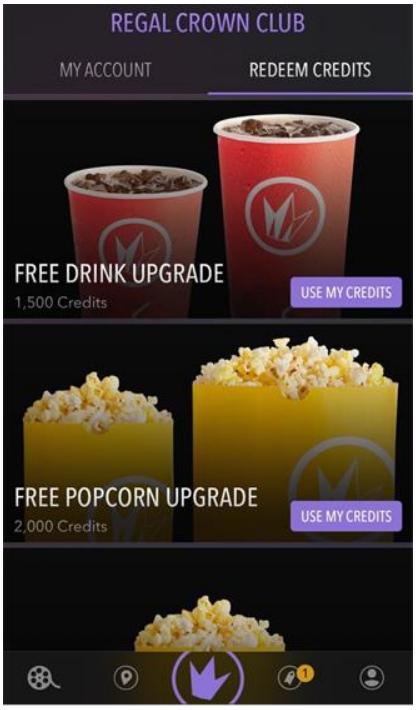
In the media industry, there is a high threat of new competition. This is because movie theaters are located all over the country, big and small. It doesn't require too much capital for a company to start up a movie theater. There is also a high threat of substitutes in the media industry because with the new technology, consumers can watch movies and shows from the comfort of their home. Some of these substitutes may be Netflix, Video on Demand, and other streaming sites. Consumers are likely to switch to these products because of the convenience and if ticket prices become too expensive. There is moderate intensity among existing rivals because most theaters already have their customer base made. These customers have most likely decided whether they are a loyal Regal Fan, or a loyal AMC fan. It's not likely that you will find an AMC theater located right by a regal theater because they tend to build using different strategies. There is moderate bargaining power of customers because theaters aren't placed every couple blocks like a McDonalds might be. Some customers don't have the ability to choice between theaters, and therefore have to settle for one company. There is moderate/weak bargaining power of suppliers as well because this is a mature industry, and companies like Regal have had



relations with their supplier for years. It is unlikely that the supplier will take control and upcharge the price because then Regal can find a new supplier.

Catalyst and Important Dates:

Regal Entertainment Group plans to further its expansion in the United States, and remain the leading theater company in the United States. Regal has already incorporated their Regal Crown Club app to further the experience for movie-goer by allowing them to purchase tickets ahead of time, rack up loyalty points, and redeem those points for items at the concession, or movie related souvenirs on the website. Regal Entertainment has also been strategically acquiring companies throughout their history with the most recent one being in 2015 when they acquired five theaters with 61 screens from entities affiliated with Georgia Theater Company. Over the next several years, Regal is slowly implementing premium amenities into their theaters such as robust options at the concession stand, alcoholic beverages, and recliners for the movie theater. These amenities will give their company the competitive advantage they have been looking for. An important date for Regal coming up is March 1st with the first ex-dividend date of the year.



Conclusion:

I believe that we should purchase stocks in Regal Entertainment Group because they have shown that they can create value, whereas their competitors were destroying value. The likelihood that the stock price will rise is fairly high because it's projected to be a good year for movie releases, and with their big quarters not yet here now would be a good time to buy. I expect the stock price to reach $25.00 within the year, and continue to grow for the future.

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Regal Entertainment Group (RGC)

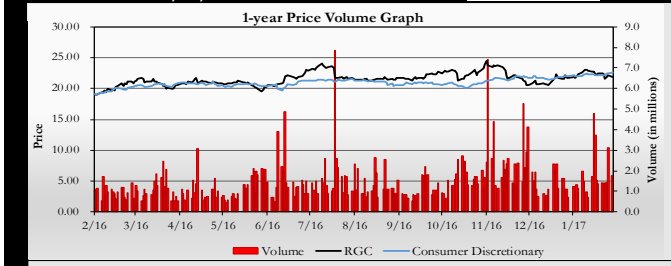
CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Edward Stumm | Current Price: $21.30 | Intrinsic Value $23.96

2/17/2017 | Divident Yield: 3.9% | Target Price $24.36

Target 1 year Return: 18.32%
Probability of Price Increase: 84%



Description

Regal Entertainment Group, through its subsidiaries, operates as a motion picture exhibitor in the United States.

General Information

Sector	Consumer Discretionary
Industry	Media
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	39%

Market Data

Market Capitalization	$3,338.89
Daily volume (mil)	0.37
Shares outstanding (mil)	156.02
Diluted shares outstanding (mil)	156.80
% shares held by institutions	78%
% shares held by investments Managers	64%
% shares held by hedge funds	7%
% shares held by insiders	1.67%
Short interest	10.75%
Days to cover short interest	8.68
52 week high	$24.79
52-week low	$18.72
Levered Beta	0.87
Volatility	22.05%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	-0.84%	-9.49%
3/31/2016	-0.87%	-16.31%
6/30/2016	-9.01%	-26.17%
9/30/2016	-0.29%	-8.41%
12/31/2016	-2.39%	-6.46%
Mean	-2.68%	-13.37%
Standard error	1.6%	3.6%

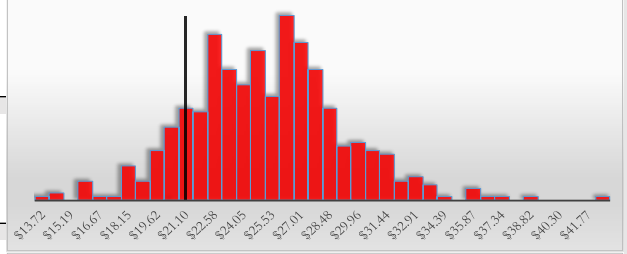
Peers

Cinemark Holdings, Inc.
AMC Entertainment Holdings, Inc.
Lions Gate Entertainment Corp.
Viacom, Inc.
IMAX Corporation
Reading International, Inc.
The Madison Square Garden Company

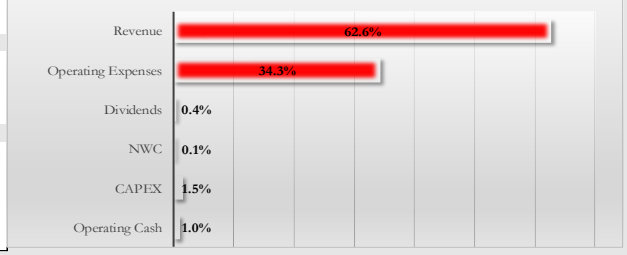
Management	Position	Total compensations growth	Total return to shareholders
Miles, Amy	Chairperson and Chief Execut	5.71% per annum over 5y	3.54% per annum over 5y
Dunn, Gregory	President and Chief Operatin	4.88% per annum over 5y	3.54% per annum over 5y
Ownby, David	Chief Financial Officer, Pri	9.1% per annum over 5y	3.54% per annum over 5y
Brandow, Peter	Executive Vice President, Ge	6.79% per annum over 5y	3.54% per annum over 5y
Grover, Richard	Vice President of Marketing	N/M	N/M
Thewes, Ken	Chief Marketing Officer	N/M	N/M

Profitability	RGC (LTM)	RGC (5 years historical average)	Industry (LTM)
ROIC	9.6%	8.12%	9.82%
NOPAT Margin	10%	10.23%	13.6%
Revenue/Invested Capital	1.00	0.79	0.72
ROE	-11.5%	-13.61%	12.46%
Adjusted net margin	6%	5.07%	12.4%
Revenue/Adjusted Book Value	-2.02	-2.68	1.01
Invested Funds	**RGC (LTM)**	**RGC (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	4.1%	4.7%	9%
Estimated Operating Cash/Total Capital	4.1%	4.7%	N/A
Non-cash working Capital/Total Capital	0.0%	-5.5%	1%
Invested Capital/Total Capital	84.5%	84.2%	88%
Capital Structure	**RGC (LTM)**	**RGC (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	1.76	1.72	0.37
Cost of Existing Debt	3.94%	6.03%	4.39%
Estimated Cost of new Borrowing	2.84%	2.52%	4.39%
CGFS Risk Rating	B	BB	B
Unlevered Beta (LTM)	0.43	0.47	1.18
WACC	4.94%	5.85%	10.15%

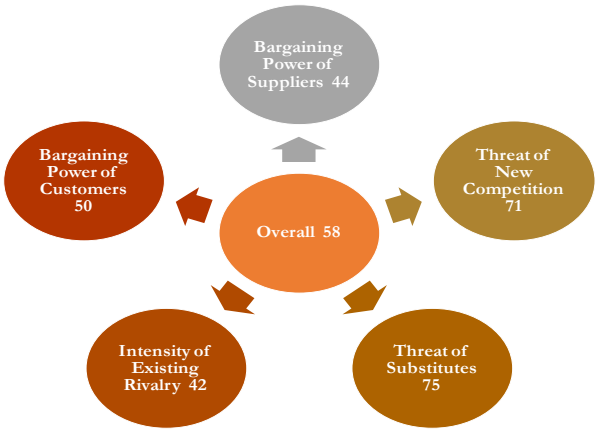
Target Price Distribution--P(price↑)=84%



Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	2.2%	9.6%	1.93
12/31/2017	-1.8%	10.0%	1.54
12/31/2018	2.6%	13.3%	2.11
12/31/2019	2.5%	14.6%	2.00
12/31/2020	2.6%	15.2%	1.99
12/31/2021	2.8%	15.7%	1.98
12/31/2022	3.0%	16.5%	2.05
12/31/2023	3.2%	17.2%	2.04
12/31/2024	3.4%	17.7%	1.99
12/31/2025	3.6%	18.4%	2.02
12/31/2026	3.8%	19.1%	1.96
Continuing Period	4.0%	19.8%	1.90

Period	Invested Capital	Net Claims	Price per share
Base Year	$3,637.94	$5,339.31	$24.41
12/31/2017	$3,204.09	$5,348.18	$23.70
12/31/2018	$3,256.53	$5,583.25	$25.18
12/31/2019	$3,384.84	$5,377.92	$27.15
12/31/2020	$3,211.71	$5,141.54	$29.51
12/31/2021	$3,868.43	$4,764.73	$32.22
12/31/2022	$3,597.08	$4,483.99	$35.31
12/31/2023	$3,980.26	$4,174.18	$38.88
12/31/2024	$3,989.49	$3,722.70	$42.90
12/31/2025	$4,014.15	$3,364.14	$47.44
12/31/2026	$3,935.82	$2,973.69	$52.60

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BJORKLUND FUND

March 3rd, 2017

Callaway Golf: ELY

Alec Odnoha

Sector: Consumer Discretionary
Industry: Sporting Goods

Callaway Golf is one of the most prominent golf companies in the world today. The company designs, manufactures, and sells high quality golf equipment and merchandise, ranging from clubs, to balls, and also bags and other accessories. The industry in which they compete is highly competitive, and the company focuses on two main segments, golf balls and golf clubs. Their products are sold globally, and are usually sold to sporting goods retailers and third party distributors.

BUY

Current Price: $10.40
Target Price: $13.39
Market Cap: $983.7M
Ke: 10.26%
WACC: 8.4%
ROE: 37.2%
Net Income Margin: 21.80
Total Asset Turnover: 1.22
Equity Multiplier: 1.31
Cash/Total Assets: 15.72%

Thesis: **Callaway seems to be in prime position to experience growth in 2017. Despite some setbacks in fiscal year 2016 and a slow performance in Q4, there are still indications that point towards future growth. Stock price dropped more than 8% as a result, but revenues and earnings still increased overall from 2015. An agreement with an individual Japanese venture and the acquisition of a U.S. golf bag manufacturer should allow for the company to experience growth in newer markets. Callaway differentiates itself from competitors in terms of market position, as they continue to seize market share abroad and find attractive investment opportunities through foreign partnerships and tour representation.**

Catalysts: **The following are factors that will play a role in the performance of the company down the line:**

- **Short Term: Seasonality, Tour representation, Reduction in number of golf rounds**
- **Mid Term: Acquisitions (OGIO), Increase in international market share, Changes in equipment standards.**
- **Long Term: Global operations, Changes in foreign currency rates, Changes in tax laws.**

Earnings Performance:

Despite the drop in stock price, Callaway still exhibited revenue growth. Net sales totaling $871.2 million were reported, up from 3.2% last year. In Q4 alone, despite results being reported as under consensus, the Q4 net sales saw an increase of 6.8% to $163.7 million, $10.4 million of which can be attributed to the Japan joint venture, evident of presence in foreign markets. Cash and equivalents increased 152% to $126 million, while asset-based loans dropped 20%, to $12 million. In the highly competitive market, Callaway still managed to generate solid profits and maintain good position in market share, actually gaining market share in the golf ball business. Available liquidity year-end was value at $213 million, a 52% increase. Due to the golf industry being a seasonal business in which predominant sales are the first half of the year, seasonality and slow sales in Q4 can be attributed towards the stock price decline.

(in millions, except percentages)	As of Dec. 31, 2016	As of Dec. 31, 2015	Percent Change
Cash & Equivalents	$126	$50	+152%
Asset-based Loans	$12	$15	(20%)
Available Liquidity[1]	$213	$140	+52%
Net Accounts Receivable	$128	$116	+11%
Inventory	$189	$209	(9%)
Cap Ex	$16	$14	+13%
D&A	$17	$17	(5%)

Source: Q4 Earnings Call, Investor Presentations

Source: Bloomberg

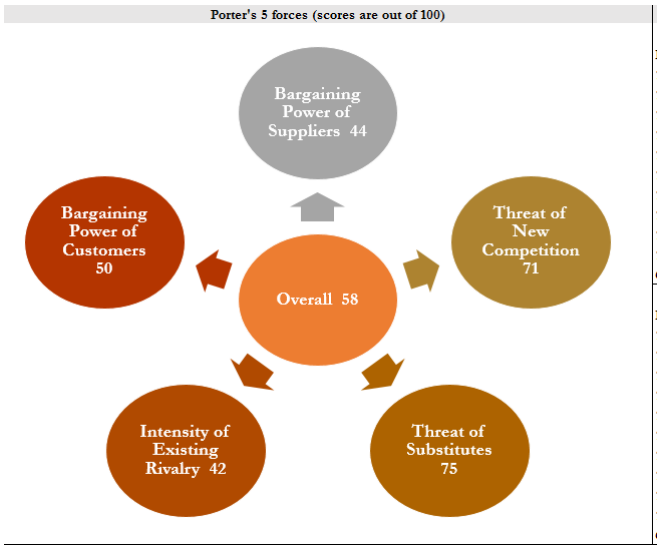
Industry Overview:

Callaway predominantly competes in the golf sector of the sporting goods industry, which as a whole features several top-name companies vying for market share. Competitors try to differentiate themselves through innovative technologies introduced to golf clubs and balls. Companies also have affiliations with touring professionals, who are keystones in driving market share of a brand. Callaway has upheld strong performance in the market, continuing to gain market share with golf balls and golf clubs while establishing gains in other categories as a result of recent investments. The industry is seasonal, which can be affected by the timing of new products or weather conditions. Typically, sales occur predominately in the first half of the year.

Top managers at Callaway intend to continue investing in cutting edge technology and key growth areas to drive share price. New technologies that create greater efficiency are being introduced to new product releases that will surely drive position in the driver and putter market share. Execution from an operational perspective has been the driving factor in order to continually expand and seek attractive investment opportunity whilst creating shareholder value.

Porter's Forces Analysis:

Being the highly competitive industry that Callaway is in, maintaining a competitive advantage is essential. Callaway has done so in the past based on player endorsements and equipment modernization. Marked by longevity in golf circles, the predominant issues would be the threat of new competition and substitutions. However, Callaway has maintained solid operating ability in the past both domestically and internationally. With a larger economy of scale, greater foreign influence, and consistent technology innovation, the company has been put in prime position to continue growth. Substitute products are also an issue, with other large-name companies introducing similar innovations in their club technology. Callaway's recently launched product line of drivers has been received at number one selling in the month of January of this year. As a result, power is strengthened in comparison to any competitors. Continued market presence, innovation, and top representation will drive sales and value in the future.



Market Presence:

With products being sold globally, Callaway has strong presence in both domestic and foreign markets. Fiscal year 2016 introduced gains in market growth for specific segments in multiple markets, which positions the company to continually outperform the industry. Europe saw a record in hard goods market share in 2016, at levels of 22.2%, a gain of 140 basis point year-over-year. Displaying strong sales and margin growth, Callaway also upheld their position as the number 1 brand in that market. Market share is expected to increase considerably in Asia as a result of the Japan apparel joint venture.

Capital Allocation:

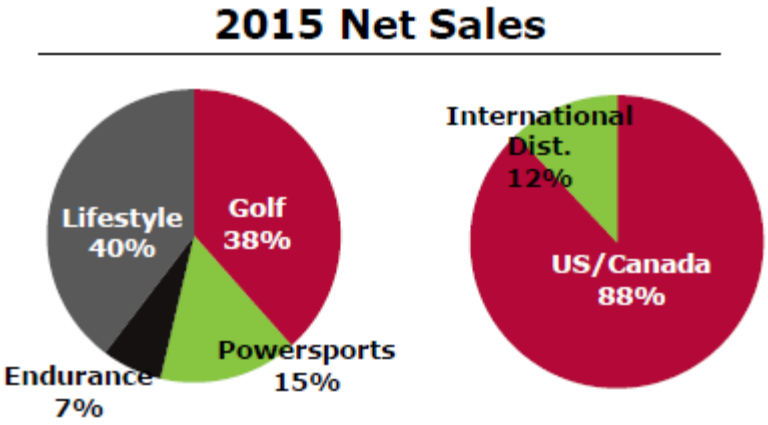
Callaway maintains a solid cash balance, and since 2015 has minimal debt. As a result, they are able to continually invest in areas that they believe will spark growth. Tour representation is believed to be a strong driver of market price. Player signed to staff market their equipment worldwide, and Callaway has recently received some big names in the industry that are sure to generate some recognition, such as Daniel Berger, the 2015 PGA Tour Rookie of the Year, or Rory McIlroy, former World No. 1. Management also wants to capitalize on core business operations, stemming from the Japan venture and research and development for club technologies. Other competitors are refraining from activity or exiting an investment as a whole, which is of large value to Callaway.

In Millions of USD except Per Share	FY 2014	FY 2015	FY 2016	Current
12 Months Ending	12/31/2014	12/31/2015	12/31/2016	03/03/2017
Market Capitalization	597.5	883.3	1,031.5	983.7
- Cash & Equivalents	37.6	49.8	126.0	126.0
+ Preferred Equity	0.0	0.0	0.0	0.0
+ Minority Interest	0.0	0.0	–	
+ Total Debt	123.8	15.0	12.0	12.0
Enterprise Value	683.6	848.5	917.5	869.7

Source: Bloomberg

Acquisitions:

In a recent, $75.5 Million all-cash transaction, Callaway acquired the U.S Bag Manufacturer, OGIO, a lifestyle brand known for its bags and apparel. OGIO generated approximately $50 million of revenue and $9 million of adjusted EBITDA in 2016. Golf bags are one of their key products as well, and as displayed in the chart below, takes up a majority share in net sales for the company. The acquisition of OGIO provides a strong fit with Callaway, as it increases economy scale, and overlap in market segments allows for infiltrate other markets, namely lifestyle or leisure. OGIO is a platform for future growth, as more than 60% of sales are in categories outside of golf, which can generate value and create growth for Callaway. Callaway also expects accretive additions to payouts on dividends. Callaway strives to seek any opportunity to invest in new industries, as it can help them to add value and maintain their goal of shareholder wealth and continued growth.



Source: OGIO Acquisition Presentation

Financial Outlook:

ELY	FY 2014	FY 2015	FY 2016
Cash Ratio	0.2	0.28	0.67
Current Ratio	2.09	2.19	2.46
Quick Ratio	0.8	0.93	1.26
Operating Margin	3.47	3.19	5.07
EBITDA Margin	5.86	5.25	6.97
Net Income Margin	1.8	1.73	21.8
ROIC	5.06	4.25	33.39
ROE	5.56	4.14	37.18

The company has shown solid financial stability in previous years, as exhibited by the current and quick ratios, showing that the company is able to pay off short-term debts. The cash ratio could be a bit of a concern, but Callaway's extensive inventory and 2016 share repurchase deal with Topgolf enable the company to have access to other Callaway relies mostly on cash resulting from operations and credit facilities to manage seasonal fluctuations they face. However, they Over a three-year period, marginal performance has been solid, with strong increases this past fiscal year, most notable Net Income, in part due to the individual Japanese venture and completion of the OGIO acquisition for $75.5 million in cash. Those endeavors coupled with an increase in overall Q4 revenue generated resulted in high returns, and the greater economies of scale will effectively improve operating margins moving forward. Callaway saw no reduction in market share, and has

positioned itself nicely to see more global influence and an increase in sales for its different segments, on top of growth options in newer segments as a result of the OGIO market.

Conclusion:

Callaway has maintained its position as a prominent company in the sporting goods industry. Recent performance has shown that they have a solid capital structure and proven operating ability. Increased revenues and profitability are projected to grow at higher rates. Investment strategies into newer markets, cutting edge technology, minimal debt, proven operating ability, and a reduction in stock price while maintaining growth all point to the undervalue of Callaway. It currently holds an intrinsic value of $10.35. One year target price is set at $13.39, which should be attainable with the contributions of this year's investments and the strength of Callaway's operating ability.

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Callaway Golf Company (ELY)

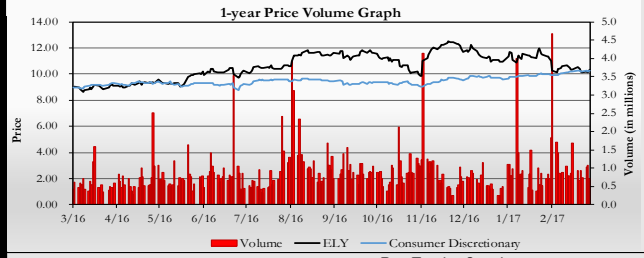
BULLISH

Analysis by Alec Odnoha
3/3/2017

Current Price:	$10.40	Intrinsic Value	$109.62
Divident Yield:	1.0%	Target Price	$133.66

Target 1 year Return: 1186.2%
Probability of Price Increase: 100%

1-year Price Volume Graph



Description

Callaway Golf Company, together with its subsidiaries, designs, manufactures, and sells golf clubs, golf balls, golf bags, and other golf-related accessories in the United States and internationally.

General Information

Sector	Consumer Discretionary
Industry	Leisure Products
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	4.67%
Effective Tax rate	24%
Effective Operating Tax rate	204%

Market Data

Market Capitalization	$983.63
Daily volume (mil)	0.90
Shares outstanding (mil)	94.58
Diluted shares outstanding (mil)	95.85
% shares held by institutions	74%
% shares held by investments Managers	71%
% shares held by hedge funds	15%
% shares held by insiders	1.42%
Short interest	1.64%
Days to cover short interest	1.65
52 week high	$12.56
52-week low	$8.57
Levered Beta	1.33
Volatility	28.42%

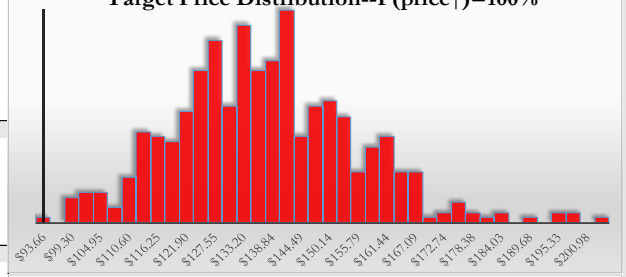
Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	2.22%	-202.92%
3/31/2016	-8.65%	16.09%
6/30/2016	0.28%	-15.09%
9/30/2016	3.78%	-148.23%
12/31/2016	-9.06%	-220.05%
Mean	-2.28%	-114.04%
Standard error	2.7%	48.5%

Peers

Acushnet Holdings Corp.
Nautilus, Inc.
Malibu Boats, Inc.
Johnson Outdoors Inc.
Brunswick Corporation
MCBC Holdings, Inc.

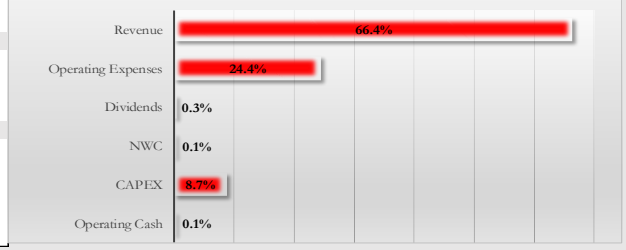
Target Price Distribution--P(price↑)=100%



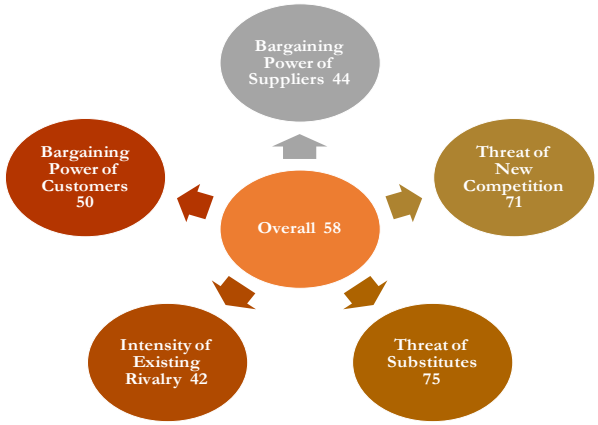
Management	Position	Total compensations growth	Total return to shareholders
Brewer, Oliver	Chief Executive Officer, Pre	-0.61% per annum over 3y	11.44% per annum over 3y
Julian, Robert	Chief Financial Officer and	N/M	0% per annum over 0y
Leposky, Mark	Senior Vice President of Glo	14.03% per annum over 2y	6.21% per annum over 2y
Howie, Neil	Managing Director of Europe,	13.43% per annum over 3y	11.44% per annum over 3y
Hocknell, Alan	Senior Vice President of Res	-100% per annum over 1y	22.86% per annum over 1y
Thomas, Jennifer	Chief Accounting Officer and	N/M	N/M

Profitability	ELY (LTM)	ELY (5 years historical average)	Industry (LTM)
ROIC	-32.9%	0.79%	13.89%
NOPAT Margin	-26%	3.90%	10.5%
Revenue/Invested Capital	1.29	0.20	1.32
ROE	-34.9%	-0.85%	15.72%
Adjusted net margin	-27%	2.64%	9.1%
Revenue/Adjusted Book Value	1.31	-0.32	1.73
Invested Funds	**ELY (LTM)**	**ELY (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	14.0%	7.1%	18%
Estimated Operating Cash/Total Capital	4.9%	4.8%	N/A
Non-cash working Capital/Total Capital	17.7%	20.4%	25%
Invested Capital/Total Capital	74.2%	80.1%	82%
Capital Structure	**ELY (LTM)**	**ELY (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.06	0.33	0.19
Cost of Existing Debt	11.94%	9.26%	5.32%
Estimated Cost of new Borrowing	14.16%	7.70%	5.32%
CGFS Risk Rating	F	D	C
Unlevered Beta (LTM)	1.25	1.09	0.87
WACC	10.17%	9.57%	7.94%

Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	3.2%	-25.6%	-3.24
12/31/2017	5.6%	9.0%	1.23
12/31/2018	2.2%	9.4%	1.25
12/31/2019	2.4%	10.5%	1.35
12/31/2020	2.6%	11.8%	1.53
12/31/2021	2.8%	13.1%	1.73
12/31/2022	3.0%	14.6%	1.97
12/31/2023	3.2%	16.2%	2.22
12/31/2024	3.4%	17.7%	2.48
12/31/2025	3.6%	19.2%	2.74
12/31/2026	3.9%	20.8%	3.02
Continuing Period	4.1%	22.4%	3.30

Period	Invested Capital	Net Claims	Price per share
Base Year	$723.48	-$57.42	$24.45
12/31/2017	$728.11	-$92.31	$26.67
12/31/2018	$683.09	-$115.80	$29.06
12/31/2019	$673.91	-$178.00	$31.55
12/31/2020	$677.15	-$247.01	$34.14
12/31/2021	$669.72	-$323.57	$36.81
12/31/2022	$700.54	-$411.07	$39.60
12/31/2023	$745.47	-$510.01	$42.50
12/31/2024	$754.09	-$621.48	$45.50
12/31/2025	$761.91	-$746.57	$48.59
12/31/2026	$768.94	-$886.68	$51.76
Continuing Period			

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March 3, 2017

American Outdoor Brand Corp

NASDAQ - AOBC

Benjamin Bouin

Sector: Consumer Discretionary
Industry: Leisure Products

American Outdoor Brands Corp, previously called Smith & Wesson's is a manufacturer of firearm products and accessories. They are specialized into the shooting, hunting, and rugged outdoor markets. The company has been founded in 1852.

BUY

Current Price:	$18.83
Target Price:	$22.01
Market Cap:	1.06B
Beta:	-0.41

Thesis:

AOBC's revenue is depending on the households' income which is increasing since 2015. Moreover, because of the diversification of the company, AOBC's products are available to everyone in outdoor retailers, which ones have seen their sales increasing through the years and will see them increasing for the next years. This will lead to an increase of AOBC's revenues. Moreover, the company has hired a former VP in Vista who's in charge on the outdoor department. This will help AOBC to successfully develop their diversification. AOBC has seen its margins increasing between 2015 and 2016, through a reduction costs policy. This has led to an increase of EBITDA and of its free cash flow. This increases lead to an increase of the company's value.

Catalysts:

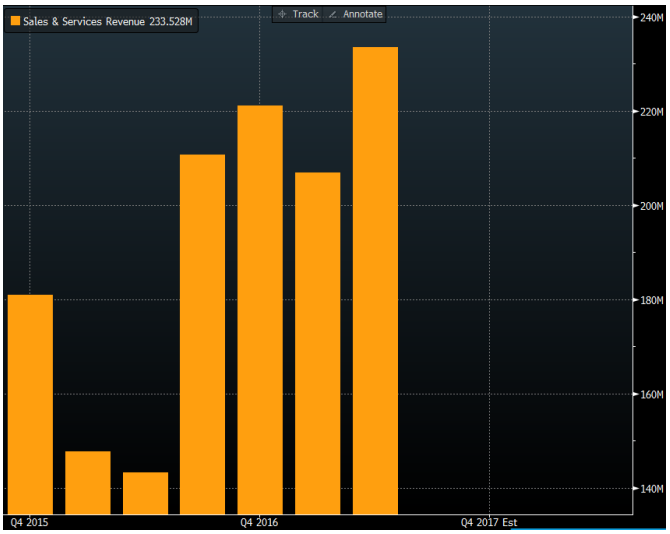
- **Short Term (within the year):** AOBC expects to launch new products during the third and third quarter.
- **Mid Term (1-2 years):** Because of the republican president AOBC expects to have stable growth.
- **Long Term (3+):** The result of the different acquisitions, AOBC will have an increase of diversification at the end of the consolidation.

Transition Guidance:

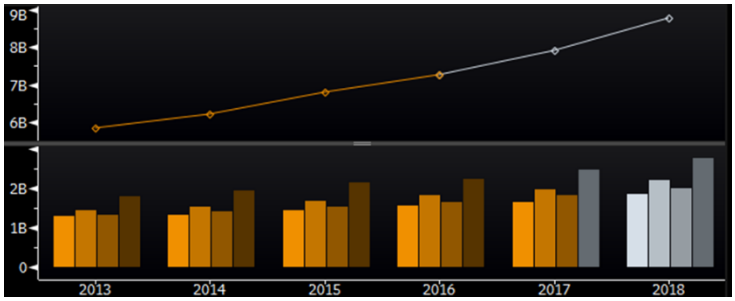
Since Smith&Wesson has become American Outdoor Brands Corp, this shows a change in the direction and in the strategy. In fact, the holding has made several acquisitions in order to become more diversified in a specific industry which is the outdoor recreational market. Because this is a big change for Smith&Wesson they have hired Brian Murphy as president of their outdoor recreation department who has been vice president in Vista for their corporate development. Vista Outdoor. Vista is now one of the AOBC's competitor. He will bring to AOBC all his experience about outdoor sports corporate.

Revenue:

The last quarterly revenue reported by American Outdoor Brands has been equal to $233.5 million compared to $210.8 million for the same quarter last year. This increase represent an increase of 10.8%. Furthermore, their growing revenues are driven by the fact that AOBC, is changing its strategy to develop their product through outdoor recreational products such as hunting, camping fishing products. They also have made several acquisitions such as Taylor Brands, Crimson Trace Corporation and Ultimate Survival Technologies, which are companies offering outdoor recreational products. These acquisition and this diversification is leading ABC to an increase of sales revenue. In fact, today, AOBC is able to propose each products which fits with their gun products. By acquire Crimson Trace Corporation they are able to sell the laser and the tactical light which go with their gun.

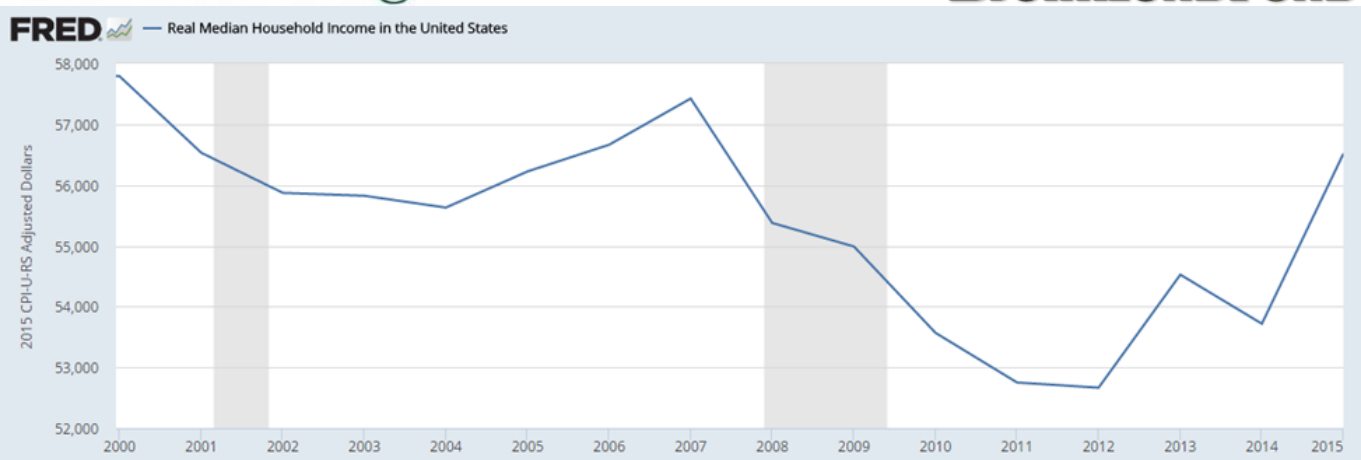


Moreover, the households, will be able to buy AOBC's products on any stores, which sell outdoor products such as Dick's BassPro Shops Academy Sports + Outdoors. If we look at the revenue growth of Dick's we see that it will be high. And overall, the outdoor sports industry is expecting to grow Moreover, the households, will be able to buy AOBC's products on any stores, which sell outdoor products such as Dick's BassPro Shops Academy Sports + Outdoors. If we look at the revenue growth of Dick's we see that it will be high. And overall, the outdoor sports industry is expecting to grow.



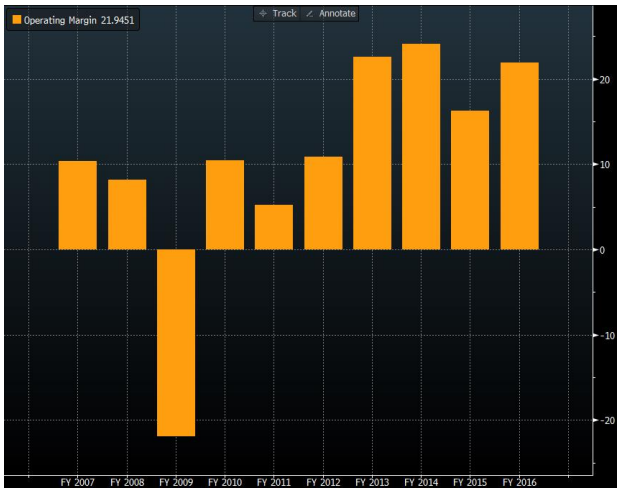
Dick's revenue

Furthermore, since AOBC is offering recreational products, their sales are driven by the household's income. In September, there has been a release of the real median household income in the U.S. is has increased by 5.21%. This increase represent an opportunity for AOBC since if households' wealth increases, they will tend to spend more in recreational products. Even if the lasts two years were not favorable to the small arms industry, the market



Margin:

One of the biggest concern of the AOBC's governance is the margin. In fact, we can see a loss of 14.56% between 2014 and 2015, which can be explain by one of the biggest acquisition, Battenfeld. Then, between 2015 and 2016, they have seen a big increase of 15.03% in term of gross margin. Indeed, this increase is almost as big as the decrease the previous year. This is explain by their aggressive policy concerning the cost. We also can look at the operating margin in order to see how their SGA is managed. We also can see that their SGA have been impacted by the aggressive policy concerning the reduction of the costs. If they continue to increase their margin, this will lead to an increase of EBIT, which will ensure an increase of the company's value which will lead to an increase of the stock price.
increasing their profit margin

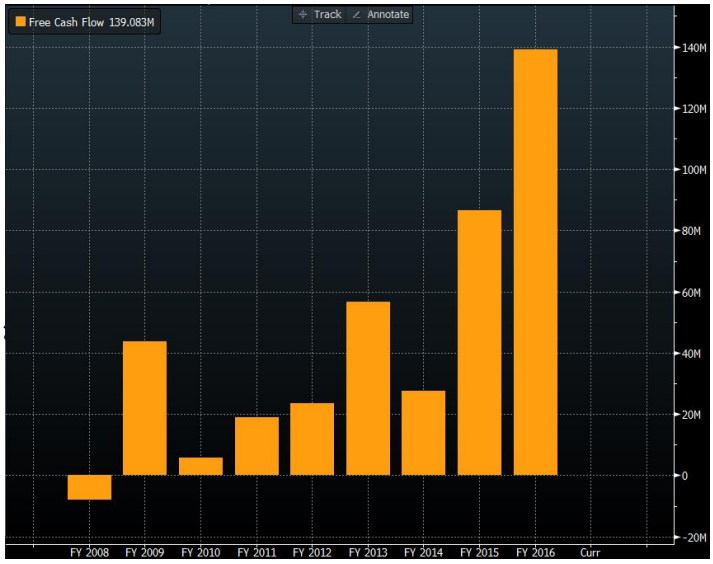


If we look at the EBITDA to net sales, we can see that American Outdoor Brands Corps beat the competitors by 4 basis points. Moreover, three years EBITDA margin, which is the better of the competitors, 25.75% vs 19.47% for the industry average. We also can see the same thing concerning the profit margin, 13.03% for AOBC vs 8.72% for the average. Finally, AOBC has 15.38% of operating margin while the industry average has an operating profit margin of 15.38%. This means that the American outdoor Brands Corps is the most profitable company of the industry even before all the depreciation and amortizations. In fact, According to the management, the company has a strong policy concerning the costs and to keep increasing their profit margin

	Name (BICS Best Fit)	EBITDA to Net Sales:Y	EBITDA Mgn 3Yr Avg	PM:Y	OPM:Y
	Median	17.56%	19.61%	8.61%	14.80%
100)	AMERICAN OUTDOOR BRA...	27.65%	25.75%	13.03%	21.76%
101)	ORBITAL ATK INC	13.20%	13.44%	3.88%	10.77%
102)	MSA SAFETY INC	13.79%	15.34%	7.09%	12.42%
103)	VISTA OUTDOOR INC	14.77%	16.15%	6.89%	12.17%
104)	TASER INTERNATIONAL INC	20.35%	23.07%	10.14%	17.96%
105)	STURM RUGER & CO INC	23.73%	23.07%	11.29%	17.18%

Cash Flow:

As we can see on the chart, since 2015 and 2016, American Outdoor Brands Corps has positive free cash flow, which is a strong positive signal for the investors. Furthermore, if they continue their policy concerning their costs, and continue to acquire new companies in order to increase their products offer. This will lead to an increase in term of revenue and then an increase of cash flow. It is a positive signal since this means that the company's value increases.



Conclusion: To conclude, we have seen that the AOBC's revenue are dependent of the households' income, which one is growing since 2015. Furthermore, because of their change of strategy, they have decided to diversify their products offer. This has led to a transition and this transition is managed by a former Vista VP, who has 18 months of experience in AOBC's competitor. This guidance will help AOBC to target the perfect market in order to increase their revenue. Furthermore, because they have increased their products line, this will permit to catch a bigger market but also to sell their products into outdoor sports retailers. As result, their sales will depend of the retailers performance, which ones are increasing since many years and which ones are expected to continue to increase. Moreover, AOBC continues to increase their sales but also to decrease their cost of goods sold but also their SGA. This leads to an increase of their EBITDA, which one increases the company value. Finally, thanks to the increase of their sales and the decrease of their costs, it creates free cash flow, which is an important signal to send to the investors and this also leads to an increase of the company's value.

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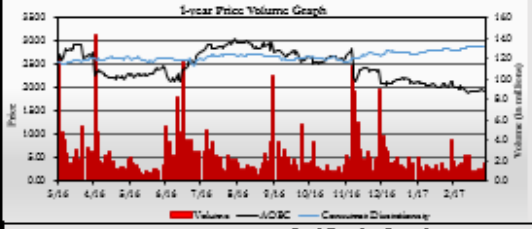
American Outdoor Brands Corporation (AOBC)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by	Current Price:	$18.80	Intrinsic Value	$22.01	Target 1 year Return: 24.45%
3/3/2017	Dividend Yield:	0.0%	Target Price	$23.40	Probability of Price Increase:



Description

American Outdoor Brands Corporation manufactures and sells firearm products and accessories.

General Information

Sector	Consumer Discretionary
Industry	Leisure Products
Last Guidance	November 3, 2016
Next earnings date	June 22, 2017
Estimated Country Risk Premium	4.86%
Effective Tax rate	58%
Effective Operating Tax rate	54%

Market Data

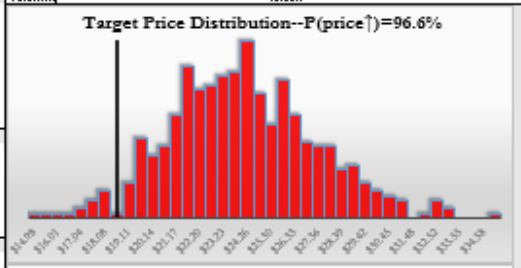
Market Capitalization	$1,832.15
Daily volume (mil)	2.87
Shares outstanding (mil)	96.96
Diluted shares outstanding (mil)	97.88
% shares held by institutions	79%
% shares held by investment Managers	58%
% shares held by hedge funds	18%
% shares held by insiders	1.44%
Short interest	15.47%
Days to cover short interest	8.88
52 week high	$31.15
52-week low	$18.28
Levered Beta	0.68
Volatility	46.86%

Past Earning Surprises

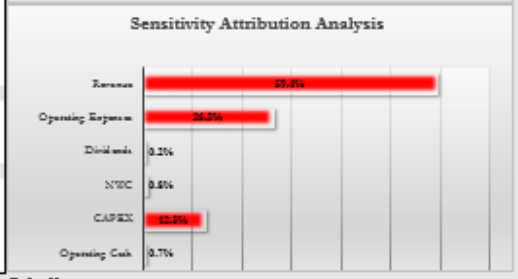
Quarter ending	Revenue	EBITDA
1/31/2016	18.36%	17.35%
4/30/2016	-8.47%	8.37%
7/31/2016	-8.55%	4.12%
10/31/2016	8.34%	13.75%
1/31/2017	-3.18%	-8.12%
Mean	1.34%	7.38%
Standard error	2.4%	5.6%

Peers

Vista Outdoor Inc.
Sturm, Ruger & Company, Inc.
Brunswick Corporation
Acushnet Co Inc.
Malibu Boats, Inc.
Polaris Industries Inc.
Harley-Davidson, Inc.

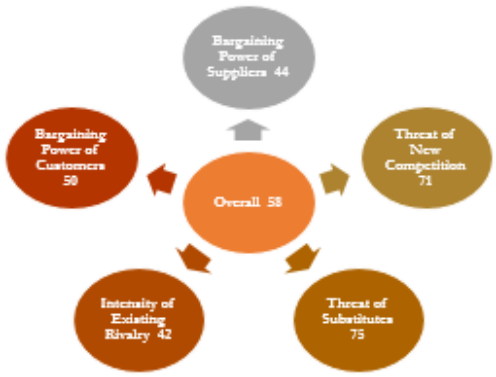


Management	Position	Total compensation (mil)	Total return to shareholders
Debney, P.	Chief Executive Officer, Pre	58.53% per annum over 5q	15.87% per annum over 5q
Buchanan, Jeffrey	Chief Financial Officer, Chi	25.58% per annum over 5q	15.87% per annum over 5q
Cierra, Robert	Chief Compliance Officer, Vi	33.53% per annum over 4q	7.38% per annum over 4q
Smith, Mark	Senior Vice President of Ite	16.74% per annum over 4q	7.38% per annum over 4q
Buckingham, Matthew	Senior Vice President of Ite	N/M	8% per annum over 8q
Sharp, Elizabeth	Vice President of Investor R	N/M	N/M



Profitability	AOBC (LTM)	AOBC (5 years historical as industry (LTM)	
ROIC	17.7%	13.14%	5.53%
NOPAT Margin	11%	8.77%	4.5%
Revenue/Invested Capital	1.68	2.18	1.25
ROE	24.8%	24.85%	6.44%
Adjusted net margin	11%	8.18%	4.8%
Revenue/Adjusted Book Value	2.85	3.84	1.62
Invested Funds	**AOBC (LTM)**	**AOBC (5 years historical as industry (LTM)**	
Total Cash/Total Capital	7.8%	17.5%	27%
Estimated Operating Cash/Total Capital	7.8%	14.1%	N/A
Non-cash working Capital/Total Capital	18.5%	11.8%	15%
Invested Capital/Total Capital	108.1%	57.8%	75%
Capital Structure	**AOBC (LTM)**	**AOBC (5 years historical as industry (LTM)**	
Total Debt/Common Equity (LTM)	0.16	0.16	0.28
Cost of Existing Debt	4.82%	11.64%	4.58%
Estimated Cost of new Borrowing	4.35%	5.17%	4.58%
CGFS Risk Rating	C	C	CCC
Unlevered Beta (LTM)	0.65	1.82	0.81
WACC	6.82%	7.74%	6.45%

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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	11.1%	11.1%	2.34
1/31/2018	-1.5%	5.1%	0.37
1/31/2019	2.5%	5.5%	0.37
1/31/2020	4.5%	5.5%	0.88
1/31/2021	5.5%	5.8%	1.17
1/31/2022	2.4%	5.3%	1.24
1/31/2023	2.7%	5.1%	1.35
1/31/2024	2.5%	5.5%	1.47
1/31/2025	3.2%	5.5%	1.58
1/31/2026	3.4%	5.7%	1.75
1/31/2027	3.7%	7.0%	1.98
Continuing Period	4.0%	7.2%	1.53

Period	Invested Capital	Net Claims	Price per share
Base Year	$228.35	$283.54	$22.52
1/31/2018	$315.86	$284.72	$23.78
1/31/2019	$375.54	$375.54	$25.23
1/31/2020	$514.58	$425.87	$26.77
1/31/2021	$568.88	$71.78	$28.32
1/31/2022	$781.85	$18.37	$29.86
1/31/2023	$822.53	-$58.31	$31.43
1/31/2024	$838.82	-$124.75	$33.04
1/31/2025	$827.62	-$155.15	$34.53
1/31/2026	$822.27	-$264.42	$36.15
1/31/2027	$818.48	-$338.34	$37.72
Continuing Period			

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BJORKLUND FUND

March, 3, 2016

Company Name:

AAR Corporation (NYSE AIR)

Marion HORRY

Sector: Industrial Goods

Industry: Aerospace/ Defense Products and services

AAR Corporation has it's headquarter located in Chicago. The company is operating in two segments: aviation services and expeditionary Services. The aviation service offered by the company is based on retailing parts, maintaining and repairs of component and supply chain development. This segment has been develop in order to provide aircraft availability, to increase efficiency and decrease the costs. The second segment, expeditionary service ensure movement of equipment and employee. They can ensure this service by specialized product and services such as airlift services and pallets, containers and shelters.

BUY

Current Price:	$33.81
Target Price:	$55.16
Market Cap:	1.16B
Beta:	1.49

Thesis:

For the next following year AAR corporation will ensure revenue growth with a large number of contract signed with different type of industries and organizations.
At the same time, the company will be able to reduce the cost to meet government demand. This will ensure growing margin and profitability.
Revenue increasing and profitability increasing will increase the EBIT and the free cash flow.
Having a large amount of free cash is showing that the company is creating value. This value creation should be reflected in the stock price.
I advise to buy AAR Corp. because it stock price is currently undervalued.
I expect the price of this stock to rise in the future between $48.55 and $55.16

Catalysts:

- **Short Term(within the year):**
  The next earning is on March21, 2017. This can increase the volatility of the stock and help to reach the target price.
- **Mid Term(1-2 years):**
  Trump position on increasing military expenses.
- **Long Term(3+):**
  New contracts with :
  - Department of State INL/A
  - Navy C40A
  - Afghan C-130
  - RSAF
  - Some airline companies

  This contract are from 3 to 10 years contract. This will ensure long term revenue growth.

High Standard products and services:

The AAR corporation works on different products and services and in order to stay competitive on the market they are relying on innovation in order to reduce cost of production and to have a high quality products.
Their major products are fairing, inferior structures, complete aircraft interiors, fully integrated assemblies, flight simulator structures, flat panel products.
Moreover, this company have created different service that can be adapted to the different customers. This service are there to ensure the quality of the products such as reducing weight of products, to optimize the product to the need of the customers.
In order to create a competitive advantage from their services they are following this different stage:

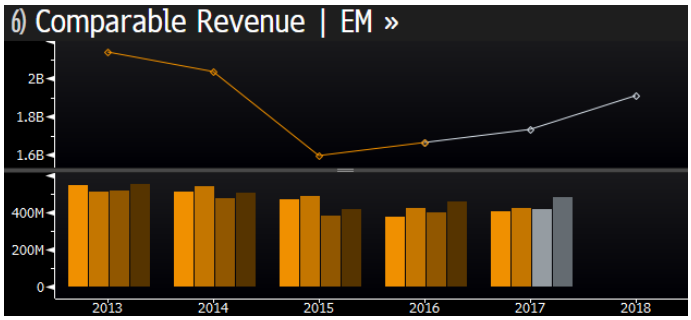
Process of product optimization:

1- Design control process: during this stage, the company employee are planning, compliance management and design review;
2- Composite and Assembly Design: during this stage the company is defining the model and dealing with digital mookup management.
3- Stress Analysis: during this stage the company is loading the development, sizing and optimizing components
4- Product testing and validation: during this stage the company is testing and validating the product
5- CNC machining: during this stage the company is producing the prototype.

New Contracts signed:

The company launch new programs and signed new long terms contracts with INL/A, the Navy, Afghan C-130, RSAF C-130, some airline companies such as air Canada, Alaska, air nostrum, skywest. The new contracts obtained should led to 9.450 billion increase in sales revenue. This revenue will be reported during the following period of 3 years to 10 years. The corporation will be able to ensure per year a growth of 5% to 10% for this period. The increase in revenue will be notice during the period because AAR corporation is using percentage completion method. The revenue growth will ensure a growing EBIT. If EBIT is increasing the free cash flow will increase as well. Thus, the stock price will react to this change in revenue and it will increase the price.

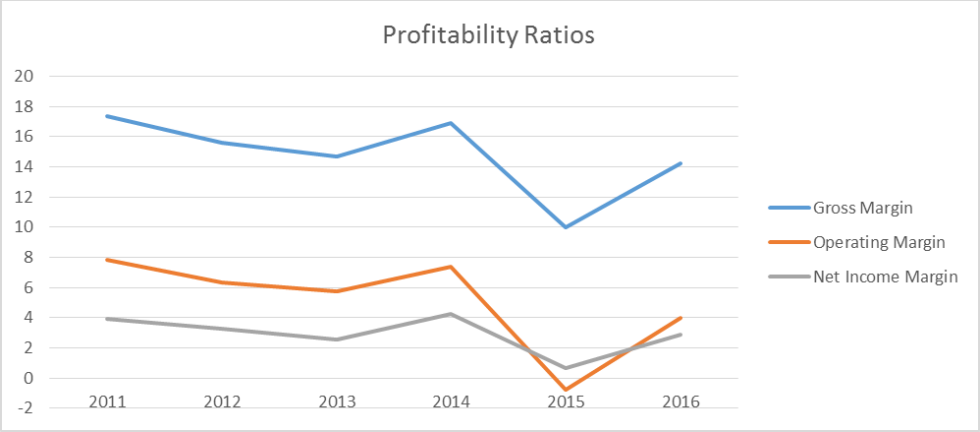
The company is also focusing on government opportunity. They will create unique solution for trump administration to ensure lower cost. By offering lower cost, AAR corporation will be able to meet government expectation. Actually, they signed a contract with United States transportation Command. This contract is valued at $204.2 million. AAR corporation will offer aviation services to the USTRANSCOM.



Margin Performance:

The margin performance of the company are increasing after the bad year of 2015. It is important to notice that the expeditionary segment is generating more profitability than the other segment. Through the time, AAR has been able to generate a large amount of income after paying their cost. The company struggled in 2015 because of one of their program. The program was not profitable and the company had to recover its losses in 2015. Since 2016 the company is following an upward trends on revenue and in profitability ratio.

The gross margin ratio shows that the company will be able to ensure future profitability and more precisely a growing profitability. It is possible to argue this because they are able to cut cost to ensure new opportunities with the government. The company is putting effort in increasing margin to ensure increase in EBIT. The upward trend of the EBIT will generate higher free cash flow and it will increase the stock price of the company.
Moreover by looking at the operating margin, it is possible to observe the same trend as the gross margin.
In addition, the net income margin emphasize the same trends. It is important to notice that the company will through the following period ensure higher profitability.



Unlevered Company

AAR corporation has a debt to equity ratio of 18.47%. This percentage of debt compare to competitors is low. The company is financing more assets with equity than with debt. The total debt to assets ratio also shows that this company is an unlevered company. Thus, this company is unlevered and has a low financial risk compare to its competitors.
Their capital structure shows that they can take advantage of new opportunities that will arise in the future.

Ticker	Debt/Equity LF	Debt/Assets LF
	31.69%	22.39%
AIR US	18.47%	10.84%
WAIR US	95.09%	43.21%
TGI US	169.08%	34.13%
TASR US	0.04%	0.02%
SNR LN	46.81%	23.26%
EGL US	155.34%	48.41%
CUB US	66.42%	30.40%

Free Cash Flow

The graph of the free cash flow shows that in 2015 and 2016, the company was not able to generate cash. It is true that having a negative free cash flow shows that the company is not able to generate cash from investment.
The decrease in free cash flow experience by the company is mainly due by a large decrease in assets in 2015. In 2016, the company starts again to invest in assets and then it will positively affect the free cash flow.
In the following period, the company should be able to generate more and positive free cash flow.
The free cash flow will be driven up by an increase in revenue and an increase in margins.

Ownership

Top Ownership Type (%)			
54) Ownership Type	02/26/17	Curr	Change
41) Investment Advisor	84.62	82.95	-1.67
42) Individual	5.95	6.67	+0.72
43) Hedge Fund Manager	5.68	6.36	+0.68
44) Pension Fund	1.47	1.64	+0.17
45) Insurance Company	0.72	0.79	+0.07
46) Sovereign Wealth Fund	0.64	0.55	-0.09
47) Bank	0.39	0.44	+0.05
48) Government	0.20	0.23	+0.03
49) Brokerage	0.20	0.22	+0.02

This table shows the owners of the AAR corporation. The major type of owners are investment advisors at 82.95% following by individuals at 6.67%. Hedge fund only represents 6.36% of the owners of the company. The hedge fun ownership increased by 0.68%. It is a sign of the hedge fund interest on the company. Moreover, it emphasizes possible value creation of the company.

Conclusion:

In conclusion, it is important to notice that AAR Corporation has and will continue to gain more competitive advantage because they will follow their increase in growth revenue. This growth will ensure the financial stability since the company has a good cost control strategy. Moreover, the company is able to capture new opportunity because they have a low percentage of debt compare the industry. And finally, the manager are taking into consideration the impact of new technology and they are keeping implementing new technologic equipment that will ensure an efficient production and competitive advantage.

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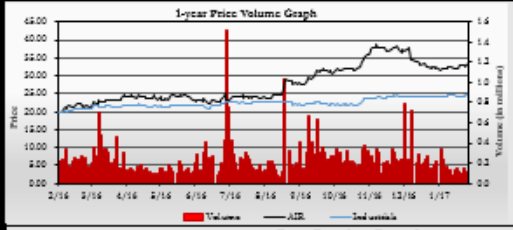
AAR Corp. (AIR) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by Marion HOBBY	Current Price:	$33.81	Intrinsic Value	$48.55	Target 1 year Return: 64.08%
2/15/2017	Divident Yield:	0.9%	Target Price	$55.16	Probability of Price Increase: 10



Description

AAR CORP. provides products and services to commercial aviation, government, and defense markets worldwide.

General Information

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	November 3, 2015
Next earnings date	March 21, 2017
Estimated Country Risk Premium	7.45%
Effective Tax rate	36%
Effective Operating Tax rate	41%

Market Data

Market Capitalization	$1,163.79
Daily volume (mil)	0.01
Shares outstanding (mil)	34.33
Diluted shares outstanding (mil)	34.25
% shares held by institutions	18%
% shares held by investment Managers	83%
% shares held by hedge funds	4%
% shares held by insiders	7.12%
Short interest	2.08%
Days to cover short interest	3.35
52 week high	$38.75
52-week low	$19.41
Levered Beta	1.58
Volatility	35.47%

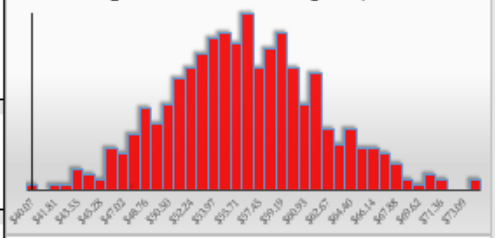
Past Earning Surprises

Quarter ending	Revenue	EBITDA
11/30/2015	5.40%	-22.55%
2/29/2016	-2.99%	-23.97%
5/31/2016	-4.50%	-18.25%
8/31/2016	1.20%	-10.51%
11/30/2016	-5.53%	-22.56%
Mean	-1.28%	-19.77%
Standard error	2.0%	2.5%

Peers

Esterline Technologies Corporation
Moog Inc.
TransDigm Group Incorporated
Woodward, Inc.
B/E Aerospace, Inc.
Triumph Group, Inc.
Cubic Corporation
Hexcel Corporation

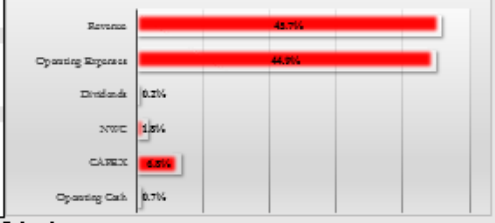
Target Price Distribution--P(price↑)=100%



Management	Position	Total compensation qrs	Total return to shareholders
Storch, David	Chairman, Chief Executive Of	-1.98% per annum over 6y	-10.1% per annum over 6y
Romenesko, Timothy	Vice Chairman and Chief Fina	-3.71% per annum over 6y	-10.1% per annum over 6y
Regan, Robert	Vice President, General Coun	-1.18% per annum over 6y	-10.1% per annum over 6y
Holmes, John	Chief Operating Officer of A	23.54% per annum over 2y	12.89% per annum over 2y
Eichner, Ira	Founder and Chairman Emeritu	N/M	N/M
Pachapa, Eric	Chief Accounting Officer, Vi	N/M	N/M

Profitability	AIR (LTM)	AIR (5 years historical av	Industry (LTM)
ROIC	7.6%	4.13%	14.48%
NOPAT Margin	4%	2.62%	9.7%
Revenue/Invested Capital	2.09	1.57	1.50
ROE	6.9%	5.32%	17.89%
Adjusted net margin	3%	1.57%	8.6%
Revenue/Adjusted Book Value	2.16	3.39	2.08
Invested Funds	**AIR (LTM)**	**AIR (5 years historical av**	**Industry (LTM)**
Total Cash/Total Capital	4.3%	5.7%	20%
Estimated Operating Cash/Total Capital	1.9%	3.1%	N/A
Non-cash working Capital/Total Capital	32.2%	28.4%	12%
Invested Capital/Total Capital	65.1%	64.0%	86%
Capital Structure	**AIR (LTM)**	**AIR (5 years historical av**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.22	0.59	0.28
Cost of Existing Debt	4.18%	3.86%	3.59%
Estimated Cost of new Borrowing	4.18%	3.52%	3.59%
CGFS Risk Rating	CC	CCC	CC
Unlevered Beta (LTM)	1.32	1.13	0.77
WACC	12.73%	9.72%	9.19%

Sensitivity Attribution Analysis



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

Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	3.6%	3.6%	0.60
11/30/2017	4.1%	4.9%	0.83
11/30/2018	6.7%	5.8%	0.95
11/30/2019	9.7%	6.1%	1.03
11/30/2020	9.0%	7.0%	1.17
11/30/2021	8.3%	7.7%	1.29
11/30/2022	7.6%	8.6%	1.42
11/30/2023	6.9%	9.4%	1.55
11/30/2024	6.2%	10.2%	1.67
11/30/2025	5.5%	11.0%	1.79
11/30/2026	4.7%	11.8%	1.92
Continuing Period	4.0%	12.6%	2.05

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,216.19	$33.71	$47.97
11/30/2017	$1,241.20	$7.13	$54.60
11/30/2018	$1,195.58	-$31.08	$61.47
11/30/2019	$790.02	-$66.86	$69.15
11/30/2020	$799.76	-$123.38	$77.71
11/30/2021	$793.24	-$215.64	$87.18
11/30/2022	$860.69	-$340.81	$97.57
11/30/2023	$919.00	-$524.69	$109.42
11/30/2024	$997.63	-$729.31	$121.48
11/30/2025	$1,084.34	-$978.81	$134.36
11/30/2026	$1,165.25	-$1,274.94	$147.97