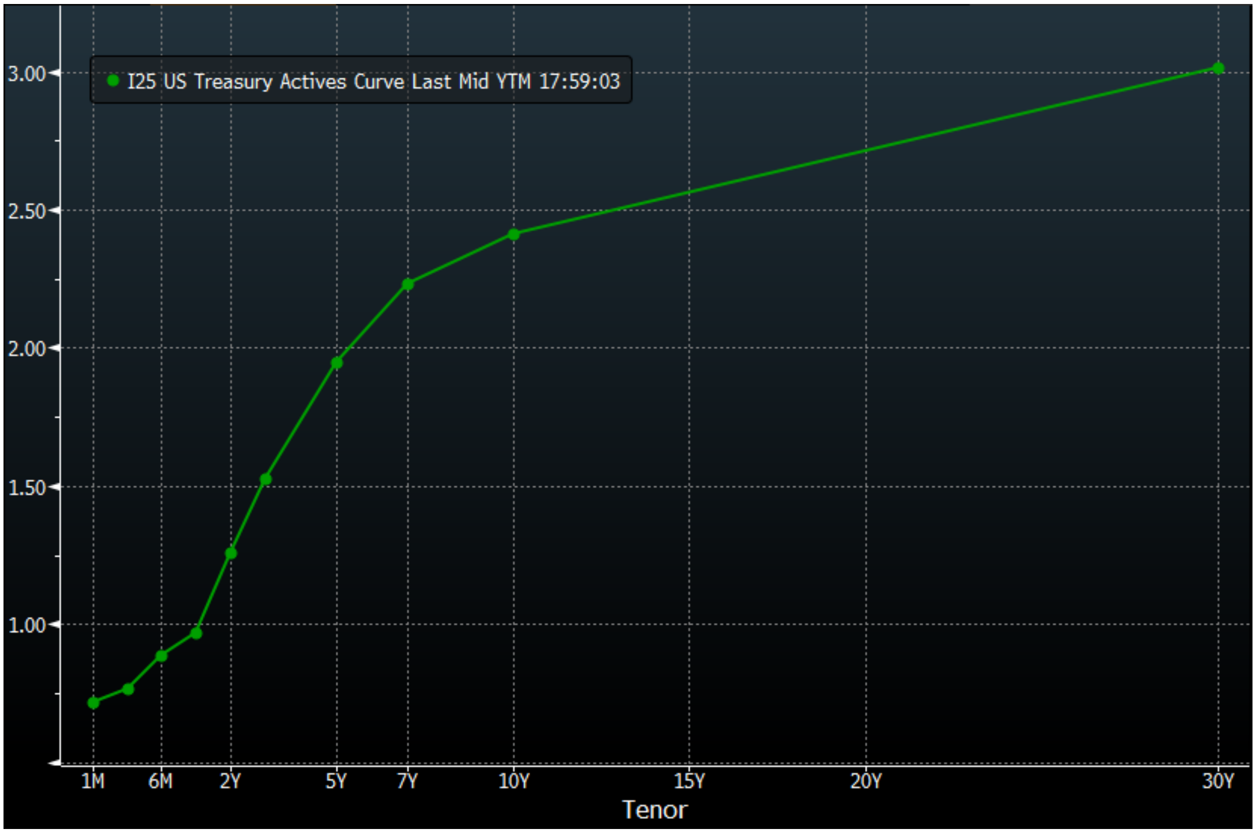
Bond Report

This week in the bond market, the main concern was about Donald Trump's health care reform and the inability to get needed support for it to pass in legislation. The confidence in the market overall dropped, in light that these same results would come from economic expansion policies as well. On Monday, yields dropped minimally from disappointment about the confirmation of the Fed only planning for three rate hikes this year. Investors expected a more hawkish approach, and the backlash from that carried over into Monday's trading. Across the board, yields were about 2.5 basis points lower than open. Tuesday's yields moved lower for the third day straight on news of Trump's reformed health care plan will likely fail to pass. Early in the trading day, news about France's polls drove the yield up shortly, however the rally was short lived. The 10 and 30-year treasury fell about 4 basis points, while the 2-year Treasury note fell 2.8 basis points. On Wednesday, the market confidence in Trump's ability to pass legislation and move towards economic growth was again diminished when heavy opposition was brought upon the updated health care reform proposal. The uncertainty in further economic expansion like policies and the expected growth from that drove yields down again. Both the 10 and 30-year Treasury notes responded similarly again, dropping about 3.4 basis points, while the 2-year only dropped about 1.6 basis points. Thursday's news brought a slight boost in the yields from press releases containing information about general feelings of the new health care act, which contained not immediate reject, rather needed time to fully develop opinions and vote in the publics best interest. This underlying extent brought back a little portion of lost confidence, and with that came the slight rise in yields. The 10-year note rose basis points, while the 30-year treasury note rose 1.6 basis points. On a negative note, the 2-year note fell 1.8 basis points, falling for the 5th day in a row. Friday didn't bring any better news, as Trump put an ultimatum to force a decision from the GOP, yet they refused to listen and pushed off the voting again. The investor confidence that slightly rose Thursday, found itself at its low again as the signs of leadership were written off. Over the course of the week, the 2-year note closed at a final yield of 1.248%. The 10-year note finished the week 2.2 basis points lower than days prior at 2.396%. Lastly, the 30-year Treasury note finished at 2.999% by the end of weeks close.



What's next and key events

We can expect more volatility this week as Monday is the new expected date for the GOP vote on the reformed health care proposal. Trump is reportedly, "moving on" so we can expect the decision to make the impact, rather than his actions because he is planning on focusing on economic growth type policies. The investor confidence is down though from last week, so his effectiveness in further reform will be heavily critiqued and priced in weeks ahead. We can expect to watch Janet Yellen speak again on Thursday, as last weeks speech failed to address any future outlook that the market was hoping to capitalize on. Other key events include the weekly Bloomberg CCI to act as an economic indicator, which releases on Thursday as well, and the Jobless Claims to be released on Thursday. These need to be watched closely if investors are expected to hold expectations of a hawkish fed in future meetings.

Macroeconomic Overview

	Index	Weekly % Change	YTD % Change
SPX Index	SPX Index	-1.44%	4.70%
INDU Index	INDU Index	-1.52%	4.22%
CCMP Index	CCMP Index	-1.22%	8.28%
RTY Index	RTY Index	-2.65%	-0.18%
VIX Index	VIX Index	14.89%	-7.69%

Domestic

U.S. equity markets ended this week in a slight suppression following an unanticipated outcome of President Trump’s healthcare bill. Confidence within indices across the board seemed to have dropped due to the outcome of Trump’s guidance, many of which had priced in the possibility of healthcare reform. With that decision delayed, losses were accentuated by dipped shares in the financial sector and increased volatility proven by the spike in the VIX. However, this week’s biggest loss can be seen within the Russell, indicating a major sensitivity to congressional actions. Mid-caps alone are seen as the largest gainers of Trumpenomics, capitalizing on everything from reduced regulation to tax reform. Due to the placement of most mid-cap companies, there is a lot more room for growth as they mature into larger firms. However, with that potential, there comes a higher sensitivity to macro events, such as the healthcare delay. Paired with the movement of many mid-caps, financials are also seen to capitalize mostly on reduced regulations. The financial sector losses not only stem from the aftermath of the healthcare delay but also the market’s outlook on Trump’s future endeavors. Currently, the market shows that he, and his administration, will be facing more headwind than expected.

Moving into next week, and the prolonged future, healthcare deserves another look. With the markets responding to the pessimistic outlook of its future, components of the healthcare industry may be underpriced. Certain aspects, such as pharmaceuticals, may still face decline despite the movement in healthcare. The future dynamics of pharmaceuticals will be at the mercy of congressional support for lowered prices within the industry. In doing so, this can not only be reflected in the earnings of the company, but more importantly their reputation, and therefore a change in investor morale concerning the companies’ operations.

In the grand scheme of the market, we are approaching a time filled with uncertainty, and as any elementary school economist knows, uncertainty is the market’s enemy. The first 100 days of the Trump presidency brought economic guidance like none before, but we have seen the market’s reaction to a congressional roadblock. The next monumental piece of guidance will come from Trump’s widely-anticipated tax reform. If all goes well, we can expect an upturn in equities.

Foreign Markets

	Index	Weekly % Change	YTD % Change
BE500 Index	BE500 Index	-0.44%	4.05%
SXXP Index	SXXP Index	-0.48%	4.18%
DAX Index	DAX Index	-0.26%	5.08%
UKX Index	UKX Index	-1.19%	2.72%
CAC Index	CAC Index	-0.17%	3.26%
NKY Index	NKY Index	-1.67%	0.78%
SHCOMP Inde	SHCOMP Index	0.99%	5.34%
SZCOMP Inde	SZCOMP Index	0.84%	3.94%

Europe: Across the pond, equity prices were mostly moved by a spike in U.K. inflation rates. February figures indicate that the rate jumped from 1.8% (Jan.) to 2.3%. This movement was faster and more robust than previously anticipated, accounting for the lack of positive movement within the U.K. equity market. To offset that, retail sales turned positive since the .5% decline in January, indicating a possible increase in consumer confidence. However, a single step forward is usually followed by two steps backwards. Volatility within European equities could be attributed to a terrorist attack in London, yielding loads of bearish behavior and overall uncertainty. With a violent attack aimed at the Palace of Westminster, consumer confidence drops and the movement of markets becomes abnormal. We expect somewhat of a normalization next week as guidance from Prime Minister May will encourage forward momentum and President Trump's economic agenda moves towards its next growth policy.

Asia:

Japan experienced a loss this week following US trading markets and a stronger Yen. Recent economic data shows that exports rose on a YTD figure over 11% with a much smaller growth in imports, indicating a positive effect on the Yen thanks to the surplus. China maintained the most contrarian equity performance among all major indices this week. A positive week's end can be attributed to gains in safer sectors such as infrastructure and energy. As the nation becomes more focused on a self-sustainable vision, the most basic factors of any nation are reaping positive gains. Could this be used as an insight in the light of looming uncertainty here at home? We would recommend you keep an eye on these areas, just in case.

March, 24, 2017

Spirit AeroSystems Holdings: SPR

Benjamin Bouin

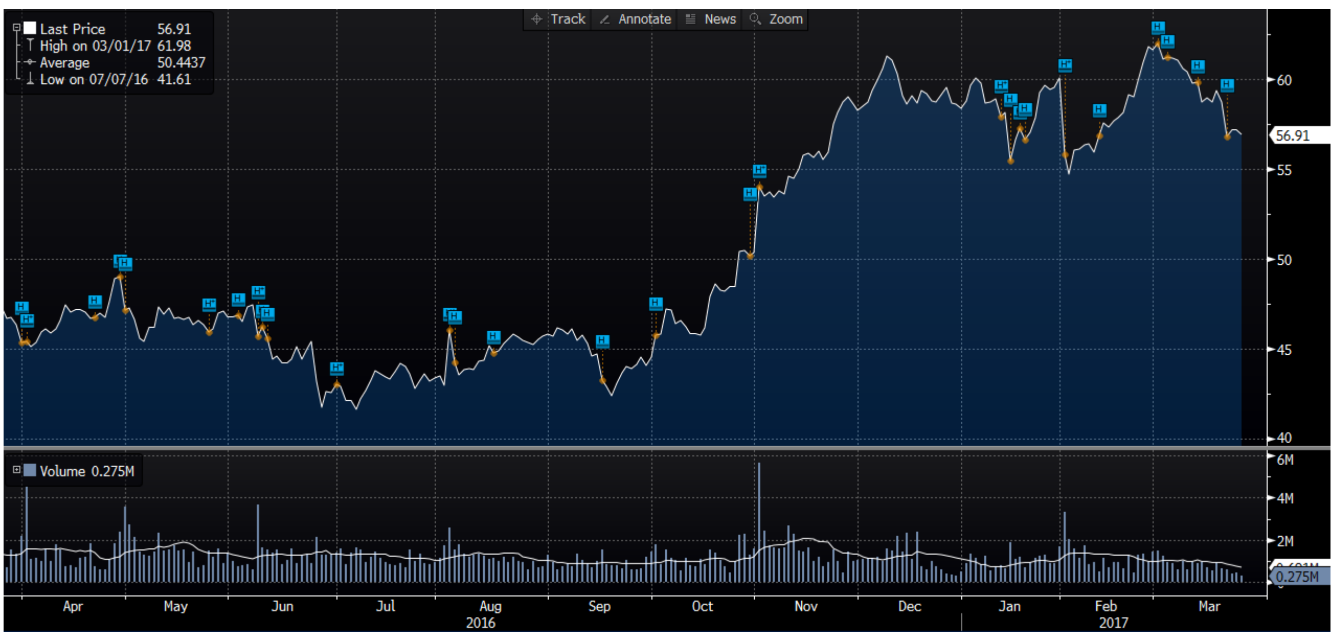
Sector: Industrials
Industry: Aerospace & Defense
Current Price: $57.06
Target Price: $ 59.95

Spirit AeroSystems designs founded in 1927, manufactures, and supplies aero structures worldwide. It operates on three segments: fuselage, propulsion and wing system. Concerning the fuselage section, it is an original equipment manufacturer, it also proposes maintenance, repair, and overhaul services. It also produces low observables, radar absorbent rotorcrafts, training, and other military services.

BUY

Current Price:	$57.06
Target Price:	$59.95
Market Cap:	6.78B
Beta:	1.18
Shor Interest Ratio	6.35

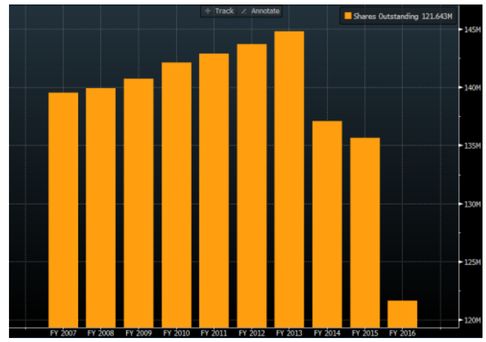
- **Catalysts:**
- **Short Term(within the year):** New contracts signed
- **Mid Term (1-2 years):** Increase of the army's budget.
- **Long Term(3+):** Increase of its products line, decreasing its risk



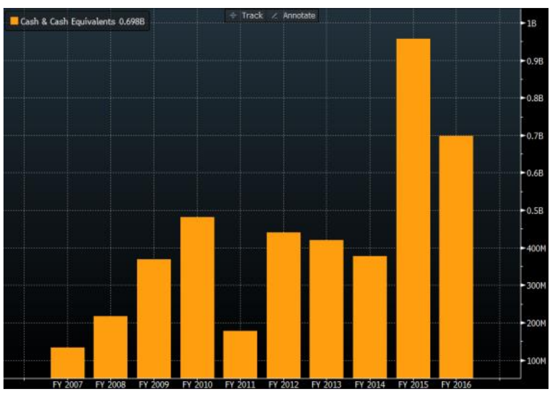
Thesis: Aerosystems' guidance shows confidence into the coming year. In fact, they have let know the investors that the cash on hand is not just in case of a business opportunity but also in order to repurchase some outstanding shares. This will have as effect to increase the earnings per share but also to elevate the market price of the shares. Moreover, in order to increase the value creation, they expect to invest into the segment of the defense, which during this period seem to be a good investment with a lot of business opportunities through the increase of 10% into the budget of the government's defense. Finally, this cash will permit to the company to invest in vertical integration via Tier 2 or Tier 3 in the aerostructure supply chain, which produce an important margin. This will permit to SPR to increase their margins but also to increase their revenue; both combined, means additional company's value. Furthermore, if we look at the WACC and the ROIC, we can see that the company is able to turn investment into profits at higher ratio with less costs than its competitors.

Guidance:

Between 2015 and 2016, Spirit AeroSystems has maintained an important amount of cash on hand. In 2016, this amount represented almost $700 million of dollars, $200 million less than in 2015. In fact, this amount of cash has several goals. The first one is to repurchase a certain amount of outstanding shares. In fact, the governance estimates that their shares an unfairly price, underestimated. Indeed, if they repurchase a certain amount, this will lead to an increase of earning per shares but it will also elevates the market value of the remaining shares. Thus, they already had started this strategy, but they still continue to repurchase shares, as we can see on the graph.



The second use of thios cash will be used to help them to reconcentrate their business on the defense segment. In fact, the 10% boost of increase for the defense investment promised by Trump, represents a $54 billion opportunity for the aerospace & defense industry. In fact, the commercial market continues to represents 99% of their business. This is why they want to invest in order to increase their line of product specifically on the defense market. This will create value since it will increase the revenue, but the defense services have an important margin opportunity. Finally, the cash will also be used for some vertical integration, in order to increase the margins.



Costs/ Margins:

As we can see, the company relies on the performance of different companies such as Airbus but more importantly on Boeing's performances. In fact, 84% of their revenues come from Boeing and 11% from Airbus. The 5% left are from companies such as Rolls Royce, United Airlines or even Mitsubishi Aircraft. Spirit AeroSystems had some difficulties to find a correct agreement with Boeing, which has led to an increase in their costs but also a decrease on their profit margins. This disagreement is mostly solved by senior managers. Furthermore, to be attractive and to gain new contracts, AeroSystems had to decrease their margins on a product, in order to gain new contracts on the production of other components. For example, SPR makes no margin on the A350, but deliver 6 to 7% of cash flow. This zero margin dilutes the Fuselage segment margin. In order to increase the margin, AeroSystems thinks to realize a vertical integration. What they are looking at is a Tier 2, or Tier 3 supply chain in aerostructures, which offer strong margins. This would permit them to reduce their costs but also to increase their revenue.

Name (BI Peers)	EBITDA to Net Sales:Q	EBITDA Mgn 3Yr Avg	OPM LF	NOPAT T12M
Median	15.93%	17.18%	9.72%	214.29M
100) SPIRIT AEROSYSTEMS HO...	14.04%	15.49%	10.25%	515.54M
101) TRANSDIGM GROUP INC	43.62%	44.60%	38.94%	984.28M
102) ROCKWELL COLLINS INC	23.30%	23.81%	18.27%	739.05M
103) HEICO CORP	23.24%	22.84%	18.80%	191.86M
104) MEGGITT PLC	--	24.56%	15.39%	270.71M
105) CAE INC	22.54%	22.45%	14.44%	236.72M
106) B/E AEROSPACE INC	17.83%	21.68%	14.87%	379.11M
107) ULTRA ELECTRONICS HLD...	--	18.98%	12.14%	104.14M
108) THALES SA	--	11.85%	9.60%	1.24B

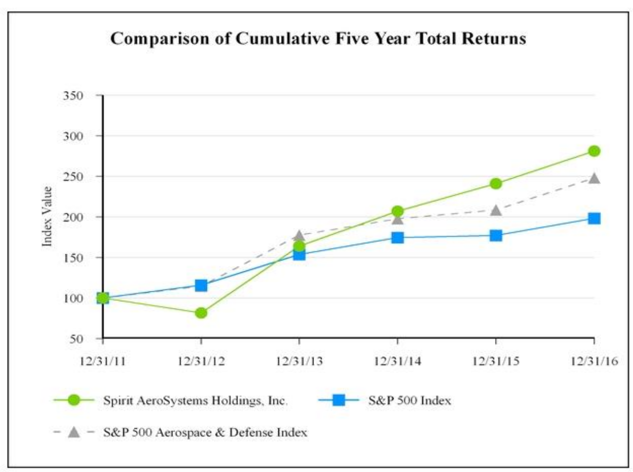
As we can see SPR is under the average margin for the earnings before interest, tax depreciation and amortization by 1.89%, and under all its competitors. If we look at the operating profit margin the company is above the average by 0.53% and if we look at the non-operating profit after tax, AeroSystems is a lot above the average, by $301.25 million. In fact, we can expect that these ratios become better in a small period since they are going to increase their cost reduction on the supply chain through a vertical integration.

Value Creation:

ROIC (NOPAT/IC)	History	LTM
spr	19.8%	19.5%
Competitors	18.4%	13.5%

WACC	History	LTM
spr	10.7%	10.7%
Competitors	8.9%	8.4%

As we can see, AeroSystems's weighted average cost of capital is higher historically and in the last fiscal year than its competitors by 2.3%. Still compared to its competitors, its return on invested capital is superior by 6%, always in the last fiscal year. These ratios show us that AeroSystems has a better business model ability to create value with lower capital costs than its competitors. Which is important into this industry. In fact, the Aerospace & defense industry has high cost and most of its value creation is made by how the company can control its costs.



Furthermore, this graph shows us how the Company has been able to create higher revenue than the S%P 500 but also how better it has been on the last five year compared to the S&P 500 Aerospace & Defense Index.

Conclusion:

Aerosystems' guidance shows confidence into the coming year. In fact, they have let know the investors that the cash on hand is not just in case of a business opportunity but also in order to repurchase some outstanding shares. This will have as effect to increase the earnings per share but also to elevate the market price of the shares. Moreover, in order to increase the value creation, they expect to invest into the segment of the defense, which during this period seem to be a good investment with a lot of business opportunities through the increase of 10% into the budget of the government's defense. Finally, this cash will permit to the company to invest in vertical integration via Tier 2 or Tier 3 in the aerostructure supply chain, which produce an important margin. This will permit to SPR to increase their margins but also to increase their revenue; both combined, means additional company's value. Furthermore, if we look at the WACC and the ROIC, we can see that the company is able to turn investment into profits at higher ratio with less costs than its competitors.

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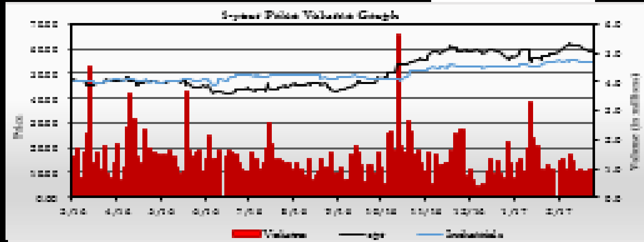
Spirit AeroSystems Holdings, Inc. (spr)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Benjamin Bruin	Current Price:	$57.06	Intrinsic Value	$53.23	Target 1 year Return: 5.07%
3/24/2017	Divident Yield:	0.0%	Target Price	$59.95	Probability of Price Increase: 6



Description

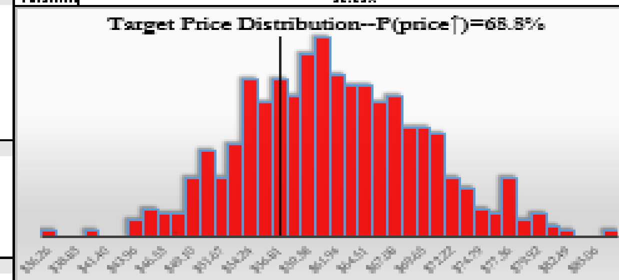
Spirit AeroSystems Holdings, Inc., through its subsidiaries, designs, manufactures, and supplies commercial aerostructures worldwide.

General Information	
Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.22%
Effective Tax rate	36%
Effective Operating Tax rate	33%

Market Data	
Market Capitalization	$6,996.29
Daily volume (mil)	0.29
Shares outstanding (mil)	119.19
Diluted shares outstanding (mil)	127.00
% shares held by institutions	74%
% shares held by investments Managers	67%
% shares held by hedge funds	36%
% shares held by insiders	0.44%
Short interest	5.56%
Days to cover short interest	6.56
52 week high	$62.30
52-week low	$41.27
Levered Beta	1.32
Volatility	32.29%

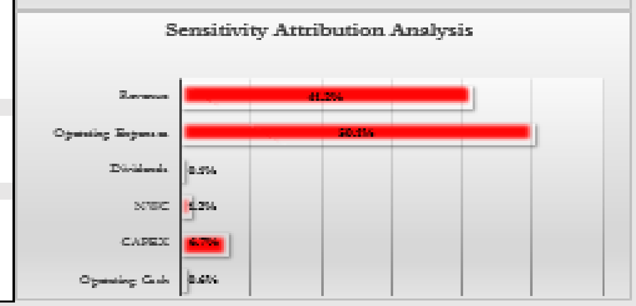
Past Earning Surprises		
Quarter ending	Revenue	EBITDA
12/31/2015	-4.55%	-12.64%
3/31/2016	-4.49%	0.69%
6/30/2016	6.64%	-54.10%
9/29/2016	1.02%	-4.49%
12/31/2016	-5.41%	-4.55%
Mean	-1.56%	-15.09%
Standard error	2.4%	10.0%

Peers
Rockwell Collins, Inc.
Triumph Group, Inc.
L3 Technologies, Inc.
Huntington Ingalls Industries, Inc.
TransDigm Group Incorporated
B/E Aerospace, Inc.
Raytheon Company
Orbital ATK, Inc.

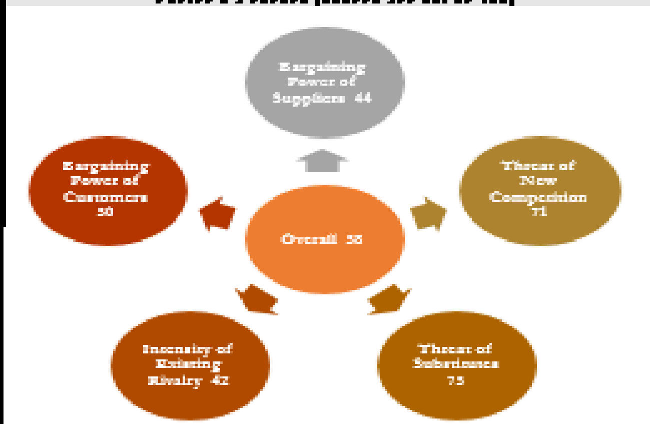


Management	Position	Total compensation growth	Total return to shareholders
Gentile, Thomas	Chief Executive Officer, Pre	N/M	N/M
Kapoor, Sanjay	Chief Financial Officer and	15.26% per annum over 3y	19.04% per annum over 3y
Marcink, Samantha	Chief Administration Officer	-100% per annum over 1y	17.94% per annum over 1y
Hawkins, Duane	Senior Vice President and Ge	47.64% per annum over 1y	17.94% per annum over 1y
Lohmeier, Michelle	Senior Vice President and Ge	-11.02% per annum over 1y	17.94% per annum over 1y
Rabe, Ron	Senior Vice President of Ope	N/M	N/M

Profitability	spr (LTM)	spr (5 years historical avg)	Industry (LTM)
ROIC	17.0%	2.45%	15.00%
NOPAT Margin	8%	2.06%	10.2%
Revenue/Invested Capital	2.00	0.86	1.47
ROE	22.1%	2.02%	10.20%
Adjusted net margin	8%	1.97%	0.6%
Revenue/Adjusted Book Value	2.33	1.02	2.12
Invested Funds	**spr (LTM)**	**spr (5 years historical avg)**	**Industry (LTM)**
Total Cash/Total Capital	19.3%	17.1%	24%
Estimated Operating Cash/Total Capital	15.2%	19.7%	N/A
Non-cash working Capital/Total Capital	19.4%	36.2%	14%
Invested Capital/Total Capital	35.5%	35.6%	87%
Capital Structure	**spr (LTM)**	**spr (5 years historical avg)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.43	0.31	0.26
Cost of Existing Debt	5.24%	6.97%	4.31%
Estimated Cost of new Borrowing	5.85%	7.70%	4.31%
CGFS Risk Rating	D	D	CC
Unlevered Beta (LTM)	1.17	1.07	0.77
WACC	10.03%	10.14%	8.45%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	2.2%	8.2%	1.57
12/31/2017	0.6%	8.5%	1.56
12/31/2018	-2.0%	8.4%	1.49
12/31/2019	8.2%	7.0%	1.41
12/31/2020	9.0%	10.0%	1.90
12/31/2021	12.9%	10.2%	2.10
12/31/2022	11.4%	10.0%	2.05
12/31/2023	10.0%	9.7%	2.00
12/31/2024	8.5%	9.5%	1.94
12/31/2025	7.0%	9.2%	1.87
12/31/2026	5.5%	8.9%	1.80
Continuing Period	4.1%	8.7%	1.72

Period	Invested Capital	Net Claims	Price per share
Base Year	$3,902.39	$1,244.07	$52.79
12/31/2017	$3,107.41	$657.02	$53.56
12/31/2018	$2,951.62	$64.90	$66.62
12/31/2019	$3,909.27	-$496.59	$79.07
12/31/2020	$3,279.29	-$881.15	$81.49
12/31/2021	$3,426.97	-$1,301.42	$89.55
12/31/2022	$3,449.97	-$1,791.79	$98.12
12/31/2023	$3,397.56	-$2,959.56	$107.10
12/31/2024	$3,419.03	-$2,995.11	$116.70
12/31/2025	$3,697.41	-$3,702.65	$126.66
12/31/2026	$4,117.14	-$4,470.04	$137.02
Continuing Period			

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March 24, 2017

Dick's Sporting Goods, Inc: DKS

Edward Stumm

Sector: Consumer Discretionary
Industry: Specialty Retail
Current Price: $46.99
Target Price: $59.78

Company Description: Dick's Sporting Goods, Inc. is a sporting goods retailer that operates in the United States. The company offers an extensive assortment of sports equipment, apparel, footwear, and accessories from the top brands. Dick's Sporting Goods, Inc. is headquartered in Pittsburgh, Pennsylvania and was founded in 1948 by Dick Stack.

BUY

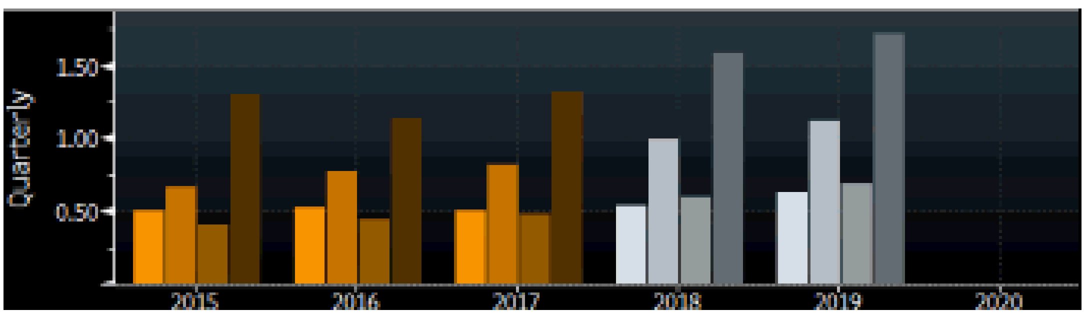
Current Price:	$46.99
Target Price:	$59.78
Market Cap:	5.38B
SP Debt Rating:	B+
ROE(LTM):	15.46
Ke:	8.57%
P/E Ratio:	17.94
Net Income Margin:	3.63%
Equity Multiplier:	2.05
Total Asset Turnover:	2.08
Cash/Total Assets:	0.04

Catalysts:

- Vendor Consolidation and growth of private labels
- Significant investment into the ecommerce business
- Expansion of retail stores

Thesis: Dick's Sporting Goods is currently operating in the specialty retail industry. This industry has seen many companies fold due to the ongoing pressure provided from the ecommerce giant, Amazon. Dick's Sporting Goods has managed to keep solid financials despite these pressures. Through 2017, Dick's Sporting Goods plans to increase their sales in the ecommerce section which went up 27% in 2016 as a result of in housing their platform and ended a long term partnership with eBay. Dick's will also be able to pick up market share that has been uncaptured due to the closure of close competitors over the recent years with an aggressive expansion strategy. The final initiative that Dick's will incorporate to further differentiate themselves from their competitors is the consolidation of up to 20% of their vendors which will help grow margins. Dick's Sporting Goods has made a name for themselves within the United States and remains a formidable opponent for years to come.

Earnings Performance:



Dick's Sporting Goods experienced strong quarterly growth in the 4th quarter. Net income for the quarter was $90 million which is down 30.23 percent from last year's quarter 4. The company saw increase in sales which went up 10.9% to approximately $2.5 billion. Same comp sales increased 5% over from the previous Q4. Gross profit for Q4 was $766 million and went up 85 basis points from the previous Q4 results. To further support the strong growth Dick's Sporting Goods has achieved, they decided to pay 16.7 million in dividends which increased to 12% for the quarter. Dick's also decided to repurchase $29.7 million of stock at an average price of $54.06. Dick's was in the process of beginning the in housing of their new ecommerce platform which resulted in a 26% in sales in 2016. With a positive 4th quarter, Dick's is looking to keep moving forward. In order to achieve this, they are adopting an aggressive expansion strategy which will result in lower first quarter numbers.

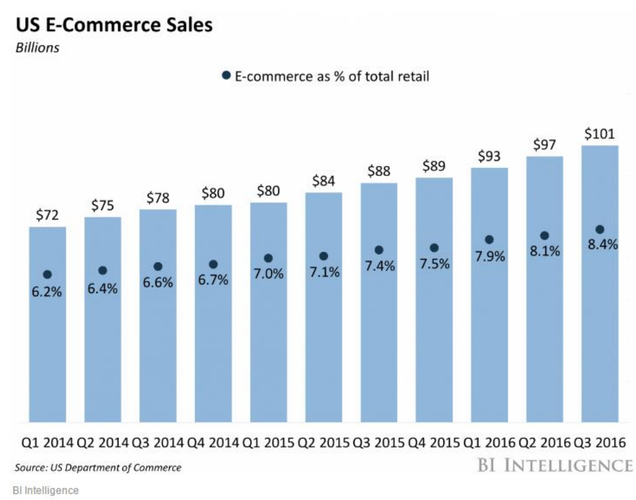
Industry Outlook:

Sporting Goods stores are facing a shrinking industry. This past year multiple stores such as Golfsmith, The Sports Authority, and Sports Chalet filed for bankruptcy leaving dicks Sporting Goods, Inc. as one of the sole survivors. Retail stores are beginning to suffer because of the decrease in foot traffic throughout malls, and the rise in the ecommerce business. As a result, Dicks Sporting Goods has invested more into their online website in order to regain some of the lost business. Dicks Sporting Goods has taken a different approach this year to maintain better inventory costs by reducing their vendors by 20 percent and replacing them with better performing products and private label brands exclusive to Dicks Sporting Goods. There is some light for this industry as sports participation is projected to increase 2.1% up through 2021, and with strategic partnerships such as little league Baseball, little league softball, US Youth Soccer, and Pop Warner Sports, Dicks Sporting Goods will continue to maintain a loyal customer base.

Vendor Consolidation:

Announced during the quarter 4 earnings call, Dicks Sporting Goods will eliminate up to 20 percent of their vendors in a push to further capitalize on the closure of businesses throughout the industry. By removing these vendors that are underperforming, Dicks will be able to give more shelf space to big brand names like Nike and Under Armour, as well as private labels such as Calia by Carrie Underwood, and their own private brand. Dick's is looking to further expand their in house brands which are projected to generate $1 billion over the year. Overhead costs rose 20 percent more than the fourth quarter revenue in 2016 which led to the decision to consolidate the vendors. Overhead costs were one of the factors leading to the closure of rival competitors. This decision will help increase margins over the year. This will also further drive Dick's Sporting Goods to differentiate themselves from competitors. The loyalty program is tailored to draw in customers to continue shopping with the same brand.

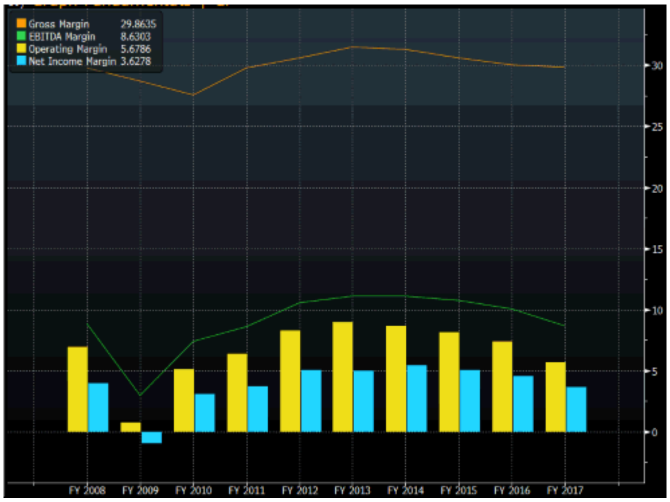
Ecommerce:

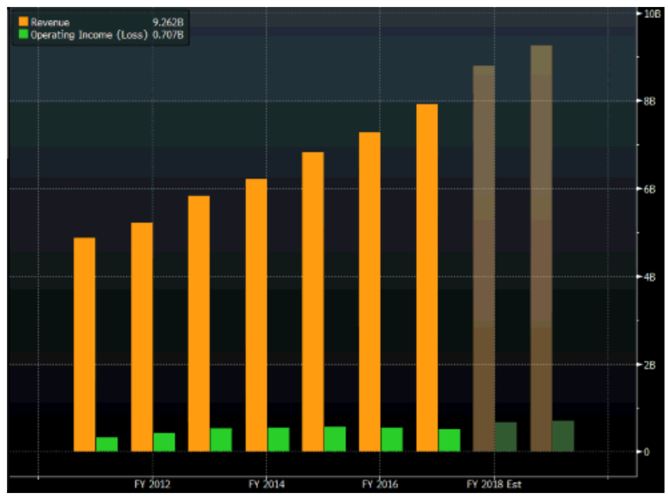


The ecommerce business has been rising since its inception over 40 years ago. It paved the way for the new generation to shop without having to leave home. Over time, the ecommerce business began to rise and with the startup of Amazon in 1994, companies faced the biggest threat of their existence. As seen in the chart, ecommerce sales have risen to a total of 8.4% of total retail sales. Ecommerce has an advantage over brick and mortar stores because ecommerce has the ability to sell goods from a variety of industries, whereas brick and mortar stores sell only what their focus is in. In the sporting industry, many companies such as The Sports Authority, Golfsmith, and Sports Chalet have been driven to closing their doors by the ecommerce industry. Dick's Sporting Goods has taken strides to compete with the ecommerce business by launching a new ecommerce platform of their own. Dick's Sporting Goods originally partnered with eBay to outsource their ecommerce section, but have recently taken it in house in an attempt to gain more control and become more profitable. Sales have increased 27% in the ecommerce section in 2016. The plan is to bring Field and Stream, and Golf Galaxy onto the new platform within 2017. Dick's Sporting Goods is taking steps to make sure they don't end up consolidating like the rest of the industry.

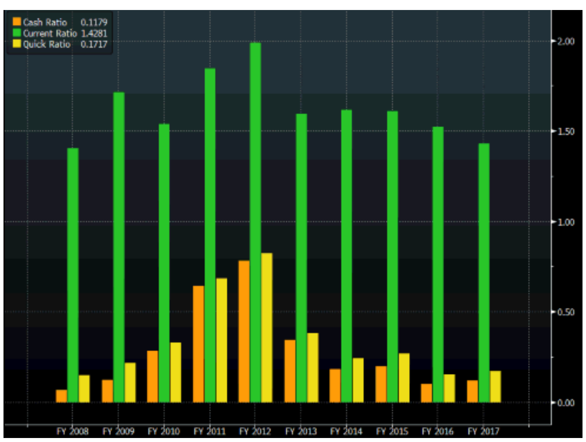
Financials:

Dick's Sporting Goods has seen increasing margins in recent years until about 2014 when margins began to decline. This can be a result of higher supplier costs, or it can be a cause of Dick's having to lower prices to remain competitive with the ecommerce industry. Dick's has taken appropriate measures to begin to increase these margins again by consolidating their vendors up to 20% and selling off the inventory with a $46 million write off. However, Dick's Sporting Goods has continued to grow revenues consistently throughout the years and operating income has remained relatively constant. In order to grow their operating income, Dick's Sporting Goods may need to look for a way to decrease their cost of goods sold which increased at a rate of 9.20% when sales increased at a rate of 8.95%.

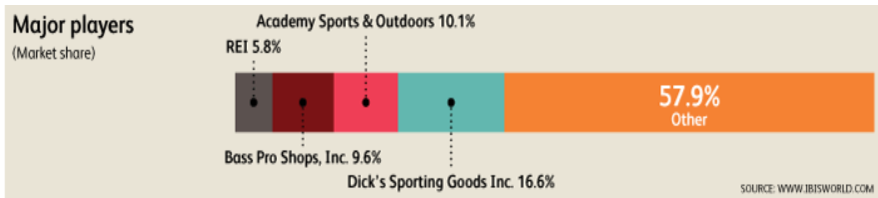


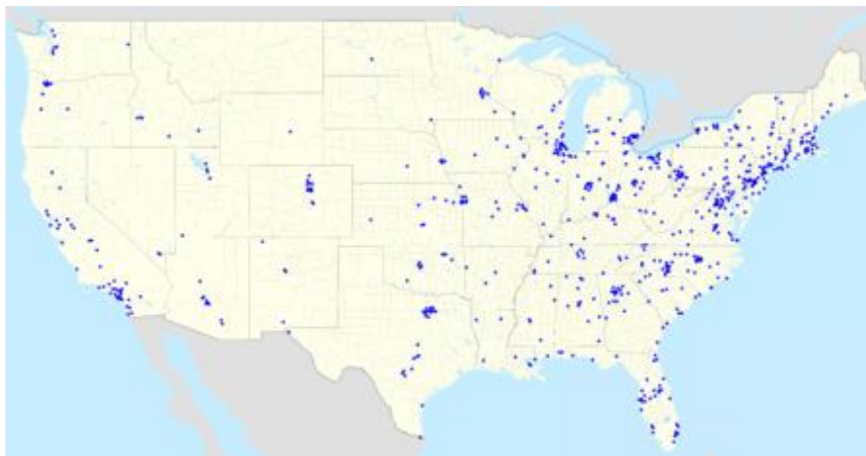


Dick's Sporting Goods is relatively liquid. Their current ratio is consistently above 1, but has been on the decline within the past few fiscal years. This means that Dick's will be able to pay back their short term and long term obligations if need be. Their cash ratio and quick ratio however have not been doing too well, but are projected to increase over the next fiscal year. Their company has kept sufficient cash on hand at $165 million with no current debt. This will benefit the company moving forward with their plans to expand. The company's CAPEX for the quarter was $45 million which was a result of the opening of several new stores.



Expansion:





With the consolidation of many sporting goods stores throughout the industry, Dick's Sporting Goods has seen an opportunity to expand and capture their shares of the market. In 2017, Dick's Sporting Goods is planning to open 43 new Dick's Sporting Goods located primarily in California, Florida, Texas, and the Northwest region of the United States. Management also plans to relocate 7 Dick's Sporting Goods. Dick's has taken an aggressive approach to recapturing the lost market share, and they plan to turn 19 former Sports Authority stores into Dick's Sporting Goods within the first half of the year. On top of the expansion of the Dick's Sporting Goods store, management plans to expand the Golf Galaxy brand, and the Field and Stream brand. In 2017, management plans to open 8 new Field and Stream stores which will be a combo store with Dick's Sporting Goods. Management also plans to open 9 new Golf Galaxy stores, which 8 of them used to be former Golfsmith stores. In total, Dick's Sporting Goods expects to write a $47 million charge to cover the impaired leasehold improvements of 12 stores, and incurring The Sports Authority and Golfsmith integration costs. This aggressive strategy to expand will lead Dick's Sporting Goods to gain market share that was never before possible.

Competitors:

The Sporting Goods Industry has been in a steady decline ever since the inception of ecommerce. Dick's Sporting Goods remains one of the few standing brick and mortar stores who offer such a variety of products ranging from sport to sport, footwear, apparel, etc. Some competitors in the market who have folded due to the pressure of ecommerce are The Sports Authority, Golfsmith, and Sports Chalet. Some of the competitors who are still alive in the industry are Cabela's and Hibbett Sports. Cabela's focuses on hunting and fishing and Hibbett Sports focuses more on the apparel section. In terms of a full blown sporting goods retailer, Dick's Sporting Goods remains the last standing. The biggest competition that Dick's Sporting Goods is facing is Amazon. Amazon has continued to grow their online retail business and offers products at near unbeatable prices. The big question being asked is if Amazon will drive Dick's Sporting Goods out of business as well. Dick's Sporting Goods has taken measures to differentiate themselves from competitors such as Cabela's, Hibbett Sports, and Amazon. For starters, Dick's has increased their sales from their ecommerce by 27% just by in housing their ecommerce platform. Second, Dicks has consolidated their vendors by up to 20% to make room for more profitable brands, private brands such as Calia, and their own private brand. Finally, Dick's Sporting Goods offers equipment for stores specific to their location which helps draw in customers who want to test out the equipment, and get a feel for what they like.

Conclusion:

As a result of the Q4 earnings call, Dick's Sporting Goods stock has fallen nearly 8%. I see this as a buying opportunity since the company has several initiatives in line to increase their margins and further increase business. With the aggressive expansion of their stores, Field and Stream, Golf Galaxy, and Dick's Sporting Goods, the vendor consolidation, and the in housing of their ecommerce platform, I believe this stock will rise to the target price of $59.78.

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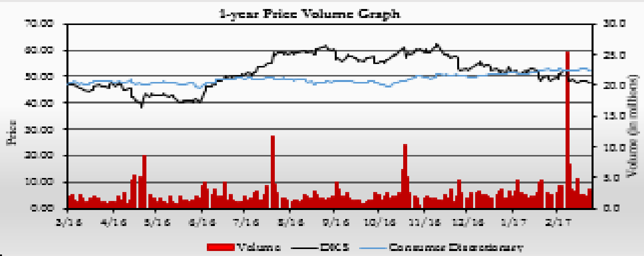
Dick's Sporting Goods, Inc. (DKS)

BULLISH

Analysis by Edward Stumm	Current Price:	$46.99	Intrinsic Value	$58.16	Target 1 year Return: 32.63%
3/26/2017	Divident Yield:	2.4%	Target Price	$61.17	Probability of Price Increase: 90



Description

Dick's Sporting Goods, Inc. operates as a sporting goods retailer primarily in the eastern United States.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	5.73%
Effective Tax rate	40%
Effective Operating Tax rate	49%

Market Data

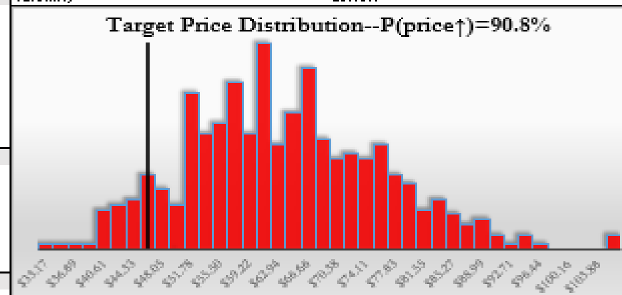
Market Capitalization	$5,300.31
Daily volume (mil)	2.07
Shares outstanding (mil)	112.80
Diluted shares outstanding (mil)	112.22
% shares held by institutions	74%
% shares held by investments Managers	58%
% shares held by hedge funds	11%
% shares held by insiders	19.83%
Short interest	9.15%
Days to cover short interest	3.59
52 week high	$62.88
52-week low	$37.96
Levered Beta	0.66
Volatility	25.83%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
1/30/2016	-5.18%	-9.51%
4/30/2016	-1.16%	-9.58%
7/30/2016	1.83%	7.18%
10/29/2016	0.57%	-4.64%
1/28/2017	-1.25%	-14.64%
Mean	-1.04%	-6.24%
Standard error	1.2%	3.7%

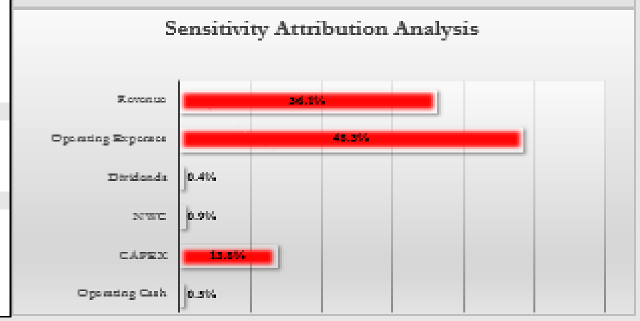
Peers

Tractor Supply Company
Hibbett Sports, Inc.
Cabela's Incorporated
O'Reilly Automotive, Inc.
Advance Auto Parts, Inc.
Foot Locker, Inc.
Bed Bath & Beyond Inc.
Williams-Sonoma, Inc.

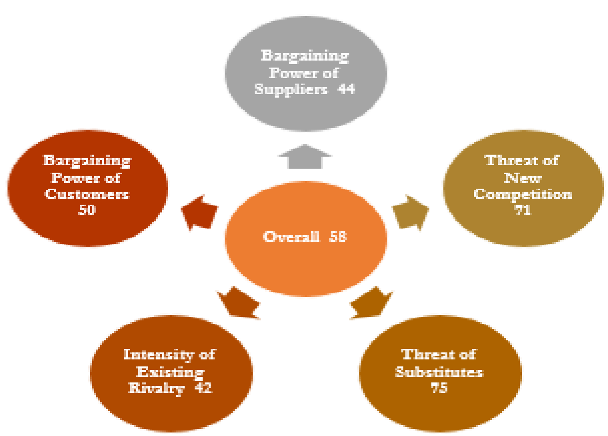


Management	Position	Total compensation growth	Total return to shareholders
Stack, Edward	Chairman and Chief Executive	-100% per annum over 4y	3.83% per annum over 4y
Belitsky, Lee	Chief Financial Officer and	-100% per annum over 1y	-23.27% per annum over 1y
Hauaux, Andre	Chief Operating Officer and	-100% per annum over 2y	-12.7% per annum over 2y
Hobart, Lauren	Chief Marketing Officer, Exe	-100% per annum over 1y	-23.27% per annum over 1y
Willoughby, Michele	Executive Vice President of	-100% per annum over 3y	-1.15% per annum over 3y
Schniedors, Kurt	Chief Information Officer an	N/M	N/M

Profitability	DKS (LTM)	DKS (5 years historical avg.)	Industry (LTM)
ROIC	7.0%	11.68%	20.49%
NOPAT Margin	3%	7.83%	6.8%
Revenue/Invested Capital	2.79	1.49	3.02
ROE	-8.9%	11.07%	24.90%
Adjusted net margin	-3%	4.77%	6.1%
Revenue/Adjusted Book Value	3.53	2.32	4.09
Invested Funds	**DKS (LTM)**	**DKS (5 years historical avg.)**	**Industry (LTM)**
Total Cash/Total Capital	5.2%	5.9%	21%
Estimated Operating Cash/Total Capital	5.2%	5.6%	N/A
Non-cash working Capital/Total Capital	13.7%	11.8%	18%
Invested Capital/Total Capital	87.8%	90.6%	80%
Capital Structure	**DKS (LTM)**	**DKS (5 years historical avg.)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.07	0.21	0.25
Cost of Existing Debt	112.72%	32.01%	4.65%
Estimated Cost of new Borrowing	15.18%	15.18%	4.65%
CGFS Risk Rating	F	F	D
Unlevered Beta (LTM)	0.61	1.04	0.90
WACC	14.82%	11.27%	8.94%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	9.0%	2.5%	0.47
1/28/2018	8.6%	8.4%	3.52
1/28/2019	3.6%	7.9%	1.77
1/28/2020	5.9%	7.6%	1.30
1/28/2021	8.9%	7.9%	1.38
1/28/2022	3.9%	7.3%	1.23
1/28/2023	3.9%	7.7%	1.25
1/28/2024	3.9%	8.1%	1.32
1/28/2025	4.0%	8.5%	1.39
1/28/2026	4.0%	8.9%	1.45
1/28/2027	4.0%	9.3%	1.52
Continuing Period	4.1%	9.7%	1.24

Period	Invested Capital	Net Claims	Price per share
Base Year	$3,822.79	$445.33	$59.33
1/28/2018	$4,119.51	$2,580.41	$62.12
1/28/2019	$3,275.22	$4,177.31	$66.04
1/28/2020	$2,974.19	$4,280.10	$70.94
1/28/2021	$2,838.42	$4,478.81	$76.46
1/28/2022	$2,783.93	$4,584.96	$81.88
1/28/2023	$5,429.20	$4,487.35	$87.36
1/28/2024	$7,472.30	$4,372.83	$92.74
1/28/2025	$7,988.59	$4,240.56	$98.00
1/28/2026	$8,718.43	$4,093.00	$103.04
1/28/2027	$9,258.52	$3,933.43	$107.76
Continuing Period			

March, 24, 2017

Michael Kors Holdings Ltd: KORS

Marion HORRY

Sector: Consumer Goods
Industry: Textile - Apparel Clothing
Current Price: $37.34
Target Price: $42.98

The main business of Michael Kors Holding is to design, promote, distribute and retail women apparel, accessories, moreover they are offering apparel for men. Thus, the two customer's targets of Michael Kors are women and men.

To be competitive in the apparel industry Michael Kors is offering high quality products to customers.

In order to provide access to its products to customers they rely on 3 segments: 668 retail stores in 2016, wholesale and 201 licensing stores. In addition, it relies on e-commerce to sales their products.

Actually, the company operates in North America, Europe, Japan, and starts to develop the company in Asia.

BUY

Current Price:	$37.34
Target Price:	$42.98
Market Cap:	6.07B
Beta:	-0.44
Volume :	56,310
52 Week Range :	$34.92 - $58.63

Thesis:

For the next following year, Michael Kors will ensure revenue growth by expanding their retail store in the Asian market. At the same time, the company will be able to maintain its margin. While increasing revenue and maintaining its margin, Michael Kors should be able to create value and to increase the free cash flow for the following period. Finally, if Michael Kors win the bid of Kate Spread, it will ensure growth in revenue and will reduce the margins. I advise to buy Michael Kors Holding because it stock price is currently undervalued. I expect the price of this stock to rise in the future from $37.34 and $42.98.

Catalysts:

Short-term (within a year):
The next earning is on April 31, 2017. This can increase the volatility of the stock and help to reach the target price.

Mid-term (1-2 years):
The positive outcome of the acquisition, should increase revenue, and help to increase the margins.

Long-term (+3):
New strategic initiatives taken by Michael Kors Holding will increase revenue, and preserve margins.

New business Plan to achieve long-term growth:

Actually, Michael Kors is generating revenue from 3 segments: retail stores, wholesale and licensing. In 2016, their retail stores were generating 50% of its revenue, wholesales were generated 45.5% and licensing generated 3.7%. The strategic shift of the company is to concentrate their effort on their retail stores. Michael Kors want to improve their retail stores in order to preserve margin and in order to develop more the e-commerce.

Revenue/Total Stores				
	History		*LTM*	
KORS	$	7.18	$	6.93
Competitors	$	6.09	$	8.00

Historically, Michael Kors has been able to generate more revenue per store. During the last twelve month, the revenue per stores have decreased and are lower than competitors. By concentrating their effort on its retail stores and thus decreasing their wholesales revenue, the revenue per stores will increase.

The company want to develop and improve its retail stores in the Asian market, because the North American market and the European market are not ensuring growth. European and North American are saturated, thus it is a good opportunity for Michael Kors to develop their brand in Asia. Moreover, Asia market and more particularly the Chinese market will be a good opportunity because there is an increase in GDP per capita. This emphasize the fact that Chinese household will have more purchasing power.

		2014		2015		2016	
		Revenue	% of revenue	Revenue	% of revenue	Revenue	% of revenue
North America	Retail	$ 1,318.90	39.8%	$ 1,656.10	37.88%	$ 1,779.00	37.8%
	Wholesales	$ 1,335.50	40.3%	$ 1,662.50	38.0%	$ 1,628.60	34.6%
	Licensing	$ 117.40	3.5%	$ 100.30	2.3%	$ 99.00	2.1%
Europe	Retail	$ 235.60	7.1%	$ 412.10	9.4%	$ 509.60	10.8%
	Wholesales	$ 242.00	7.3%	$ 401.10	9.2%	$ 406.40	8.6%
	Licensing	$ 22.90	0.7%	$ 71.50	1.6%	$ 74.30	1.6%
Asia	Wholesales	$ -	0.00%	$ 1.50	0.03%	$ 108.90	2.3%
Japan	Retail	$ 38.50	1.16%	$ 66.40	1.52%	$ 106.30	2.3%
	Total Revenue	$ 3,310.80		$ 4,371.50		$ 4,712.10	

By implementing its own retail stores in Asia, Michael Kors is taking advantage of a new opportunity. By looking at the wholesales in Asia, it is possible to see the potential growth for Michael Kors. If it succeed well it Asian market penetration, Michael Kors could ensure growth. This growth will offset the stable growth of the North American Market and European market, and it should increase their revenue.

Competitive advantage on margins:

Since Michael Kors plan is to focus more on their own retail stores, we should look at the cost of revenue per stores. Historically, Michael Kors had less cost of revenue per stores compare to its competitors. During the last twelve months, it has been able to still have less cost of revenue per stores compare to its competitors.

COR/Total Stores				
	History		*LTM*	
KORS	$	2.88	$	2.83
Competitors	$	3.93	$	4.37

By looking at other expenses per total stores, it is possible to see that historically they had more other operating cost per stores compare to its competitors. For the last twelve months, the other operating expenses per stores increase mainly because of the store pre-opening cost, but its operating expenses are lower than its competitors.

Other Op. Exp./Total Stores		
	History	*LTM*
KORS	$ 2.14	$ 2.28
Competitors	$ 1.24	$ 2.50

By looking at the profitability ratio, it is possible to see that it has a competitive advantage among its competitors.
The gross margin ratio shows that the company is retaining more revenue than its competitors after paying its cost of goods sold. It means that the company retains $0.5956 for every $1 generated in revenue.
The profit margin ratio also shows that Michael Kors is more profitable. It means that the company is keeping $0.2005 for every $1 of sales. Michael Kors is able to keep more earning than its competitors.
The operating margin ratio shows that the company is able to satisfy its creditors and its shareholders.
The EBITDA margin shows that Michael Kors operates more efficiently than its competitors.

	Name	Ticker	GM LF	PM LF	OPM LF	EBITDA Mrgn Adj LF
	Median		52.49%	5.71%	8.56%	14.32%
100)	MICHAEL KORS HOLDINGS...	KORS US	59.56%	20.05%	25.27%	29.55%
101)	RALPH LAUREN CORP	RL US	57.35%	4.78%	7.47%	16.51%
102)	HANESBRANDS INC	HBI US	38.86%	9.97%	12.93%	17.77%
103)	URBAN OUTFITTERS INC	URBN US	33.04%	6.24%	9.66%	12.13%
104)	FOSSIL GROUP INC	FOSL US	50.99%	5.18%	6.90%	10.52%
105)	PVH CORP	PVH US	53.99%	4.78%	7.29%	10.19%

Capital Allocation:

The ROIC of Michael Kors shows that it has an efficient way to allocate its capital by choosing profitable investment. Thus, its means that the company is invested money that will later on generates returns. By compare the ROIC of Michael Kors to its competitors, it is possible to see that they are allocating their capital on more profitable investment.

ROIC (NOPAT/IC)		
	History	*LTM*
KORS	90.9%	47.3%
Competitors	31.4%	19.7%

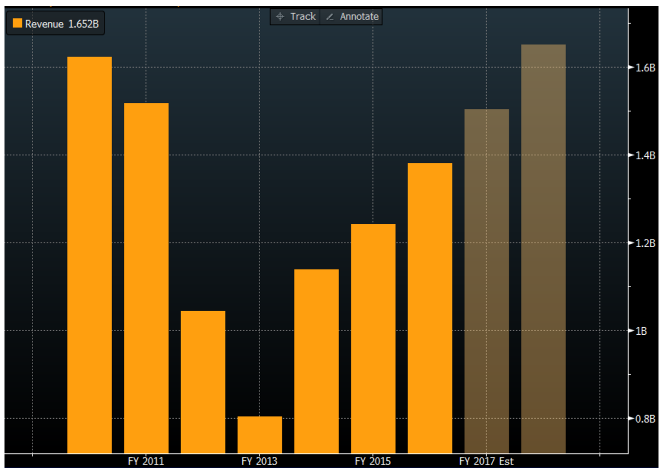
WACC		
	History	*LTM*
KORS	10.0%	13.3%
Competitors	9.5%	8.6%

By looking at the WACC, it is possible to notice that Michael Kors has a higher WACC compare to its competitors. Even, if they have a low percentage of debt. Michael Kors has 7.97% of debt to equity ratio. Michael Kors has 47.3% of ROIC and a WACC at 13.3% which means that they are creating value. Finally, Michael Kors is creating $0.34 for every $1 invested in capital. Its competitors are creating $0.111 for every $1 dollars invested in capital.

Value Creation through Kate Spade Acquisition:

• Revenue Growth

Since 2013, Kate Spread is able to increase its revenue. The company should continue to see its sales to grow during the next period because its products have a high demand from customers. The major target customers of Kate Spread are women. They are offering the same type of product such as Michael Kors such as apparel, and accessories. By acquiring Kate Spread, Michael Kors would be able to see a growth in revenue in addition to its growth in revenue from the Asian market.



• Profitability

Kate Spread has been able to reach its gross margin close to 59% which is close to Michael Kors's 59.56%. On the opposite side, Michael Kors has been able to maintain its level of gross profit. Through the acquisition, the companies could have a better influence on stakeholders. This will help to ensure the preservation and an increase of the Michael Kors margin. Through, the acquisition, Michael Kors could be able to increase its margin, and thus its will increase their value. Moreover, operating margin should increase by deleting some duplicate departments.

In Millions of USD except Per Share	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	12/31/2011	12/29/2012	12/28/2013	01/03/2015	01/02/2016	12/31/2016
Margins						
Gross Margin	53.29	57.42	61.81	59.75	60.68	59.86
EBITDA Margin	-0.68	0.63	7.34	7.72	9.36	16.86
Operating Margin	-6.34	-5.03	2.52	2.94	5.34	13.29

Conclusion:

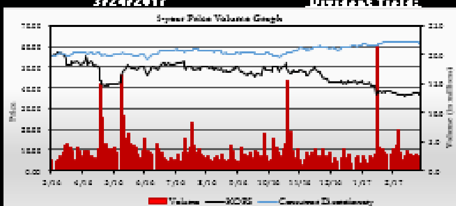
In conclusion, it is important to notice that Michael Kors will be able to ensure revenue growth while preserving and increasing its margins. Their long term strategy to develop its brand in Asia should help them to gain market share and ensure growth. The possible acquisition of Kate Spread should help them to gain market share and to ensure revenue growth.

Michael Kors Holdings Limited (KORS)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Marion HOBBT	Current Price:	$37.34	Intrinsic Value	$38.16	Target 1 year Return: 15.11%
3/24/2017	Dividend Yield:	0.0%	Target Price	$42.98	Probability of Price Increase: 96.6



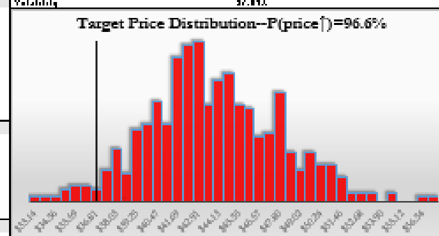
Description

Michael Kors Holdings Limited engages in the design, marketing, distribution, and retailing of branded women's apparel and accessories, and men's apparel.

General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	May 27, 2017
Estimated Country Risk Premium	5.89%
Effective Tax rate	35%
Effective Operating Tax rate	28%

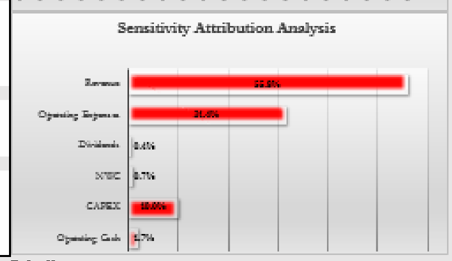
Market Data	
Market Capitalization	$6,047.43
Daily volume (mil)	0.06
Shares outstanding (mil)	162.44
Diluted shares outstanding (mil)	172.61
% shares held by institutions	97%
% shares held by investments Managers	81%
% shares held by hedge funds	5%
% shares held by insiders	4.05%
Short interest	7.39%
Days to cover short interest	4.46
52 week high	$50.63
52-week low	$34.32
Levered Beta	0.63
Volatility	37.01%

Past Earning Surprises			Peers
Quarter ending	Revenue	EBITDA	
12/26/2015	-0.09%	2.99%	Coach, Inc.
4/2/2016	1.05%	-0.09%	Under Armour, Inc.
7/2/2016	1.31%	12.39%	Urban Outfitters, Inc.
10/1/2016	-2.57%	-3.25%	Hanesbrands Inc.
12/31/2016	-4.04%	-1.95%	Fossil Group, Inc.
Mean	-0.71%	1.79%	Tiffany & Co.
Standard error	1.1%	2.8%	Ralph Lauren Corporation
			PVH Corp.

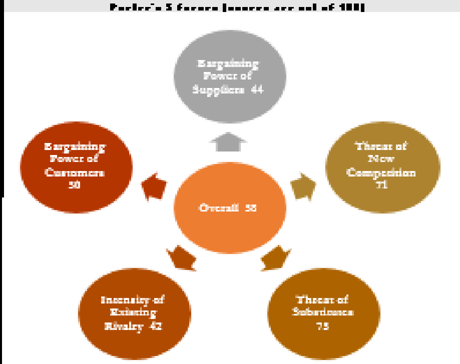


Management	Position	Total compensation growth	Total return to shareholders
Idol, John	Chairman and Chief Executive	1.15% per annum over 5y	5.65% per annum over 5y
Kors, Michael	Honorary Chairman and Chief	1.17% per annum over 5y	5.65% per annum over 5y
Parsons, Joseph	Chief Financial Officer, Chi	0.57% per annum over 5y	5.65% per annum over 5y
Robinson, Cathy	Chief Operations Officer and	-19.26% per annum over 2y	-19.03% per annum over 2y
Meyran, Pascale	Chief Human Resources Office	-4.14% per annum over 2y	-19.03% per annum over 2y
Wilkowski, Dan	President	N/M	N/M

Profitability	KORS (LTM)	KORS (5 years historical average)	Industry (LTM)
ROIC	30.7%	50.26%	13.35%
NOPAT Margin	22%	25.25%	8.5%
Revenue/Invested Capital	1.40	2.16	1.65
ROE	33.0%	61.07%	15.04%
Adjusted net margin	24%	22.04%	7.3%
Revenue/Adjusted Book Value	1.07	2.71	2.01
Invested Funds	**KORS (LTM)**	**KORS (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	5.3%	24.0%	22%
Estimated Operating Cash/Total Capital	5.3%	21.1%	N/A
Non-cash working Capital/Total Capital	12.7%	17.4%	23%
Invested Capital/Total Capital	84.7%	51.5%	78%
Capital Structure	**KORS (LTM)**	**KORS (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.16	0.04	0.16
Cost of Existing Debt	6.31%	7.04%	3.61%
Estimated Cost of new Borrowing	5.83%	7.04%	3.61%
CGFS Risk Rating	D	D	CC
Unlevered Beta (LTM)	0.65	1.34	0.47
WACC	10.25%	16.47%	8.19%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	0.7%	22.0%	2.33
12/31/2017	-6.2%	19.3%	1.93
12/31/2018	-1.4%	15.5%	1.85
12/31/2019	4.0%	16.2%	2.00
12/31/2020	4.1%	16.5%	2.04
12/31/2021	4.1%	16.7%	2.05
12/31/2022	4.1%	16.9%	2.06
12/31/2023	4.1%	17.1%	2.06
12/31/2024	4.0%	17.3%	2.07
12/31/2025	4.0%	17.6%	2.08
12/31/2026	4.0%	17.8%	2.09
Continuing Period	4.0%	10.0%	1.63

Period	Invested Capital	Net Claims	Price per share
Base Year	$851.25	$1,240.34	$37.60
12/31/2017	$1,469.66	$1,000.36	$42.10
12/31/2018	$2,210.44	$350.72	$47.44
12/31/2019	$3,104.14	-$349.42	$52.34
12/31/2020	$3,316.25	-$1,021.55	$58.61
12/31/2021	$3,462.20	-$1,767.87	$64.66
12/31/2022	$3,631.79	-$2,508.35	$70.50
12/31/2023	$3,646.53	-$3,270.34	$76.67
12/31/2024	$3,770.23	-$4,075.63	$82.30
12/31/2025	$3,972.73	-$4,930.07	$89.23
12/31/2026	$4,176.04	-$5,825.60	$95.01
Continuing Period			

March 24th, 2017

Sierra Wireless: SWIR

Alec Odnoha

Sector: Information Technology
Industry: Communications Equipment
Current Price: $29.70
Target Price: $35.00

Company Description: Sierra Wireless is a Canadian-based information technology company that specializes in the development of intelligent wireless solutions in building the "Internet of Things." The company operates in three segments: OEM Solutions, Enterprise Solutions, and Cloud and Connectivity Services. Each segment offers various modules and devices that contribute to the goal of the company, which is to drive innovation through the production of these wireless solutions. The company has a 20-year history of innovation in the wireless space, and has been able to continuously connect businesses and individuals to critical data and information that is essential for advancement. Sierra Wireless was founded in 1993, and is headquartered in Richmond, Canada.

BUY

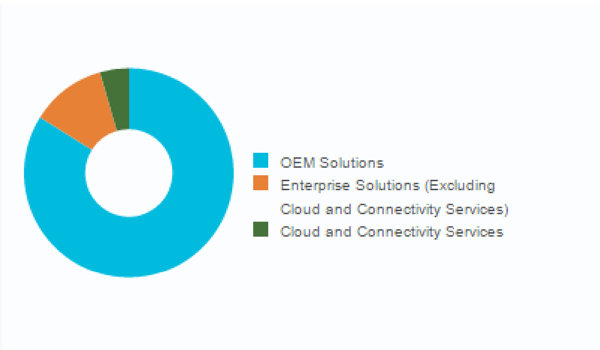
Current Price: $29.70
Target Price: $35.00
Market Cap: $957.4M
ROE (LTM): 4.27%
Ke: 8.35%
P/E Ratio: 62.60
Net Income Margin: 2.50
Equity Multiplier: 1.56
Total Asset Turnover: 1.09
Cash/Total Assets: 17.77

Catalysts:

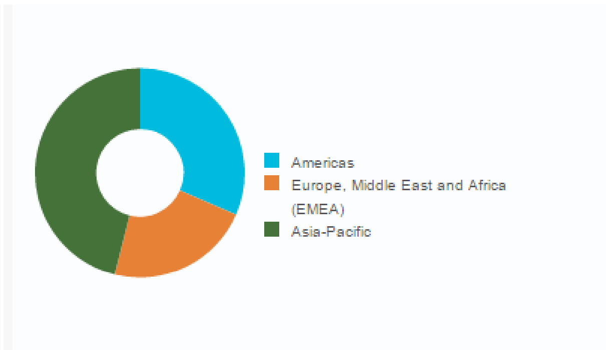
- Short Term(within the year): Recent launch of new gateways in Enterprise Solutions segment, technology improvements
- Mid Term(1-2 years): Evolving wireless networks, growth in the Internet of Things market, increasing demand for device-to-cloud solutions
- Long Term(3+): Continued growth in the IoT market.

Thesis: The Internet of Things can be defined as the inter-networking of physical devices, vehicles, buildings, and others, embedded with electronics and network connectivity that can enable these objects to collect and exchange data. Simply put, this entails connecting any device to the internet. This market has been rapidly growing and is slated to continue that growth in the future, as constant technological improvements and the development of "smart" technology is on the rise. Sierra Wireless has long been among the industry leaders in bringing high-tech modules, gateways, and connectivity services to the market, and has enhanced that position over the years with numerous acquisitions and a broad product line. The company operates within three segments: OEM solutions, Enterprise Solutions, and Cloud and Connectivity Services. Financially, the company is debt free and re-invests back into itself to continually finance growth of the business. Moving forward, Sierra Wireless has positioned themselves nicely to continue to make advances in the ever-changing world of wireless capabilities

Earnings Performance: Sierra Wireless generated financial performance in Q4 of 2016 that was above their overall expectations. Revenue for the quarter totaled $163.0 million, up 12.5% on a year-over-year basis in comparison to Q4 2015, which totaled $144.8 million. Annually, the company also saw a revenue increase, totaling $615.6 million, which is up 1.3% from $607.8 million total in FY 2015. Segmental performance was also very solid for the company. OEM Solutions, which is the company's primary revenue driver, had revenue reported at $135.2 million for Q4 2016, which is up 11% compared to Q4 of 2015, totaling $121.5 million. This revenue total will be expected to grow, one factor being as a result of the acquisition of BlueCreation completed by the company in 2016, which will expand their already-leading position in the OEM Market. Enterprise Solutions saw increased revenues up 27% year-over-year from 2015, totaling $21 million. This segment is expected to perform well in 2017 as a result of the release of newer gateways in the market. Cloud and Connectivity Services reported quarterly revenues of $6.8 million, which is up modestly from the previous year. However, performance in this segment is also slated to rise following the adaption of the company's new Smart SIM technology, which enables the highest quality connectivity services available to customers. The following two charts will exhibit both the annual segmental revenue performance and the display of Sierra Wireless' global presence, which offers multiple market environments and opportunities for Sierra Wireless to grab more market share, which runs consistent with their goals moving forward.



Segment	USD in mm	
OEM Solutions	516.5	83.9%
Enterprise Solutions (Excluding Cloud and Connectivity Services)	71.5	11.6%
Cloud and Connectivity Services	27.6	4.5%
Total	**615.6**	**100.0%**



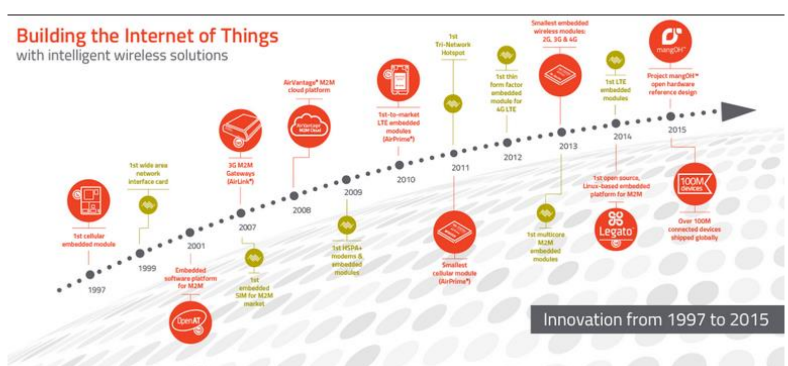
Segment	USD in mm	
Americas	194.0	31.5%
Europe, Middle East and Africa (EMEA)	137.8	22.4%
Asia-Pacific	283.8	46.1%
Total	**615.6**	**100.0%**

Source: CIQ

Industry Outlook: Sierra Wireless operates in the information technology sector of the communications equipment industry. In such an industry, constant technological advances and innovative products become methods for differentiation. Moreover, Sierra Wireless' primary goals align themselves with advancing in the ever-expanding "Internet of Things" markets. The company's primary competitors vary from mobile network operators to device manufacturers and infrastructure vendors. Growth in the Internet of Things market is slated to drive demand for secure, scalable device-to-cloud solutions that can connect and gather data. The IoT has the capability to be applied to several types of industries that can aid in improving efficient operations or gathering data or information, which is why that the connectivity capabilities continually expand. This is where Sierra Wireless is in very solid position, being an industry leader for a number of years and having multiple acquisitions that increase its scale and market presence.

Products and Services: Sierra Wireless presents numerous product offerings in terms of wireless capabilities and performance. Ranging from selections such as embedded wireless solutions, to routers and gateways, to cloud and connectivity services. Sierra also offers fully integrated solutions, which is comprised of all of the above listed products, and these are created to aid and promote businesses to innovate. Sierra Wireless' top product segments would be their embedded modules in OEM solutions. OEM solutions generate the most revenue by a considerable margin, and Sierra Wireless has a firm hold in the embedded modules market. The company has also held the title of number one cellular module vendor in the world for five consecutive years, which is indicative of their continued dominance within embedded solutions and their LTE, 3G, and 2G modules. The modules integrate a wireless connection into products and solutions across a wide range of industries, including energy, transportation, and the automotive industry to name a few. Routers and gateways enable cell connectivity and are designed for reliability and mission-critical connection. In cloud and connectivity services, the use of the AirVantage cloud program is the primary service. The product line for Sierra Wireless is constantly expanding, and the company has developed a reputation for creating state-of-the-art high quality products and bringing them to market. With the tremendous product line already featured and with recent acquisitions made in the last year, Sierra Wireless is surely positioning itself as a force in the growing IoT market, and will create value.

Internet of Things: An ever-growing market, the internet of things is virtually the connection between any physical device with an on/off switch to the internet, typically considered to be "smart devices." This can include anything from cellphones and coffeemakers to washing machines, headphones, and lamps. The technology that comprises said devices are comprised of much of the products that Sierra Wireless has to offer, and thus these physical devices become able to collect data. This growing market has capabilities that will drastically alter the way that we live, offering endless amounts of



connections that can occur. Much of the market focuses on machine-to-machine communication, which is one sector that Sierra Wireless has performed well in (OEM Solutions). As stated above, the goal of the IoT and current trend is to make these machines, "smart," and capable of gathering and evaluating data. What makes up this technology are small sensors, and those sensors are analyzed by cloud-based applications, another service that Sierra Wireless provides. As shown in the chart above, Sierra Wireless has been involved in the building of the Internet of Things for a number of years, introducing different devices to market and acquiring a number of tech-based companies which add to its scale. An example of the IoT at work could be the use of smart cement for building a bridge that can monitor stresses and cracks. If there is ice on the bridge, the sensors in the cement can communicate that wirelessly to internet in your car. The car can then either instruct the driver to slow down, or do so on its own. This is an example of how sensor-to-machine and machine-to-machine communication occurs. This form of communication can revolutionize how work and life intertwine. Sensors monitor and analyze all of this data with cloud-based technology, and Sierra Wireless can develop not only those sensors, but also provide the cloud-based connectivity as well, which is why it plays such a key role in this industry. Holding a solid position in a market that is slated for a boom is a risky play, but one that I feel confident will drive value in the stock price, as demand for these smart technologies keeps on the rise.

Financial Performance: Despite some fluctuations in growth in previous years, Sierra Wireless holds a healthy financial position and is well poised for future growth. Overall revenue growth for the company has been steady historically despite a marginal increase this past fiscal year. Running consistent with Sierra Wireless' recent expansion of scale due to acquisitions and expansion in the global market, revenues are projected to steadily increase over the next two fiscal years, as shown in Exhibit 1. Marginally, the company has performed relatively solid. In FY 2016, the company saw a total increase in gross margin up to 35.4% in comparison with a total of 31.9% in 2015. This can be attributed to the favorable impact on cost of goods sold, relative to the change in the amount estimates of the companies intellectual property royalty obligations. Also, the increase can be attributed to product cost reductions. Earnings from operations more than doubled, from $10.1 million in 2015 up to $21.3 million in 2016. This increase can be attributed mainly to a stronger product lineup and investments in sales are marketing which are leading to increased customer activity. Adjusted EBITDA was reported at $15.5 million, which exceeded expected earnings. This was primarily driven by improved gross margins and a continued focus on sound OpEx management, specifically on gross margins, which is why marginal improvements were reported. Strong reported profitability reflected revenue gains combined with better margins and a focus on cost management. The company is debt-free and has a strong cash position, ending FY 2016 with $102.8 million in cash. Q4 of 2016 consumed $9.2 million in cash, due to significant working capital demands which led to a negative operating cash flow of $1.4 million. However, for the full year, the company generated free cash flow of $29.5 million, using $8.8 million for two acquisitions and bought back $10.2 million worth of shares under the NCIB

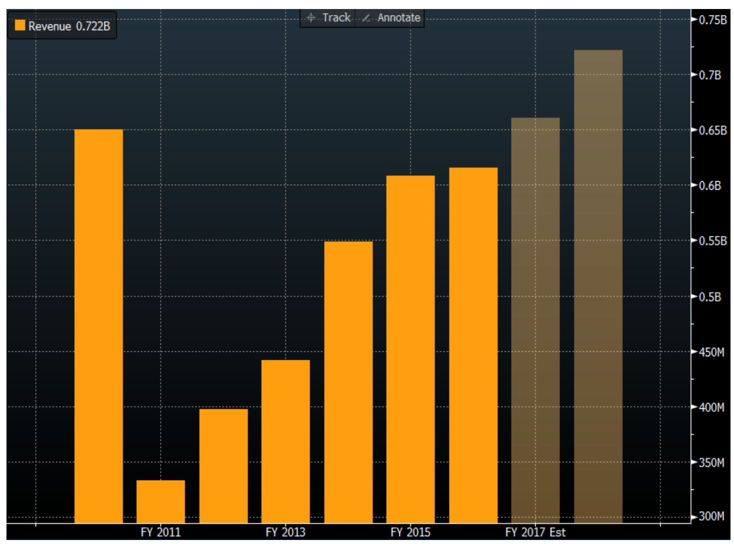


Exhibit 1

program, while also purchasing $4.2 million worth of shares to fund the stock compensation program that the company offers. The company has seen increases from last year in EBITDA margin, Operating margin, and Net Income margin as shown in the table. Net Income margin can certainly be alarming with a huge dip in FY 2014, but it is certainly headed in the right direction and is projected to continue that positive trend moving forward. In 2017, the company expects a year-over-year growth in revenue in the range of $152-4161 million for Q1, reflecting normal business seasonality. The company does not pay dividends and has always re-invested back into itself to fund the growth of the business. Sierra Wireless has displayed solid signs of growth in recent years, and I expect that trend to continue as a result of continued cost management coupled with lower production costs, a growing product line, and the growth in market share that the company has already generated.

Sierra Wireless				
Marginal Performance	FY 2013	FY 2014	FY 2015	FY 2016
Gross Margin	32.96	32.63	31.89	35.37
EBITDA Margin	2.41	3.09	4.99	7.67
Operating Margin	-4	-1.2	1.66	3.47
Net Income Margin	12.46	-3.07	-0.44	2.5

Partnerships/Acquisitions:

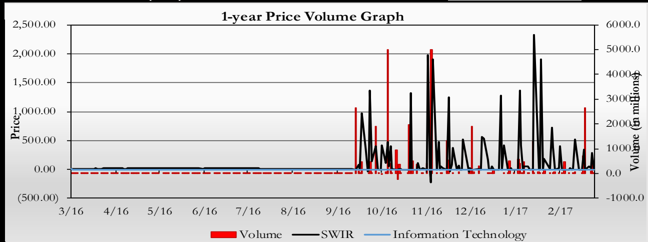
One large portion of business operations for Sierra Wireless are acquisitions and partnerships. Sierra Wireless has incurred several acquisitions over the years, and recently landed a few that are projected to greatly advance its position in the wireless embedded solutions market. Most recently, Sierra Wireless acquired BlueCreation and GenX in 2016. The BlueCreation acquisition allowed for expansion in short-range wireless Bluetooth and Wi-Fi capabilities, and is believed to strengthen the company's position on OEM's even further. The GenX acquisition was completed with sights set on the growing telematics market space. The GenX acquisition is also believed to expand Sierra Wireless' strategic position in key segments and will drive growth as it will be integrated into Sierra Wireless' Enterprise Solutions business segment. A large contribution to Sierra Wireless' credibility in the field is the recent selection by Volkswagen to integrate Sierra Wireless technology for its next generation of connected cars. The Volkswagen partnership will utilize Sierra Wireless technology to expand into additional connected services and telematics. The newer 4G technology by Sierra Wireless is slated to enter the market beginning in 2018 and will be featured in several Volkswagen models worldwide. Volkswagen has selected Sierra's AR Series modules and Legato platform for its connected cars Sierra's continual accrual of acquisitions and large partnerships, like with Volkswagen, will not only add to the company name but will also generate value as a result of higher demand of its technologies. Exposure in this type of market will offer Sierra Wireless another avenue in which revenue can be generated from the development and implementation of smart car technology.

Conclusion: The Internet of Things is only going to become more prevalent as society advances. Already having a stronghold in the market allows for Sierra Wireless to maintain a solid level of operation. Maintaining a debt free level while also sustaining a small cash position and continually building its scalability through multiple acquisitions positions the company well moving forward. A product line that is becoming more and more expanded coupled with advancements in technology offers more ways for Sierra Wireless to maintain their industry-leading level of operation. The stock is currently trading at $29.70, and I am anticipating that stock value to spike during this calendar year. A 1-year target price of $35.00 is certainly attainable, and relatively quick. As the IoT market continues to expand, Sierra Wireless will surely perform well and continue to be the premier vendor for wireless devices and connectivity, and the development of these "smart" technologies.

SIENAcollege BJORKLUND FUND

Sierra Wireless, Inc. (SWIR) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by Alec Odnoha	Current Price:	$29.70	Intrinsic Value	#VALUE!	Target 1 year Return: 350.52%
3/25/2017	Divident Yield:	0.5%	Target Price	$133.66	Probability of Price Increase: 100%



Description

Sierra Wireless, Inc., together with its subsidiaries, engages in building the Internet of Things (IoT) with intelligent wireless solutions in North America, Europe, and the Asia Pacific.

General Information

Sector	Information Technology
Industry	Communications Equipment
Last Guidance	November 3, 2015
Next earnings date	May 4, 2017
Estimated Country Risk Premium	4.28%
Effective Tax rate	18%
Effective Operating Tax rate	20%

Market Data

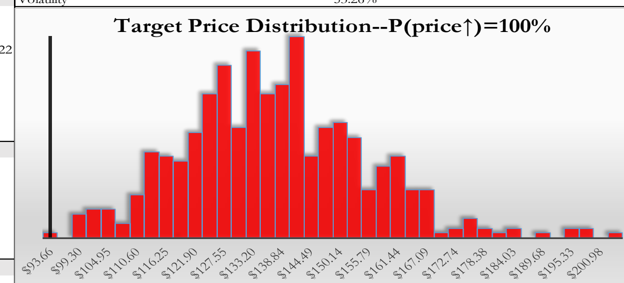
Market Capitalization	$1,275.91
Daily volume (mil)	0.50
Shares outstanding (mil)	0.00
Diluted shares outstanding (mil)	32.34
% shares held by institutions	74%
% shares held by investments Managers	0%
% shares held by hedge funds	0%
% shares held by insiders	0.00%
Short interest	0.00%
Days to cover short interest	0.00
52 week high	$30.60
52-week low	$12.30
Levered Beta	1230.35
Volatility	53.26%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	-3.69%	-65.52%
3/31/2016	1.06%	17.18%
6/30/2016	-2.36%	17.86%
9/30/2016	-7.41%	-25.48%
12/31/2016	-0.26%	46.17%
Mean	-2.53%	-1.96%
Standard error	1.5%	19.6%

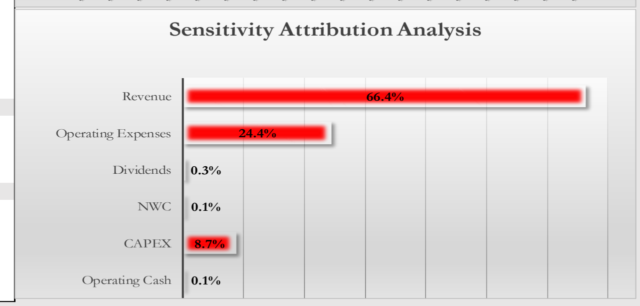
Peers

CalAmp Corp.
Open Text Corporation
22
Mitel Networks Corporation
Inseego Corp.

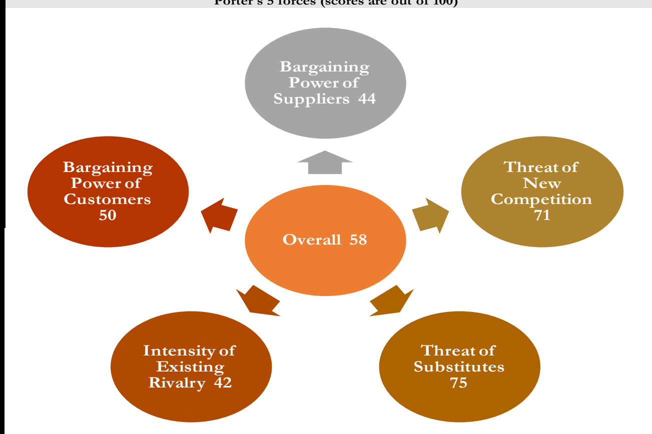


Management	Position	Total compensations growth	Total return to shareholders
Cohenour, Jason	Chief Executive Officer, Pre	-100% per annum over 5y	N/M
McLennan, David	Chief Financial Officer and	-100% per annum over 2y	662.05% per annum over 2y
Guillemette, Philippe	Chief Technology Officer	233.12% per annum over 4y	-19.61% per annum over 4y
Schieler, August	Senior Vice President and Ge	-100% per annum over 5y	N/M
Seefeldt, William	Senior Vice President of Eng	-100% per annum over 4y	-19.61% per annum over 4y
Dodson, Bill	Senior Vice President of Ope	-100% per annum over 5y	N/M

Profitability	SWIR (LTM)	SWIR (5 years historical average)	Industry (LTM)
ROIC	12.9%	21.25%	18.91%
NOPAT Margin	9%	11.66%	18.9%
Revenue/Invested Capital	1.50	1.82	1.00
ROE	12.9%	19.19%	22.17%
Adjusted net margin	9%	11.63%	17.2%
Revenue/Adjusted Book Value	1.50	1.65	1.29
Invested Funds	**SWIR (LTM)**	**SWIR (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	14.6%	23.0%	45%
Estimated Operating Cash/Total Capital	14.6%	19.1%	N/A
Non-cash working Capital/Total Capital	2.6%	5.7%	-9%
Invested Capital/Total Capital	67.3%	63.6%	58%
Capital Structure	**SWIR (LTM)**	**SWIR (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.00	0.00	0.21
Cost of Existing Debt		#DIV/0!	4.07%
Estimated Cost of new Borrowing	5.87%	5.55%	4.07%
CGFS Risk Rating	D	D	CCC
Unlevered Beta (LTM)	1230.35	1.77	0.98
WACC	#VALUE!	#VALUE!	8.06%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	1.3%	8.6%	#VALUE!
12/31/2017	5.7%	9.4%	#VALUE!
12/31/2018	6.9%	9.5%	#VALUE!
12/31/2019	7.5%	9.3%	#VALUE!
12/31/2020	7.1%	10.5%	#VALUE!
12/31/2021	6.6%	11.8%	#VALUE!
12/31/2022	6.2%	13.7%	#VALUE!
12/31/2023	5.8%	15.5%	#VALUE!
12/31/2024	5.4%	17.4%	#VALUE!
12/31/2025	4.9%	19.2%	#VALUE!
12/31/2026	4.5%	21.0%	#VALUE!
Continuing Period	4.1%	22.8%	#VALUE!

Period	Invested Capital	Net Claims	Price per share
Base Year	$198.16	$957.35	#VALUE!
12/31/2017	$253.00	$960.74	#VALUE!
12/31/2018	$277.16	$904.42	#VALUE!
12/31/2019	$381.38	$848.70	#VALUE!
12/31/2020	$410.75	$785.75	#VALUE!
12/31/2021	$471.84	$714.75	#VALUE!
12/31/2022	$592.97	$629.77	#VALUE!
12/31/2023	$655.85	$530.05	#VALUE!
12/31/2024	$716.21	$414.05	#VALUE!
12/31/2025	$775.46	$280.76	#VALUE!
12/31/2026	$832.84	$130.53	#VALUE!
Continuing Period			

March 24, 2017

Orbotech Ltd: ORBK

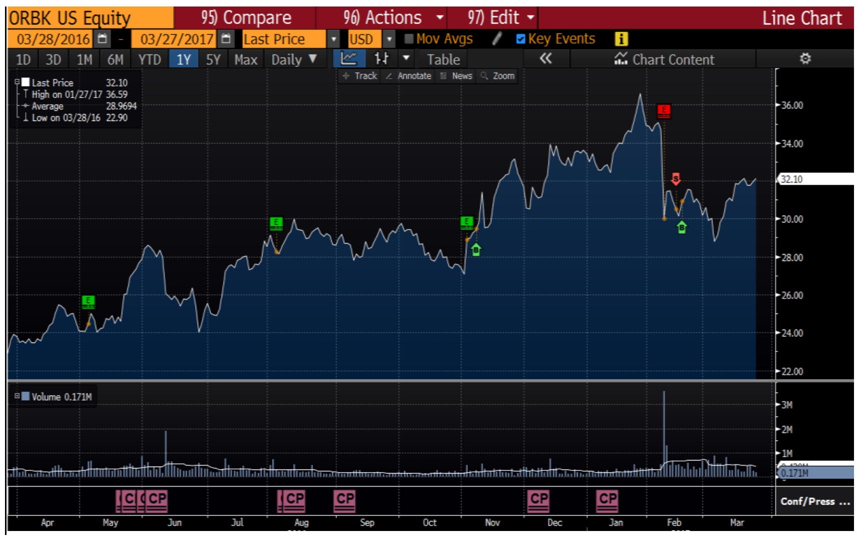
Maxime Lattanzio

Sector: Information Technology
Industry: Electronic Equipment
Current Price: $32.10
Target Price: $38.88

Orbotech Ltd. is a global technology corporation that was founded in 1981. Its headquarters are located in Yavne, Israel, but the company operates worldwide. Orbotech manufactures, markets, and services inspection systems, imaging solutions, and manufacturing solutions for companies producing printed circuit boards, flat panel displays, and semi-conductor devices. The majority of the company's operations is in China, Taiwan, and the United States, but Europe and Japan, among others, also generate significant revenue for Orbotech.

BUY

Current Price:	$32.10
Target Price:	$38.88
Market Cap:	$1.535B
52-week range:	$19.74-$36.86
Average Volume:	0.621 million
D/E Ratio:	0.06
EBITA Margin:	17.5%
ROIC:	13.43%
ROIC/WACC:	1.54



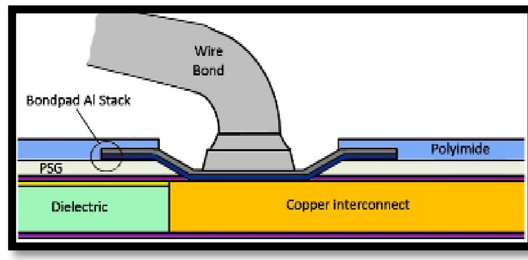
Thesis: Orbotech Ltd. is one of the worldwide leaders in its industry. As a matter of fact, as the company provides superior equipment and customer services to manufacturers of electronic devices, it managed to capture and retain revenue in spite of the fierce existing competition. China, which is already one of Orbotech's main sources of revenue, has significant potential for further market growth. The company will most likely get benefits from these opportunities to expand. These growing markets, coupled to acquisitions and increase in services revenue, will bring higher margins and returns in the future. As the company has almost no debt and can borrow at a low cost, it will have no trouble raising capital to finance the aforementioned expansions and developments that will create shareholder value in the coming years.

Catalysts:

- **Short Term:** Q1 2017 Earnings Announcement will give a sense of what 2017 will look like for Orbotech;
- **Mid Term:** Ability to sustain double-digit revenue growth within the next 2 years through CapEx and Acquisitions of companies;
- **Long Term:** Successful penetration of Chinese market and other emerging markets.

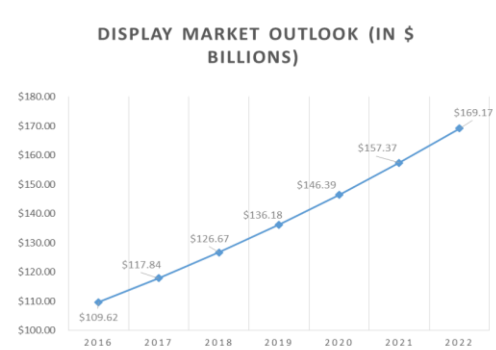
Products Description:

Orbotech Ltd has three main segments. The first segment is named PCB (Printed Circuit Boards). The firm, through the solutions it provides, assists PCB manufacturers through the whole production process: from the initial shaping of the circuit boards to the actual printing of the circuit as well as the final quality inspection of the boards after they are finalized. In 2016, this area represented around 36% of the company's total revenue. Accounting for 33% of the company overall sales is the Flat Panel Displays (FPD) segment. As the market for Flat Panel Displays has been significantly growing in the past decade, the company has been developing its services in this area. Orbotech now provides its customers in this segment with solutions such as testing, repair, and inspection systems for Flat Panel Displays. Finally, the Semiconductor devices (SD) segment of the company accounts for 29% of its total revenues. In this area, Orbotech does not only provide with "classic" manufacturing solutions as it does for PCBs and FPDs, but also offers services related to the printing on the Semiconductor Devices and the packaging of the final product. For all of the three segments that have just been explained in details, the firm also offers post-purchase services such as maintenance on the manufacturing machines or regular updates on the different soft wares present in Orbotech's machines and solutions.

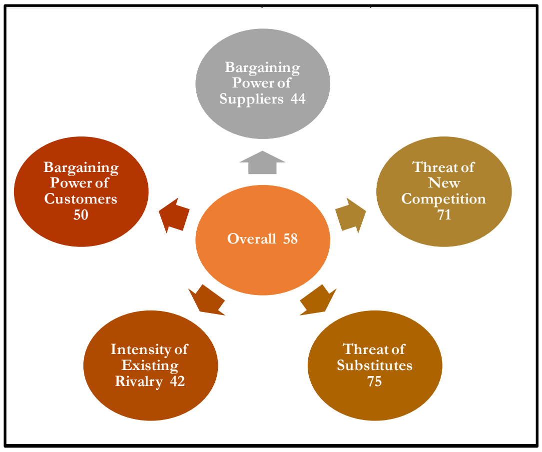


Industry Outlook:

As Orbotech provides with solutions for manufacturers of electronic devices, it is heavily dependent on market growth for the end products made by its clients. Therefore, it is essential to study and understand the forecasted growth in the different markets that are relevant to Orbotech. To begin with, Printed Circuit Boards sales depend heavily on the worldwide smartphone production, as those use a lot of circuit boards. Within the next 4 years, the worldwide smartphone shipment volume is expected grow at a compounded rate of over 5%. Regarding the "Internet of Things" that includes most of the telecommunications sector and that relies heavily on PCBs, the growth is expected to be tremendous, as the expected CAGR is expected to be as high as 16% to 2022. Regarding the Flat Panel Displays segment, the trend is similar, as the overall display market is expected to grow at a 10% compounded annual growth rate to reach a size of almost $170 billion by 2022. You can refer to the attached graph to see the expected trend. Finally, the outlook is more mixed for the Semiconductor Devices market. Indeed, the Personal Computer market is expected to decline at a yearly rate of 4.5% over the next few years. However, the forecast is much more bullish for medical semiconductor and automotive devices (12.3% and 19% CAGR to years 2018 and 2021 respectively).



Sensitivity to external factors (Porter's Five Forces):



Analyzing Porter's Five Forces, when it comes to Orbotech, allows to understand where external threats may arise from. To begin with, the lowest score for Orbotech is "Intensity of Existing Rivalry". As stated by management during the latest earning call, fierce competition has developed in China, where new companies produce machines and solutions to assist manufacturers of electronic devices in their processes. The main threat is that they do so at a discount compared to Orbotech. This explains the score of 42. However, two other factors mitigate the "existing rivalry" risk. Orbotech may be providing solutions at a higher price than its competitors, but with higher price comes higher quality. Eventually, manufacturers are most of the time willing to pay more for machines and solutions if they are confident that these machines and solutions are going to last long, and are going to come with maintenance and regular software updates from Orbotech. This is one of the main reasons why Orbotech scores well when it comes to substitutes: even if those are cheaper, they will not be able to provide sufficient service to retain customers. Finally, as building machines and developing manufacturing solutions for big scales companies requires not only capital, but also technical knowledge and know-how, there are strong barriers to entry in this industry. Therefore, the threat of new competition is low, and Orbotech has a top-tier score in this category (71). The other two categories, where Orbotech scores average (44 and 50) are less relevant to the argument.

Revenue Generation:

During the latest earnings call, many analysts were asking about the ability of the company to sustain double digit revenue growth over the next years. As a matter of fact, as shown by the below table, when revenue grows for Orbotech, EBITDA grows even faster. It means that the more the company inflates its sales, the more it is able to generate strong profit margins.

In Millions of USD except Per Share	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	12/31/2013	12/31/2014	12/31/2015	12/31/2016
1 Year Growth				
Revenue	13.69	32.44	29.13	7.16
EBITDA	173.40	43.61	74.89	15.50

Furthermore, initial sales tend to generate additional revenue after a few years (service revenue and upgrades on machines and soft wares). As of Q4 2016, 26% of the company's overall revenue depends on these after-sale services. This is why the company has to focus on growing its sales. In 2016, the PCB segment grew its sales by 12% year-over-year. The trend was similar for the FPD segment, with a 10% annual increase in revenue from 2015. The SD segment, however, has been weaker. It may have grown 8% year-over-year, but the revenue generated in the last quarter of the year was 14% lower than it was a year before. To remediate it, the company has decided to take initiatives that are most likely to provide with significant payoff in the coming years. First, management has planned Capital Expenditure of 10% in 2017 for the Semiconductor Device business, twice as high as the company-wide average. Then, as management wants the company to benefit from the growth potential, especially in China (10% growth in Radio Frequency devices, 30% yearly increase in chips demand), it has decided to invest heavily in the SD segment, as explained just below.

Acquisition of Applied Microstructures:

In addition to the CapEx mentioned in the previous paragraph, the company wants to invest in Microelectronic Systems (MEMS) to incorporate them in their SD segment. To do so, Orbotech has decided to start acquiring companies to benefit from their know-how, and potentially realize economies of scale as well. The first acquisition occurred in Q4 2016, when Orbotech bought Applied Microstructures, Inc. for $6.4 million in cash. The price paid was estimated to be between 5 and 6 times the target's EBITDA, which is considered a cheap price. The reason is the earn-out payments clause in the acquisition contract. If Applied Microstructures does not meet expectations in the next 15 months, no additional amount will be paid by Orbotech. If significant results occur, however, Orbotech will have to make additional payments that could reach a total of $10.5 million. Orbotech management has estimated that the earn-out payments should total $1.5 million by early 2018. This MEMS company with potential for encapsulation processes solutions will be integrated in the SD division of the company. It is expected to generate between $6 and 8 million in revenues in 2017 (roughly 1% of current sales). As the SD division is the segment generating the highest margins company-wide, upper management wants to make sure it is the fastest-growing segment (CapEx, acquisitions).

Profitability and Value Creation:

In Millions of USD except Per Share	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue	440.0	582.7	752.5	806.4
Gross Profit	43.5%	43.4%	45.2%	46.2%
Operating Income (Loss)	9.5%	8.4%	12.7%	14.5%

If the firm absolutely wants to improve its profitability, it is because as of right now the company is not a top performer when it comes to profit margins. Compared to its peers, Orbotech has historically been generating above-average EBITDA margins. Yet, the company underperforms its industry when it comes to Operating and Net Margins. The main explanation comes from past management decisions. In the past years, the company's directors have agreed to lower margins for a while to focus on and promote revenue growth through increased sales. These sacrifices have started paying off (see table above), and will pay even more in the coming years, as post-sale services (i.e. maintenance) and product upgrades on both soft wares and hardware will bring improved margins. Indeed, there is a lower cost base on services and upgrades development than on development, building and delivery of machines. Furthermore, as substantial investment is being made in the Semiconductor Devices division, this segment will eventually yield higher return on sales, contributing to improvement in margins company-wide.

	COMPANY (LTM)	Competitors' Median (LTM)
WACC	8.75%	9.38%
ROIC	13.43%	15.97%
ROIC w/o Goodwill	17.2%	20%
ROIC/WACC	1.54	1.70
EBITA Margin	17.5%	14.9%

Capitalization (Debt/Equity)	History	LFY
orbk	0.23	0.06
Competitors	0.01	0.07

WACC	History	LFY
orbk	9.7%	8.8%
Competitors	13.0%	9.4%

ROIC W/O GW	History	LFY
orbk	10.5%	17.2%
Competitors	18.4%	20%

EBITA Margin	History	LFY
orbk	11.8%	17.5%
Competitors	16.6%	14.9%

ROIC	History	LFY
orbk	10.3%	13.4%
Competitors	15.0%	16.0%

ROC /WACC	History	LFY
orbk	0.97	1.54
Competitors	1.21	1.70

As margins keep on improving (EBITDA already better than the average), ROIC will keep on improving, and the company will manage to create as much value as its competitors do. The above picture shows the trend of Orbotech's value creation compared to its industry, and how it is catching up with its peers. After generating lower profit margins than its competitors for years, the company has managed to top them (EBITDA only), contributing to close the gap when it comes to Return On Invested Capital (from a 4.7 percentage points differential to only 2.6 percentage points). If management plans are successful, and they are most likely to be successful given the company's financial flexibility (see next section) and dominant position in the market, ROIC will grow even higher to match the industry average, and the company will generate as much value as it can (ROIC/WACC will at least match the industry average). Moreover, as Orbotech can afford to lower its dependence on debt (as detailed in the next section as well), its WACC has lowered, contributing to improve its value creation as well, and future cash flows will be discounted as a lower and lower rate, increasing their present value.

Financial Health and Multiples:

In this write-up, lots of mentions have been made of acquisitions, expansions, and investments to be made in the future. If Orbotech is investing a lot in its business, it is not out of recklessness. It is because it can afford to do so. The company benefits from a high liquidity. As of early 2017, the company sits on $217 million in cash, which represents over 25% of Orbotech's yearly revenue, and would be enough to cover the entirety of the company's current liabilities. This significant cash reserve has allowed the company to prepay $20 million of its long-term debt obligations (explaining the recent drop in D/E ratio) to benefit from cheaper Interest Rates. As of right now, as the company debt rating from Moody's is Ba3 (Investment Grade), the company can borrow on the long-term for a low as 5.000% (current coupon rate on long-term debt. This leads to an After-Tax Cost of Debt of 3.75% (Effective Tax Rate of 25%). All put together, liquidity, flexibility, and low borrowing costs show that Orbotech will have no trouble financing current and future expenditures and acquisitions.

Capital IQ NWC	*$*	*303.17*
Non-cash Operating Current assets	$	518.52
Operating Current Liabilities	$	215.35

MULTIPLES			
Company Name	EV/Revenue	EV/EBITDA	P/E
II-VI Incorporated (IIVI)	2.61x	14.04x	28.54x
MTS Systems Corporation (MTSC)	0.94x	6.06x	19.77x
FARO Technologies, Inc. (FARO)	1.36x	14.42x	41.72x
Camtex Ltd. (CAMT)	0.93x	11.28x	14.15x
MKS Instruments, Inc. (MKSI)	2.37x	10.82x	16.59x
MEDIAN MULTIPLE (Competitors)	**1.36x**	**11.28x**	**19.77x**
Standard Deviation	*0.80x*	*3.35x*	*11.23x*
Standard Error of Estimate	*0.30x*	*1.27x*	*4.24x*
Orbotech Ltd. (ORBK) Multiple	**1.58x**	**7.36x**	**11.30x**

VALUATION			
	Revenue	EBITDA	EPS
Orbotech Ltd. (ORBK)	854.30	183.37	2.74
Standard deviation	*20.70*	*22.45*	*0.09*
Number of estimates	*27.00*	*22.00*	*31.00*
Standard Error of Estimate	*3.98*	*4.79*	*0.02*
Orbotech Ltd. (ORBK) Implied EV	1,159.05	2,068.71	
Orbotech Ltd. (ORBK) Total Debt	88.37	88.37	
Orbotech Ltd. (ORBK) Preferred Equity	-	-	
Orbotech Ltd. (ORBK) Minority Interest	(1.18)	(1.18)	
Orbotech Ltd. (ORBK) Cash	217.08	217.08	
Orbotech Ltd. (ORBK) Implied Equity	1,288.94	2,198.61	
Orbotech Ltd. (ORBK) Shares Outstanding	47.80	47.80	
Orbotech Ltd. (ORBK) Implied Price per share	26.97	46.00	54.16

AVERAGE PRICE PER SHARE	$ 42.37
CURRENT PRICE PER SHARE	$ 30.95

Finally, in addition to the pro-forma DCF valuation I usually used, I decided to do a multiples valuation based on firms of comparable size and industry. When comparing Orbotech to its peers on EV/Revenue, EV/EBITDA, and P/E, I found out that the fair value of Orbotech is well above its current market value: $42.37 per share against $32.10 as of today (and $30.95 when I first made the valuation). This would represent a price appreciation for the stock of around 30%. Even if the stock may be slightly overpriced when looking at EV/Revenue (fair value of $26.97), EV/EBITDA and P/E valuations both suggest the stock price should be significantly higher than it is today: $46.00 and $54.16 per share respectively.

Conclusion:

To summarize, Orbotech is a safe investment with a significant potential upside. As a matter of fact, the company benefits from a strong brand name among customers. Thanks to this, even new Chinese and Asian competitors that can offer low prices cannot actually compete with Orbotech and endanger its market share. Moreover, further growth may be easily reachable for the company, as the market for electronics is expected to keep on growing at a fast pace in the coming years, and Orbotech has the financial flexibility, cash reserve, and proven willingness to invest heavily today to benefit in the near future (within the next 2 years). Increased revenue (ORBK stock is highly sensitive to this parameter) will most likely lead to even higher margins that will allow the company to generate all-time high Return on Invested Capital. This improved returns, coupled to a decreasing WACC, will add value to the company, and eventually contribute to stock price appreciation.

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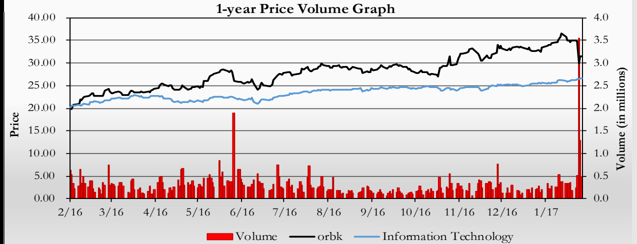
Orbotech Ltd. (orbk) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by Maxime Lattanzio	Current Price: $32.10	Intrinsic Value $34.26	Target 1 year Return: 21.26%
3/24/2017	Divident Yield: 0.1%	Target Price $38.88	Probability of Price Increase: 98.2%

1-year Price Volume Graph



Description

Orbotech Ltd. provides yield-enhancing and process enabling solutions for printed circuit boards (PCBs), liquid crystal displays (LCDs), and semiconductor devices in China, Europe, North America, Korea, Japan, and internationally.

General Information

Sector	Information Technology
Industry	Electronic Equipment, Instruments and Components
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.25%
Effective Tax rate	26%
Effective Operating Tax rate	27%

Market Data

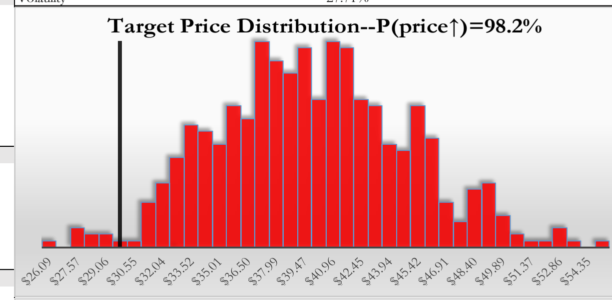
Market Capitalization	$1,440.69
Daily volume (mil)	0.52
Shares outstanding (mil)	47.80
Diluted shares outstanding (mil)	46.46
% shares held by institutions	78%
% shares held by investments Managers	62%
% shares held by hedge funds	13%
% shares held by insiders	9.07%
Short interest	0.42%
Days to cover short interest	0.59
52 week high	$36.86
52-week low	$19.74
Levered Beta	0.80
Volatility	27.71%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	-1.19%	-2.50%
3/31/2016	1.18%	-5.88%
6/30/2016	-0.47%	0.02%
9/30/2016	-0.41%	1.80%
12/31/2016	-2.74%	-15.11%
Mean	-0.72%	-4.34%
Standard error	0.6%	3.0%

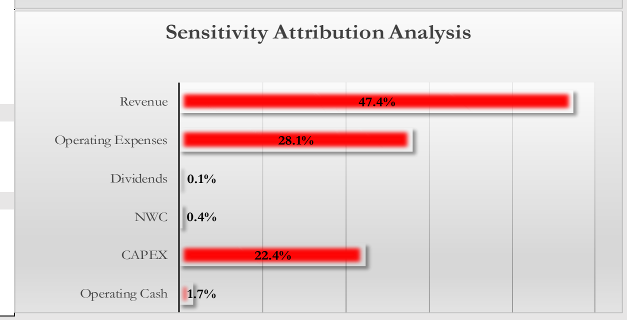
Peers

II-VI Incorporated
MTS Systems Corporation
Nova Measuring Instruments Ltd.
Cognex Corporation
Camtek Ltd.
MKS Instruments, Inc.
FARO Technologies, Inc.

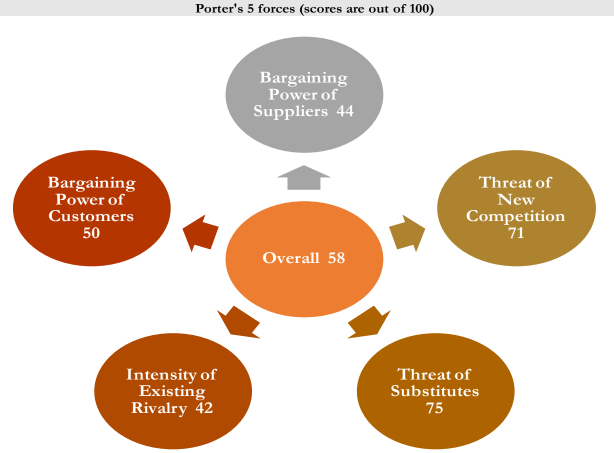


Management	Position	Total compensations growth	Total return to shareholders
Richter, Jacob	Co-Founder and Director	N/M	N/M
Richter, Yochai	Co-Founder and Active Chairm	23.41% per annum over 1y	49.53% per annum over 1y
Levy, Asher	Chief Executive Officer	10.1% per annum over 1y	49.53% per annum over 1y
Steinberg, Amichai	President and Chief Operatin	10.05% per annum over 1y	49.53% per annum over 1y
Bareket, Ran	Chief Financial Officer and	N/M	N/M
Gross, Abraham	Chief Technology Officer and	N/M	N/M

Profitability	orbk (LTM)	orbk (5 years historical average)	Industry (LTM)
ROIC	15.7%	14.06%	10.21%
NOPAT Margin	20%	19.89%	13.1%
Revenue/Invested Capital	0.79	0.71	0.78
ROE	18.8%	14.23%	11.32%
Adjusted net margin	18%	18.76%	12.1%
Revenue/Adjusted Book Value	1.06	0.76	0.93
Invested Funds	**orbk (LTM)**	**orbk (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	15.0%	18.2%	16%
Estimated Operating Cash/Total Capital	14.9%	14.2%	N/A
Non-cash working Capital/Total Capital	20.9%	23.3%	14%
Invested Capital/Total Capital	81.2%	78.1%	84%
Capital Structure	**orbk (LTM)**	**orbk (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.08	0.31	0.14
Cost of Existing Debt	8.95%	5.73%	2.82%
Estimated Cost of new Borrowing	4.25%	3.49%	2.82%
CGFS Risk Rating	CC	CCC	CCC
Unlevered Beta (LTM)	0.65	0.84	0.88
WACC	8.49%	9.33%	9.19%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	7.2%	19.8%	1.85
12/31/2017	4.1%	20.8%	1.79
12/31/2018	5.1%	19.9%	1.62
12/31/2019	5.0%	18.9%	1.50
12/31/2020	4.9%	18.0%	1.41
12/31/2021	4.7%	17.2%	1.33
12/31/2022	4.6%	17.1%	1.32
12/31/2023	4.5%	17.0%	1.30
12/31/2024	4.4%	16.9%	1.29
12/31/2025	4.3%	17.1%	1.29
12/31/2026	4.2%	17.3%	1.31
Continuing Period	4.0%	17.7%	1.09

Period	Invested Capital	Net Claims	Price per share
Base Year	$526.75	$120.44	$33.84
12/31/2017	$573.51	$11.11	$38.30
12/31/2018	$659.27	-$134.96	$42.97
12/31/2019	$872.39	-$275.22	$47.52
12/31/2020	$1,015.51	-$405.50	$51.96
12/31/2021	$1,178.66	-$531.66	$56.26
12/31/2022	$1,311.60	-$657.27	$60.58
12/31/2023	$1,410.53	-$781.69	$64.89
12/31/2024	$1,503.39	-$905.53	$69.16
12/31/2025	$1,594.78	-$1,030.66	$73.42
12/31/2026	$1,677.87	-$1,158.96	$77.67
Continuing Period			