Stock	Buy / Sell	Thesis	Current Price	Target Price
MENT	Buy	Mentor Graphics has shown that it has the strength to recover, and to continue its normal trend of steady growth, despite a disappointing FY 2016. Since then, the stock price has already grown over 25%. The EDA industry is on the rise and Mentor is in place to reap the benefits of the potential growth due to its well respected groups of diverse product lines that are in high demand from the top companies of their respective industries. Hedge fund interest and the potential of successful earnings reports provide Mentor with a great amount of upside. Considering these reasons, I am recommending that we hold Mentor Graphics in our portfolio, and potentially buy more shares at $26.	$ 26.24	$ 29.12
FL	Buy	In recent years, there has been a surge in health and fitness, which creates a greater market and increases the demand for Foot Locker's products. People have become more and more interested in buying athletic apparel as a fashion style, not as a workout outfit. The newly designed female-focused store format SIX:02 has the potential to become one of Foot Locker's primary growth engines in 2016 and beyond. In recent years, there has been a surge in health and fitness, which creates a greater market and increases the demand for Foot Locker's products. People have become more and more interested in buying athletic apparel as a fashion style, not as a workout outfit. The newly designed female-focused store format SIX:02 has the potential to become one of Foot Locker's primary growth engines in 2016 and beyond.	$ 69.05	$ 79.19
WLK	Hold	The chemical industry is a very cyclical industry in which the profits rely heavily on the price of commodities such as natural gas, ethane, ethylene, salt, and electricity. Westlake Chemical Corporation is a smaller company within the industry but has been growing rapidly in recent years. This growth has been achieved by strategic acquisitions which has also helped to further vertically integrate the company. Being more vertically integrated in this industry helps eliminate some of the risk associated with the volatile commodities pricing. With experienced management Westlake is in the position to grow within the industry and potentially outperform competitors and increase the value of the stock.	$ 54.43	$ 63.52
SHOP	Buy	Shopify Inc. (NYSE:SHOP) was not long ago a startup company which manage to become a small cap in the NYSE with its $3.9b Market Capitalization. Shopify manages to increase its product range and customer base on a constant basis. Among all the major small web designing and software developers out there other than Google, Yahoo and Microsoft, the company is seen as the best in class at the moment. This reveal strong management and efficiency in the business model. This same management and company's vision is leading to an effective and calculated expansion. Shopify is currently growing by pursuing an aggressive acquisition strategy in growth potential investments. Shopify also stars to attract bigger company, and already signed lucrative partnerships in the past. Shopify currently offer its services to more than 300,000 merchants and is planning to do more. This represent a potential threat to any of the major player in the internet industry. If the company continue to expand it could become a very attractive purchase of any the major brand. If Shopify gets acquired the value of the company will be considerably bigger.	$ 44.31	$ 45.06

Macroeconomic Overview

U.S. Markets

	Index	Weekly % Change	YTD % Change
SPX Index	S&P 500	-0.67%	5.37%
INDU Index	Dow Jones Industrial	-0.37%	4.68%
CCMP Index	NASDAQ Composite	-0.37%	5.69%
RTY Index	Russell 2000	-1.21%	8.86%
VIX Index	VIX	1.43%	-25.97%

U.S equity indexes ended the week on small losses. The markets recorded slight gains on Monday thanks to an ISM Manufacturing PMI at a level of 51.5 for September against a consensus at 50.3 and an ISM Manufacturing Employment also above expectations at 49.7 (vs a consensus of 49.0). On Tuesday, all indexes reacted negatively to Chicago Fed President's, Charles Evans, comments. He announced that he was "fine" with the perspective of a raise of interest rates before the end of the year if economic data kept showing signs of improvement. The markets reacted drastically to this announcement because Evans is the most prominent advocate on the Federal Open Market Committee of keeping interest rates at low levels. However, on Wednesday, all indexes erased their losses because of the ADP nonfarm employment change, which is

considered as a good proxy for the nonfarm payroll report. Even though it was below the expectations of 166,000, the economy created 154,000 jobs according to the indicator. Investors interpreted this number as a possible catalyst for a delay in interest rates hike. The official nonfarm payrolls report came out at 156,000 job creation compared to a consensus at 175,000, while the unemployment rate rose at an unexpected 5.0% driving U.S equity markets on slight weekly loss.

Commodities

Oil prices have followed an upward trend over the week. The West Texas Intermediate oil futures for delivery in November began the week around a price of $48 a barrel and end it at $49.55/barrel, for a rise of 2.72% over the week. Oil prices spiked at $50 during the week for the first time since Brexit. Regarding the precious metals market, gold finished the week at $1257.08/ounce, its lowest level in three years, for a 4.16% weekly loss. Silver ended the week on a 6.75% loss at $17.54/ounce. Both metal prices reflected investors' concerns amid rates hike.

Specific news: Twitter (TWTR) did not achieve to find serious bidders in its effort to be acquired. Its stock price fell by 14.03% over the week. Verizon (VZ) is potentially looking at a $1 billion discount for its acquisition of Yahoo (YHOO). Verizon's move happened after the announcement that 500 million user accounts were hacked, and reports that Yahoo helped the FBI to implement spy program to scan its users' emails.

Next week ahead: Investors should look closely at Fed Labor Market Conditions Index release on Tuesday. It could be a very good indicator regarding Fed's decision to raise interest rates. Retail Sales report is also an important news and is expected on Friday. Citigroup, JP Morgan Chase and the scrutinized Wells Fargo will release their earnings, giving investors some metrics to analyze the U.S financial industry's health.

International Markets

	Index	Weekly % Change	YTD % Change
BE500 Index	BE 500	-1.26%	-8.06%
SXXP Index	Stoxx Europe 600	-0.96%	-7.15%
DAX Index	DAX	0.82%	-2.35%
UKX Index	FTSE 100	2.10%	12.85%
CAC Index	CAC 40	0.04%	-4.04%
NKY Index	Nikkei 225	2.49%	-11.42%
SHCOMP Index	Shanghai Composite	-0.96%	-15.10%
SZCOMP Index	Shenzhen Composite	-0.62%	-13.57%

Europe:

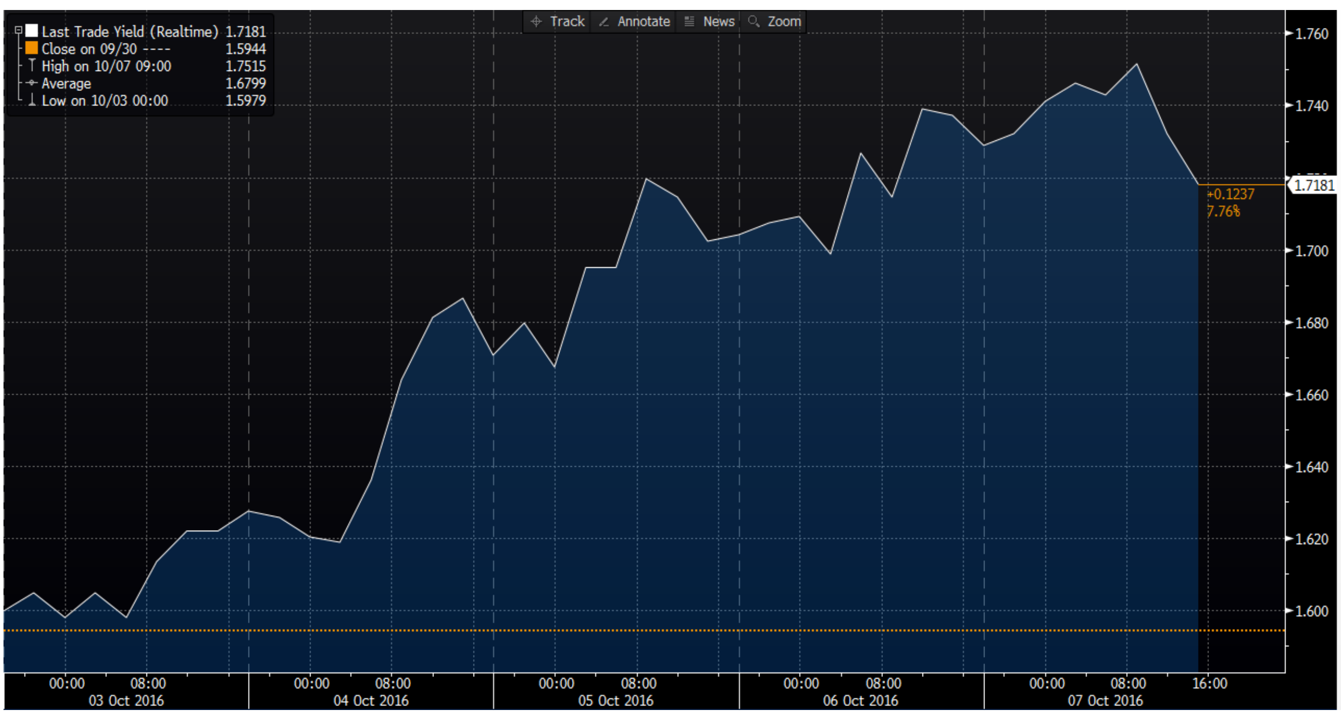
The Bloomberg European 500 and the Stoxx Europe 600 finished the week in negative territory with a loss of respectively 1.26% and 0.96%. Nonetheless, the German, French and British markets all finished the week on a gain. The FTSE 100 recorded an important gain of 2.10% after Theresa May, the UK's prime minister, announcement of an exact timeline for the Brexit. She said that UK will engage into the official removal from the E.U before the end of March 2017. The process will not take more than two years according to the European treaties, leaving UK government with a restricted timeline to renegotiate access to European markets. The announcement made the pound against the U.S dollar plunged to its lowest level in 31 years but sharply recovered afterwards to finish the week at 1.2438 to the dollar.

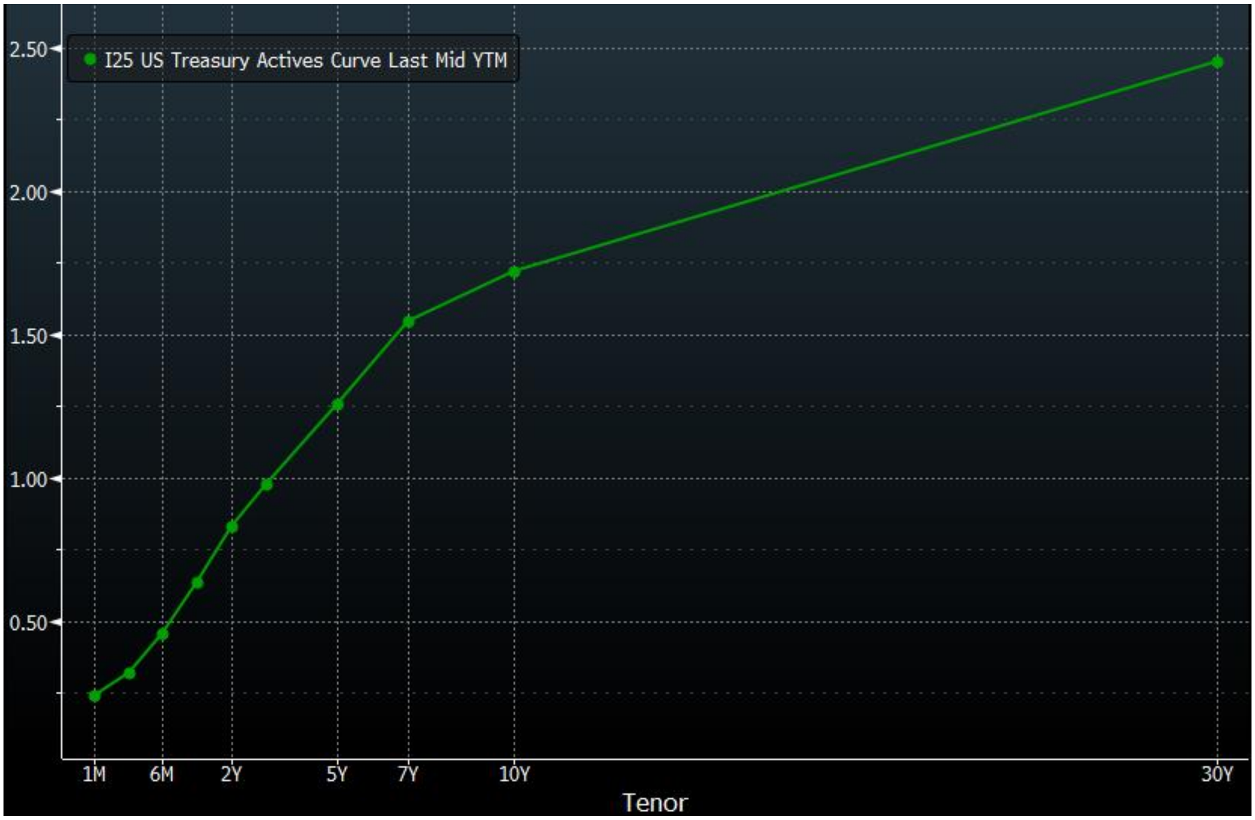
Asia:

The Nikkei 225 finished the week on a 2.49% gain mainly because of currency moves. The Yen decreased amid American rates hike prospects. The Chinese yuan became one of the currency included in the basket of currencies that serves as units of account for the International Monetary Fund. The Yuan joined the much closed club composed of the U.S dollar, the Euro, the British Pound and the Japanese Yen. It is a significant step for the Chinese government, which has been trying to gain a greater international status.

Bond Report

This week, the US Treasury yields climbed to their highest level in months. This is a result of positive economic data strengthening the Federal Reserve's case for raising interest rates in December. Currently the Fed predicts a 62% chance of a rate increase by the end of the year. The Treasury yields have also been reflecting the Europe and Japan yields, which have been pushing rates down. On Monday, in response to a positive report of American manufactures showing improved business for September, interest rates rose. This was an optimistic sign as it infers the Fed is on track to raise interest rates in December. On Tuesday, treasury yields continued the upward trend. This was in response to news that reported that the European Central Bank could possibly slow down its bond buying program ahead of schedule. The rapid increase those far by the ECB has been a driving factor to the record lows in treasury yields this year. Therefore, a withdrawal of support by central banks could have large impact on the markets. Also, with both Japan and the ECB maintaining negative rates the impact has kept U.S. rates low. On Wednesday, Treasury rates followed the week's upward trend. Thus a result of a positive service sector growth report for last month and demand for haven assets such as bonds. The optimistic economic data continued into Thursday in which Treasury yields reached their highest level in months. The two-year Treasury yield rose to 0.853% on Thursday, whereas, the 10-year Treasury yield rose to 1.741%. And the 30-year Treasury yields climbed to 2.458%. Other news on Thursday reported that ECB officials actually have not discussed plans to wind down the central bank's bond buying program. Increased in assurance that the Fed will raise interest rates by the end of the year is that Government bond yields have been following an upward trend since the U.K. left the European Union in late June. On Friday, Treasury yields declined slightly for the first time this week. A result, of a weaker than expected jobs growth report. Although, the jobs number was below expectations it still showed to be a positive and did not lower December rate hike expectations. Overall, the two-year Treasury rose 8.2bps to 0.838%. The 10-year Treasury yield climbed 12.9bps for the week to 1.731%. While the 30-year Treasury is up 13.5bps on the week at 2.457%.





What’s next and key earnings

On Monday, the SM Mfg index report was released. September index bounced back to a better-than-expected 51.5 from August's letdown for ISM’s manufacturing. America's’ daily self-reports of spending was also released showing the highest average for September since 2008. Avoiding September’s usual slow in spending as scene in recent years. Unit vehicle sales report also showed to be positive. Vehicle sales are a component of the retail sales report which will give a lift to GDP estimates for the third quarter. On Wednesday, the national trade deficit widened by 41.2 billion in August to $40.7 billion. This is a positive as exports rose 0.8% and imports rose 1.2% in August. This news is optimistic as cross-border business investments are greatly needed to be strengthened. The EIA petroleum status report was released showing crude oil inventories fell 3.0 million barrels, in the week of September 30th, to 502.7 million barrels. This decline is below what was anticipated; however, is the fifth weekly decline in a row. On Thursday, jobless claims fell which signals a strong labor market. Jobless claims as of the week of September 24th are down 6,000 to 2.058 million. EIA natural Gas report was also released showing the largest weekly increase since June at a rise of 80 billion cubic feet to 3,680bcf in the week of September 30th. On Friday, the September Employment report was released showing the low end of expectations.

Mentor Graphics Corp.

NASDAQ:MENT

Analyst: Justin Capuano
Sector: Technology

Buy

Price Target: $29.12

Key Statistics as of 10/3/2016

Market Price:	$26.24
Industry:	Technical & System Software
Market Cap:	$2.84B
52-Week Range:	$16.10-28.09
Beta:	0.96

Catalysts:

- Action taken upon activist fund Elliot Associates regarding its newly acquired 8% stake
- Q3 2017 Earnings Report

Company Description:

Headquartered in Wilsonville, Oregon, Mentor Graphics Corporation (MENT) provides electronic design automation (EDA) and hardware solutions, as well as consulting and customer support services, that enable its customers to develop better products at lower costs. The company sells and licenses its extensive product line and services through a direct sales force, sales representatives and distributors to large enterprises around the world within a diverse set of industries.

Thesis

Mentor Graphics has shown that it has the strength to recover, and to continue its normal trend of steady growth, despite a disappointing FY 2016. Since then, the stock price has already grown over 25%. The EDA industry is on the rise and Mentor is in place to reap the benefits of the potential growth due to its well respected groups of diverse product lines that are in high demand from the top companies of their respective industries. Hedge fund interest and the potential of successful earnings reports provide Mentor with a great amount of upside. Considering these reasons, I am recommending that we hold Mentor Graphics in our portfolio, and potentially buy more shares at $26.

Industry Outlook

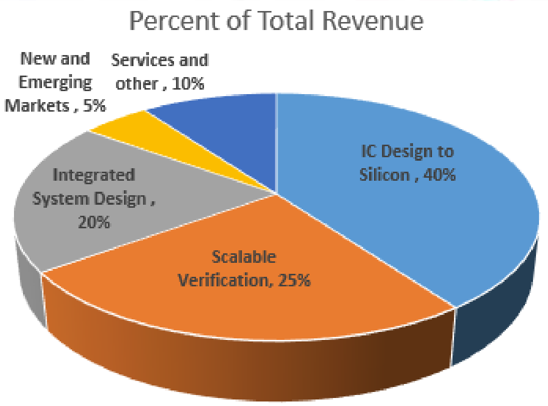
Mentor markets its products and services to a diversified group of sectors to act as a safety net against uncertain fluctuations in the macro environment. The target customer base includes large companies within the communications, computer, consumer electronics, semiconductor, networking, military and aerospace, multimedia, and transportation industries. Companies are coming to the realization that they must optimize their software and hardware electronic components in order to stay relevant in a growing digital age. Due to the large overlap of the semiconductor industry with the other market segments, it is the sector requiring the most attention in regards to projecting future growth within the EDA industry. The semiconductor industry has an expectation of maintaining a 20% compound annual growth rate until the year 2020 due to increasing customer demand for improving efficiency, manufacturing times, and process automation. Mentor, and the EDA industry, will benefit from the certain growth because they design, manufacturer, evaluate, and service the key products driving the semiconductor industry. The EDA industry itself is changing the way it functions from a product standpoint to cater to their customers' demands for innovative products. The traditional EDA product line is changing from typical hardware-software systems to now include embedded software, advanced design packaging, and device-device connectivity components, all products offered by Mentor.

Business Model

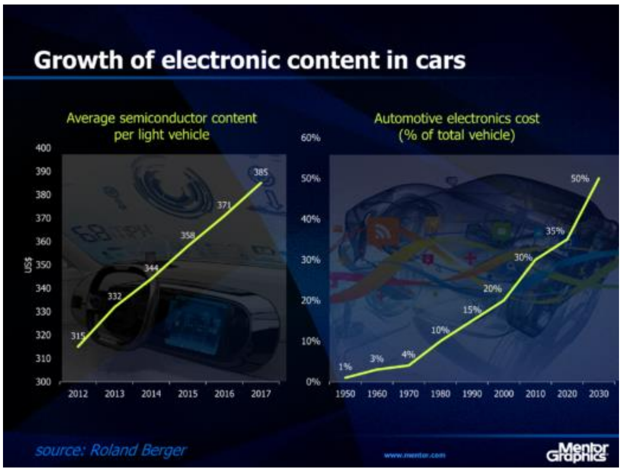
Mentor sells its products and support services by a direct sales force located in multiple countries around the world, an internal sales representative group, and through distributors. Revenue is divided in to two categories based on how it is generated: (i) system and software sales and (ii) service and support sales. System and software sales revenue is derived from either a term or perpetual license, depending on the type of product sold. Typically, software sales use term licenses that state a specific time period, an average of 3 year terms according to the Q2 2017 earnings call, and payments are received at fixed terms throughout the time period while revenue is recognized at the time of delivery arrival. Perpetual licenses are issued to customers that purchase certain types of software and emulation hardware to use for the products lifetime and revenues are recognized upon delivery or at fixed terms according to the contract. Service and support revenues are recognized as they are provided to the customer. These services include consulting, training and other professional services as needed by the customer. All customers must undergo an extensive credit review to determine their likelihood of paying fees according to their respective licensing conditions. Mentor usually targets customers with favorable credit histories, increasing the likelihood of solidifying current and future revenues.

Product Differentiation

Mentor has a multitude of product lines and services that focus on providing engineers with solutions to their increasingly complex electronic design challenges and reducing time to market schedules. The product line is broken down in to five distinct categories: Integrated Circuit Design to Silicon, Scalable Verification, Integrated System Design, New and Emerging Markets, and Services and Other.



While Mentor offers a diverse set of products, I want to focus on the main product lines that will impact future earnings. Processing chip manufacturers are struggling to maintain desirable cost-effective yields on their products as printed circuit boards and integrated circuits become more complex due to increases in processing chip capacities. Mentor offers the Calibre tool family to meet the needs of these manufacturers. The Calibre tool family, the main driver for 40% of the total revenue and has shown a significant increase in bookings year over year, is the industry standard in regards to testing the design, performance, and capabilities of integrated circuits. The next product family is the Veloce scalable verification line. Veloce has superior simulation and virtualization capabilities. It is a hardware emulation system, running up to 1000 times faster than a typical software system that Mentor offers, that tests the functionality and timing of electric circuits before they are manufactured through a debugging and verification process. Veloce is the clear industry leader in the chip design networking market and, due to a major order in Q2 of 2017, is showing potential to become an impactful player in the growing Internet Cloud landscape. George Hinckley, president of Mentor, stated in the Q2 earnings report that the revenue generated from Veloce was the main driving force behind a successful second quarter in the 2017 fiscal year. Now focusing on a product within the new and emerging category, the Embedded Systems product line has potential for tremendous upside growth. The Embedded Systems product line focuses on connecting, analyzing, testing electronic components, mainly in automobiles. Today, car makers are implementing more electronic components and software than any other consumer based manufacturer. Mentor has developed a partnership with AUTOSAR, the worldwide group of manufacturers, suppliers, and other electronic companies that are currently paving the way for the next generation of automobiles. According to the exhibit below, the future of cars is electric. Car companies will be able to analyze live data from internet connected components within the car. Currently, the revenue generated from the partnership with AUTOSAR is flat at 5% of total revenue, but the potential for growth is profound.



Financials and Ratios

Historically, Mentor has shown year over year revenue growths between 6% and 7%, towards the low end when compared to competitors. However, in FY 2016, they experienced a decline in revenue of 5% and poor guidance on future revenue growth, missing all estimates and shooting the stock price down almost 25% at its lowest point. While an unattractive selling point for the stock, it is important to understand Mentor's business model and the macro environment regarding the EDA industry. It is extremely common for tech companies to acquire smaller firms to fulfill its strategic needs. According to the Q2 2017 earnings call, through Q3 and Q4 of FY 2016, a few of Mentor's major customer were going through the M&A process and were delaying decisions to continue using Mentor's products due to uncertainties with what products will meet their future needs upon closing the M&A deals. This resulted in a dramatic decrease in bookings and contract renewals, effectively destroying revenues for Mentor. In the first two quarters of FY 2017, Mentor renegotiated contracts with the newly merged companies to secure revenue streams, as bookings in Q2 alone for the emulation product line added an additional 20 contract signings, 4 coming from new companies. Recovering from the dismal FY 2016, Mentor shows guidance of a conservative 3% growth in FY 2017 and up to 5% in FY 2018. Historically, Mentor has displayed tremendous gross profit margins, averaging around 83% year over year, ranking in the top tier of its competitors. This is a result of strategically controlling operating costs to remain within a consistent range of 66% to 70% of sales. While constructing a DuPont Analysis of the ROIC/WACC ratio, it is apparent that the EDA industry has been destroying value over time, but still adds more value than Mentor as seen in the table below. This may seem like a disadvantage for Mentor, but it may actually be an opportunity that will allow for Mentor to grow.

ROIC /WACC		
	History	*LFY*
MENT	**0.85**	**0.41**
Competitors	**1.28**	**1.16**

For Mentor, it is apparent that the cause of a lower ROIC is due to its lack of revenue growth in recent years, specifically in FY 2016. Compared to the industry average, Mentor derives fewer dollars of revenue for every employee that it hires. Mentor has a history of returning $0.22 for every employee, yet the last fiscal year returned only $0.19, compared to industry average of $0.26 and $0.26 respectively. At the bottom level, Mentor needs to use its employees in a more efficient manor in order drive more sales. There is room for growth due as described in the Q2 2017 earnings call and if Mentor reaches their potential, they will end up creating value and be able to compete with its peers.

Important Dates and Catalysts

During the last week of September 2016, the activist hedge fund Elliot Associates doubled its stake in Mentor to 8% of all common shares. The disclosure of this information to the public caused the stock price to jump around 7% in a single trading day. Despite missing the initial catalyst, Elliot Associates still has potential to make a major impact on Mentor. The activist fund is known for taking large stakes in extremely undervalued tech companies and then search for ways to increase shareholders value by opening lines of communication with the board of directors for the companies that they have ownership in. Based on Elliot's past, they attempt to increase shareholder's wealth by actively searching for acquirers to buy the company, recommending acquisition prospects that will provide growth within the company, and by providing recommendations for improving current strategies to improve operations. As of today, they have opened dialogue with the Board but their agenda is unknown. Their presence as shareholders should have investors expecting high returns in the future. The dismal FY 2016 Earnings Report had a tremendous impact on stock price. Since then, the price has returned to the high in 2016 of around $27, a growth of over 25%. The main catalysts for this amount of growth have been the quarterly earnings reports and calls for Q1 and Q2 for FY 2017. Each report has displayed a guidance of revenue growth, and has shown better than expected revenues and contract signings. Mentor gave guidance of only a 3% growth in revenue for Q3, a conservative value that can seemingly be beaten by the actual revenue, potentially having a direct positive impact on the stock price.

Summary

Even though Mentor is in the middle of the pack compared to its peers both in size and financially, it is in a position to experience growth similar to its former upward trends. Its superior products and prospects for the EDA industry to experience tremendous year over year growth are both positive indicators for Mentor Graphics. Now, its performance relies on how well it can maintain growth in revenue, its ability to continue reducing operating costs, and the catalyst that is Elliot Associates.

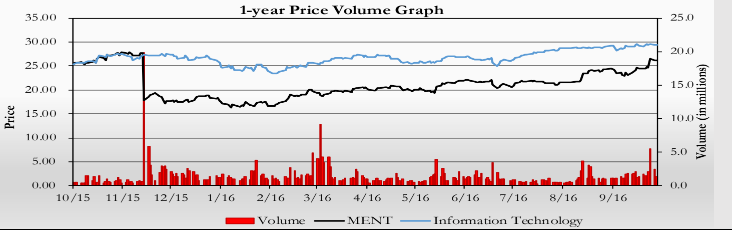
Mentor Graphics Corp. (MENT)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Justin Capuano	Current Price:	$26.47	Intrinsic Value	$26.26
10/7/2016	Divident Yield:	0.8%	Target Price	$29.12

Target 1 year Return: 10.85%
Probability of Price Increase: 75.6%



Description

Mentor Graphics Corporation provides electronic design automation software and hardware solutions to design, analyze, and test electro-mechanical systems, electronic hardware, and embedded systems software worldwide.

General Information

Sector	Information Technology
Industry	Software
Last Guidance	November 3, 2015
Next earnings date	November 19, 2016
Estimated Country Risk Premium	6.72%
Effective Tax rate	21%
Effective Operating Tax rate	21%

Market Data

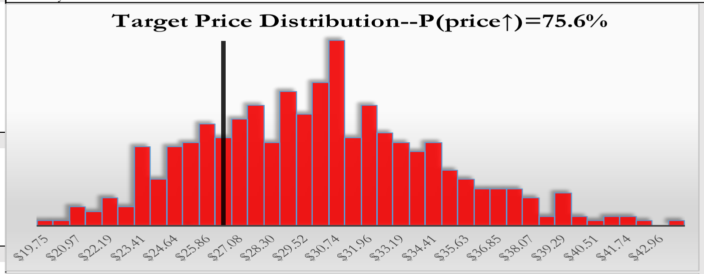
Market Capitalization	$2,862.89
Daily volume (mil)	1.55
Shares outstanding (mil)	108.16
Diluted shares outstanding (mil)	113.88
% shares held by institutions	102%
% shares held by investments Managers	76%
% shares held by hedge funds	17%
% shares held by insiders	8.64%
Short interest	8.26%
Days to cover short interest	7.30
52 week high	$28.09
52-week low	$16.10
Levered Beta	0.55
Volatility	31.64%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
7/31/2015	12.16%	56.95%
10/31/2015	-4.44%	-22.60%
1/31/2016	0.38%	9.23%
4/30/2016	3.33%	-88.91%
7/31/2016	3.69%	-30.18%
Mean	3.02%	-15.10%
Standard error	2.7%	24.0%

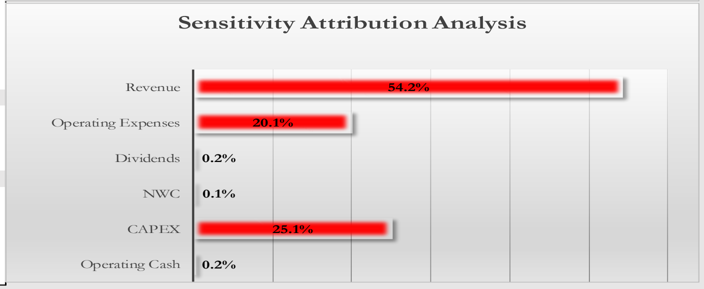
Peers

Ansys, Inc.
Synopsys Inc.
PTC Inc.
Cadence Design Systems Inc.
Fair Isaac Corporation
Teradyne Inc.
Tyler Technologies, Inc.
Guidewire Software, Inc.

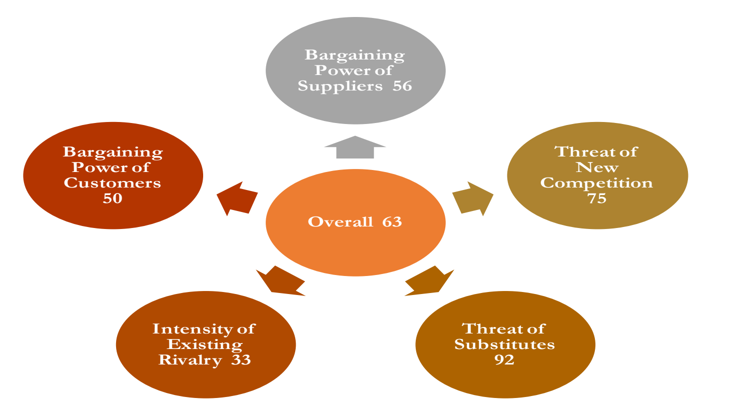


Management	Position	Total compensations growth	Total return to shareholders
Rhines, Walden	Chairman and Chief Executive	2.37% per annum over 6y	2.35% per annum over 6y
Hinckley, Gregory	President, Chief Financial O	2.2% per annum over 6y	2.35% per annum over 6y
Freed, Dean	Vice President, General Coun	-100% per annum over 2y	-2.55% per annum over 2y
Derrick, Brian	Vice President of Corporate	3.05% per annum over 6y	2.35% per annum over 6y
Ellow, Michael	Senior Vice President of Wor	-1.11% per annum over 2y	-2.55% per annum over 2y
Trebing, Richard	Chief Accounting Officer and	N/M	N/M

Profitability	MENT (LTM)	MENT (5 years historical average)	Industry (LTM)
ROIC	4.9%	16.46%	12.14%
NOPAT Margin	14%	32.16%	16.6%
Revenue/Invested Capital	0.37	0.51	0.73
ROE	4.8%	18.74%	13.27%
Adjusted net margin	12%	30.39%	15.0%
Revenue/Adjusted Book Value	0.40	0.62	0.89
Invested Funds	**MENT (LTM)**	**MENT (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	8.8%	9.9%	55%
Estimated Operating Cash/Total Capital	7.9%	8.8%	N/A
Non-cash working Capital/Total Capital	4.4%	5.2%	-28%
Invested Capital/Total Capital	99.5%	99.4%	62%
Capital Structure	**MENT (LTM)**	**MENT (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.16	0.16	0.12
Cost of Existing Debt	6.47%	6.80%	3.00%
Estimated Cost of new Borrowing	3.73%	3.82%	3.00%
CGFS Risk Rating	BB	BB	BB
Unlevered Beta (LTM)	0.48	0.83	1.20
WACC	7.33%	9.52%	11.84%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-13.6%	13.5%	0.67
7/31/2017	4.2%	14.9%	0.76
7/31/2018	6.2%	15.6%	0.83
7/31/2019	5.9%	16.2%	0.90
7/31/2020	5.7%	16.9%	0.97
7/31/2021	5.5%	17.2%	1.03
7/31/2022	5.2%	17.2%	1.06
7/31/2023	5.0%	17.1%	1.09
7/31/2024	4.8%	17.0%	1.11
7/31/2025	4.5%	16.9%	1.14
7/31/2026	4.3%	16.8%	1.17
Continuing Period	4.1%	16.6%	1.19

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,711.87	$387.90	$26.33
7/31/2017	$2,159.34	$73.50	$29.33
7/31/2018	$2,528.78	-$253.97	$32.56
7/31/2019	$2,848.73	-$594.22	$35.93
7/31/2020	$3,039.44	-$994.97	$39.81
7/31/2021	$3,012.89	-$1,371.35	$43.44
7/31/2022	$2,956.06	-$1,764.39	$47.16
7/31/2023	$2,923.35	-$2,171.80	$50.95
7/31/2024	$2,901.97	-$2,594.09	$54.82
7/31/2025	$2,887.56	-$3,031.71	$58.75
7/31/2026	$2,876.79	-$3,485.06	$62.75
Continuing Period			

Foot Locker, Inc.

NYSE:FL

Analyst: Audrey Barrucand
Sector: Consumer Disc.

BUY

Price Target: $79.19

Key Statistics as of 10/07/2016

Market Price:	$69.05
Industry:	Specialty Retail
Market Cap:	$9.2B
52-Week Range:	$50.90-71.67
Beta:	0.48

Catalysts:

- GDP growth, holiday shopping season
- Increasing number of products made by Nike, Adidas, etc., especially product line made by famous stars

Company Description:

Foot Locker, Inc. is one of the biggest specialty retailers in apparel and footwear. They offer athletic footwear, apparel, and equipment for men, women, and kids. The company is currently selling in the United States, Europe, Canada, Australia, and New Zealand. Foot Locker operates in two segments: athletic stores, such as Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs Sports, Footaction, SIX:02, Runners Point, and Sidestep; and direct-to-customers segment, through their online presence. The company generates revenues based on fashion trends within the athletic industry.

Thesis

- In recent years, there has been a surge in health and fitness, which creates a greater market and increases the demand for Foot Locker's products.
- People have become more and more interested in buying athletic apparel as a fashion style, not as a workout outfit.
- The newly designed female-focused store format SIX:02 has the potential to become one of Foot Locker's primary growth engines in 2016 and beyond.

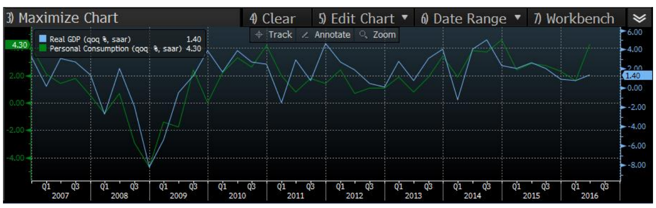
Macro Environment

Looking at the macro environment in the United States, real GDP has started picking up since the beginning of the year with a Q1 2016 growth of 0.8% and a Q2 2016 growth of 1.4%. Forecasts predict an upward trend for 2017. An estimated two-thirds of the U.S. gross domestic product comes from retail consumption.

As for the global environment, economic growth is predicted to reach 3.2% in 2016 and 3.4% in 2017, according to the IMF. Because Foot Locker is in the consumer discretionary sector, its revenues are dependent on consumers' ability and willingness to buy i.e. on GDP growth. If the economy is growing, they will be more willing to buy non-necessary products.

Industry Outlook

The retail industry for non-necessary goods is driven by GDP growth, employment and interest rates. Looking at 2017, the forecast is bullish for the industry. Because of the growth in the US economy, consumer confidence increased and so did personal consumptions, by 1.6% in Q1 2016 and by 4.3% in Q2 2016 in 2016.



In recent years, e-commerce has been gaining more and more success. The shift to e-commerce is pressuring retail traffic in the U.S. and a lack of catalysts for improvement may further challenge sales at apparel and footwear brands, as well as at retailers.

Porter's Five Forces

<u>Bargaining Power of Suppliers:</u> **Medium/High – 56**

Foot Locker is highly dependent on its suppliers, since it does not produce its own products. Its main suppliers, such as Nike, Adidas, and Under Armour, need to keep up with changing fashion trends, in order to appeal to customers. If these brands do not supply Foot Locker stores, the company will have no products to sell.

<u>Bargaining Power of Customers:</u> **Medium – 43**

Customers do not have a lot of bargaining power when it comes to prices. Items produced by Nike have the same price whether they are sold in a Nike store, at a Foot Locker store, or at Dick's Sporting Goods.

<u>Threat of Substitutes:</u> **Medium – 67**

There are a lot of substitutes in the shoes and clothes industry. There are a lot of types of clothes and shoes. Foot Locker differentiates itself from any common clothes shop by the type of its products and their quality. If shoppers are looking for good quality sportswear, they will not go to any clothing shop; they will go to a Foot Locker, or a direct competitor.

<u>Intensity of Existing Rivalry:</u> **Medium – 42**

Foot Locker has a few competitors such as Dick's Sporting Goods or Finishing Line. Rivalry between these retailers is high but there are not many of them, and considering the high demand from shoppers for sporting goods, all three shops are selling plenty of products.

<u>Threat of New Competition:</u> **Medium – 58**

Entering in this industry is difficult. In order to succeed, companies must obtain partnerships with reliable suppliers and be located in high-traffic areas, such as malls. To do so requires a large amount of capital, which starting companies do not necessarily have.

Focus on Growth

Over the past few months, Foot Locker has been going through a change in its business model. It has been focusing on investing in store remodeling and other initiatives to improve productivity and online operations. Spending is expected to reach 3.7% of sales, based on consensus revenue, up from the projected 2.9% in 2015 and 2.7% the previous year. Foot Locker uses remodeling and branded shop-in-shops to draw incremental traffic and drive sales per square foot in existing stores.

Foot Locker has also been focusing on decreasing its stores openings, and managed to yield more revenue and profit per square foot after closing underperforming Lady Foot Locker stores, which helped gross margins. Improved management of store-workers' wages through the use of software and other optimization tools also helped.

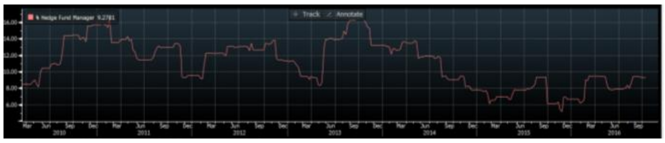
As well, the newly designed female-focused store format SIX:02 has the potential to become one of Foot Locker's primary growth engines in 2016 and beyond. The stores carry a larger mix of apparel items vs. footwear, capitalizing on the expanding popularity of "athleisure" and other products from large companies such as Nike and Under Armour. This will allow women to shop at only one store for a full outfit.
In the past months, Foot Locker has also been focusing on the development of SIX:02, their fitness clothing and athletic shoes for women. They are about to open 2 stores in NYC in 2017 and 2018. NYC being the US capital of fashion, and with increasing fashion trends, the stores will hold more fashion led clothes than previously.

Ownership

Foot Locker is mainly owned by Investment Advisors and Hedge Fund Managers.
The ownership for Hedge Fund Managers has always been low, with a high of 16% in 2013. It has seen an increase of 1% in the past month, meaning hedge fund managers are increasingly confident the stock will increase, especially since the beginning of the year, with a 3.5% increase in ownership.

54) Ownership Type	10/02/16	Curr	Change
41) Investment Advisor	76.96	76.94	-0.02
42) Hedge Fund Manager	9.27	9.28	+0.01
43) Bank	5.27	5.27	0.00
44) Pension Fund	3.00	3.00	0.00
45) Government	2.52	2.53	+0.01
46) Individual	1.31	1.31	0.00

Hedge fund manager trend:



Financials

Foot Locker is in a good position financially with increasing comparable revenues over the past 5 years, as well as consistent growth in EBITDA, and net margins.

In Millions of USD	FY 2013	FY 2014	FY 2015	FY 2016	Current/LTM	FY 2017 Est	FY 2018 Est
12 Months Ending	02/02/2013	02/01/2014	02/01/2015	01/30/2016	07/30/2016	01/31/2017	01/31/2018
Market Capitalization	5,186.4	5,613.5	7,496.8	9,254.2	9,200.9		
- Cash & Equivalents	928.0	867.0	967.0	1,021.0	945.0		
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0		
+ Total Debt	133.0	139.0	134.0	130.0	129.0		
Enterprise Value	4,391.4	4,885.5	6,663.8	8,363.2	8,384.9		
Revenue, Adj	6,182.0	6,505.0	7,151.0	7,412.0	7,568.0	7,779.9	8,147.4
Growth %, YoY	9.9	5.2	9.9	3.6	4.3	5.0	4.7
Gross Profit, Adj	2,034.0	2,133.0	2,374.0	2,505.0	2,565.0	2,649.4	2,788.3
Margin %	32.9	32.8	33.2	33.8	33.9	34.1	34.2
EBITDA, Adj	740.0	805.0	946.0	1,090.0	1,119.0	1,168.2	1,252.2
Margin %	12.0	12.4	13.2	14.7	14.8	15.0	15.4
Net Income, Adj	404.0	435.0	522.0	606.0	623.6	643.3	683.8
Margin %	6.5	6.7	7.3	8.2	8.2	8.3	8.4
EPS, Adj	2.63	2.89	3.57	4.30	4.52	4.76	5.24
Growth %, YoY	45.9	10.1	23.7	20.4	14.3	10.6	10.1

As for profitability, Foot Locker has also been increasingly profitable with a return on investing capital of 21.93 in FY 2016, double the one from 2011.

In Millions of USD except Per Share	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	01/29/2011	01/28/2012	02/02/2013	02/01/2014	02/01/2015	01/30/2016
Returns						
Return on Common Equity	8.51	13.45	17.70	17.61	20.83	21.43
Return on Assets	5.92	9.35	12.37	12.52	14.72	14.72
Return on Capital	8.39	12.99	17.00	16.95	20.02	20.63
Return on Invested Capital	10.08	14.89	19.10	18.52	21.61	21.93

A negative point about Foot Locker's financials is the fact that they keep a lot of cash on hand, without reinvesting it for a greater return (twice the amount since 2011; over $1B). This cash could be used to expand its business or continue growing some of its smaller lines, or internationally, as predicted by analysts.

As for its products segments, Foot Locker's brick-and-mortar stores generated 87% of total revenue in fiscal 2016, followed by the company's e-commerce sites including Footlocker.com and Eastbay.com (13%). The U.S. market represents 72% of total sales.
Looking at the 3-year growth, its stores sales increased by 5.12% compared to 15.42% for its direct-to-customers segment. There could be an opportunity for further development of its direct-to-customer segments, especially since people find less and less time to go shopping and are more and more shopping online.

Compared to competitors, the consistent expansion in same-store sales and efficient cost controls enables Foot Locker to lead its peer group in profitability. The retailer's fiscal 2016 operating margin was well above the Finish Line (4.4%) and Dick's Sporting Goods (7.5%)

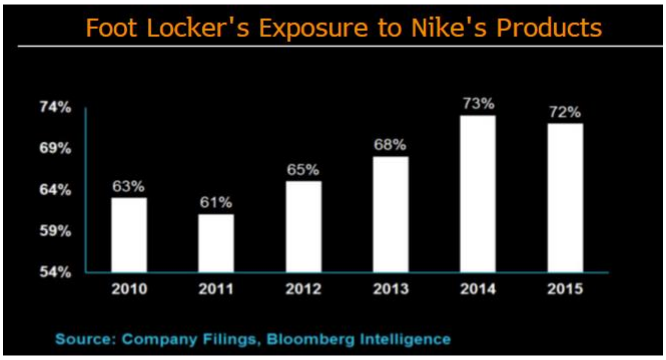
Valuation

The target price that was calculated in the pro forma is $79.19 with an intrinsic value of $68.15. According to the sensitivity attribution analysis, revenues and operating expenses are what mostly drive the stock price.

To obtain this result, the growth rate was kept equal to the last reported, even if it is expected to increase in the next quarter. As for operating expenses, they remained the same as historical, even if Foot Locker showed a slight increase in its gross and net margins. Moreover, the beta played a big role in this valuation as Foot Locker is very sensitive to it. It was historically reported at 0.72 and last reported at 0.52. A beta of 0.7 was added for the continuing period, meaning that values were added in a conservative manner. The result of $68.15 for the intrinsic value shows that Foot Locker is a little overvalued, but taking into account its expected growth, the stock will rise.

Risks

As stated before, Foot Locker is highly dependent on its suppliers, such as Nike. Foot Locker's exposure to Nike's products was 72% in 2015. But with the rising popularity of fashion-oriented athletic footwear, including recent successes from Adidas and Under Armour, it may reduce Foot Locker's reliance on Nike's products. A large exposure to just one vendor elevates the risk of lost sales in the case of disruptions in product supply, which is a non-negligible risk for investors.



Changes in fashion trends can also negatively affect the sales of the business. Retail stores have to constantly keep up with changing styles and can lose a lot of money it they do not.

Important Dates and Catalysts

When the next line of products made by a star comes out, sales will increase dramatically. The price of the stock could follow that trend if investors become more and more confident in the stock. There is a new line coming out at least every 6 months, whether it is from Nike, Puma, etc.

Another date to look at would be the day of the Q3 earnings call, November 18th. During last quarter's (8/19/16), the price of the stock increased from 61.68 to 68.49 on the day, with a volume increase to 11.840 M from an average of 1.934 M. Next quarter's earning call could have the same impact, if it again beats the estimates.

Summary

Foot Locker is a company with opportunities of growth. By focusing on growing some lines of its business, such as SIX:02, it can grow its revenues and thus, increase the value of its stock and attain the target price of $79.19 within a year, especially if GDP growth keeps increasing in the next quarters, and consumer confidence increases. With increasing demand for these products, from sports addicts to simple fashion junkies, Foot Locker is bound to see its revenues increase as well as its stock price.

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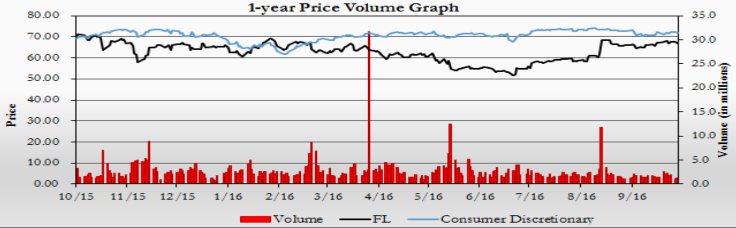
Foot Locker, Inc. (FL) — **NEUTRAL**

Analysis by Audrey Barrucand	Current Price:	$69.05	Intrinsic Value	$67.01	Target 1 year Return: 16.24%
10/7/2016	Divident Yield:	1.6%	Target Price	$79.19	Probability of Price Increase: 91.8%

1-year Price Volume Graph



Description

Foot Locker, Inc. operates as an athletic shoes and apparel retailer.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	November 19, 2016
Estimated Country Risk Premium	9.51%
Effective Tax rate	36%
Effective Operating Tax rate	32%

Market Data

Market Capitalization	$9,054.30
Daily volume (mil)	2.59
Shares outstanding (mil)	133.25
Diluted shares outstanding (mil)	138.25
% shares held by institutions	103%
% shares held by investments Managers	80%
% shares held by hedge funds	11%
% shares held by insiders	1.29%
Short interest	9.13%
Days to cover short interest	6.29
52 week high	$71.67
52-week low	$50.90
Levered Beta	0.65
Volatility	25.46%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
8/1/2015	-0.29%	13.85%
10/31/2015	-1.64%	-1.16%
1/30/2016	-2.05%	-0.69%
4/30/2016	-2.93%	-3.42%
7/30/2016	-0.06%	-2.07%
Mean	-1.40%	1.30%
Standard error	0.5%	3.2%

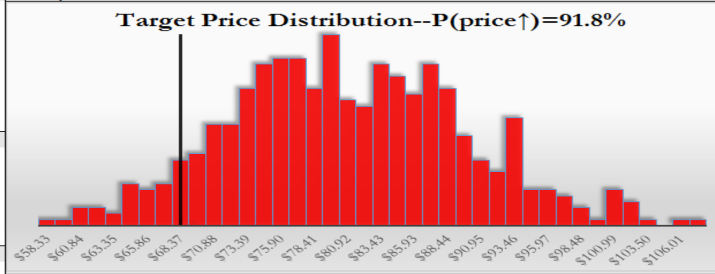
Peers

Under Armour, Inc.
Ralph Lauren Corporation
Dick's Sporting Goods Inc.
PVH Corp.
V.F. Corporation
Finish Line Inc.
DSW Inc.
Ascena Retail Group Inc.

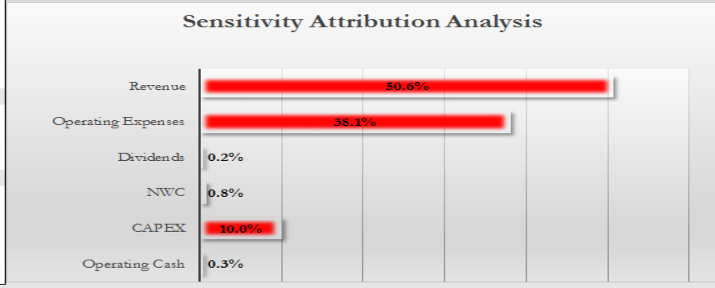
Management	Position	Total compensations growth	Total return to shareholders
Johnson, Richard	Chairman, Chief Executive Of	-100% per annum over 4y	11.37% per annum over 4y
Peters, Lauren	Chief Financial Officer and	-100% per annum over 4y	11.37% per annum over 4y
McHugh, Robert	Executive Vice President of	-100% per annum over 4y	11.37% per annum over 4y
Verma, Pawan	Chief Information Officer an	N/M	0% per annum over 0y
Cipriano, Giovanna	Chief Accounting Officer and	N/M	N/M
Maurer, John	Vice President of Investor R	N/M	N/M

Profitability	FL (LTM)	FL (5 years historical average)	Industry (LTM)
ROIC	19.2%	18.21%	22.01%
NOPAT Margin	16%	14.69%	7.5%
Revenue/Invested Capital	1.19	1.24	2.93
ROE	42.1%	41.93%	26.09%
Adjusted net margin	15%	14.10%	7.2%
Revenue/Adjusted Book Value	2.73	2.97	3.61
Invested Funds	**FL (LTM)**	**FL (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	14.6%	15.7%	19%
Estimated Operating Cash/Total Capital	14.6%	15.5%	N/A
Non-cash working Capital/Total Capital	15.0%	14.3%	19%
Invested Capital/Total Capital	100.3%	99.9%	82%
Capital Structure	**FL (LTM)**	**FL (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.45	0.50	0.24
Cost of Existing Debt	2.33%	2.29%	7.24%
Estimated Cost of new Borrowing	2.02%	2.02%	7.24%
CGFS Risk Rating	AA	AA	AA
Unlevered Beta (LTM)	0.52	0.76	0.94
WACC	7.83%	9.27%	12.17%

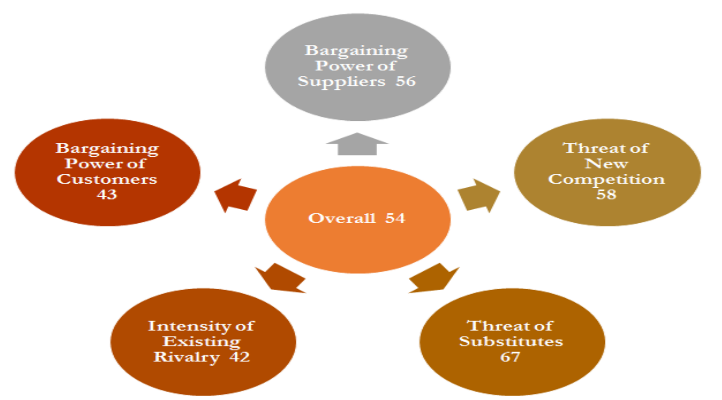
Target Price Distribution--P(price↑)=91.8%



Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	4.3%	16.1%	2.45
7/30/2017	3.9%	14.7%	1.61
7/30/2018	4.1%	14.4%	1.56
7/30/2019	4.4%	14.2%	1.59
7/30/2020	4.0%	14.0%	1.56
7/30/2021	4.0%	13.9%	1.56
7/30/2022	4.0%	13.9%	1.57
7/30/2023	4.0%	13.9%	1.58
7/30/2024	4.0%	13.8%	1.59
7/30/2025	4.0%	13.8%	1.60
7/30/2026	4.0%	13.8%	1.61
Continuing Period	4.1%	13.6%	1.61

Period	Invested Capital	Net Claims	Price per share
Base Year	$5,011.20	$3,762.26	$65.88
7/30/2017	$5,424.35	$2,644.50	$78.04
7/30/2018	$5,784.87	$1,505.12	$89.86
7/30/2019	$6,037.88	$509.89	$101.79
7/30/2020	$6,345.04	-$478.12	$113.95
7/30/2021	$6,474.91	-$1,490.06	$126.31
7/30/2022	$6,766.68	-$2,637.79	$139.78
7/30/2023	$6,941.58	-$3,664.62	$152.50
7/30/2024	$7,275.04	-$4,698.23	$165.38
7/30/2025	$7,616.58	-$5,737.87	$178.41
7/30/2026	$7,951.37	-$6,782.72	$191.56
Continuing Period			

Westlake Chemical Corporation

NYSE:WLK

Analyst: Eric Crown
Sector: Materials

HOLD

Price Target: $63.52

Key Statistics as of 10/07/2016

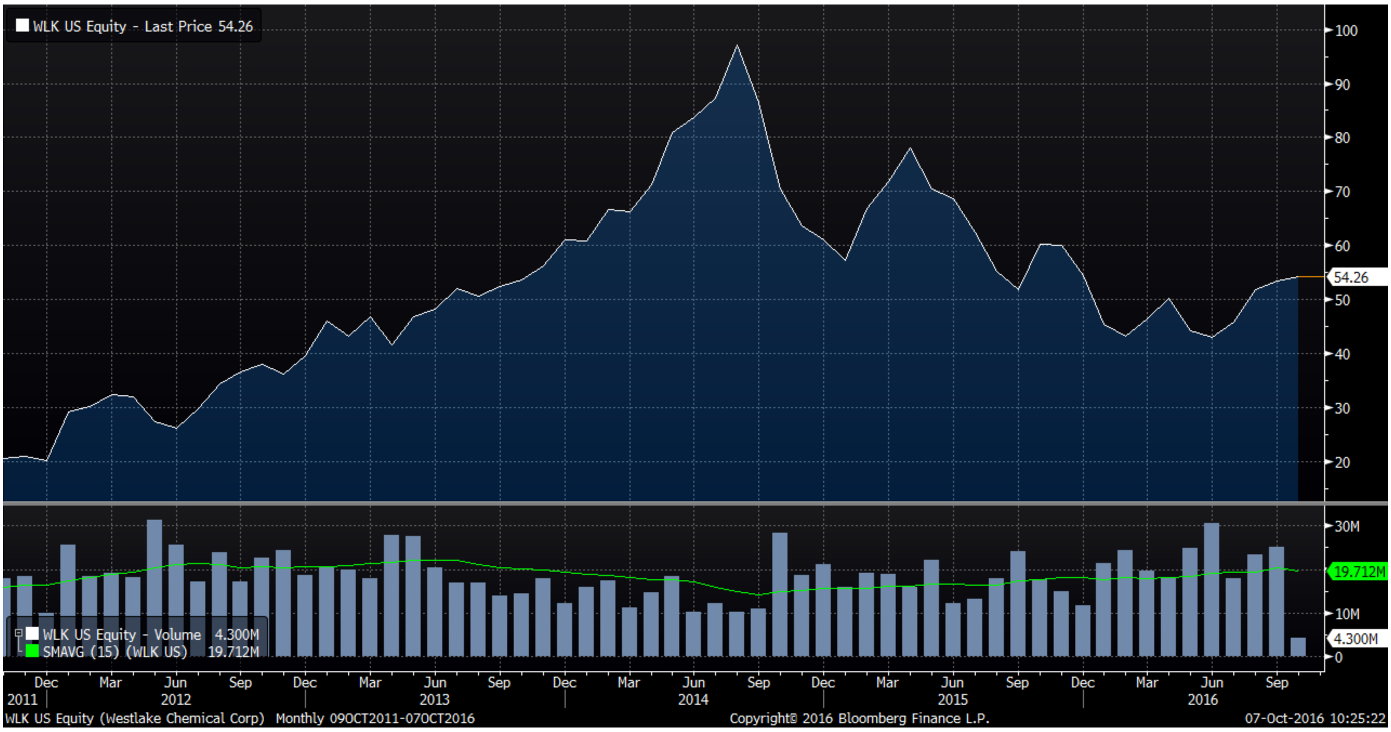
Market Price:	$54.43
Industry:	Chemicals
Market Cap:	$7.01 Billion
52-Week Range:	$39.48-63.56
Beta:	1.65

Catalysts:

- Managing Changing Feedstock Prices
- Acquisitions Leading to Growth

Company Description:

Westlake Chemical Corporation is a global manufacturer and marketer of chemicals, vinyls, polymers, and building products headquartered out of Houston, Texas. Westlake's chemicals are used in a number of markets to produce products such as: flexible and rigid packaging, automotive products, coatings, construction goods as well as other durable and non-durable goods. The core business is segmented into two segments being Olefins and Vinyls. Olefins are mainly used in the production of plastic wrap, coating, and packaging. Vinyls are used in the production of chemically molded products such as PVC and other plastic goods.



Thesis

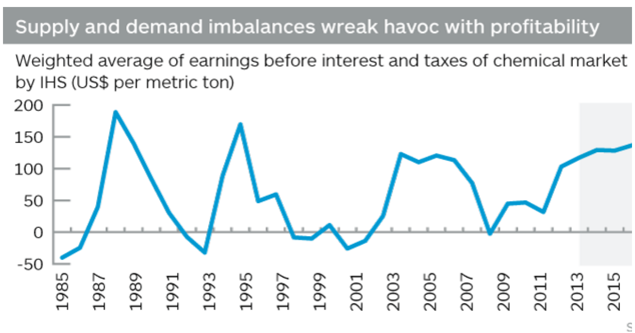
The chemical industry is a very cyclical industry in which the profits rely heavily on the price of commodities such as natural gas, ethane, ethylene, salt, and electricity. Westlake Chemical Corporation is a smaller company within the industry but has been growing rapidly in recent years. This growth has been achieved by strategic acquisitions which has also helped to further vertically integrate the company. Being more vertically integrated in this industry helps eliminate some of the risk associated with the volatile commodities pricing. With experienced management Westlake is in the position to grow within the industry and potentially outperform competitors and increase the value of the stock.

Cyclical Nature of Industry

As stated in the thesis the chemical industry is very cyclical. One of the main reasons is that the feedstock (raw materials needed for production) fluctuates in price. This change in price can dramatically effect operating expenses. There are a number of factors that can affect the price of feedstock:

- The availability of feedstock as a byproduct from shale gas and oil drilling.
- Supply, demand, and price of crude oil.
- Shortages of raw materials due to increasing demand.
- Ethane and liquefied natural gas exports.
- The direct or indirect effect of governmental regulation.

These factors affect both the Vinyl and Olefin aspect of the business. The top companies in this industry know how to minimize these risk. To help further illustrate the cyclical nature of this industry a graph of earnings has been provided.



These are inherent risk for all the companies in this industry making managing this risk is a key catalyst in the pricing of this industry.

Rising Oil Prices

One of the key feedstocks is oil. For the past several months oil prices have been low, with a very recent increase in price. The pumps that Westlake uses are natural gas liquids based ethylene crackers. The low oil prices have caused a reduction in the cost advantage for such pumps in North America. As compared to the more cost effective naphtha-based ethylene crackers that use crude oil derivatives. As a result, Westlake's margins and cash flow have been negatively impacted. However this impact should begin to be minimized as oil prices begin to rise. This may partially explain the slightly lower stock price in recent months.

Experienced Management

The management team is headed by the Chao brothers, whom between the two of them have 85 years of global experience in the chemical industry. James Chao has been the chairman of the board of directors since July 2004. Albert Chao has been the president since May 1996 and the CEO as of July 2004. They bring a wealth of experience and leadership the company needs to compete in this industry. Their growth strategy focuses on plant acquisitions, new plant construction and internal expansion.

Ownership

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WLK US Equity 25) Export 26) Settings
WESTLAKE CHEMICAL CORP
1) Current 2) Historical 3) Matrix 4) Ownership Summary 5) Insider Transac
Compare Current Stats Against 10/02/16

Ownership Type	10/02/16
11) Corporation	68.38
12) Investment Advisor	21.26
13) Hedge Fund Manager	6.59
14) Bank	1.28
15) Government	0.67
16) Pension Fund	0.60
17) Individual	0.49
18) Insurance Company	0.29
19) Brokerage	0.23
20) Family Office/Trust	0.19
21) Other	0.00

As can be seen in the table above the primary ownership of Westlake is in corporations. The corporation with around 70% of the holdings is TTWF LP. This is a private company owned by the Chao family. This shows us that they are heavily invested in the success of the company and have a major incentive to increase the stock price.

Growth through Acquisitions

One of Westlake Chemical's primary strategies for growth is through acquisition. They recently acquired Axiall Corporation for $2.3 billion in cash and assume about $1.5 billion of Axiall's debt. The combined company will be the third largest chlor-alkali producer and the second-largest polyvinyl chloride (PVC) producer in North America. This will help Westlake eliminate downstream cost while expanding their business. Westlake has made numerous acquisitions such as this one and will likely continue this strategy to grow the business.

Financials

A couple things stand out when looking at Westlake's financials. The first thing is the growing EBITA Margin which was last reported as 19%. This beats the industry average of 15% and shows that the growth through acquisitions is leading to increased earnings. Another factor that should be noted is the large amounts of cash on hand. Last reported cash holdings was well over 1 billion dollars. This will allow Westlake to be able to pounce on any potential acquisition opportunities.

The last ratio to look at is ROIC.

	ROIC		ROIC W/O GW	
	History	LFY	History	LFY
WLK:	0.16174793	0.139973378	0.16376	0.1423573
Competitors:	0.156614981	0.133775911	0.19067	0.1705074

As can be seen the ROIC it is fairly close to the industry. This can be concerning because it could mean there is not much room for growth. However if you look at the ROIC without Goodwill you can see that Westlake has room to grow. If Westlake can match the industry ROIC without Goodwill they could likely surpass the industry ROIC with Goodwill.

Porters Five Forces

Bargaining Power of Suppliers: Westlake scored a 56.25 on bargaining power with suppliers. The cost of supplies are very important to the bottom line of Westlake. This makes it critical for Westlake to get a good price however there are few alternatives to the materials they require for production.

Bargaining Power of Customers: Westlake scored a 71.43 because the goods they create are essential in the production for other companies. This allows them to adjust the price when feedstock cost is increasing.

Intensity of Existing Rivalry: Westlake scored a 33.33 because the chemical industry is a very competitive industry. There are other larger company such as DOW chemical that can use their size to their advantage.

Threat of Substitutes: Westlake scored a 91.67 because there is no real substitute to the product they manufacture.

Threat of New Competition: Westlake scored a 66.67 because if other companies had the money they could compete with Westlake because the product is not unique, however it would take lots of capital.

Summary

I believe we should hold Westlake Chemical in our portfolio. In the chemical industry it is important for companies to effectively manage the risk associated with the commodities used in production. I believe Westlake Chemical has an experienced and very motivated management. They are growing their company through tactical acquisitions and expansion that will lead to a more vertically integrated company. By doing this they will be able to minimize their materials risk and potentially bring down their operating cost. I believe that all these factors will lead to an increase in price.

Westlake Chemical Corp. (wlk)

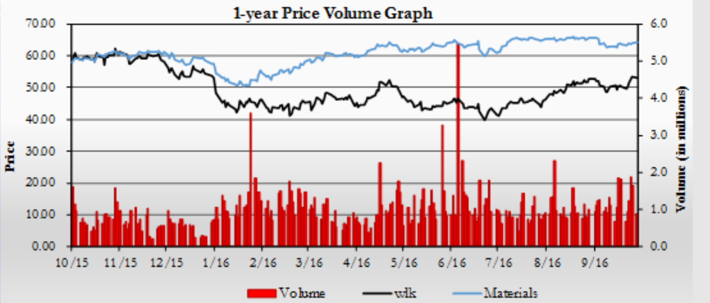
CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Eric Crown	Current Price:	$54.84	Intrinsic Value	$56.05
10/7/2016	Divident Yield:	1.7%	Target Price	$63.52

Target 1 year Return: 17.54%
Probability of Price Increase: 88.4%

1-year Price Volume Graph



Description

Westlake Chemical Corporation manufactures and markets basic chemicals, vinyls, polymers, and building products.

General Information

Sector	Materials
Industry	Chemicals
Last Guidance	November 3, 2015
Next earnings date	November 3, 2016
Estimated Country Risk Premium	5.75%
Effective Tax rate	36%
Effective Operating Tax rate	26%

Market Data

Market Capitalization	$7,066.37
Daily volume (mil)	1.18
Shares outstanding (mil)	128.85
Diluted shares outstanding (mil)	130.88
% shares held by institutions	75%
% shares held by investments Managers	22%
% shares held by hedge funds	7%
% shares held by insiders	0.45%
Short interest	2.65%
Days to cover short interest	3.29
52 week high	$63.56
52-week low	$39.48
Levered Beta	1.61
Volatility	34.68%

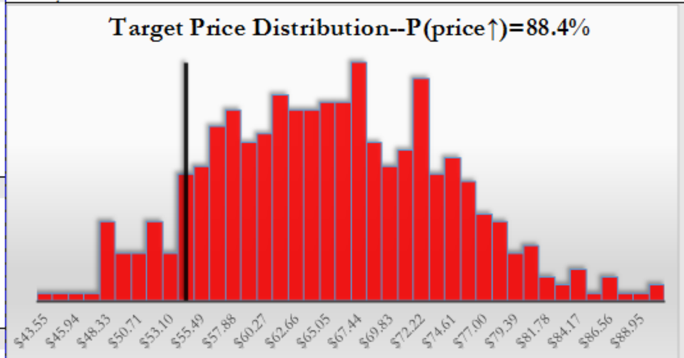
Past Earning Surprises

Quarter ending	Revenue	EBITDA
6/30/2015	2.16%	5.24%
9/30/2015	-3.96%	-8.79%
12/31/2015	-12.24%	-19.37%
3/31/2016	-9.37%	-4.05%
6/30/2016	-8.04%	-13.99%
Mean	-6.29%	-8.19%
Standard error	2.5%	4.2%

Peers

Olin Corp.
Trinseo SA
Celanese Corporation
LyondellBasell Industries N.V.
Eastman Chemical Co.
Ashland Global Holdings Inc.
Huntsman Corporation
Westlake Chemical Partners LP

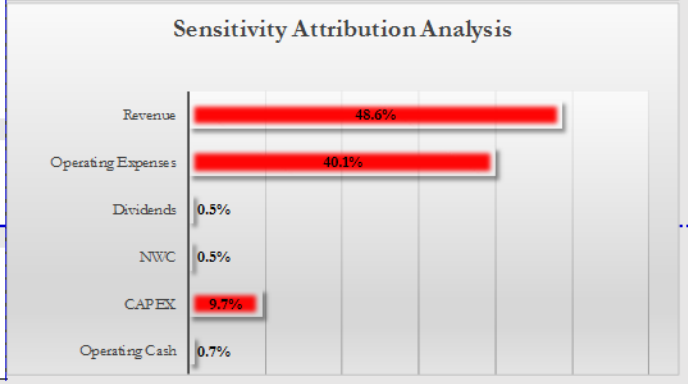
Target Price Distribution--P(price↑)=88.4%



Management	Position	Total compensations growth	Total return to shareholders
Chao, Albert	Chief Executive Officer, Pre	19.32% per annum over 5y	2.73% per annum over 5y
Bender, M.	Chief Financial Officer, Sen	19.15% per annum over 5y	2.73% per annum over 5y
Buesinger, Robert	Senior Vice President of Vin	N/M	0% per annum over 0y
Kenner, Andrew	Vice President of Manufactur	N/M	0% per annum over 0y
Mangieri, George	Chief Accounting Officer and	N/M	N/M
Ederington, L.	Chief Administrative Officer	N/M	N/M

Profitability	wlk (LTM)	wlk (5 years historical average)	Industry (LTM)
ROIC	16.3%	21.56%	11.67%
NOPAT Margin	18%	16.61%	11.6%
Revenue/Invested Capital	0.93	1.30	1.00
ROE	18.1%	25.14%	14.70%
Adjusted net margin	17%	15.87%	9.9%
Revenue/Adjusted Book Value	1.07	1.58	1.48
Invested Funds	**wlk (LTM)**	**wlk (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	20.8%	21.6%	10%
Estimated Operating Cash/Total Capital	8.6%	10.1%	N/A
Non-cash working Capital/Total Capital	8.3%	11.3%	16%
Invested Capital/Total Capital	93.7%	91.1%	86%
Capital Structure	**wlk (LTM)**	**wlk (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.21	0.15	0.33
Cost of Existing Debt	4.98%	5.61%	3.70%
Estimated Cost of new Borrowing	3.74%	3.75%	3.70%
CGFS Risk Rating	BB	BB	B
Unlevered Beta (LTM)	1.46	1.54	1.12
WACC	11.94%	12.51%	9.63%

Sensitivity Attribution Analysis



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

Period	Revenue growth
Base Year	-9.4%
6/30/2017	29.6%
6/30/2018	18.8%
6/30/2019	17.2%
6/30/2020	15.6%
6/30/2021	13.9%

Valuation

NOPAT margin	ROIC/WACC
17.5%	1.37
9.0%	0.85
8.2%	0.76
8.8%	0.88
9.5%	0.97
10.0%	1.04

Shopify Inc.

NYSE:SHOP

Analyst: Alexandre Thiam
Sector: Information Technology

BUY

Price Target: $45.06

Key Statistics as of October 7, 2016

Market Price:	$44.31
Industry:	Application Software Services
Market Cap:	$3,9B
52-Week Range:	$38.48-$45.20
Beta:	1.57

Catalysts:

- Partnerships
- Acquisitions effective or potential
- Product Launch and Innovation.

Company Description:

Shopify is a growing computer software for online stores and websites developer founded is 2004 by Tobias Lukte, Daniel Wienand and Scott Lake in Ontario Canada. The company completed its IPO on May 22 2015 with an issuing price at $17 and increased by roughly 50% at $25.65. on the first day of trading. The average Volume is at 1.1 million and the current level at 733,420. Shopify is a service provider and offers platform to online retailers that creates easy, cheap, and fast online stores and boutiques. Shopify Inc provides cloud-based, multi-channel commerce platform designed for small and medium-sized businesses. The Company's platform provides merchants with a single view of their business and customers across all of their sales channels. In addition, the company launched series of innovations in the sector to differentiate itself from competitors such as their "Shopify Payment" which allow clients and merchants to accept credit cards, overstepping the intervention of third parties, accelerating and enhancing the process. Shopify reacts well to the trends and innovation, as the company will focus more and more on mobile app in the future.

Thesis

Shopify Inc. (NYSE:SHOP) was not long ago a startup company which manage to become a small cap in the NYSE with its $3.9b Market Capitalization. Shopify manages to increase its product range and customer base on a constant basis. Among all the major small web designing and software developers out there other than Google, Yahoo and Microsoft, the company is seen as the best in class at the moment. This reveal strong management and efficiency in the business model.

This same management and company's vision is leading to an effective and calculated expansion. Shopify is currently growing by pursuing an aggressive acquisition strategy in growth potential investments. Shopify also stars to attract bigger company, and already signed lucrative partnerships in the past.

Shopify currently offer its services to more than 300,000 merchants and is planning to do more. This represent a potential threat to any of the major player in the internet industry. If the company continue to expand it could become a very attractive purchase of any the major brand. If Shopify gets acquired the value of the company will be considerably bigger.

Industry Outlook

(IT) industry market, that comprehend hardware, software, internet services, is expected to reach $3.8 trillion in 2016, up from $3.7 trillion the previous year. The U.S. market accounts for approximately 28% of the total, or slightly more than $1 trillion.
The IT channel plays an integral role to facilitating the flow of information technology goods and services from producer to customer, which is exactly what Shopify tries to do. The industry is expanding, the Labor grew at an annual rate of 3.1% in 2015, and the job posts by 40%. In the aggregate, the U.S. IT sector employs an estimated 5.9 million workers in technical and non--‐technical positions. The second element of the IT workforce, IT occupations, consists of an estimated 5.04 million workers as of 2015 found in IT departments across businesses in every industry sector of the economy. Based on how 2015 data is tracking, the year could record the highest IT job growth rate in over a decade.

Shopify competes with same size companies but also eight-hundred pounds' gorillas such as oracle, SAP, and Adobe. Amon its small peers, the company ranks first in terms market share and revenues and market valuation.

Business Model

Shopify is a leading cloud-based e-commerce platform designed for small and mid-size businesses and some renown companies such as Budweiser, and Tesla. Service includes payment, shipping, web design, and back office functionality across the web, mobile devices, social media, brick-and-mortar locations, and pop-up shops. The company offers three separate plans for subscription options. The first is its Basic plan, which costs $29 per month, and which comes with the ability to sell unlimited products, a card reader, a discount code engine, fraud analysis tools and 24/7 support.
The other two plans are the Professional plan, which costs $79 a month, and its Unlimited plan, which costs $179 a month. These plans come with the ability to sell gift cards, professional reports, an abandoned cart recovery, an advanced report builder and real-time carrier shipping. It also offers « merchant solutions » through merchant solutions, which includes revenues from payment processing fees from Shopify Payments, transaction fees, referral fees from partners and sales of POS hardware. In 2014, merchant solutions revenues accounted for 36.5% of total revenues. In the second quarter of 2015, Shopify made $19.5 million from this segment.
To attract new customer, the company uses initiative such as offering a 20% commission to those who refer clients. Before going public, Shopify raised $122 million in venture funding, most recently a $100 million funding round from OMERS Ventures, Insight Venture Partners, Bessemer Venture Partners, FirstMark Capital, Georgian Partners and Felicis Ventures in December 2013. Once the company could find more investors and reached its maximum debt capacity it decided to go public to follow their growth and expansion strategy.

Financials

Financials

Fiscal	2008	2009	2010	2011	2012	2013	2014	2015	YTD	Q2	TTM
Revenue (Mil)				—	23.71	50.25	105.02	205.23	159.37	86.65	282.33
Operating Income (Mil)				—	-1.51	-4.27	-21.62	-17.76	-18.37	-8.66	-29.19
Operating Margin %				—	-6.38	-8.50	-20.58	-8.65	-11.53	-9.99	-10.34
Net Income (Mil)				—	-1.23	-4.84	-22.31	-18.79	-17.37	-8.44	-28.33

From 2012, revenues of the company increased by $181.52 millions this represent a growth rate of 686%. This translate the continuous expansion of the firm, that is contracting more and more merchants. Although revenue kept on increasing, on the other hand operating income continued to decrease. As shown above the companies had had consecutive operating losses over the last 4 years. It means than operating expense are greater than sales, which is rather normal for a recent firm operating in the Internet Services and Software industry. This is again related to the company's will of expansion as Shopify must spend on Goodwill, Advertising and Selling General and Administration (SG&A) as well as Research and Development (R&D). The primary drivers of the net losses that Shopify has experienced since its inception are SG&A expenses and R&D expenses. Sales and marketing expenses account for 80% of SG&A and 34% of revenue. R&D is also quite high, accounting for 19% of revenue. A combined 53% of revenue is being absorbed by SG&A and R&D.

These are the same financial for the most threatening competitor, VIX:

Fiscal	)08	2009	2010	2011	2012	2013	2014	2015	YTD
Revenue (Mil)				24.60	43.68	80.47	141.84	203.52	130.32
Operating Income (Mil)				-22.36	-14.96	-26.53	-55.64	-48.64	-30.26
Operating Margin %				-90.89	-34.25	-32.96	-39.23	-23.90	-23.22
Net Income (Mil)				-22.74	-18.48	-31.68	-56.57	-51.33	-31.33

Sales growth are almost identical for VIX but the Operating loss is much bigger. This translate a poorer management on VIX end, as the company is clearly spending more without having the same levels of results yet. Plus, Shopify is currently two times more valued than VIX which only has a $1.7b Market Cap.

Valuation

Valuing Shopify Inc is a limited to simple valuation data and analysis. The company's IPO was May 20, 2015 so a full year of financial data is not available or difficult to find. Shopify's market price on 4/15/16 by market close was $30.97. With a 1-year target price of $36.37, on the 10 /6/16 the price was at $43.68 so an increase of $12.71 which represent a 14% jump. This "under-the-radar" firm develops computer software for online stores and retail point-of-sale systems. It has solid, long-term earnings potential, carries almost no debt, is approaching EBITDA breakeven, and is a "buy" OR "outperform" among most of investment analysts. The company EBITDA is at -10.5 million so the this on appearance looks like a high reward high risk investment. The EBITDA margin is a – 6.82% versus and industry average at 12.54%. Regarding the fact this is a recent company it is a sign that the company growing and expanding and is not necessarily doing bad and the that investors should keep an eye on it. As a matter fact last reported levels of EBITDA for SHOP are more relative to one time charges by the means of the acquisition they did so far this year. In this sector more than any other small company have a lot more room and potential for growth than the big players that can only do worse. The historical sales growth for SHOP is at 79.1% and the last reported at 94.98%. the industry average for the revenue growth is at 24.92% which shows that SHOP is considerably doing better than competitors. This also means that the company is reinvesting all the cash they earn in order to expand, either by acquiring or developing products, and therefore chose not to sit on a pile of cash (Retained Earnings -47,854 in 2015). ROIC of the company is at -14.53% Trailing Twelve Month when the industry is at 10.92%.

Fiscal	)08	2009	2010	2011	2012	2013	2014	2015	YTD	Q2	TTM	5-Yr	Index
Return on Assets %	—	—	—	—	—	-5.05	-23.36	-11.09	—	-3.40	-11.61	—	6.11
Return on Equity %	—	—	—	—	—	—	—	-21.35	—	-4.44	-14.59	—	19.47
Return on Invested Capital %	—	—	—	—	—	—	—	-21.35	—	-4.44	-14.59	—	10.92

In the case of an internet services based provider, a negative ROIC is actually a positive thing. Indeed this proves that the companies business model requires very little in hard assets and collects cash before providing services. Those are 2 very positive attributes.

Important Dates and Catalysts

Some of the Catalyst for the company are already in passive form. In other words, they already occurred in a recent past and are already anchored in the price. Nevertheless, this added strength and steadiness to the current price. The first one is the acquisition of Boltmade this week. Loren Padelford, VP of Shopify Plus said, "Shopify is committed to investing in talent. The acquisition of Boltmade will bring a strong group of designers and engineers to Shopify Plus. We're thrilled to have them join our team to help shape the future of commerce for larger merchants." Founded in 2013, Boltmade is a 21-person product-focused digital consulting firm that designs and builds software products for early stage startups to Fortune 500 companies. On the same day the stock price went up by 3% going to $43.84 from $42.34. In mid-April of the same year, SHOP purchased Kit-CRM. Founded in 2013, and seed funded by Technicolor Ventures and Visionnaire Ventures, Kit CRM created "virtual marketing tools" that could perform a variety of functions, including running targeted ads on Facebook and Instagram, post updates to company's Facebook pages, make recommendations to customers based on their store activities, and more.

Earnings Summary | Transcripts

Q2: 08-03-16	EPS of $-0.04 beat by $0.04	Revenue of $86.65M (+92.9%) beat by $6.02M
Q1: 05-04-16	EPS of $-0.06 beat by $0.03	Revenue of $72.72M (+94.7%) beat by $5.83M
Q4: 02-17-16	EPS of $-0.01 beat by $0.05	Revenue of $70.17M (+99.5%) beat by $8.97M
Q3: 11-04-15	EPS of $-0.03 beat by $0.03	Revenue of $52.79M (+93.0%) beat by $5.15M
Q2: 07-30-15	EPS of $-0.03 beat by $0.06	Revenue of $44.90M (+89.6%) beat by $6.80M

Furthermore, the company is soon to be releasing its Q3 Earning calls end of October, and as history is showing (Tab. above) the company is constantly beating estimates. If the company meets its guidance and beat estimates again, this would be a catalyst for an increase in price.

In December 2014 Amazon.com set a new standard for all its online retailers to use Shopify to monitor their boutiques and use the Shopify Payment. This represent a major move in the industry and gage of trust from well-established firms. Shopify store owners can simplify their checkout process for hundreds of millions of online shoppers. Instead of manually entering their payment and shipping information (which can be a real pain on mobile), customers can now quickly checkout using the existing details in their Amazon account.

To finish the company is subject to rumors of a potential acquisition by gigantic firm Google. If the deal goes through the company will most likely double in value on the day of the announcement.

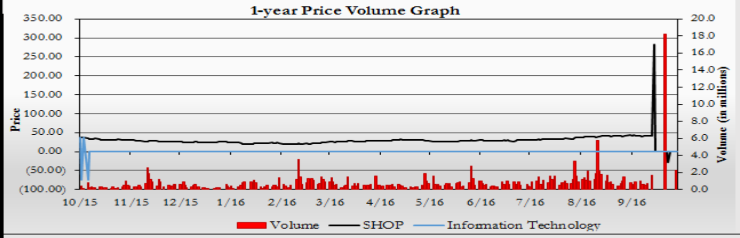
Summary

Shopify can do for online merchants what Salesforce.com has done for customer relationship management via the cloud. But there's a big difference, Salesforce has had difficulty making a profit from the beginning. That's not been a problem for Shopify, or at least less important. In its sector the company is clearly a best-in-class on almost every financial level ranging from Sales to Operating income. The strong allocation in SG&A and R&D are driving company's profit down but the outcomes are optimistic and its feasible to foresee a shiny future for the firm. On top of this, results are showing the efficiency of Shopify business and moreover its brilliant management. In this sector, Shopify looks the most attractive to investors seeking medium and long-term capital gain. Think of Shopify as a software company that enables online e-commerce growth. This is highly promising especially when we know that the sector is booming and expand a really fast pace. According to CNN Money, earnings growth for the next five years could be around 25%. This is built on Shopify's advantages over its competitors. Shopify may not grow revenues by more than 90% every quarter. However, what it will do is bring in solid recurring revenues, as more mature software companies like Adobe and SAP do.

As stated above the Analysts 1-yr target is in the $45 to $46 range. So this may not show an immediate entry point as the stock is supposedly on a top at current level of $44.36, but running my analysis shows me that the target price should rather be in the $50.00 range. I would recommend this stock .

Shopify Inc. (SHOP) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by P.C. Principal	Current Price: $44.28	Intrinsic Value #VALUE!	Target 1 year Return: 12.92%
10/7/2016	Divident Yield: 0.0%	Target Price $50.00	Probability of Price Increase: 90.8%



Description

Shopify Inc. provides a cloud-based and multi-channel commerce platform for small and medium-sized businesses.

General Information

Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	November 3, 2015
Next earnings date	November 3, 2016
Estimated Country Risk Premium	6.66%
Effective Tax rate	35%
Effective Operating Tax rate	35%

Market Data

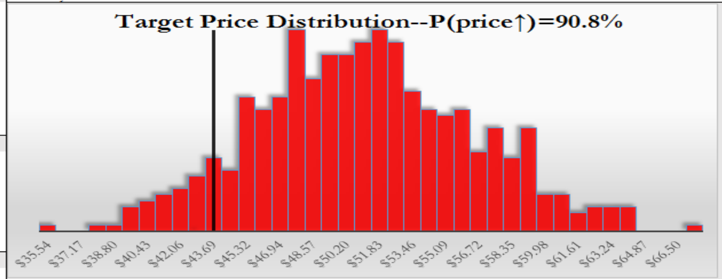
Market Capitalization	$3,882.14
Daily volume (mil)	0.18
Shares outstanding (mil)	88.88
Diluted shares outstanding (mil)	79.06
% shares held by institutions	49%
% shares held by investments Managers	28%
% shares held by hedge funds	10%
% shares held by insiders	21.99%
Short interest	1.78%
Days to cover short interest	1.48
52 week high	$45.20
52-week low	$18.48
Levered Beta	1.00
Volatility	0.00%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
6/30/2015	17.22%	-178.52%
9/30/2015	9.97%	-209.18%
12/31/2015	9.80%	-9977.97%
3/31/2016	7.11%	-309.77%
6/30/2016	6.54%	-320.50%
Mean	10.13%	-2199.19%
Standard error	1.9%	1944.9%

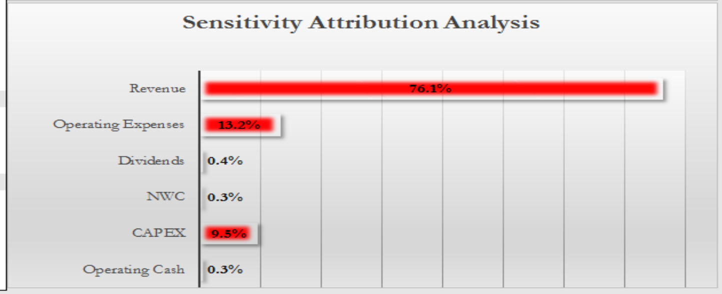
Peers

Box, Inc.
Benefitfocus, Inc.
IntraLinks Holdings, Inc.
MINDBODY, Inc.
LogMeIn, Inc.
ChannelAdvisor Corporation
Wix.com Ltd.
Etsy, Inc.

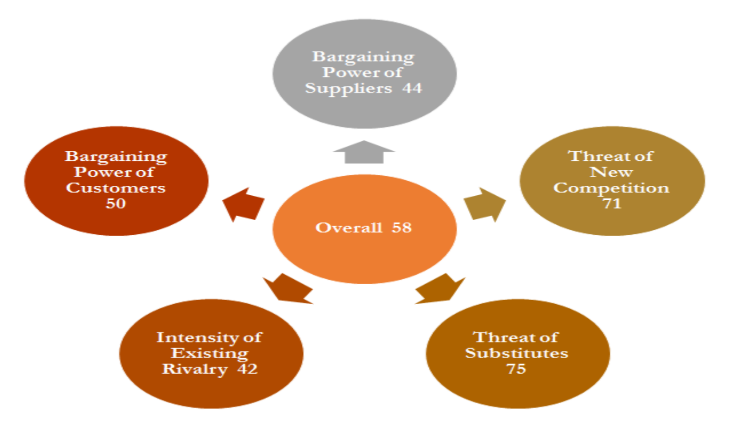


Management	Position	Total compensations growth	Total return to shareholders
Lütke, Tobias	Founder, Chairman and Chief	N/M	N/M
Weinand, Daniel	Co-Founder, Chief Design Off	N/M	N/M
Jones, Russell	Chief Financial Officer	N/M	N/M
Finkelstein, Harley	Chief Operating Officer	N/M	19.22% per annum over 1y
Miller, Craig	Chief Marketing Officer	N/M	N/M
Keita, Katie	Director of Investor Relatio	N/M	N/M

Profitability	SHOP (LTM)	SHOP (4 years historical average)	Industry (LTM)
ROIC	8.2%	57.62%	15.21%
NOPAT Margin	5%	#DIV/0!	18.8%
Revenue/Invested Capital	1.59	#DIV/0!	0.81
ROE	4.7%	65.04%	16.34%
Adjusted net margin	5%	#DIV/0!	17.6%
Revenue/Adjusted Book Value	0.91	#DIV/0!	0.93
Invested Funds	**SHOP (LTM)**	**SHOP (4 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	48.5%	64.6%	74%
Estimated Operating Cash/Total Capital	14.4%	15.3%	N/A
Non-cash working Capital/Total Capital	-9.1%	-9.6%	-14%
Invested Capital/Total Capital	66.1%	72.6%	43%
Capital Structure	**SHOP (LTM)**	**SHOP (4 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.01	0.00	0.09
Cost of Existing Debt	1.10%	5.57%	2.92%
Estimated Cost of new Borrowing	2.02%	4.36%	2.92%
CGFS Risk Rating	AA	#N/A	B
Unlevered Beta (LTM)	1.00	1.00	1.12
WACC	10.72%	10.72%	11.21%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	95.0%	5.2%	0.77
6/30/2017	47.5%	32.3%	5.32
6/30/2018	23.7%	30.1%	#VALUE!
6/30/2019	11.9%	28.3%	#VALUE!
6/30/2020	5.9%	26.8%	#VALUE!
6/30/2021	4.1%	26.0%	#VALUE!
6/30/2022	4.1%	25.4%	#VALUE!
6/30/2023	4.1%	25.2%	#VALUE!
6/30/2024	4.1%	25.1%	#VALUE!
6/30/2025	4.1%	25.3%	#VALUE!
6/30/2026	4.1%	25.4%	#VALUE!
Continuing Period	4.1%	26.8%	#VALUE!

Period	Invested Capital	Net Claims	Price per share
Base Year	$0.00	-$95.00	#VALUE!
6/30/2017	$12.86	$37.69	#VALUE!
6/30/2018	$45.27	$50.11	#VALUE!
6/30/2019	$98.79	$60.52	#VALUE!
6/30/2020	$177.14	$66.80	#VALUE!
6/30/2021	$244.50	$70.32	#VALUE!
6/30/2022	#VALUE!	$72.94	#VALUE!
6/30/2023	#VALUE!	$75.67	#VALUE!
6/30/2024	#VALUE!	$78.50	#VALUE!
6/30/2025	#VALUE!	$81.43	#VALUE!
6/30/2026	#VALUE!	$84.48	#VALUE!
Continuing Period			