



# ADVISORY BOARD PRESENTATION

April 30<sup>th</sup>, 2012

AIM XXXIV



UNIVERSITY OF  
NOTRE DAME

# AIM ANALYST BIOS



## **Brady Blackett**

*Englewood, CO  
Coca-Cola, CarMax*

## **Oliver Castelino**

*Manlius, NY  
Potash, GIII Apparel*

## **Samuel DeLemos**

*Nashville, TN  
Amazon.com, Flowserve*

## **Matthew Elijah**

*Tiburon, CA  
KeyCorp, Priceline*

## **Anand Hingway**

*Nagpur, India  
Dick's Sporting Goods, Gilead Sciences*

## **Kristin Iyer**

*Fort Collins, CO  
Starwood Hotels, Gap*

## **Andrew John**

*Bellevue, WA  
LabCorp, Fuel Systems Solutions*

## **Paul Karam**

*Los Angeles, CA  
eBay, RBC Bearings*

## **Ryan Kennedy**

*Croton, NY  
Alliant Technologies, Waste Management*

## **Michael Kiel**

*Livonia, MI  
Qualcomm, Ford*

## **Brian Kuske**

*Naperville, IL  
Dollar Tree, Harley-Davidson*

## **Wenhao Li**

*Chengdu, China  
Continental Resources, Manpower Group*

## **John Madia**

*Clarksburg, WV  
Discover Financial, PNC*

## **Andrew Mayer**

*Arvada, CO  
Ecolab, Crown Castle*

## **Brandon McGrath**

*Denver, CO  
Perrigo, AeroVironment*

## **Paul Mooradian**

*Shrewsbury, MA  
Caterpillar, Dover Corporation*

## **Jennafer Newcomb**

*Toms River, NJ  
Chevron, Sonic*

## **Frederick Patterson**

*Fremont, MI  
Google, Polypore*

## **Laura Ritter**

*Beverly Hills, MI  
Cummins, Williams-Sonoma*

## **Adrianna Stasiuk**

*Park Ridge, IL  
Halliburton, lululemon athletica*

## **David Weinstein**

*Pittsburgh, PA  
Teradata, Apple*

## **Ryan Wong**

*Diamond Bar, CA  
Newmont Mining, Activision Blizzard*

## **David Young**

*Seattle, WA  
UnitedHealth Group, Assisted Living Concepts*

# PRESENTATION AGENDA

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- Personal Introductions
- Presentation Topics
  - I. Objectives and Guidelines
  - II. Economic Environment
  - III. Security Analysis
  - IV. Portfolio Performance Evaluation
  - V. General Information
- Concluding Remarks

# I. OBJECTIVES AND GUIDELINES

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- Course Overview
  - Blend traditional academic objectives with practical experience in portfolio management
  - Provide analysts with thorough grounding in process of portfolio management
  
- Analyst Selection Process
  - Analysts are selected from a pool of candidates based on academic record and diverse backgrounds

# ANALYST RESPONSIBILITIES

- Stock Selection
  - First Round - Analysts assigned a current portfolio position and complete a comprehensive security analysis
  - Second Round - Analysts select a second equity and complete comprehensive security analysis
- Security Analysis
  - Company Background
  - Industry Analysis
  - Fundamental Analysis
  - Earnings Forecast
  - Technical Analysis
  - Valuation Analysis



# GROUP RESPONSIBILITIES

- Industry/Sector Analysis
  - Industry and sector overviews
  - Historical performance
  - Outlook
- Economic Analysis
  - Recent trends: unemployment, inflation, GDP growth, etc.
  - Current events
  - Focus on factors with most relevance to portfolio
- Portfolio Performance Analysis
  - Performance benchmark comparisons
  - Risk-adjusted performance measures
  - Industry composition
  - Best and worst performers
- Trading Group
  - Coordinates trading activity for portfolio
  - Works closely with ND Investment Office



# SELECTION PROCESS

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- Analysts discuss inputs, assumptions, and drivers
- Analysts give buy, sell, or hold recommendations based on security analysis performed and intrinsic valuations
- Final portfolio decisions are voted upon and require majority vote of all analysts
- Long/short hedge position established



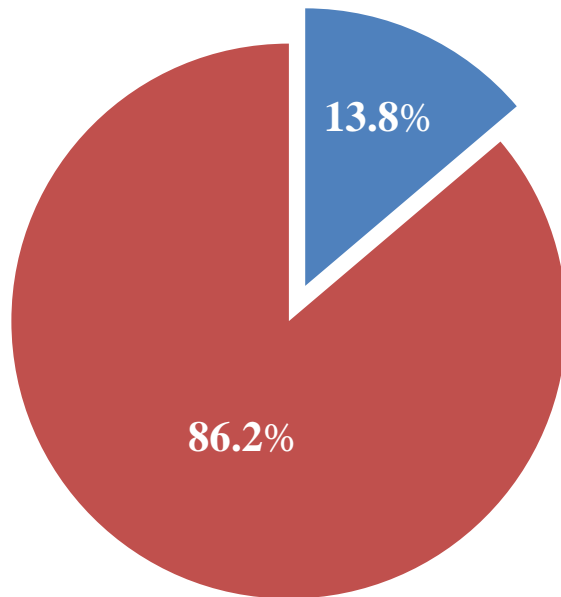
- Investment objective
  - Outperform S&P 500 over long time horizon
  - Outperform secondary indices, Russell 2000 and HBI (65% S&P 500 + 35% Russell 2000)
  
- Risk managed by diversification and allocation between small, mid, and large-cap stocks
  
- Investment decisions
  - Fundamental analysis
  - Bottom-up approach



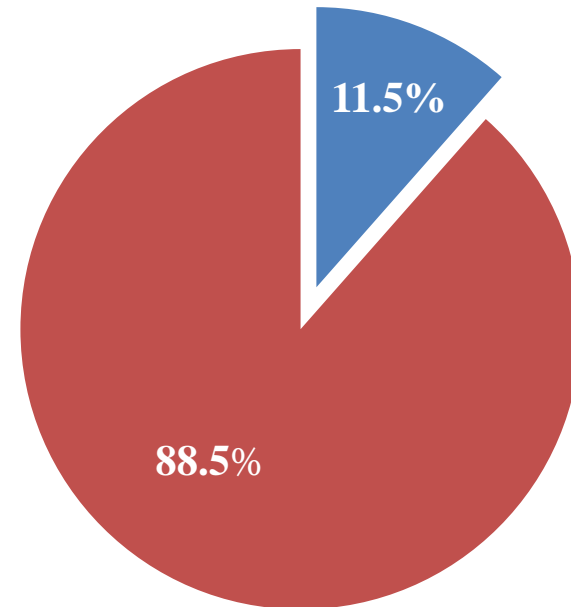
- Only equities traded on major US exchanges
  - No bonds, ADRs, or derivative instruments
  - No margin purchases or short selling
  
- Portfolio target allocation
  - 35% in small (<\$1B) and mid-cap (\$1B-\$5B) stocks
  - 65% in large cap (>\$5B) stocks
  - +/- 10% boundary
  - 0% long-term target for cash holdings
  
- No individual stock position will exceed 10% of portfolio

# MARKET CAPITALIZATION

AIM XXXIII



AIM XXXIV



- Small & Mid-Cap
- Large Cap

- AIM will not invest in any company whose values are not consistent with those of the University of Notre Dame
  
- Includes but is not limited to
  - Abortifacients
  - Birth Control
  - Tobacco
  
- Perrigo was removed from portfolio for their involvement with abortifacients



# II. ECONOMIC ENVIRONMENT

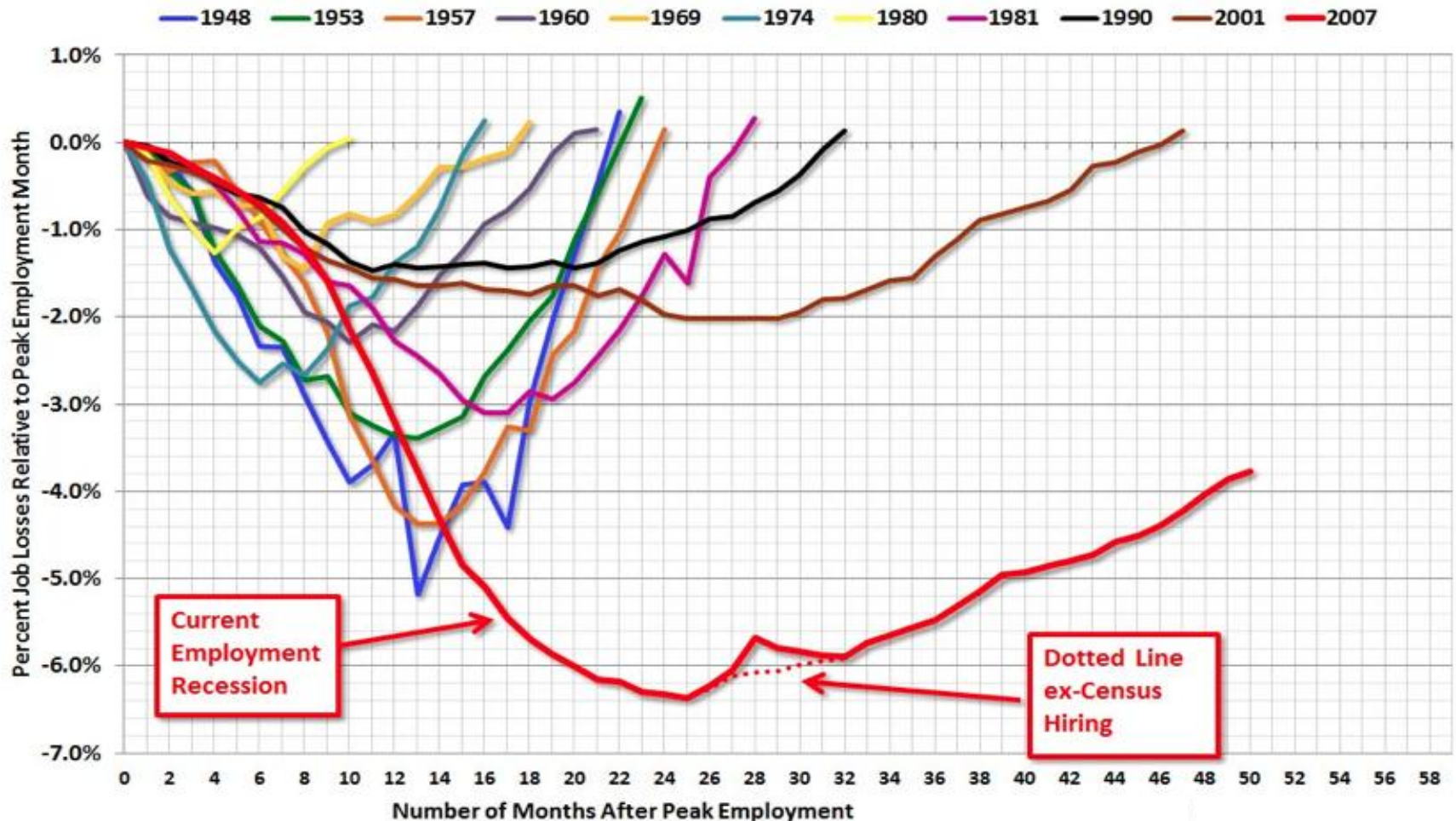
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- Current Economic Environment
- GDP Projections
- Consumption
- Housing
- Net Exports
- Unemployment
- Inflation
- Effect on AIM Portfolio

# FAILURE TO RECOVER

## Time to Recover Job Losses in Post-WWII Recessions

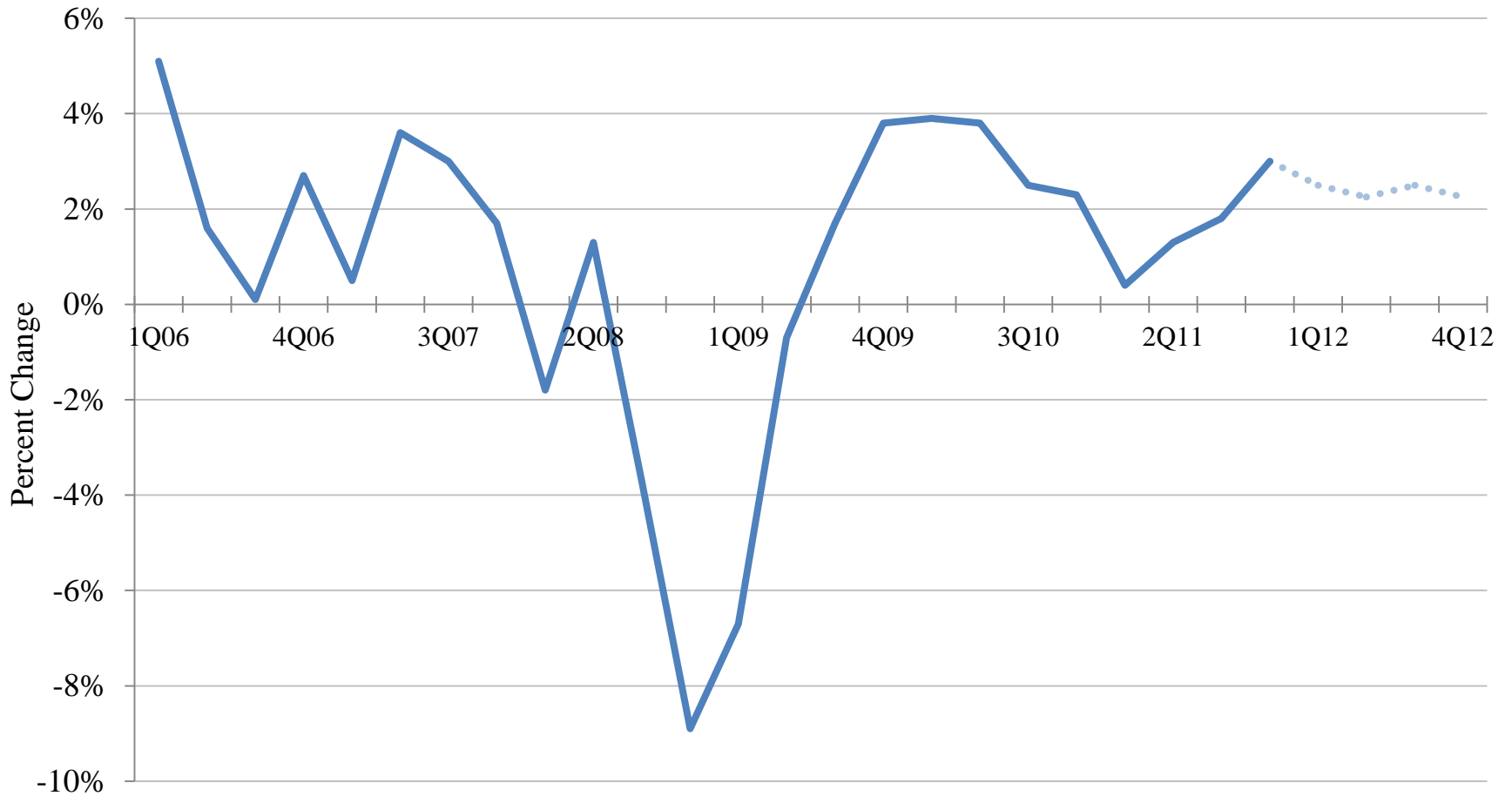


Source: Calculated Risk

# OUR FORECAST



## Annualized GDP Growth with 2012 Forecast

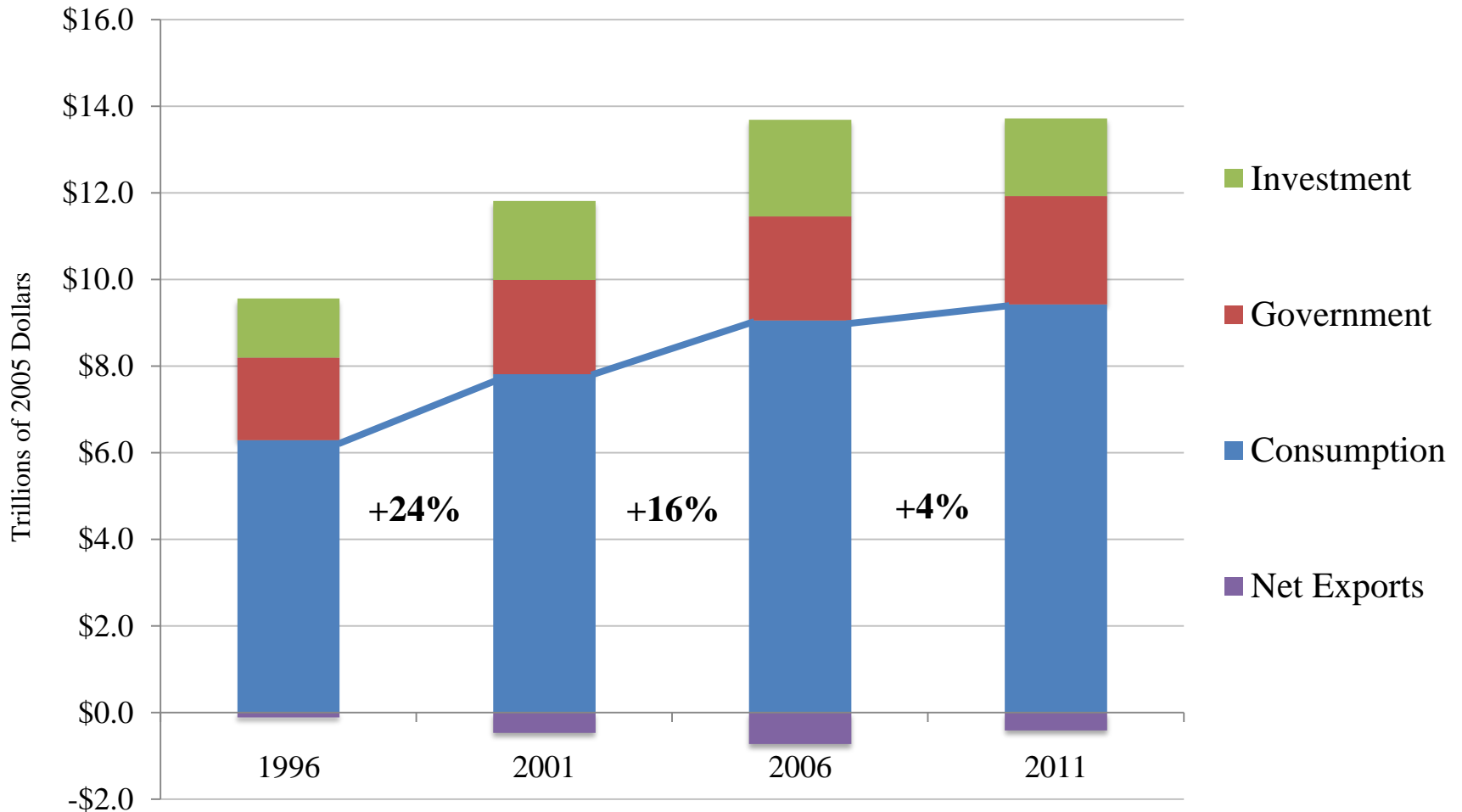


Source: U.S. Bureau of Economic Analysis



# LACK OF CONSUMPTION

## Growth of GDP Components



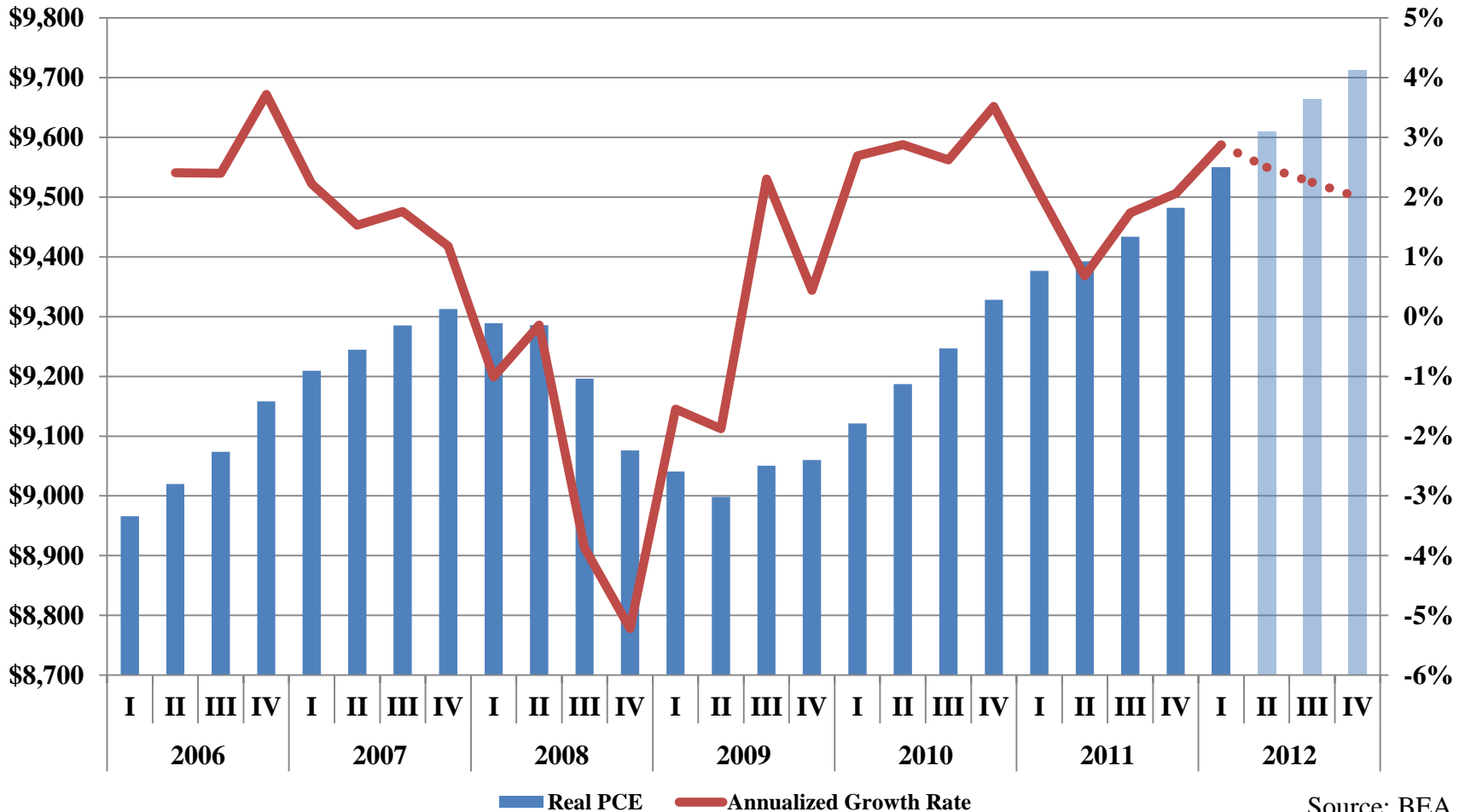
Source: U.S. Bureau of Economic Analysis

# PRIVATE CONSUMPTION



## Real Personal Consumption Expenditures

Seasonally Adjusted (Billions)



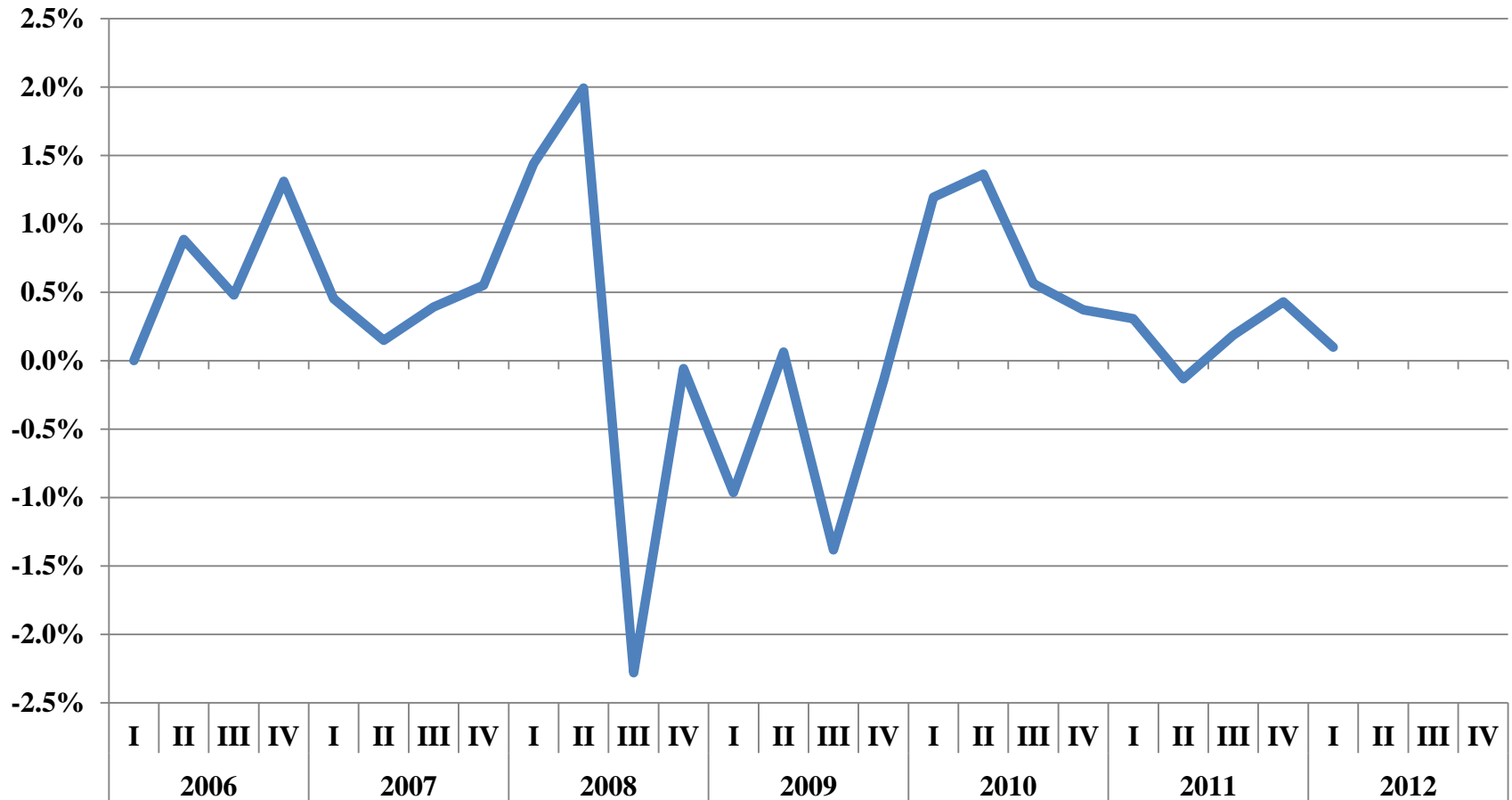
Source: BEA

# PRIVATE CONSUMPTION



## Real Disposable Personal Income

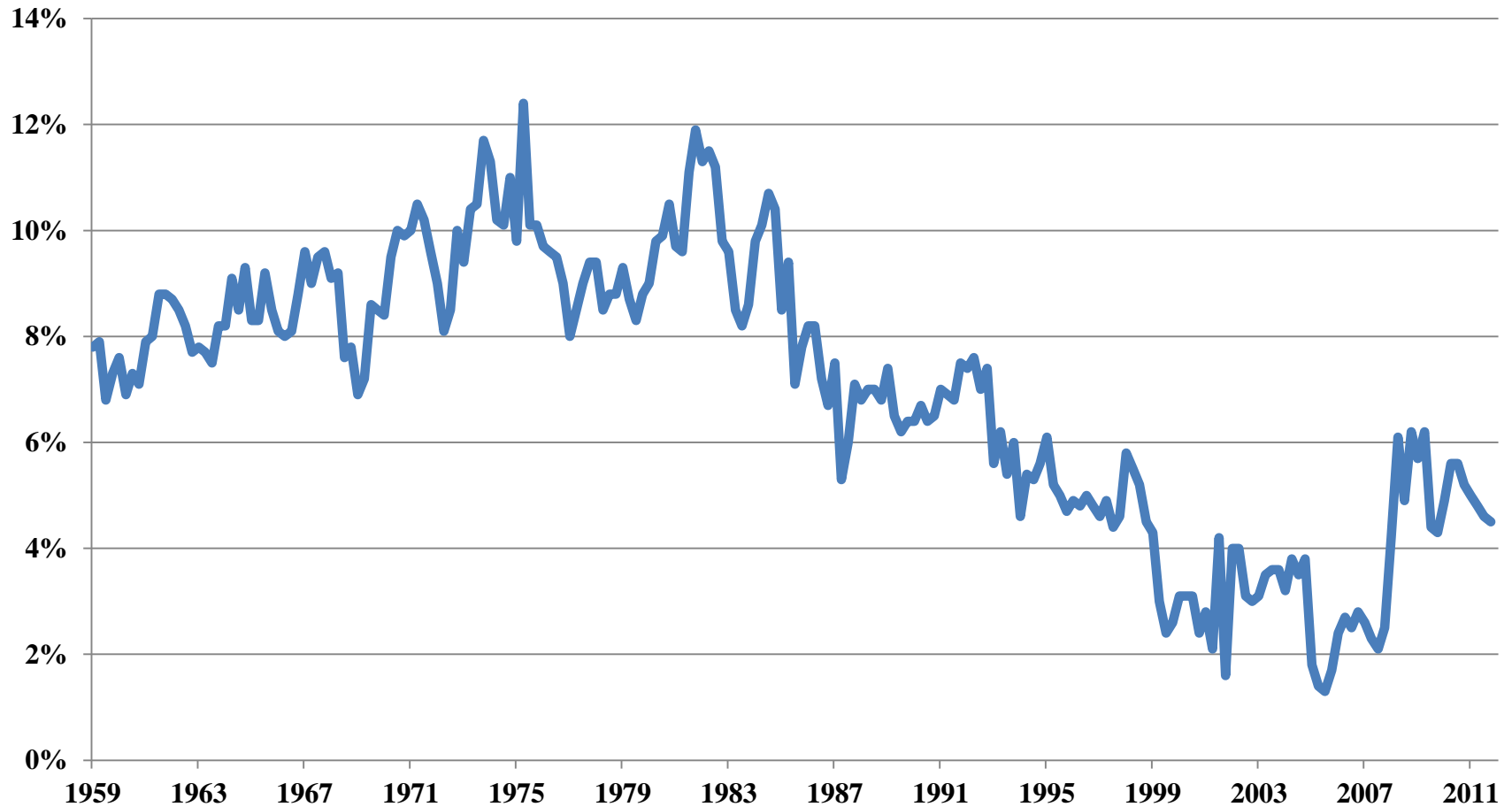
Annual Rate



Source: BEA

## Personal Savings Rate

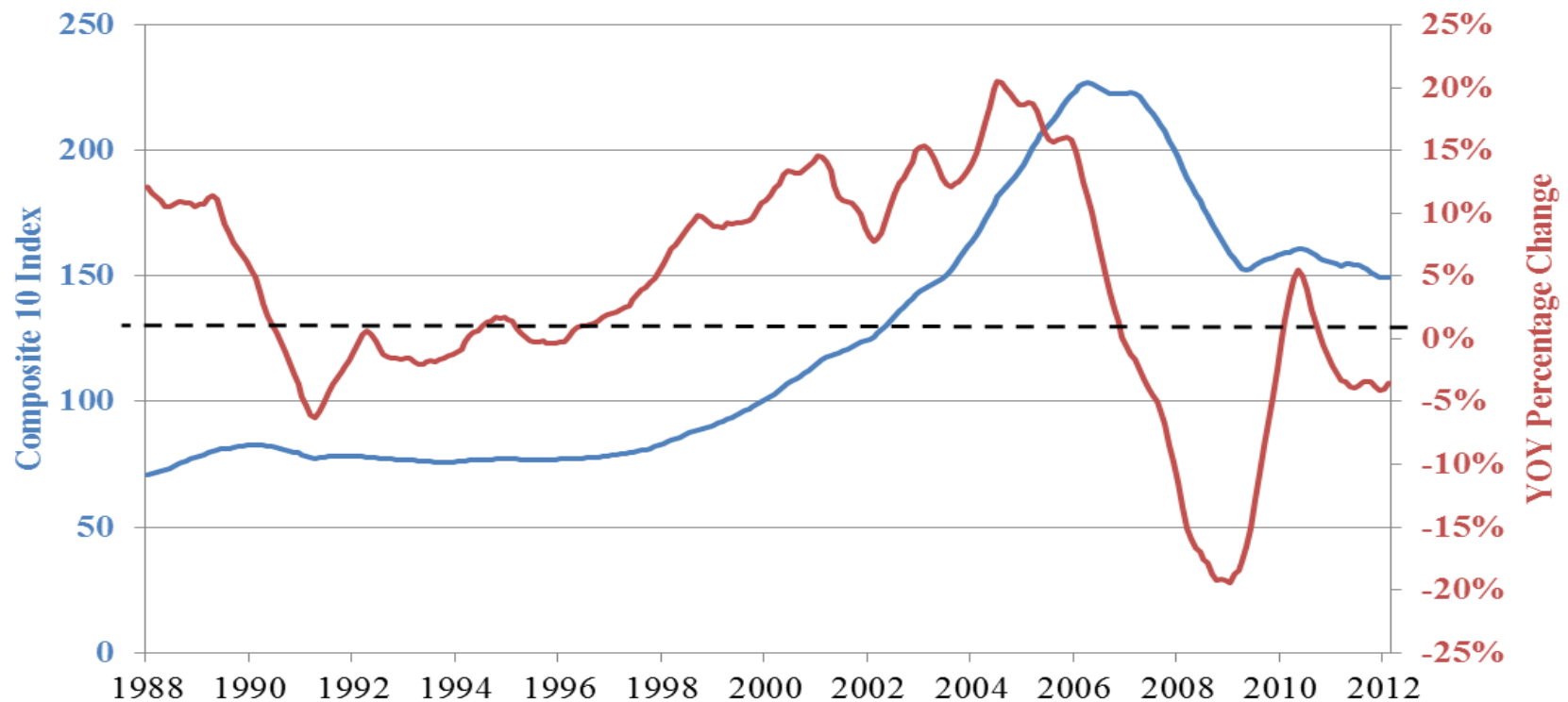
Annual Rate



Source: BEA

## Have we reached a bottom in housing prices?

Case Shiller **Composite 10 Index** and **YOY**  
**Percentage Change: 1988 - 2012**

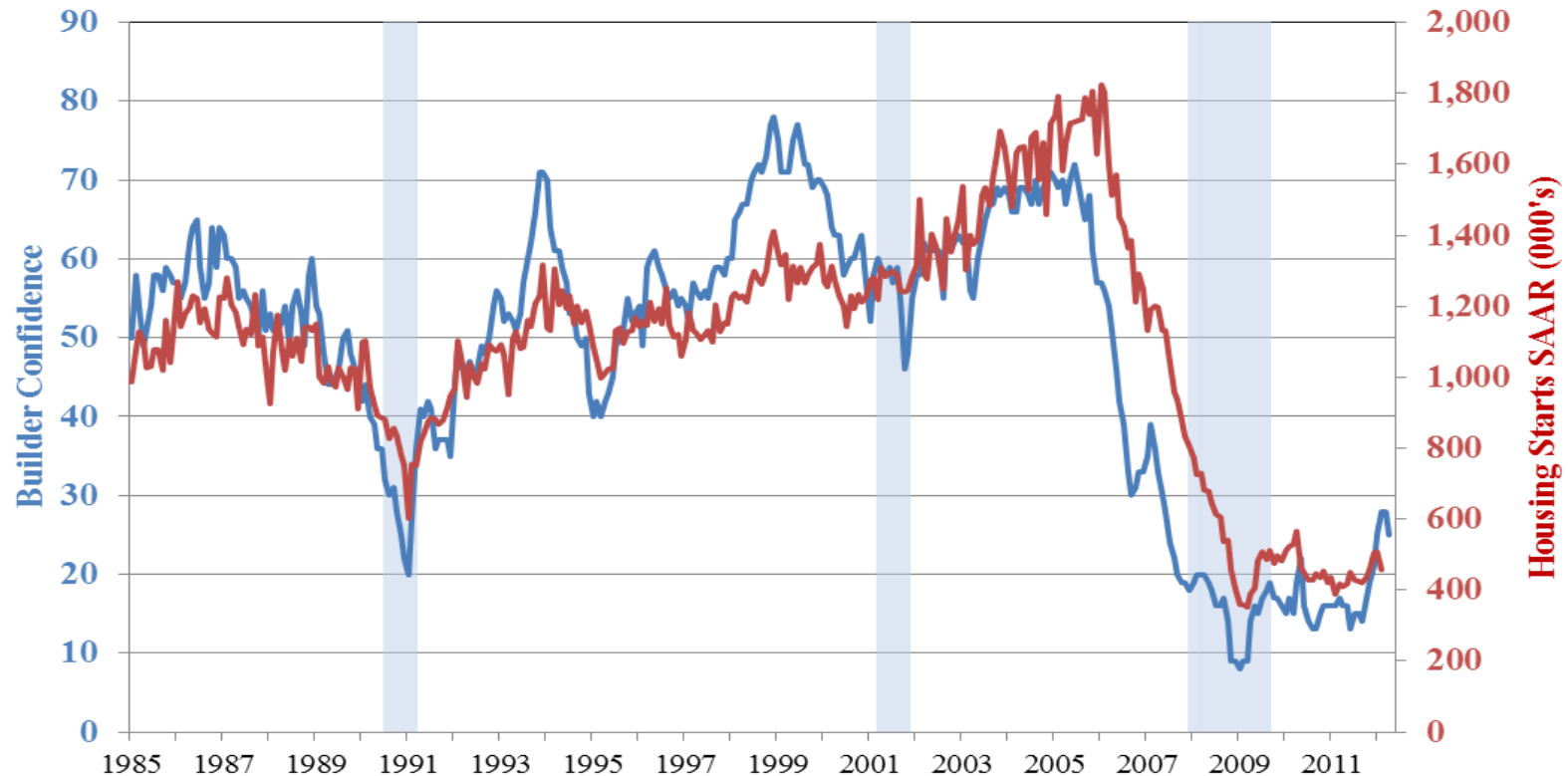


**“The crash is over” – Mark Zandi, Moody’s Chief Economist 4/25/12**

Source: Standard and Poor’s, Derived

## Will housing leap forward?

Builder Confidence and Housing Starts: 1985 - 2012

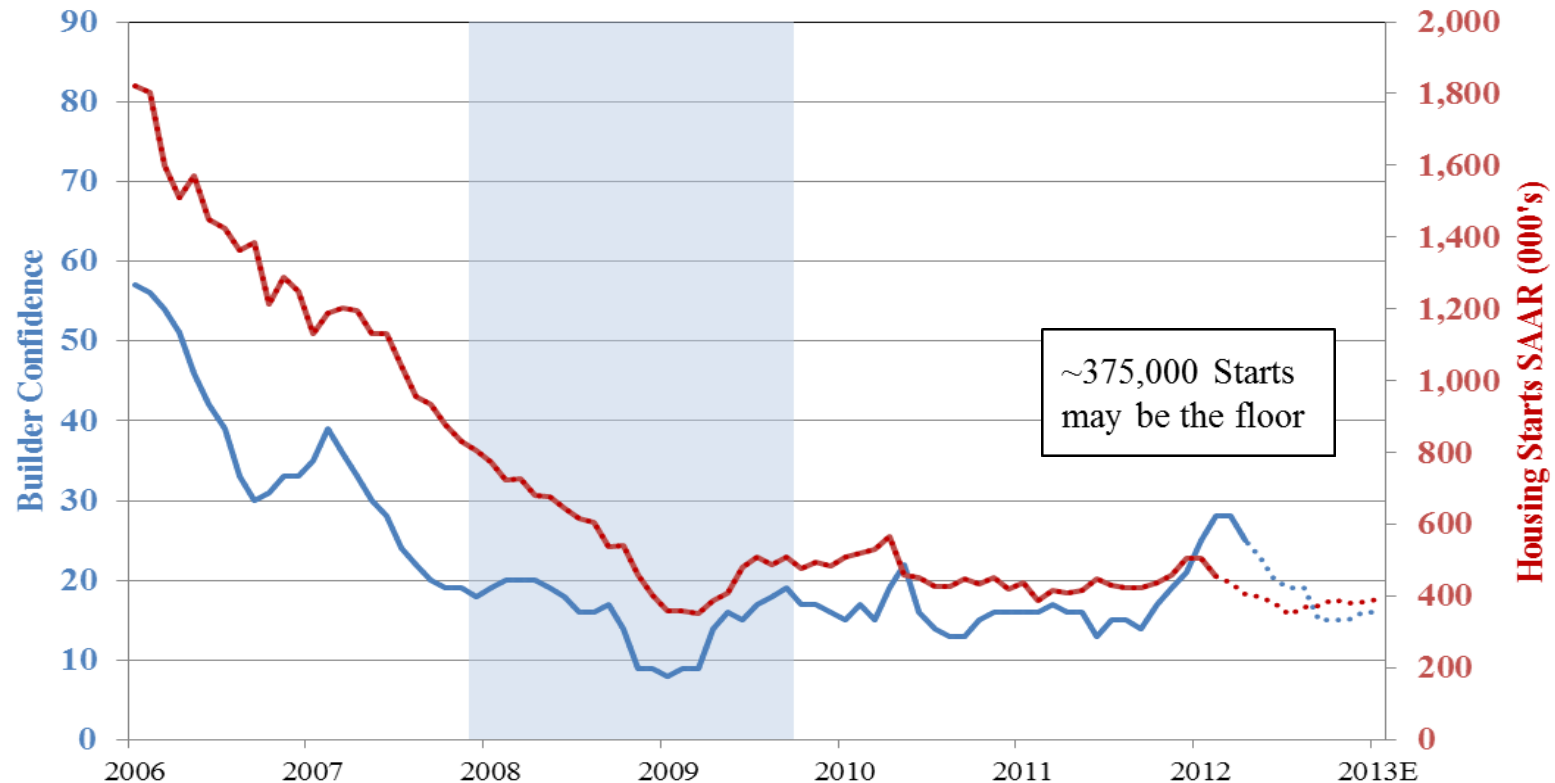


\*Builder Confidence is a housing market index compiled by Wells Fargo/NAHB monthly

Source: NAHB/Wells Fargo Housing Market Index, U.S. Census Bureau, NBER.

## Will housing leap forward?

Builder Confidence and Housing Starts: 2006 - 2013E

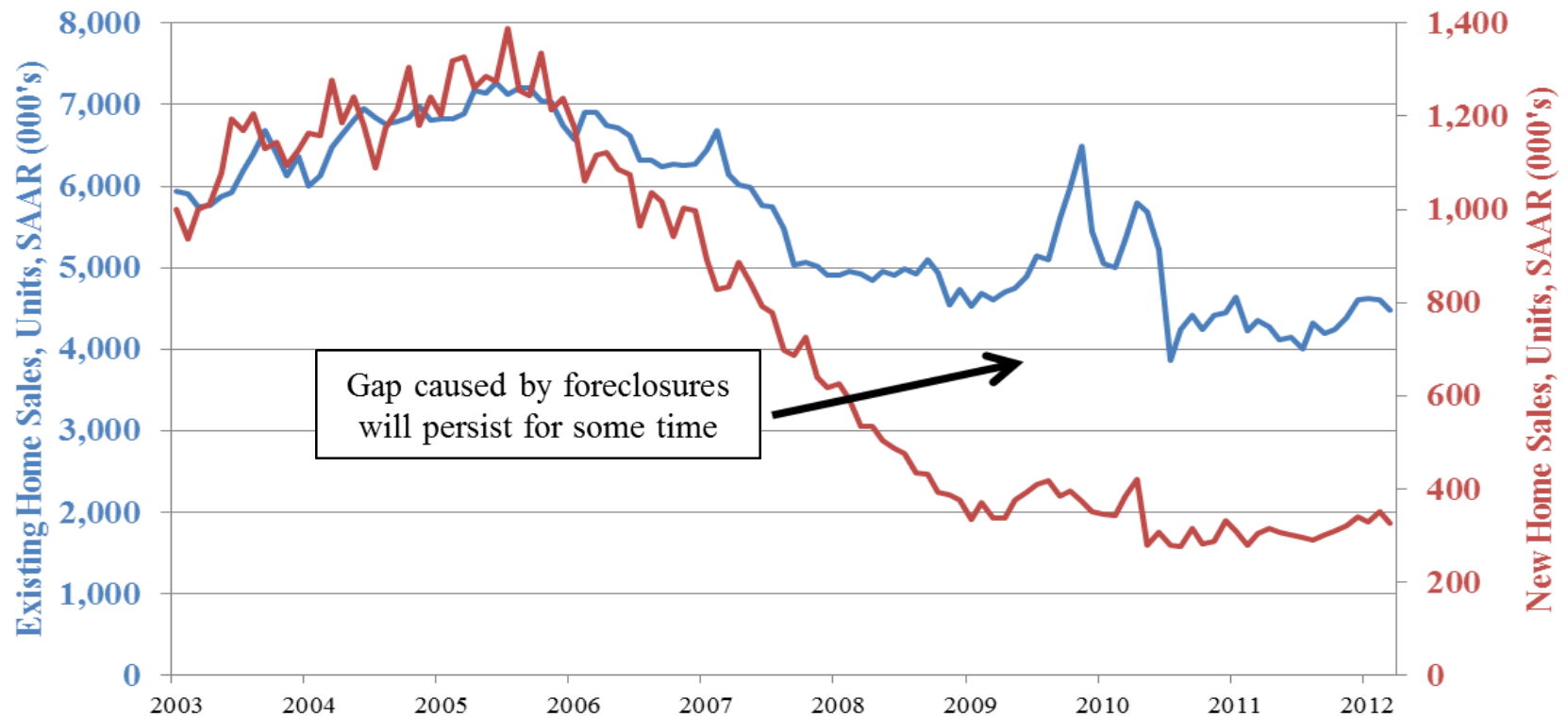


\*Builder Confidence is a housing market index compiled by Wells Fargo/NAHB monthly

Source: NAHB/Wells Fargo Housing Market Index, U.S. Census Bureau, NBER.

## Foreclosures causing a “gap”

Existing and New Home Sales: 2003 - 2/2012  
Seasonally Adjusted Data



Source: NAR

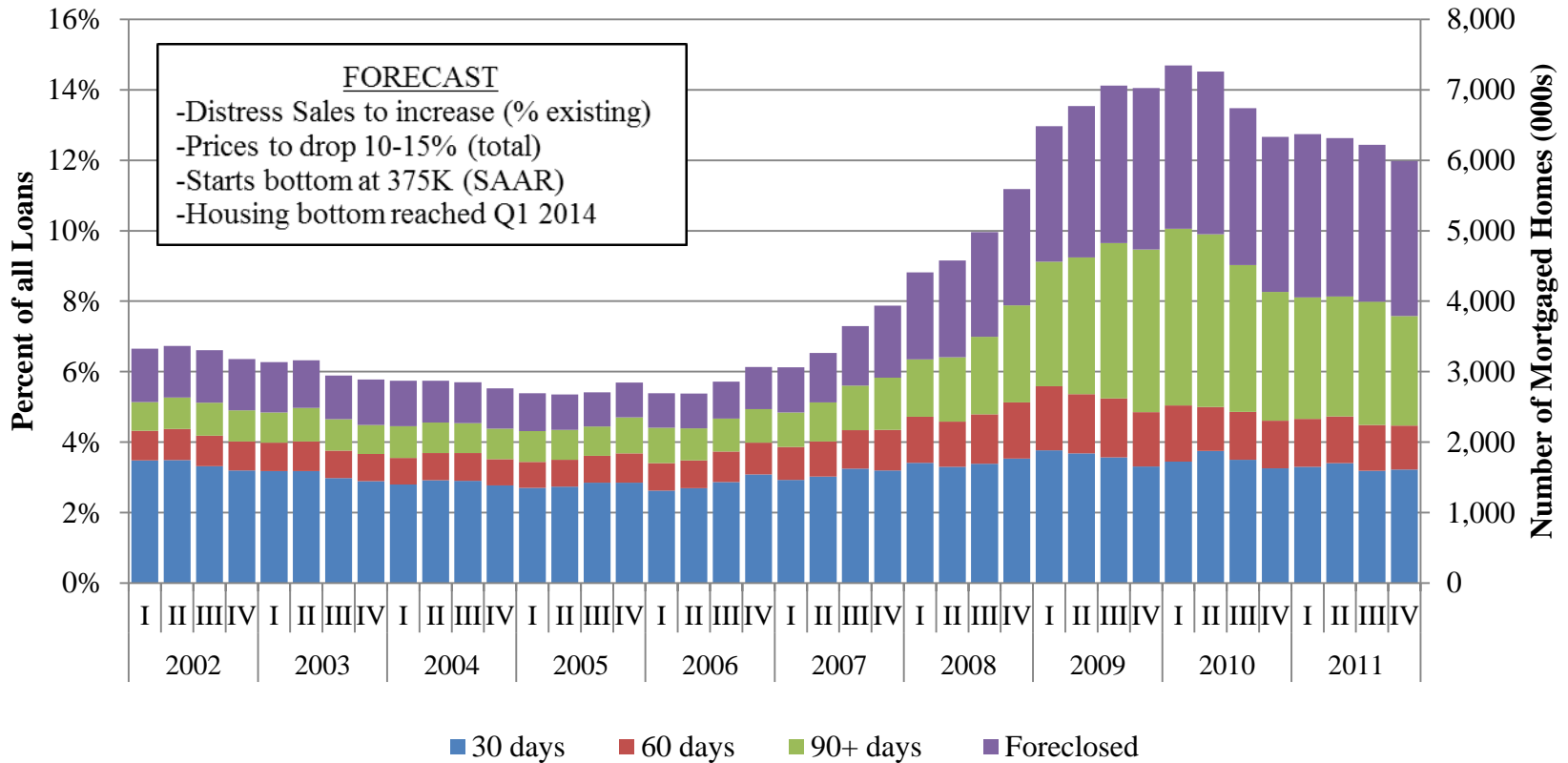


# HOUSING SECTOR



**Bottom is not really here... prices have more room to fall**

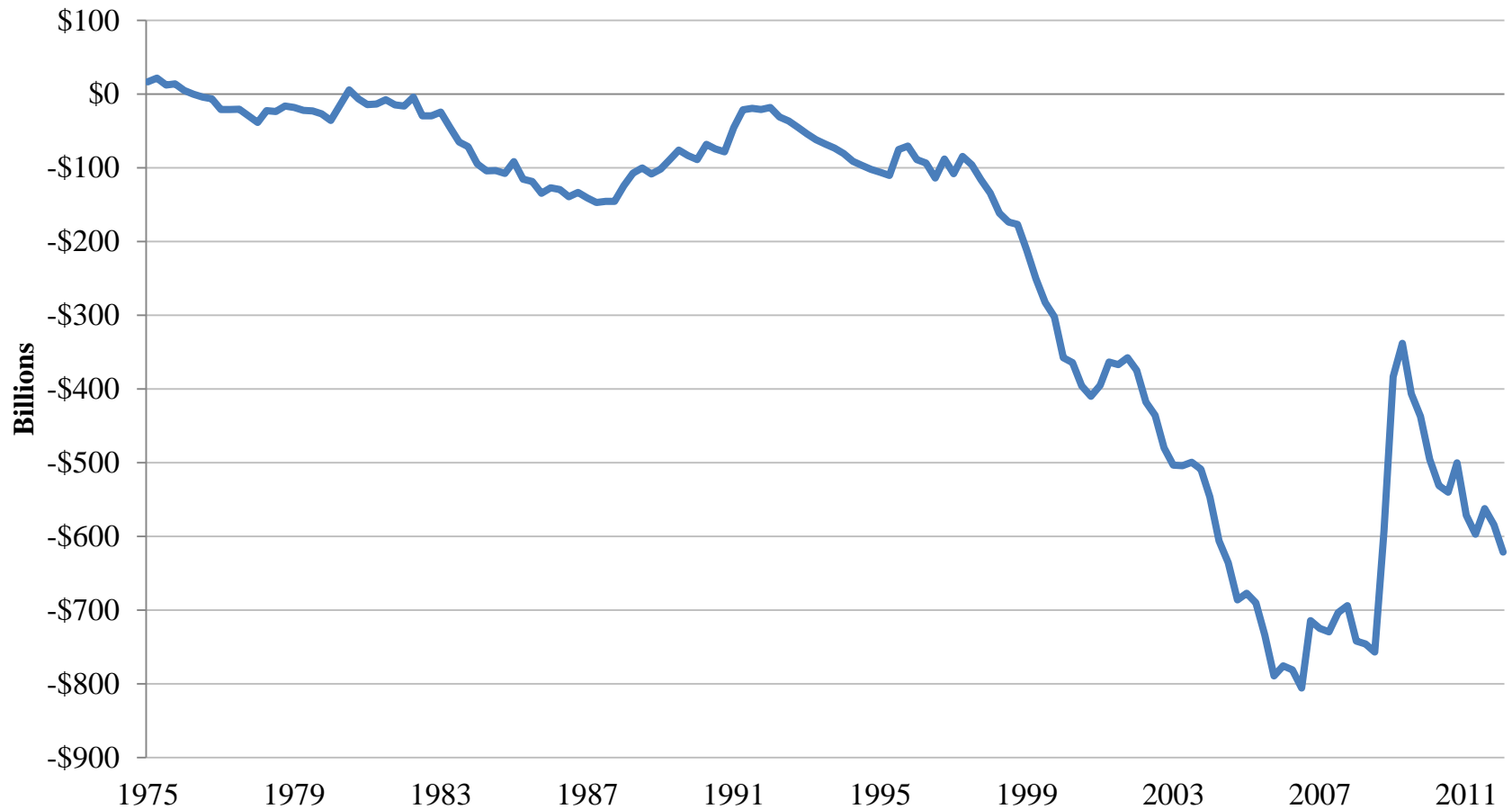
**Mortgage Delinquencies and Foreclosures by Period Past Due, All Loans Outstanding: 2002-2011**



Source: MBA National Delinquency Survey, Lender Processing Services

# NET EXPORTS

## Net Exports of Goods and Services since 1975



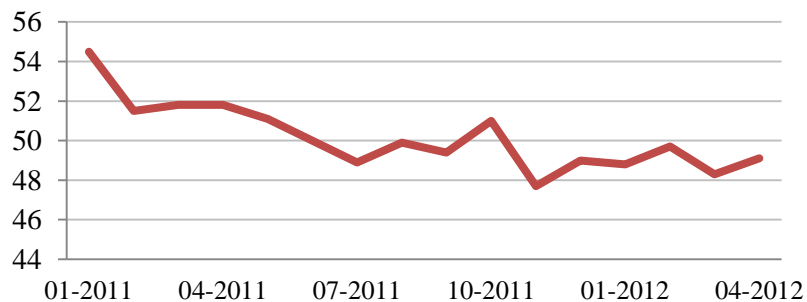
Source: Federal Reserve Bank of St. Louis

# INTERNATIONAL EFFECTS

## China

- Industrial growth slowing at approximately 11.4% versus normal 15%
- Trade to European Union grew 4.7% year-over-year, but fell 1.1% for the first two months of 2012
- Rising domestic labor costs threaten slowing international trade

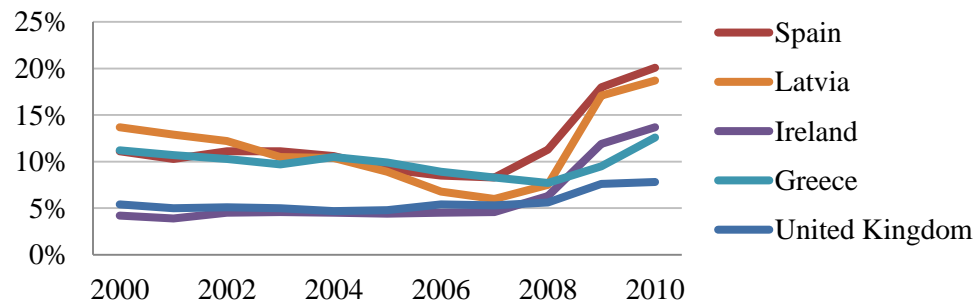
### HSBC Flash Manufacturing PMI



## Europe

- Growth forecasts continue to be cut
- Higher costs of borrowing despite successful Spanish and Italian auctions
- Dutch PM Mark Rutte's resignation signifies trouble in AAA-rated country

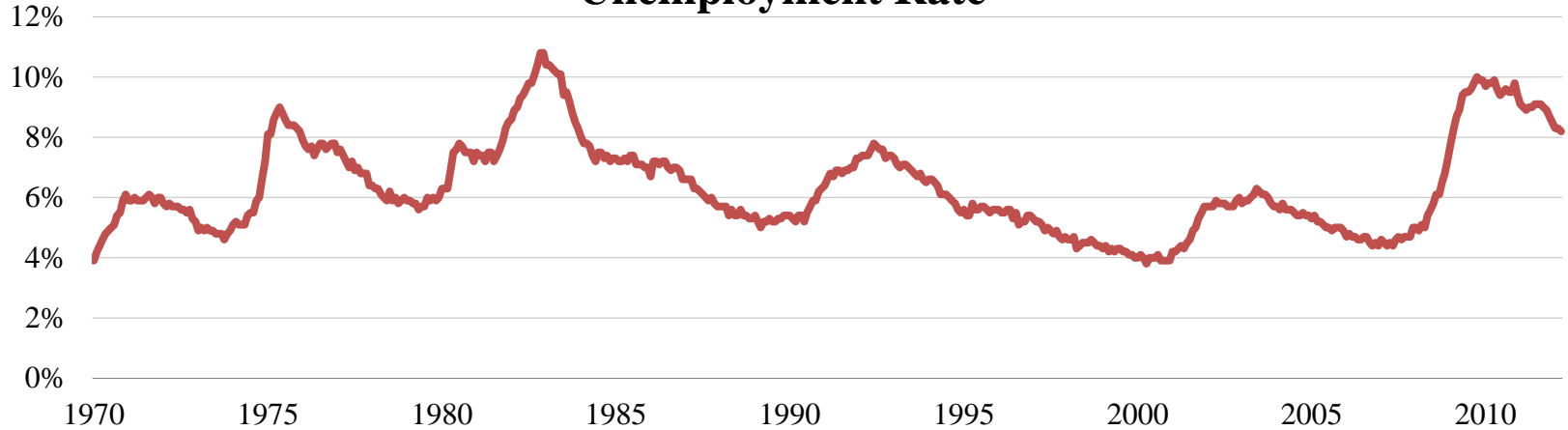
### European Countries' Unemployment Rate



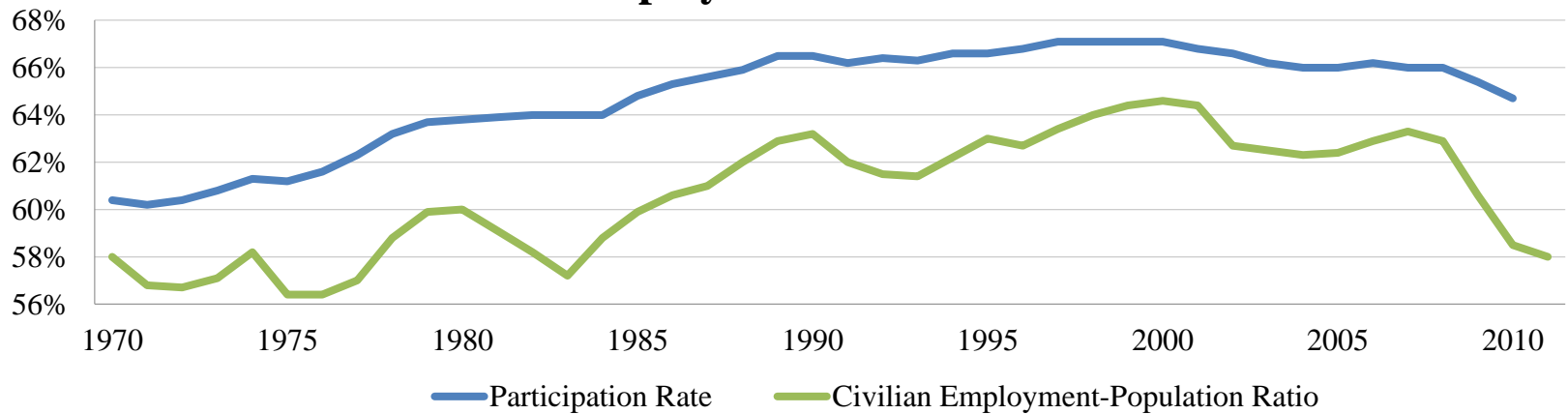
Source: Eurostat, The Economist, BBC News

# UNEMPLOYMENT

## Unemployment Rate

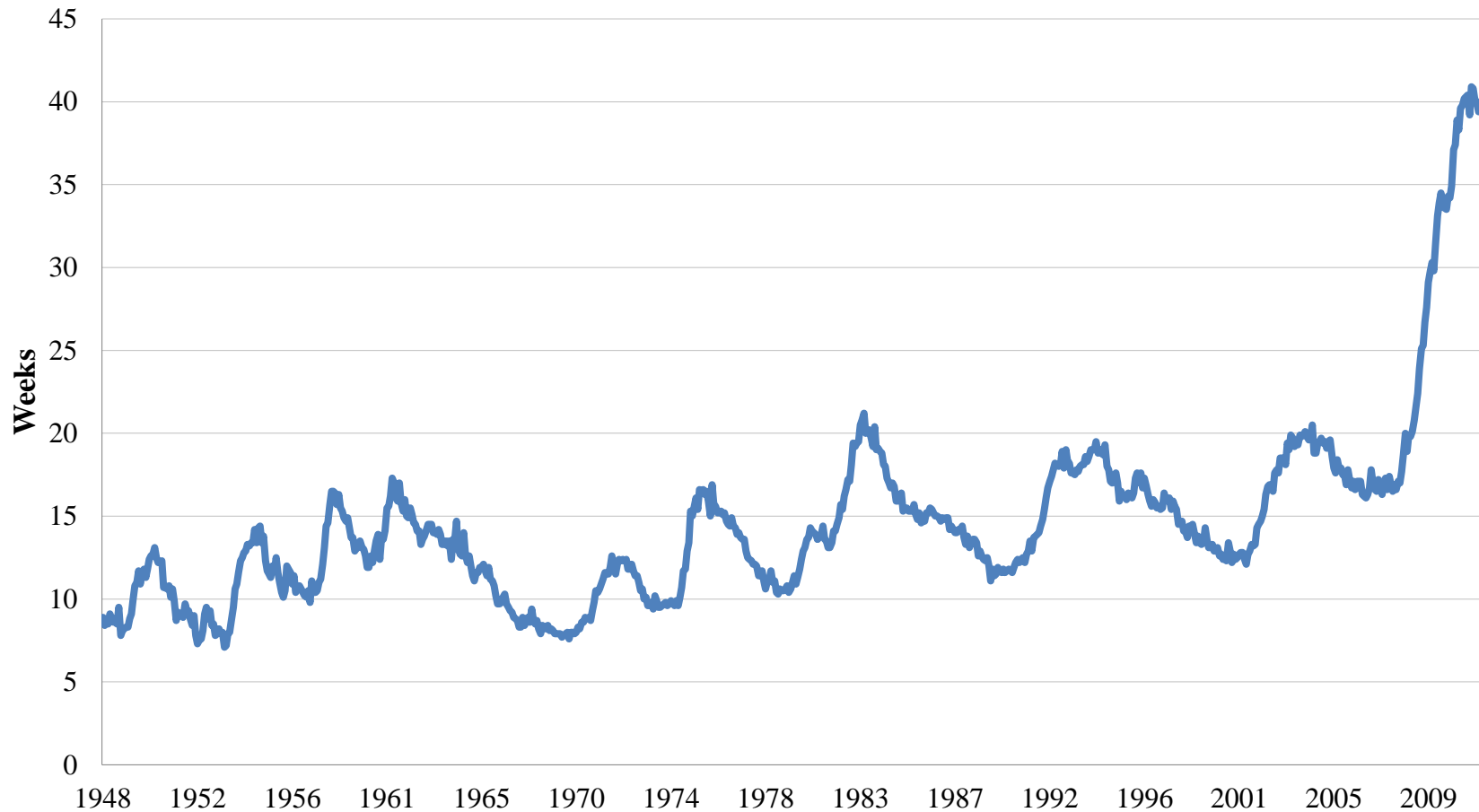


## Employment Ratios



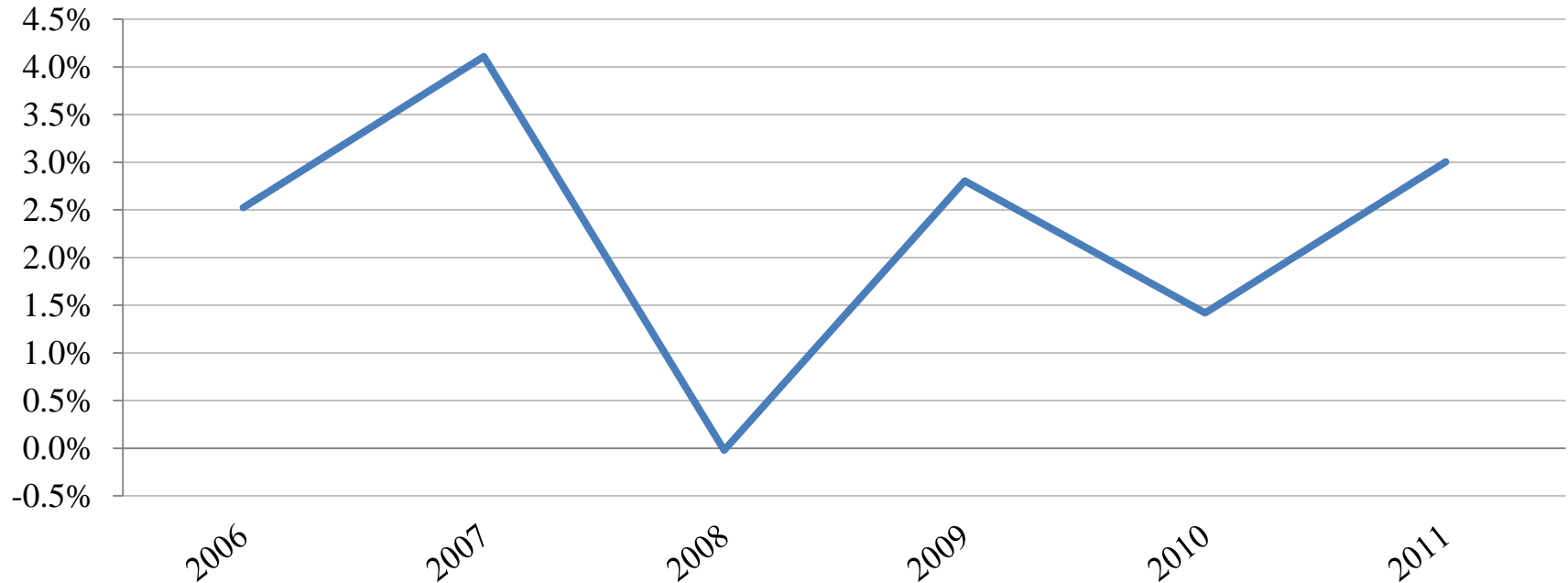
Source: Federal Reserve Bank of St. Louis

## Mean Duration of Unemployment



Source: Federal Reserve Bank of St. Louis

## Consumer Price Index (% change)



- Fed maintaining 0% - 0.25% Fed Funds rate through 2014
- Anticipate 3% annual inflation rate in 2012 due to slower recovery

Source: Federal Reserve Bank of St. Louis

# PORTFOLIO IMPACT

## Less Supportive

- Dick's Sporting Goods
- Activision Blizzard

- Alliant Tech AeroVironment
- Coca-Cola
- eBay
- Apple

- UnitedHealth Group
- Lab Corp
- Williams-Sonoma
- KeyCorp
- PNC Financial
- Discover Financial
- Gilead Sciences
- Google

- CarMax Inc
- Cummins
- Caterpillar
- Flowserve
- Qualcomm
- Teradata Corp

- Dollar Tree
- Potash
- Chevron
- Continental Resources
- Halliburton

## More Supportive

# III. SECURITY ANALYSIS

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# SECURITY SELECTION PROCESS

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- Bottom-up approach to security selection
- Analysts complete seven reports that address the following areas of concern:
  - Company Background
  - Industry Analysis
  - Fundamental Analysis
  - Beta
  - Earnings Forecast
  - Final Valuation and Recommendation
  - Technical Analysis
- All seven reports are considered and each analyst makes a buy, sell, or hold recommendation

# ANALYST AGENDA



| Analyst          | Stock                  | Focus               |
|------------------|------------------------|---------------------|
| Sam DeLemos      | Flowserve              | Fundamentals        |
| David Weinstein  | Apple                  | Earnings            |
| John Madia       | PNC Financial Services | Multiples Valuation |
| Brandon McGrath  | AeroVironment          | Multiples Valuation |
| Adrianna Stasiuk | lululemon athletica    | Discovery           |
| Andy John        | Fuel Systems Solutions | Scenario Analysis   |
| Brady Blackett   | CarMax                 | Technical Analysis  |



**Price:** \$115.93  
**Market Cap:** \$6.3B  
**P/E (FFY):** 11.5x  
**EPS (TTM):** \$7.64  
**Analyst Coverage:** 10

## FLS: 1 Year Price Chart



**FFY = Forward Fiscal Year**  
**TTM = Trailing Twelve Months**

Source: Yahoo! Finance, Analyst Derived

Ratio analysis reveals  
significant management effect

| Key Ratios 2011         |               |
|-------------------------|---------------|
| Return on Equity        | <b>18.81%</b> |
| <i>Industry Average</i> | 11.60%        |
| Capital Turnover        | <b>1.26x</b>  |
| <i>Industry Average</i> | 0.90x         |
| Gross Profit Margin     | <b>33.56%</b> |
| <i>Industry Average</i> | 19.70%        |
| Net Profit Margin       | <b>9.50%</b>  |
| <i>Industry Average</i> | 3.40%         |

- Focus on industries/economies with strong demand
- Protect gross margins through product mix and differentiation
- Significant outperformance on the bottom line
- Low financial risk and operating volatility translate into high risk-adjusted returns

Source: Analyst Derived

## Recommendation - Buy

| Valuation Method                   | Weight | Value    | Contribution |
|------------------------------------|--------|----------|--------------|
| Discounted Cash Flow               | 80%    | \$126.88 | \$101.50     |
| Forward Price/Earnings             | 10%    | \$127.58 | \$12.76      |
| Forward Price/Sales                | 10%    | \$116.69 | \$11.67      |
| Final Valuation                    |        |          | \$125.93     |
| Market Price (4/18/12)             |        |          | \$113.46     |
| <b>Estimated Upside/(Downside)</b> |        |          | <b>11.0%</b> |

### Investment Thesis:

- Demonstrated ability to capture efficiencies and increase sales, while mitigating risks through revenue mix diversification
- Multiple expansion as market recognizes the relative value of this best in breed operator



**Price:** \$603.00  
**Market Cap:** \$563.8B  
**P/E (FCY):** 13.4x  
**EPS (TTM):** \$41.01  
**Analyst Coverage:** 53

## AAPL: 1 Year Price Chart



FCY = Forward Calendar Year  
TTM = Trailing Twelve Months

Source: Yahoo! Finance, Analyst Derived

# EARNINGS

## Highlights

### 2012 Q1 (CY):

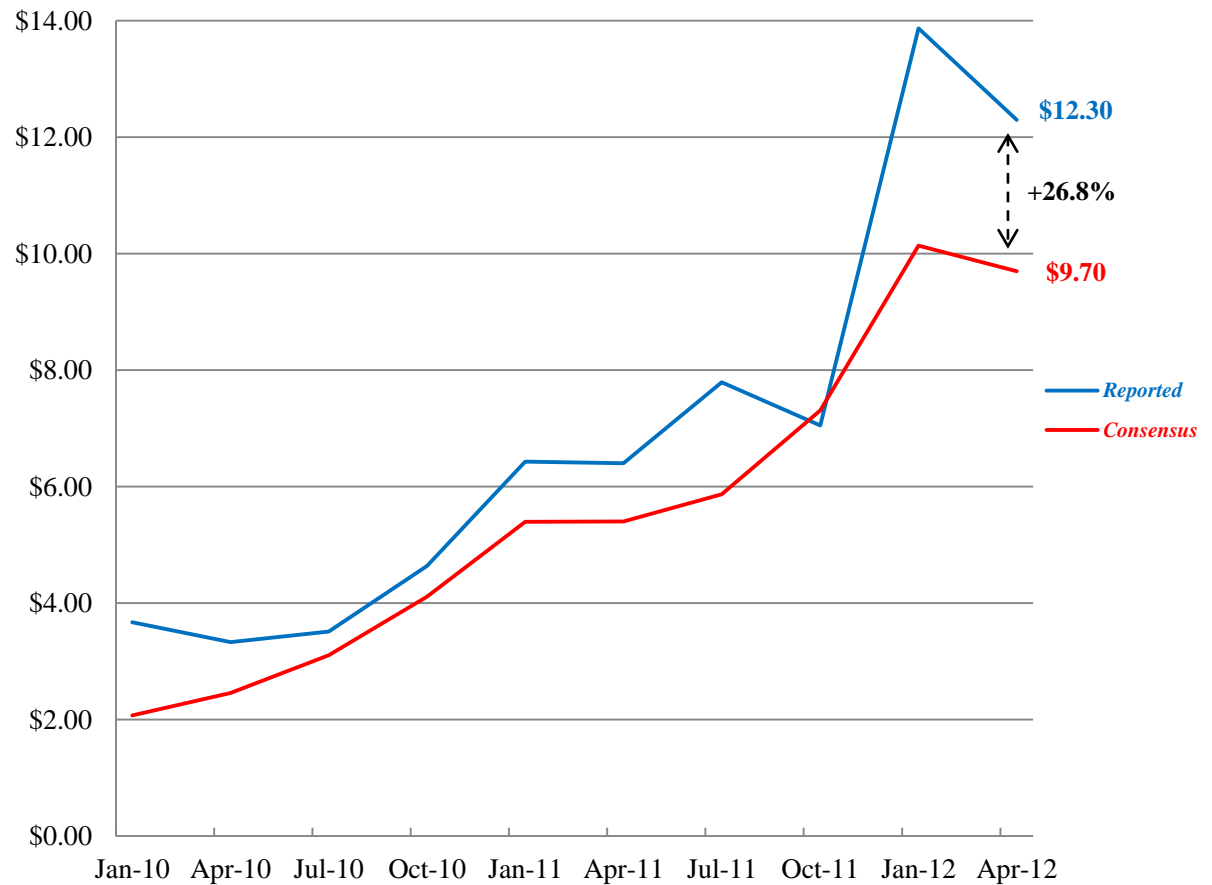
- 35.1M iPhones
- 11.8M iPads
- Gross Margin: 47.4%

### 2011 Q4 (CY):

- 37.0M iPhones
- 15.4M iPads
- Gross Margin: 44.7%



## AAPL: EPS - Reported vs. Consensus

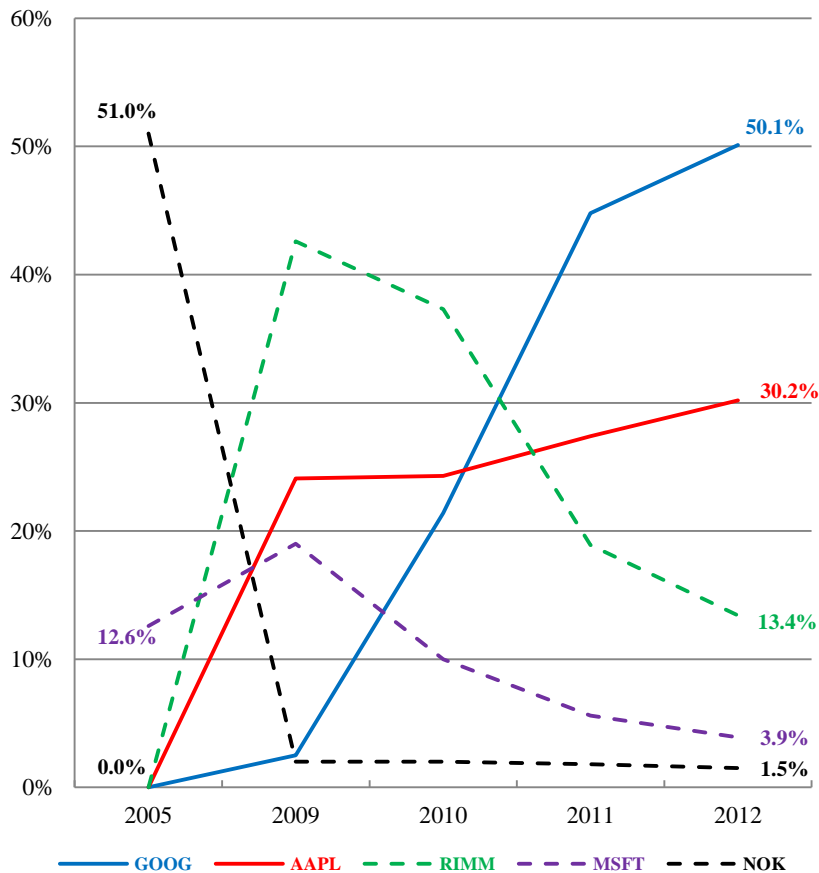


Source: Bloomberg, Sec.gov

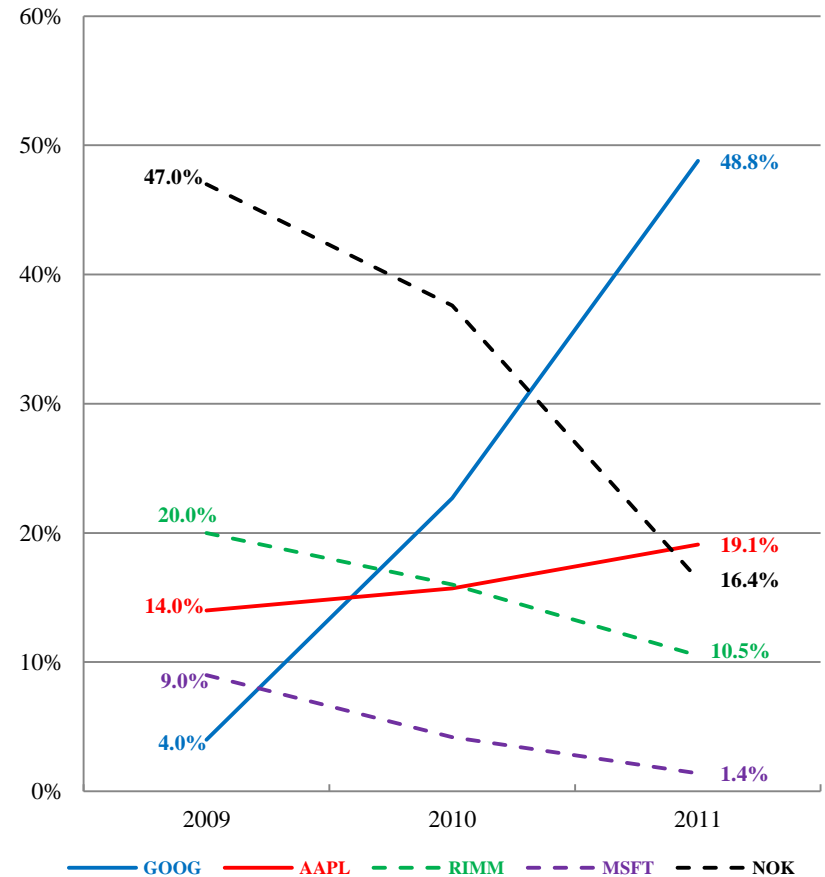
# COMPETITION

## Industry Volatility

### U.S. Smartphone Platform Market Share



### Global Smartphone Platform Market Share



Source: comScore, Nielsen



# HISTORICAL COMPARISON

## MSFT\* vs. AAPL\*\*



\*MSFT price data from Dec-1996 to Dec-2002

\*\*AAPL price data from Apr-2009 to Apr-2012

Source: Yahoo! Finance, Analyst Derived

| Recommendation - Sell              |        |          |                |
|------------------------------------|--------|----------|----------------|
| Valuation Method                   | Weight | Value    | Contribution   |
| Forward Price/Earnings             | 25%    | \$574.73 | \$143.68       |
| Discounted Cash Flow               | 75%    | \$525.86 | \$394.40       |
| Final Valuation                    |        |          | \$538.08       |
| Market Price (4/18/12)             |        |          | \$608.34       |
| <b>Estimated Upside/(Downside)</b> |        |          | <b>(11.6%)</b> |

## Investment Thesis:

- Record earnings bring sky-high expectations in a volatile industry
- Consumer-oriented products lack stickiness
- AAPL is the 800-lb gorilla in the room
- No more Jobs



## PNC: 1 Year Price Chart

**Price:** \$66.78  
**Market Cap:** \$35.3B  
**P/E (FFY):** 10.3x  
**EPS (TTM):** \$6.05  
**Analyst Coverage:** 38



**FFY = Forward Fiscal Year**  
**TTM = Trailing Twelve Months**

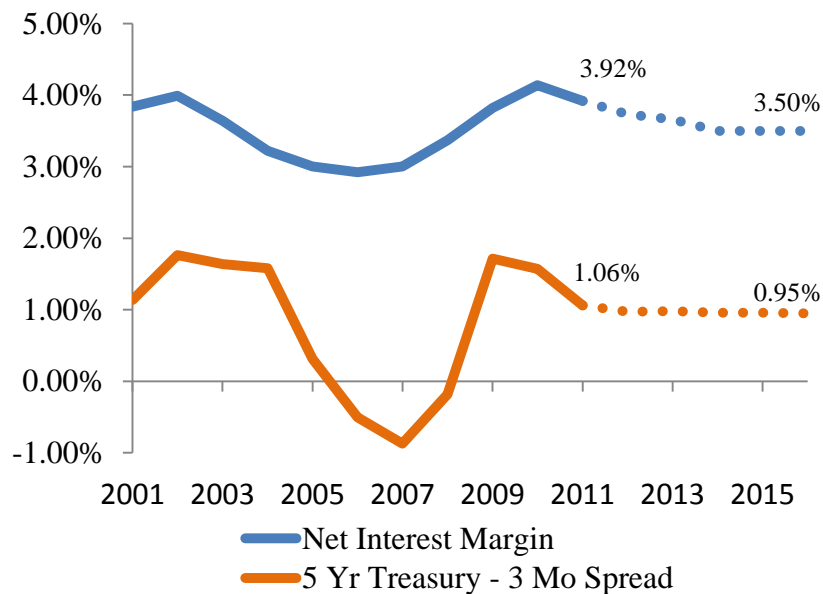
Source: Bloomberg, Yahoo! Finance

# KEY ASSUMPTIONS

## Net Interest Margin

- Margin compression
- ST rates near zero
- Increased industry competition

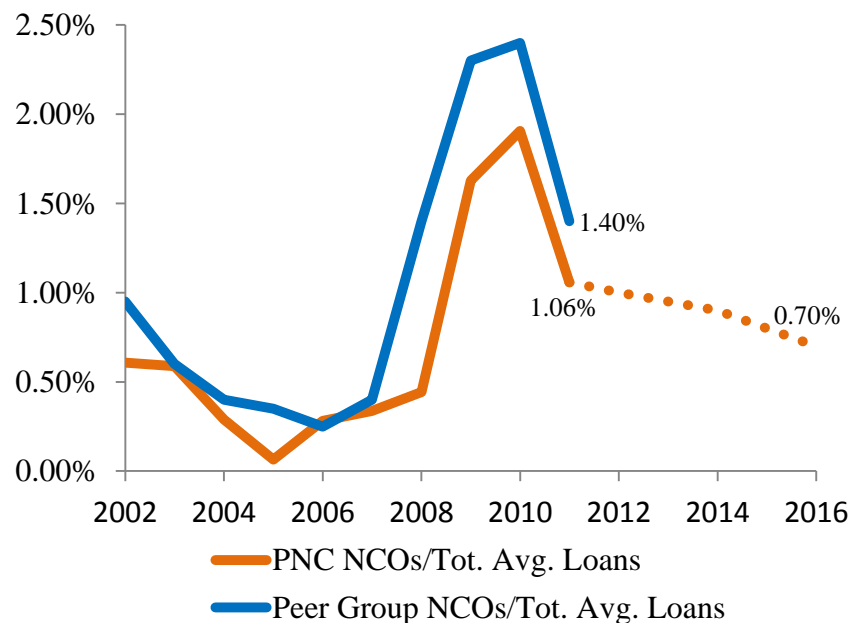
**PNC: NIM and 5 Year Treasury – 3 Month LIBOR Spread Analysis**



## Net Charge-Offs

- Historically less than peer group
- Return to normal levels with time

**PNC: Net Charge-Offs to Average Total Loans Analysis**



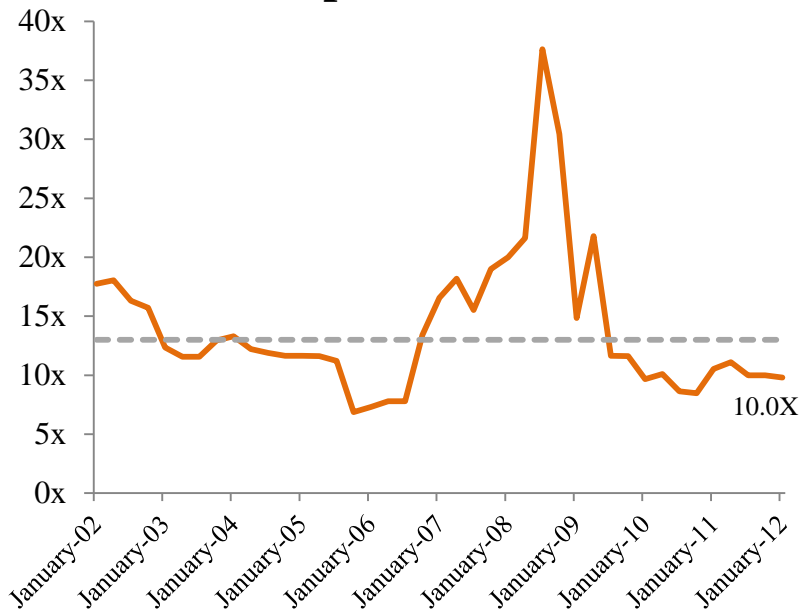
Source: Capital IQ, Company Financial Statements

# MULTIPLES ANALYSIS

## Implied Forward P/E

- Currently trading at 10.0x
- Normal trading at 13.3x

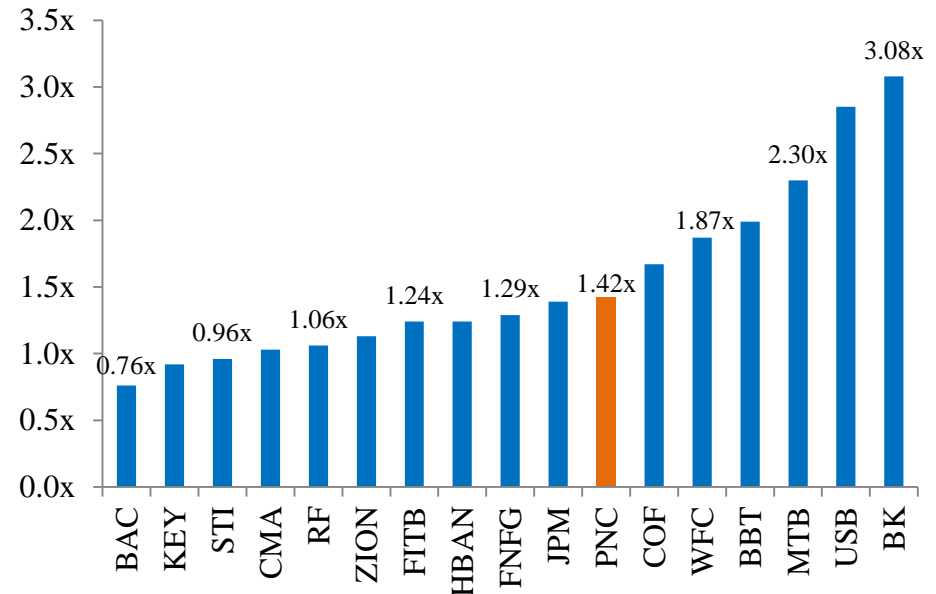
### PNC: Implied Forward P/E



## Price / Tangible Book Value

- Currently trading at 1.42x
- Peer group mean: 1.54x
- Peer group median: 1.27x

### PNC: Price / Tangible Book Value



Source: Capital IQ, Company Financial Statements

| Recommendation - Buy               |        |         |              |
|------------------------------------|--------|---------|--------------|
| Valuation Method                   | Weight | Value   | Contribution |
| Forward Price/Earnings             | 25%    | \$80.80 | \$20.20      |
| Price/Tangible Book Value          | 25%    | \$71.01 | \$17.75      |
| Discounted Cash Flow to Equity     | 50%    | \$87.21 | \$43.61      |
| Final Valuation                    |        |         | \$81.56      |
| Market Price (4/18/12)             |        |         | \$63.78      |
| <b>Estimated Upside/(Downside)</b> |        |         | <b>27.9%</b> |

## Investment Thesis:

- Strong performing assets and extremely well capitalized
- Ability to make acquisitions at good multiples, disciplined to pass unless a cultural fit



**Price:** \$24.40  
**Market Cap:** \$532M  
**P/E (FFY):** 16.8x  
**EPS (TTM):** \$1.36  
**Analyst Coverage:** 14

## AVAV: 1 Year Price Chart



**FFY = Forward Fiscal Year**  
**TTM = Trailing Twelve Months**

Source: Bloomberg, YahooFinance, Analyst Derived

# BUSINESS DESCRIPTION

## Unmanned Aircraft Systems (UAS)



- Focus on production of Small UAS
- Awarded every major Small UAS contract by the Dept. of Defense

## Electric Vehicle Charging



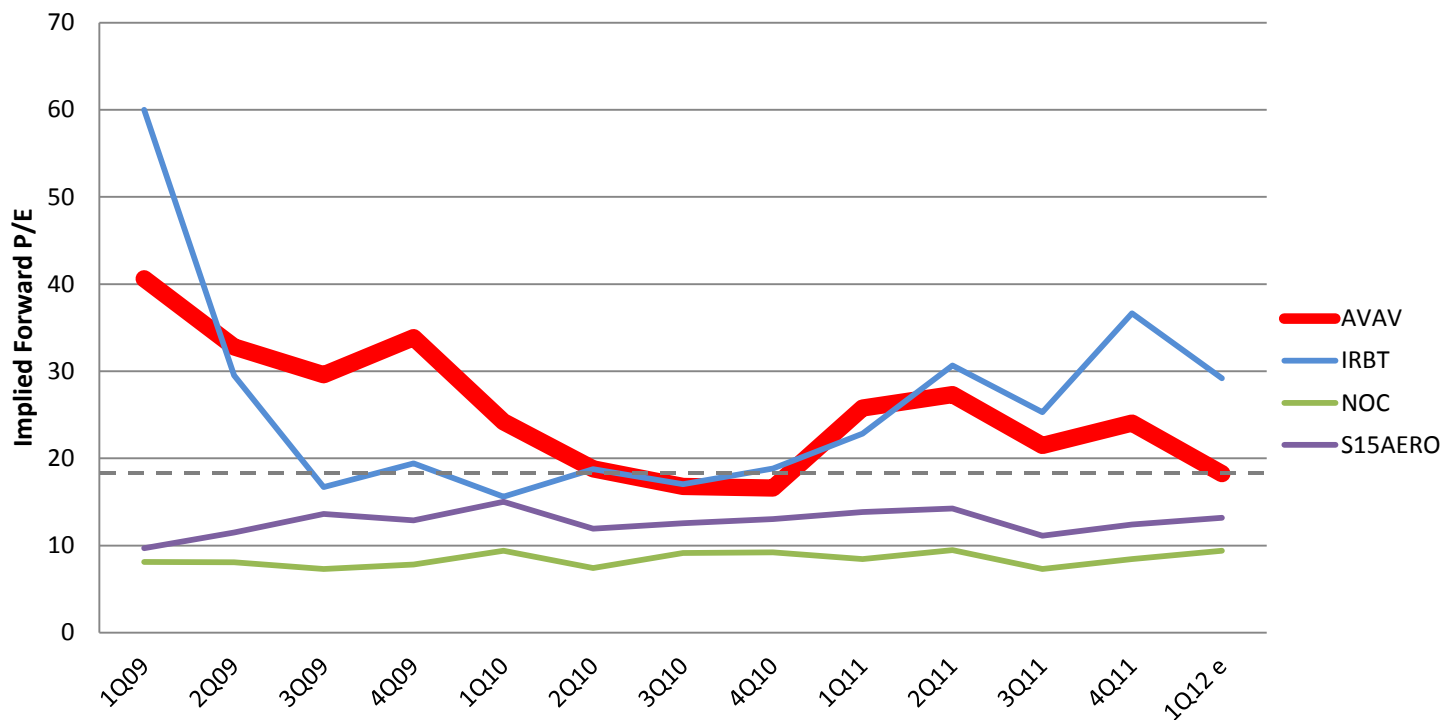
- Passenger and industrial vehicle charging stations
- Partner with auto manufacturers

Source: Company Financials, Analyst



# MULTIPLE ANALYSIS: P/E

## Implied Forward P/E Comparison



### AVAV

|                                 |                |
|---------------------------------|----------------|
| Subjective forward P/E Multiple | 19.0x          |
| FYE 2013 EPS                    | \$1.43         |
| <b>Implied Value</b>            | <b>\$27.17</b> |

Source: Analyst Derived

# MULTIPLE ANALYSIS: EV / EBITDA



## Takeover Target: EV / EBITDA Multiple

|   | Multiple | Weight | Contribution   |
|---|----------|--------|----------------|
| UIC EV / EBITDA Multiple                          | 12.0x    | 60%    | 7.2x           |
| Avg. Multiple 2011 Defense                        | 9.5x     | 40%    | 3.8x           |
| <b>Subjective EV / EBITDA Multiple</b>            |          |        | <b>11.0x</b>   |
| <b>AVAV LTM EBITDA (\$ millions)</b>              |          |        | <b>\$57</b>    |
| <b>AVAV Implied EV</b>                            |          |        | <b>\$630</b>   |
| LTD (\$ millions)                                 |          |        | \$12           |
| Cash (\$ millions)                                |          |        | \$154          |
| <b>Net Cash/(Debt) (\$ millions)</b>              |          |        | <b>\$143</b>   |
| <b>Implied MV of Equity (\$ millions)</b>         |          |        | <b>\$773</b>   |
| <b>Weighted Average Diluted Shares (millions)</b> |          |        | <b>22.2</b>    |
| <b>Implied Value Per Share</b>                    |          |        | <b>\$34.81</b> |
| Stock Price (4/18/12) voting day                  |          |        | \$25.08        |
| <b>Control Premium</b>                            |          |        | <b>38.80%</b>  |

Source: Capital IQ, Fennebrequ & Co., Analyst Derived

## Recommendation - Buy

| Valuation Method                   | Weight | Value   | Contribution |
|------------------------------------|--------|---------|--------------|
| Forward Price/Earnings             | 35%    | \$27.14 | \$9.50       |
| EV/EBITDA                          | 35%    | \$34.81 | \$12.18      |
| Discounted Cash Flow               | 30%    | \$48.58 | \$14.57      |
| Final Valuation                    |        |         | \$36.25      |
| Market Price (4/18/12)             |        |         | \$25.08      |
| <b>Estimated Upside/(Downside)</b> |        |         | <b>44.5%</b> |

### Investment Thesis:

- Positioned to capitalize from high growth in UAS and electric vehicle markets
- Limited downside due to relative insulation from budget cuts and stronghold on small UAS with DOD



**Price:** \$74.71  
**Market Cap:** \$10.9B  
**P/E (FFY):** 37.6x  
**EPS (TTM):** \$1.29  
**Analyst Coverage:** 25

## LULU: 1 Year Price Chart



**FFY = Forward Fiscal Year**  
**TTM = Trailing Twelve Months**

Source: Yahoo! Finance

# FORECAST IMPLICATIONS

## Disciplined Growth

- 300+ stores by 2016
- Showroom model
- \$2,000 sales/ft<sup>2</sup> in 2011
- High energy, “kitchen party” feel

## Economic Moat



Source: Company SEC filings

## Assistant Store Manager

**Nicole Crippen** – Assistant Manager,  
SoHo store, NYC



## Channel Check

**Customer** – North Halsted Street store,  
Chicago, IL



Source: Analyst

## Recommendation – Don't Buy

| Valuation Method                   | Weight | Value   | Contribution  |
|------------------------------------|--------|---------|---------------|
| Forward Price/Earnings             | 30%    | \$63.87 | \$19.16       |
| Forward Price/Sales                | 30%    | \$83.58 | \$25.07       |
| Price/Book Value                   | 10%    | \$87.91 | \$8.79        |
| Discounted Cash Flow               | 30%    | \$58.07 | \$17.42       |
| Final Valuation                    |        |         | \$70.45       |
| Market Price (4/18/12)             |        |         | \$74.78       |
| <b>Estimated Upside/(Downside)</b> |        |         | <b>(6.0%)</b> |

### Investment Thesis:

- Great company, bad stock
- Well managed company slated for high growth
- Currently trading at rich multiples

Source: Analyst

# FUEL SYSTEMS SOLUTIONS



**Price:** \$24.12  
**Market Cap:** \$482.7M  
**P/E (FFY):** 41.6x  
**EPS (TTM):** \$0.26  
**Analyst Coverage:** 7

## FSYS: 1 Year Price Chart



**FFY = Forward Fiscal Year**  
**TTM = Trailing Twelve Months**

Source: Bloomberg, Capital IQ, Analyst Derived



# SCENARIO ANALYSIS

Worst

Base

Best

AFV technology unpopular

AFV adoption slow, steady

Legislation: NAT GAS act

FSYS sales limited to Fleet  
vehicle, Industrial buyers

Steady infrastructure build:  
CLNE, GE, CHK

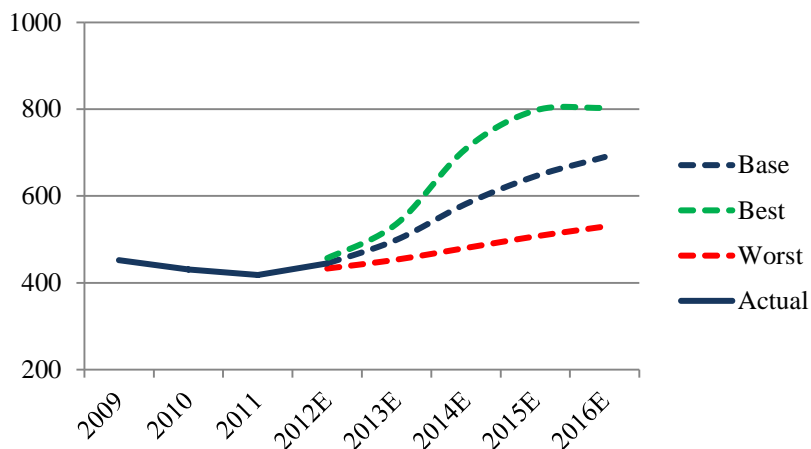
Tech: Leapfrogged by  
competition

Ford, GM relationships

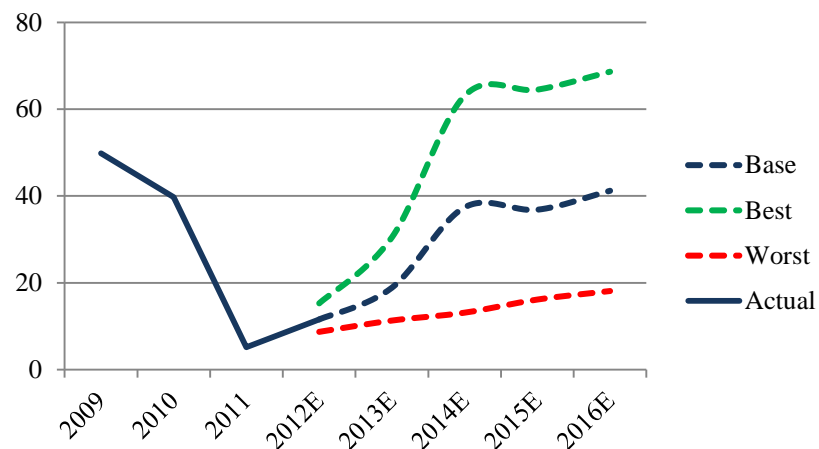
No US government catalyst

# SCENARIO ANALYSIS

## Revenue (\$M)



## Net Income (\$M)



## US Light Vehicle Sales Forecast

|       | 2011  | 2012E | 2013E  | 2014E  | 2015E  | 2016E  |
|-------|-------|-------|--------|--------|--------|--------|
| Base  | 5,630 | 6,788 | 11,668 | 23,199 | 35,785 | 50,691 |
| Best  | 5,630 | 7,367 | 16,230 | 48,682 | 67,553 | 71,454 |
| Worst | 5,630 | 6,209 | 8,020  | 8,771  | 10,156 | 11,036 |

Source: Company Financials, Analyst Derived

## Related Party Transactions

- **\$34M** in Related Party Transactions (2011)
- CEO/family has 30%+ ownership: **\$17M**
- CEO/family has 85%+ ownership: **\$3M**
- Common themes in '09-'10

## Other Governance Issues

- \$1.8M/yr in Lease payments to CEO/family
- \$1.6M in loans to Rohan BRC (related party), **all written off**
- CEO serves on 7 related party Boards
- Foreign Subs: Business Interests in Iran

*“We cannot assure you that the terms of the transactions with these various related parties are on terms as favorable to us as those that could have been obtained in arm's-length transactions with third parties...” – FSYS 2011 10-K*

Source: Company Financials

| Recommendation – Don't Buy         |        |         |              |
|------------------------------------|--------|---------|--------------|
| Valuation Method                   | Weight | Value   | Contribution |
| DCF - Base                         | 30%    | \$23.25 | \$6.98       |
| DCF - Best                         | 5%     | \$50.07 | \$2.50       |
| DCF - Worst                        | 30%    | \$11.20 | \$3.36       |
| Takeover Valuation                 | 15%    | \$47.13 | \$7.07       |
| Forward Price/Sales                | 10%    | \$26.47 | \$2.65       |
| Forward Price/Earnings             | 10%    | \$21.80 | \$2.18       |
| Final Valuation                    |        |         | \$24.74      |
| Market Price (4/18/12)             |        |         | \$22.05      |
| <b>Estimated Upside/(Downside)</b> |        |         | <b>14.5%</b> |

## Investment Thesis:

- Bullish on company and industry fundamentals
- **Don't Buy for FSYS** => weak Corporate Governance, high fraud risk



**Price:** \$31.30  
**Market Cap:** \$7.1B  
**P/E (FFY):** 14.8x  
**EPS (TTM):** \$1.79  
**Analyst Coverage:** 15

## KMX: 1 Year Price Chart



**FFY = Forward Fiscal Year**  
**TTM = Trailing Twelve Months**

Source: Yahoo! Finance

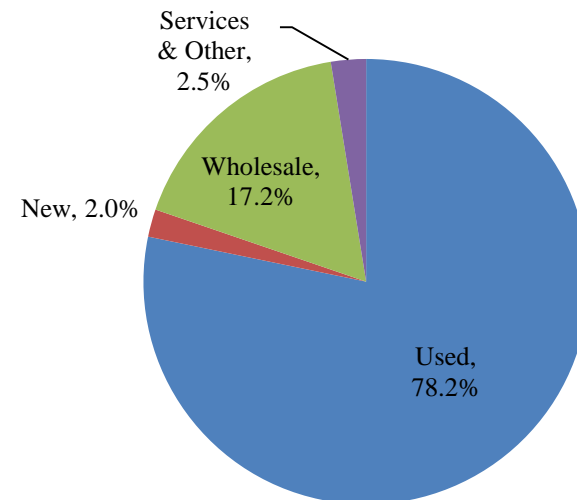
# COMPANY BACKGROUND

## Description

- Largest and only nationwide used car retailer in the USA
  - 99%+ sale rate of used car inventory
- Major player in auction business
  - 97% sale rate at wholesale
- 110 stores in 52 US markets
- Double the market share of nearest competitor
- Distinct competitive advantages
  - No haggle pricing
  - Pricing algorithm
  - Reconditioning process
  - National scale

## Revenue Information

- \$10B in revenues
- 7.4% revenue CAGR 2006 – 2011 vs. industry decline of 6.7%/year
- 90% of revenue from 0 – 6 yr. old cars with less than 60k miles



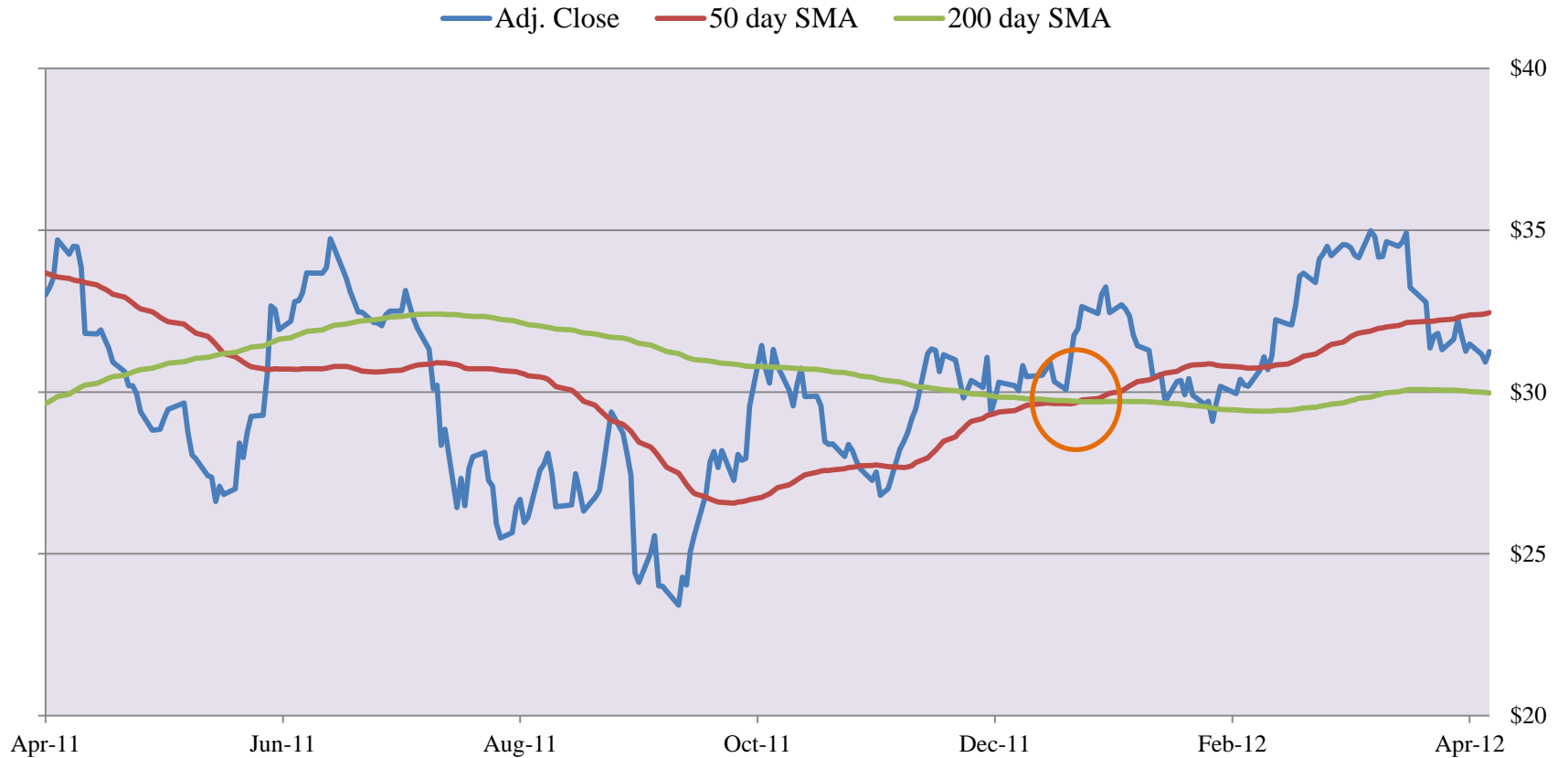
FY2012 revenue by type

Source: KMX SEC filings, IBISWorld

# TECHNICAL ANALYSIS



## 50/200 Day Moving Average – 1 Year



**BUY:** Golden Cross in early 2012

Source: Yahoo! Finance

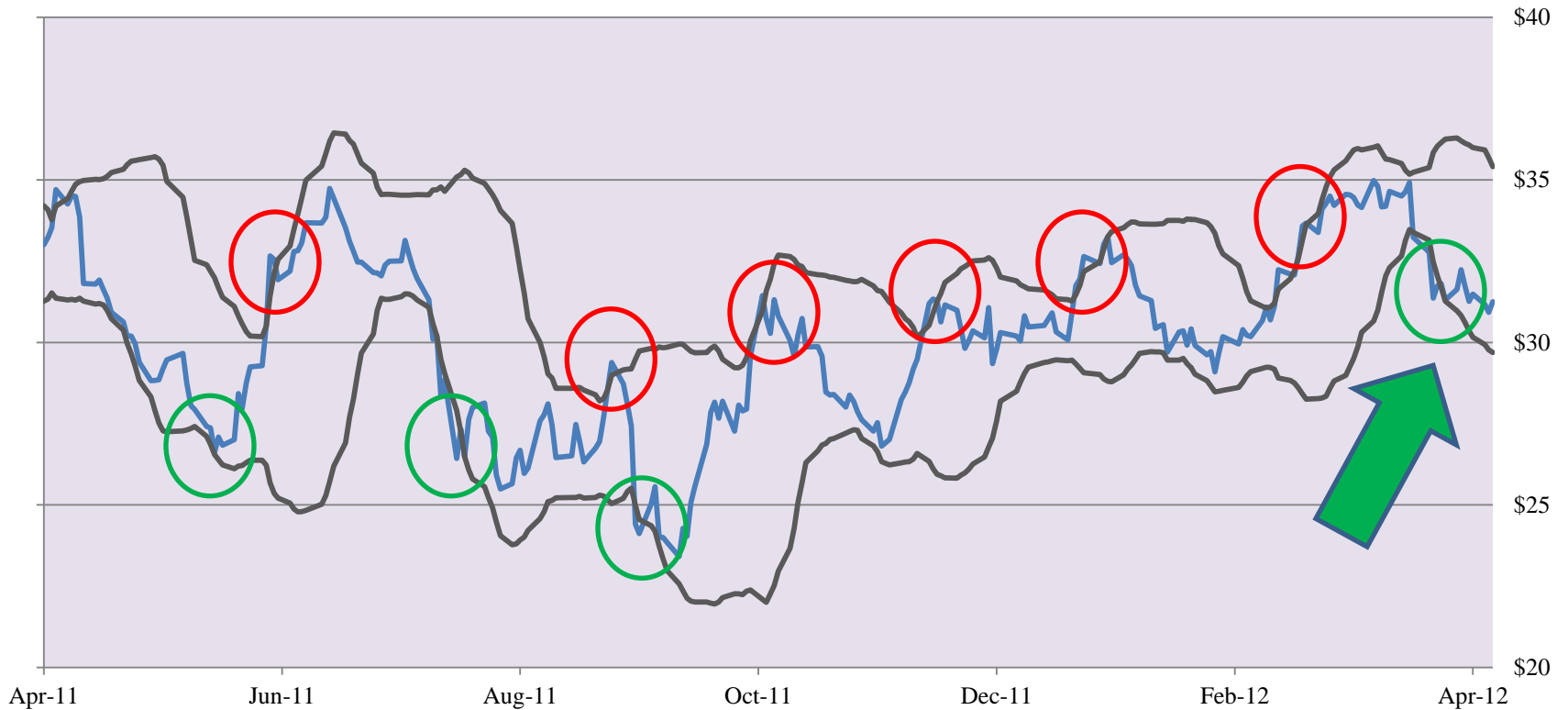
# TECHNICAL ANALYSIS

## Bollinger Bands – 1 Year

BUY Signal

— Adj. Close — -2 STDEV — +2 STDEV

SELL Signal



**BUY:** Crossed lower band in April

Source: Yahoo! Finance



## Support & Resistance – 1 Year



**BUY:** Currently trading at support level

Source: Yahoo! Finance

| Recommendation - Buy               |        |         |              |
|------------------------------------|--------|---------|--------------|
| Valuation Method                   | Weight | Value   | Contribution |
| Discounted Cash Flow               | 60%    | \$39.75 | \$23.85      |
| Forward Price/Earnings             | 30%    | \$34.57 | \$10.37      |
| Forward Price/Sales                | 10%    | \$33.27 | \$3.33       |
| Final Valuation                    |        |         | \$37.55      |
| Market Price (4/18/12)             |        |         | \$31.74      |
| <b>Estimated Upside/(Downside)</b> |        |         | <b>18.3%</b> |

## Investment Thesis:

- Most dominant player in the industry with increasing competitive advantages
- Room in market to more than double its store count

# IV. PORTFOLIO PERFORMANCE

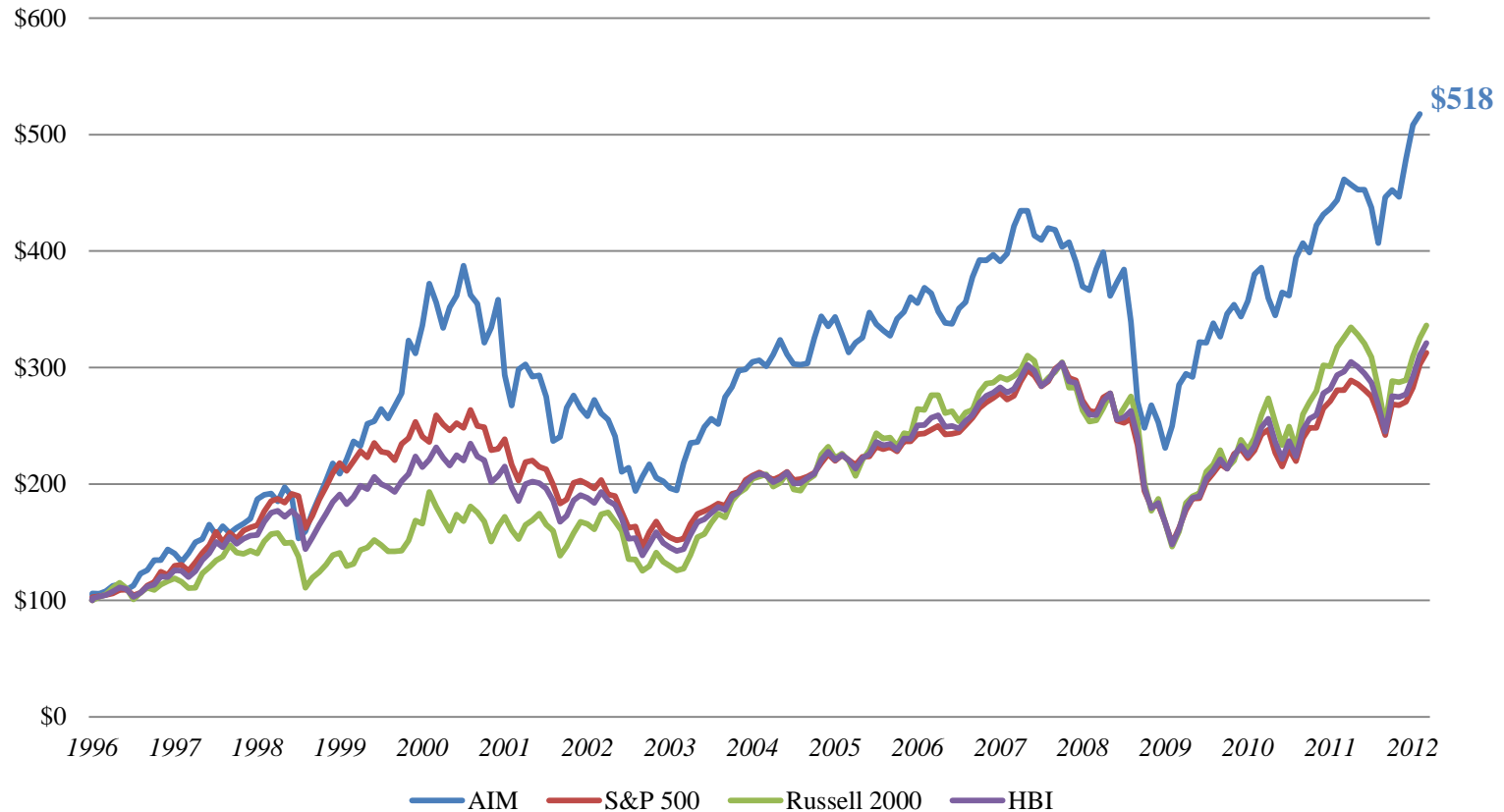
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# RETURN COMPARISON



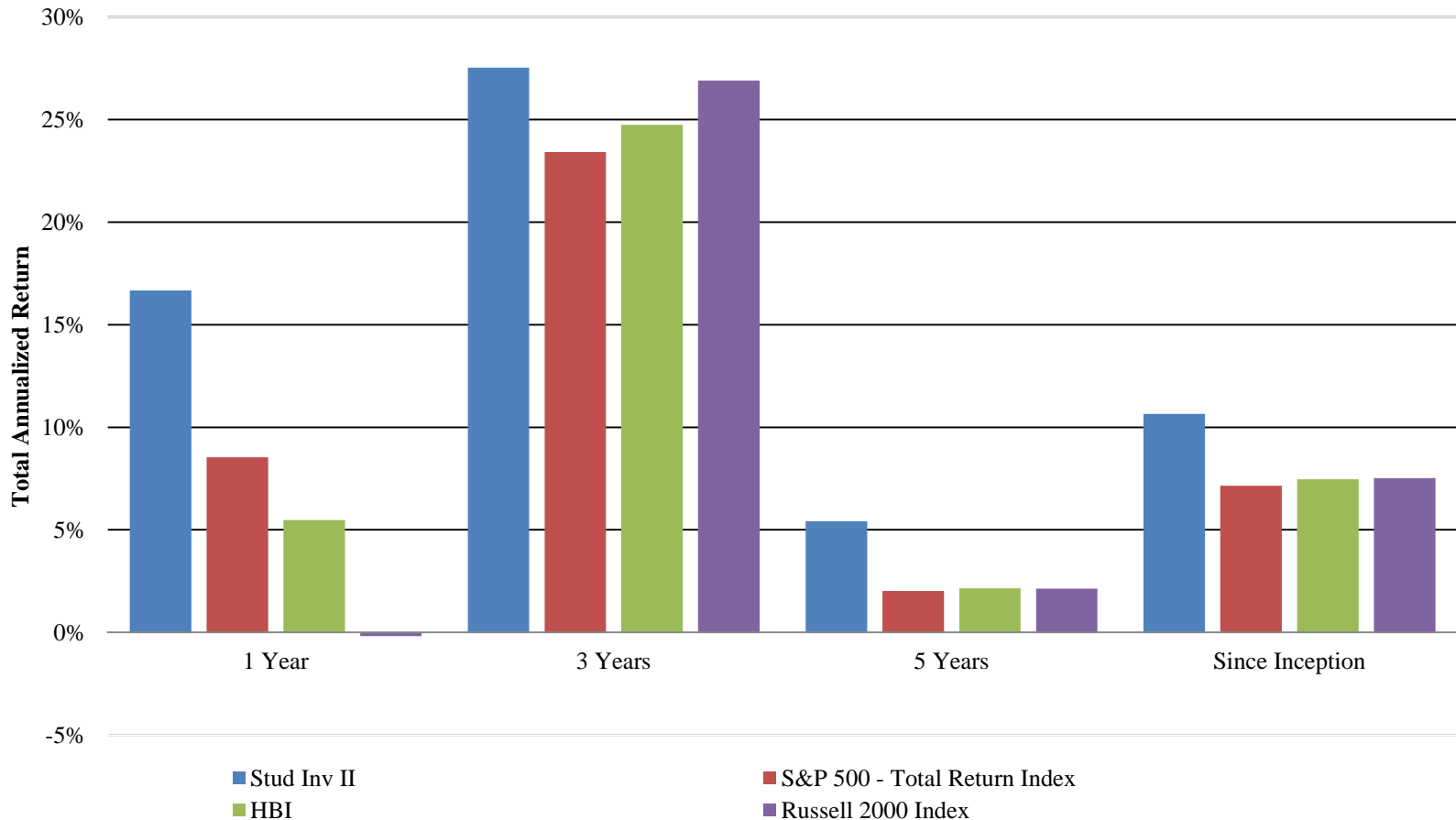
## Performance of \$100 Invested on 1/1/96



Source: Mellon Workbench

# HISTORICAL RETURNS

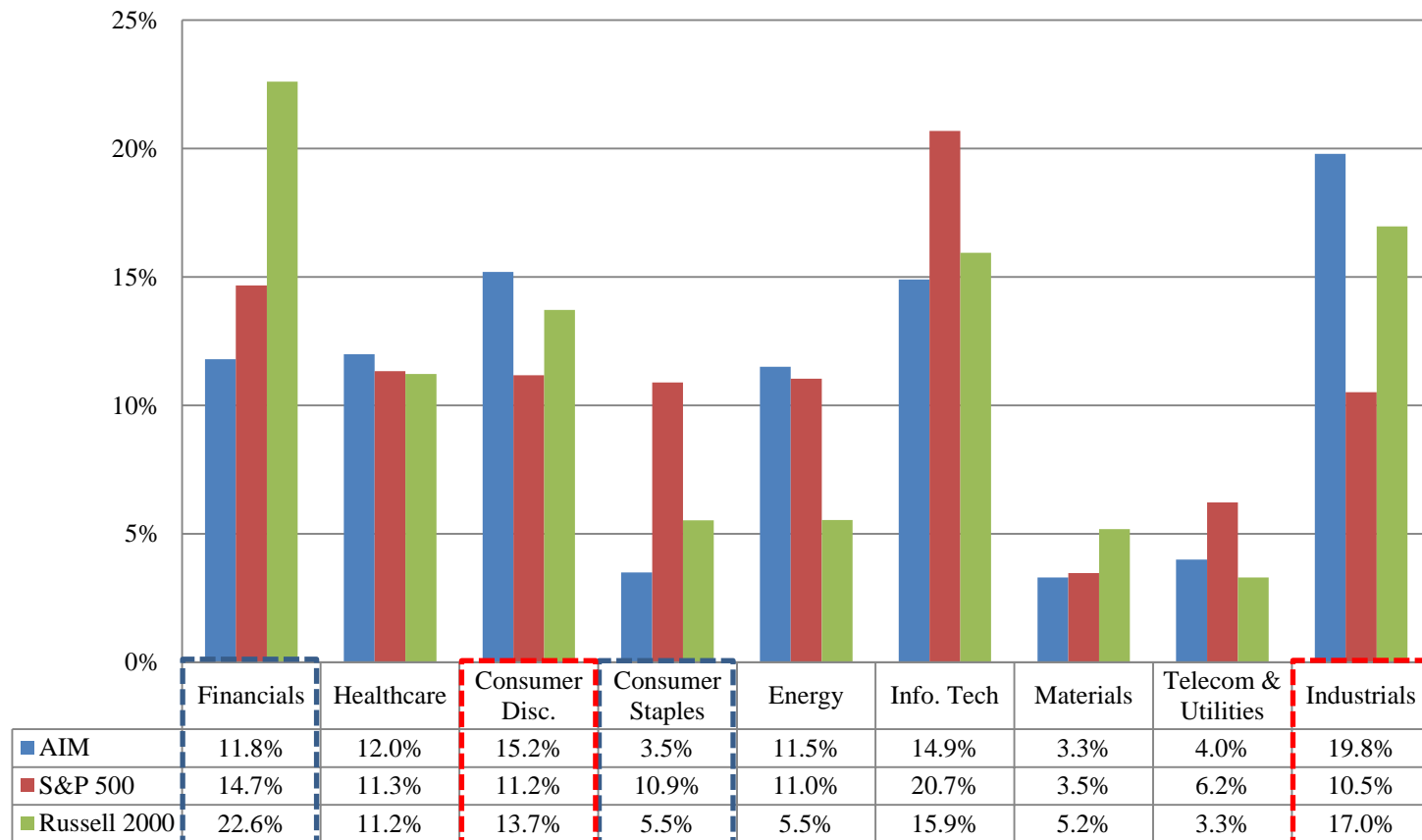
## AIM Portfolio Returns vs. Benchmark Returns (Annualized)



Source: Mellon Workbench

# SECTOR ALLOCATIONS

## AIM Sector Weights vs. Benchmarks



\*As of 04/20/2012

Source: Mellon Workbench

## Sharpe Ratio

- Risk-Reward performance measure, indicating excess return per unit of variation in investment returns

$$S = \frac{(R_p - R_f)}{\sigma_p}$$

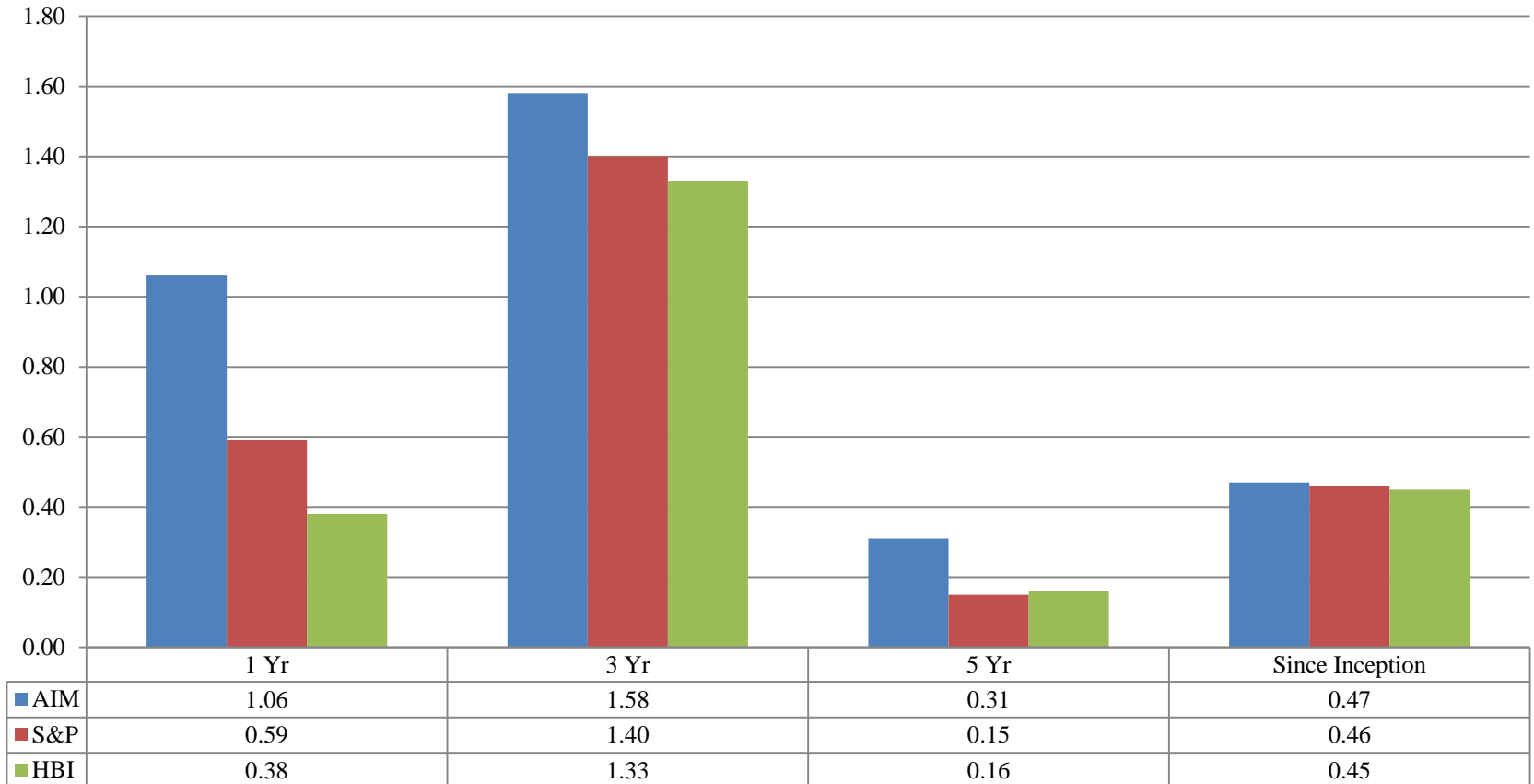
Where:

$R_p$  is the portfolio return

$R_f$  is the risk-free rate

$\sigma_p$  is the standard deviation of the portfolio

## Sharpe Ratio Comparison



Source: Mellon Workbench



## Jensen's Alpha

- Measures Portfolio's Excess Return on a Risk Adjusted Basis (CAPM)
- Formula:

$$\alpha_{\text{Jensen}} = R_p - [R_f + \beta_p * (R_M - R_f)]$$

Where:

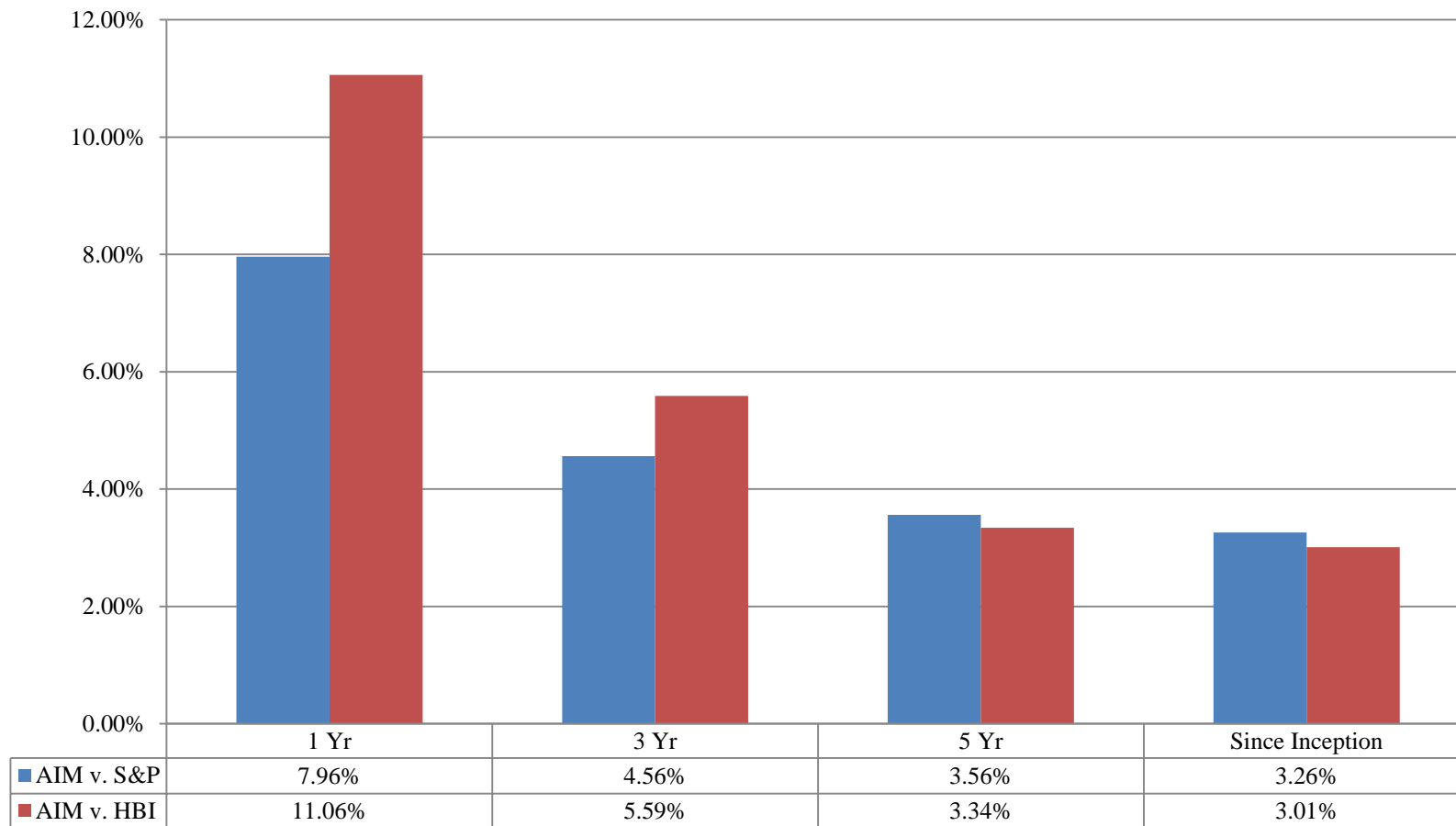
$R_p$  is the portfolio return

$R_f$  is the risk-free rate

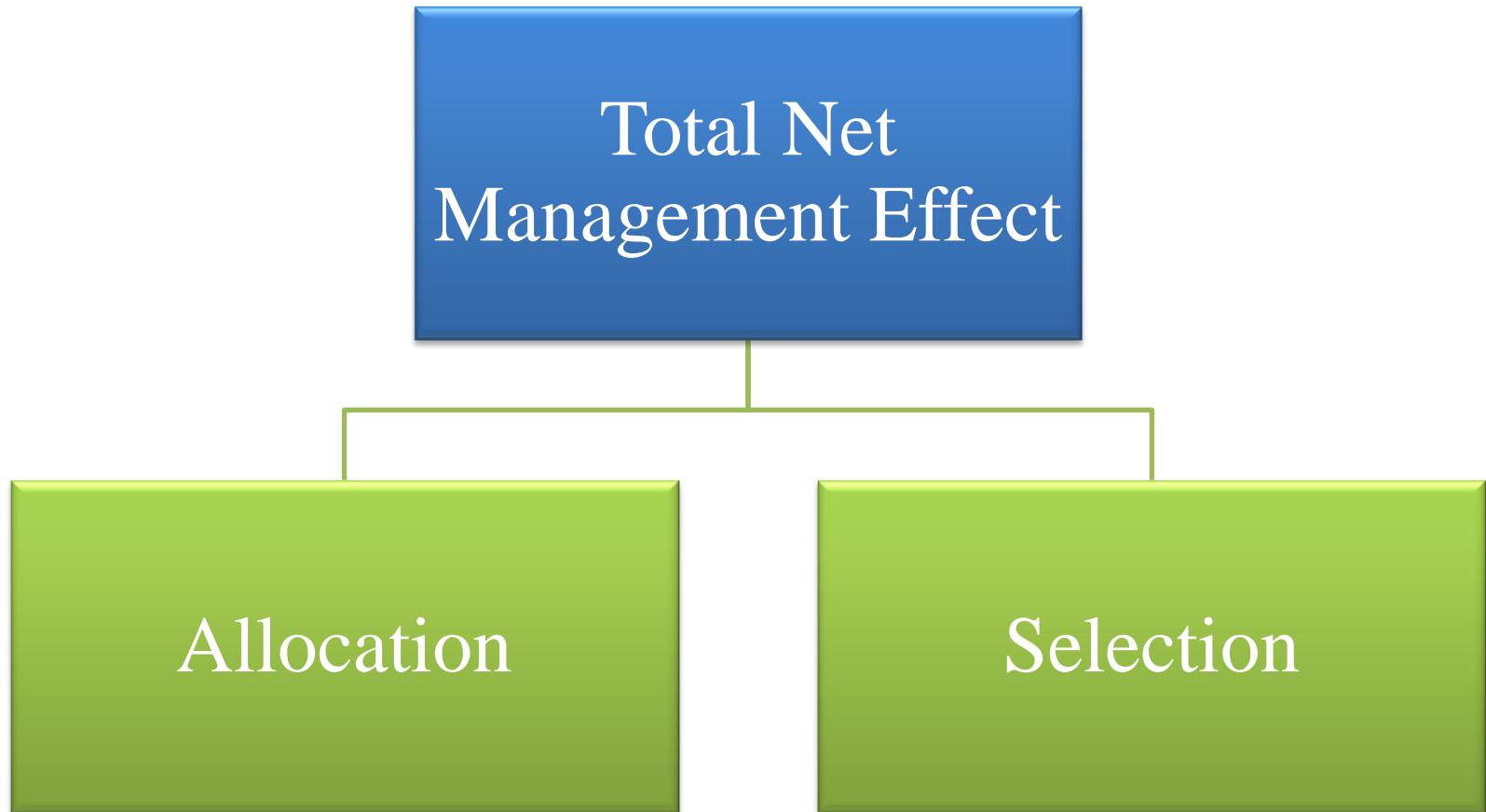
$\beta_p$  is the portfolio beta

$R_M$  is the market return

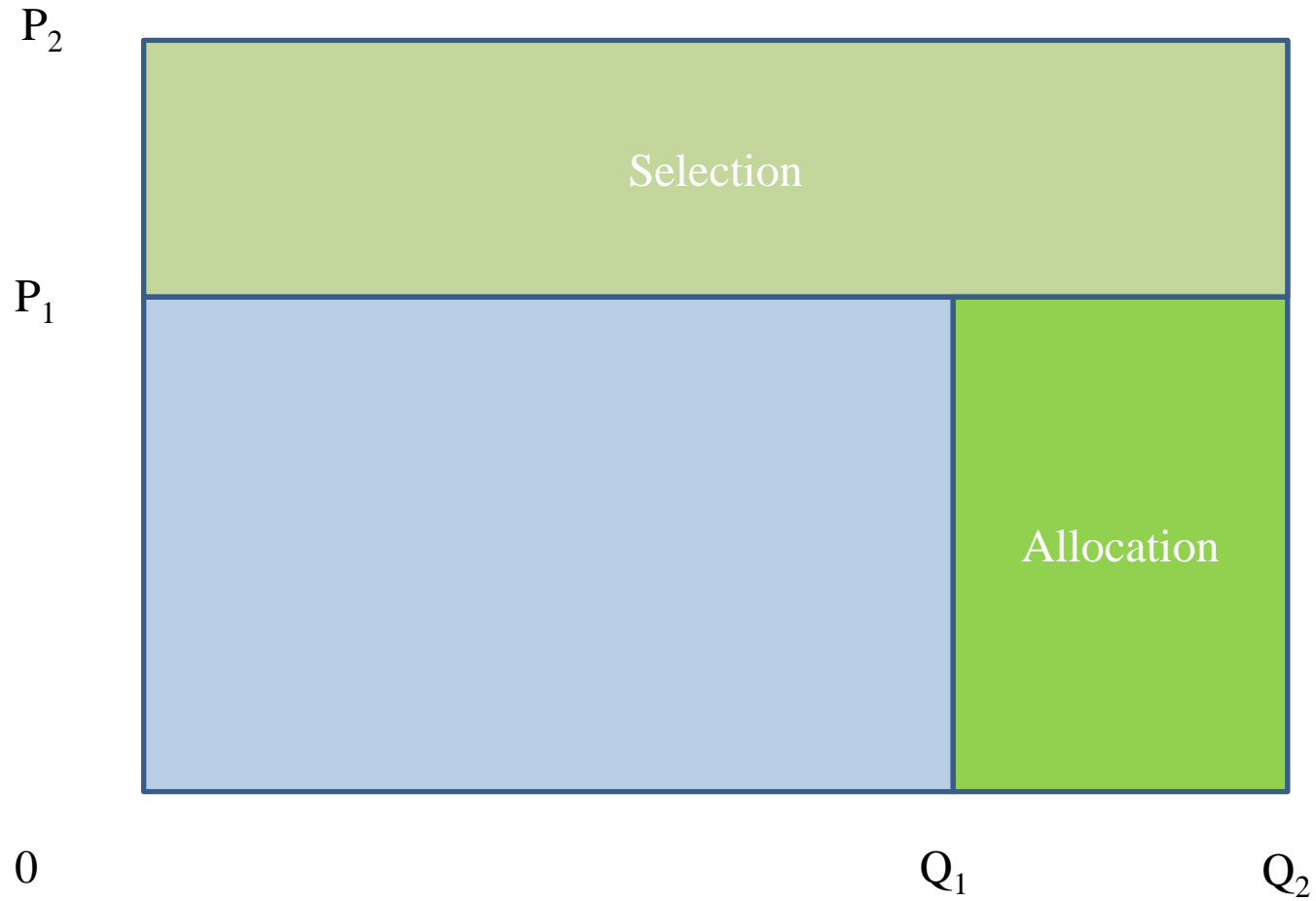
## Annualized Jensen's Alpha



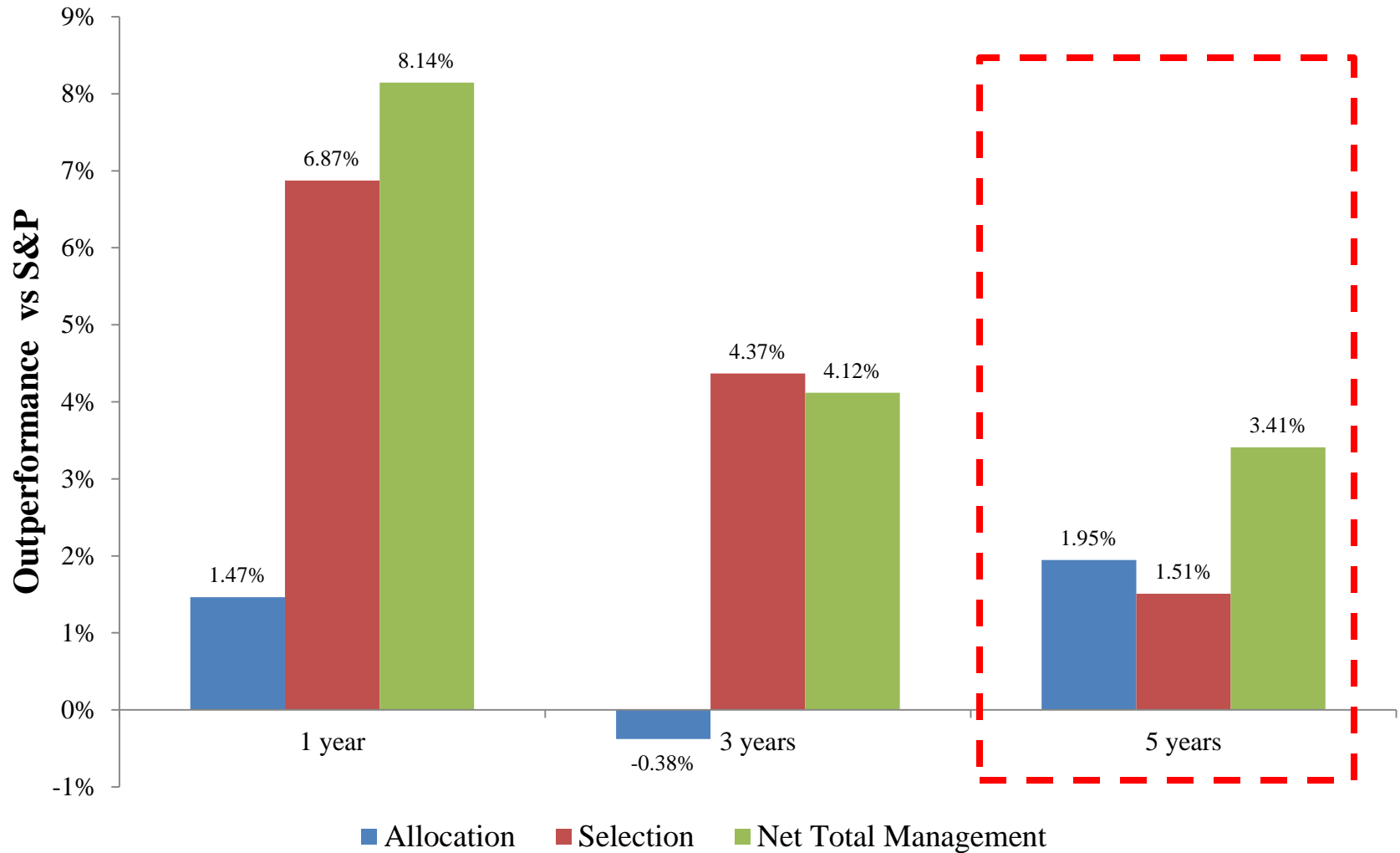
Source: Mellon Workbench



# ATTRIBUTION ANALYSIS

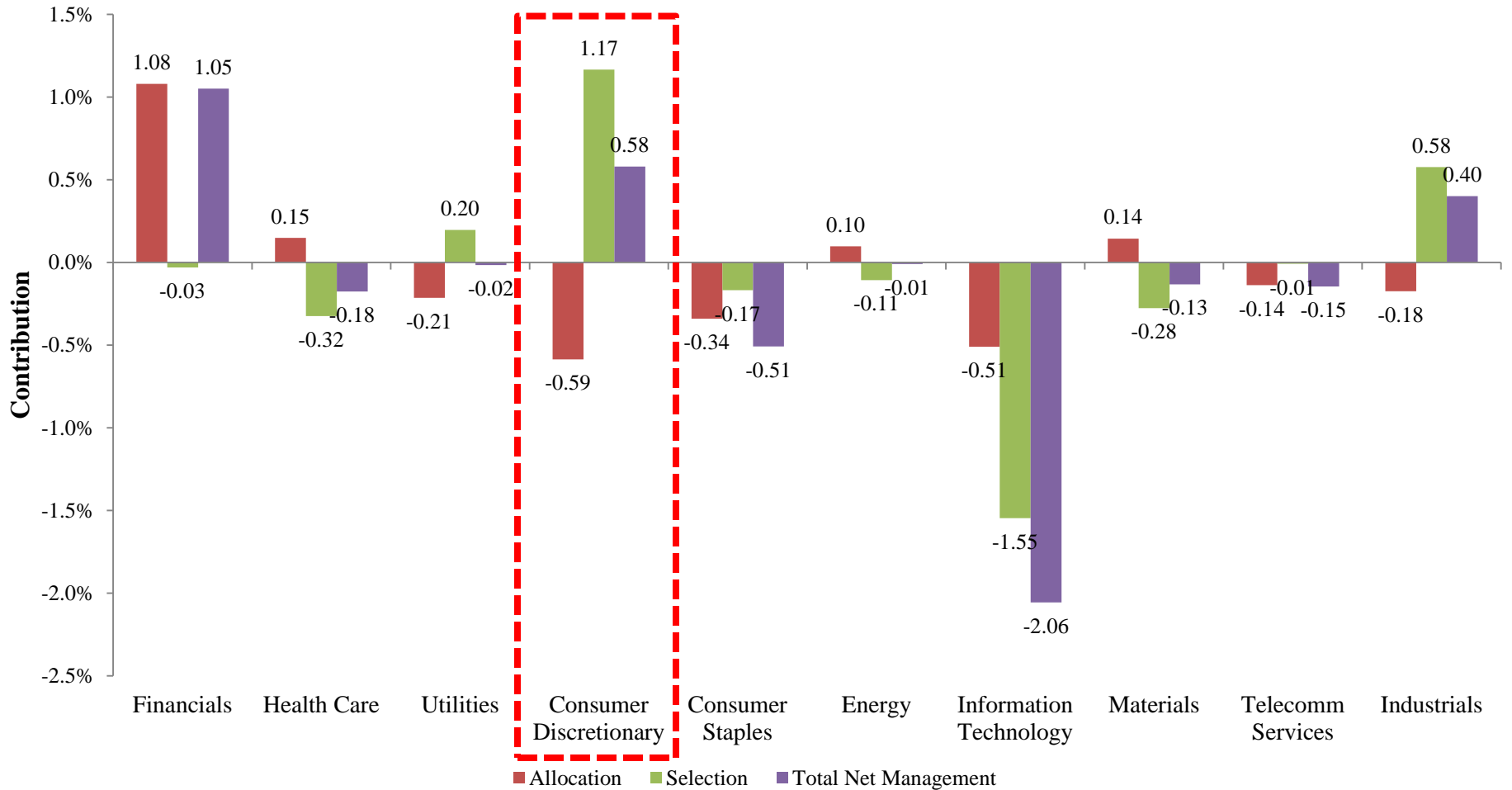


# ATTRIBUTION ANALYSIS



Source: Mellon Workbench

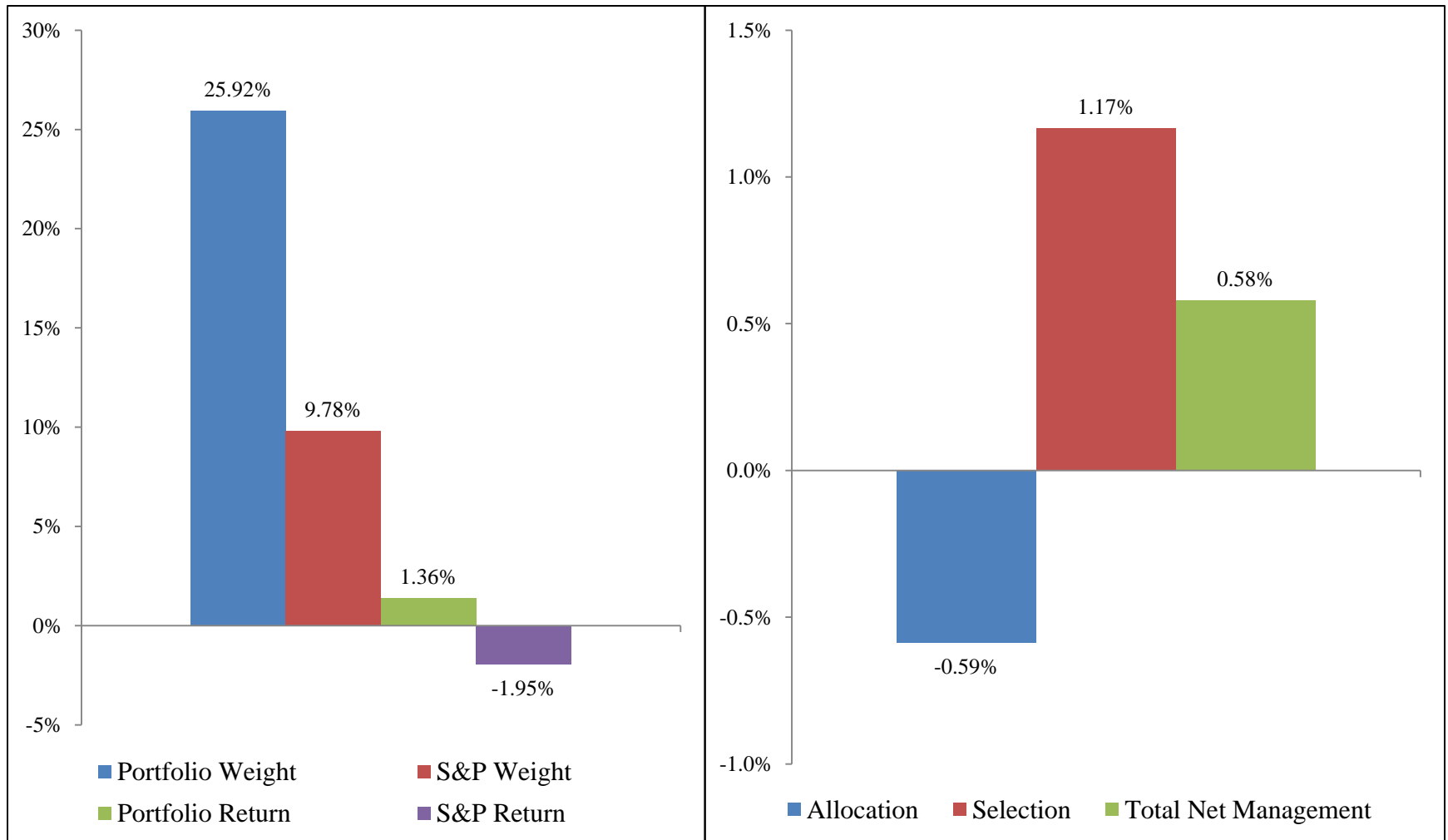
# 5-YEAR ATTRIBUTION BY SECTOR



All values in Percent

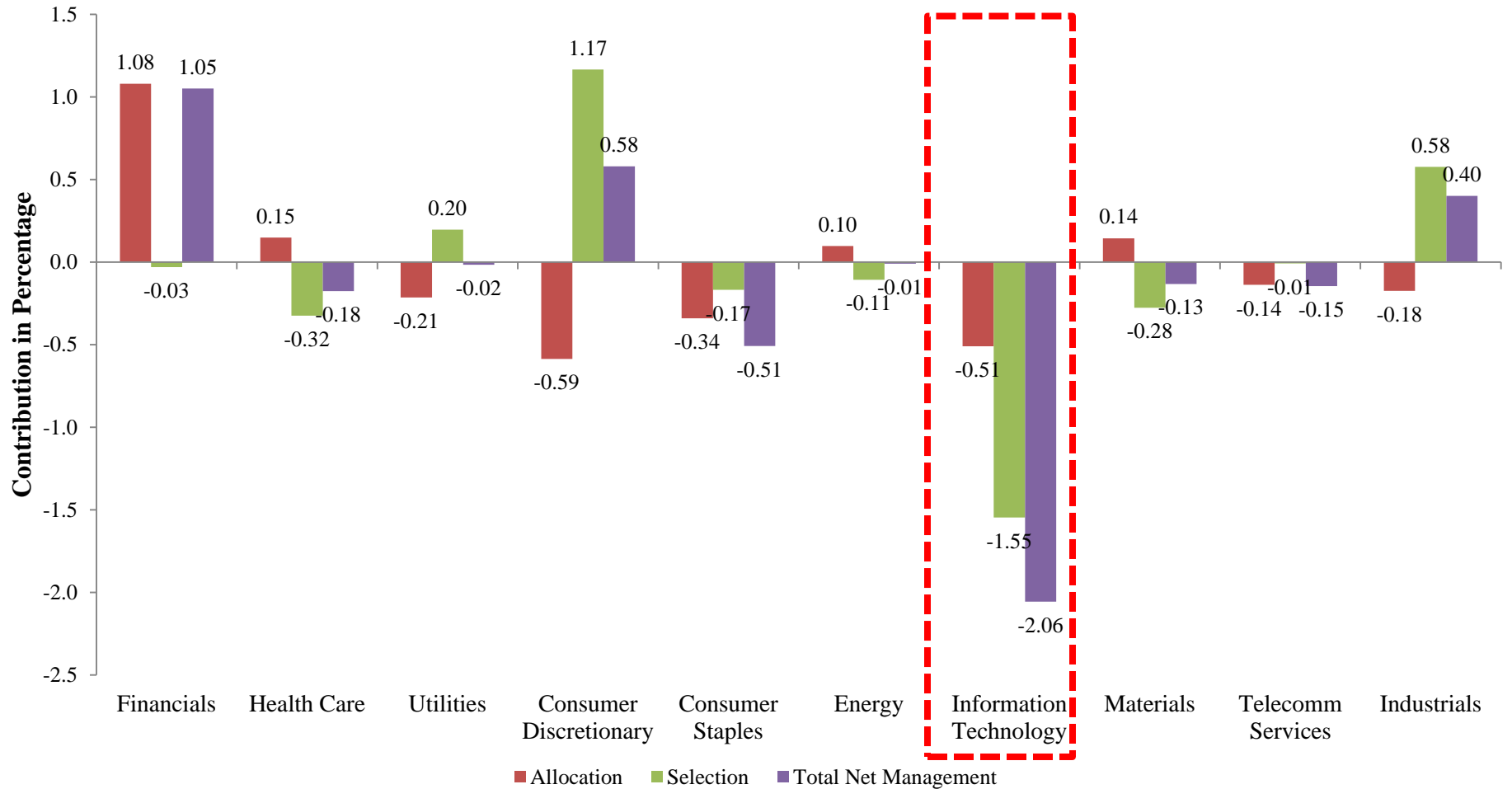
Source: Mellon Workbench

# CONSUMER DISCRETIONARY



Source: Mellon Workbench

# 5-YEAR ATTRIBUTION BY SECTOR

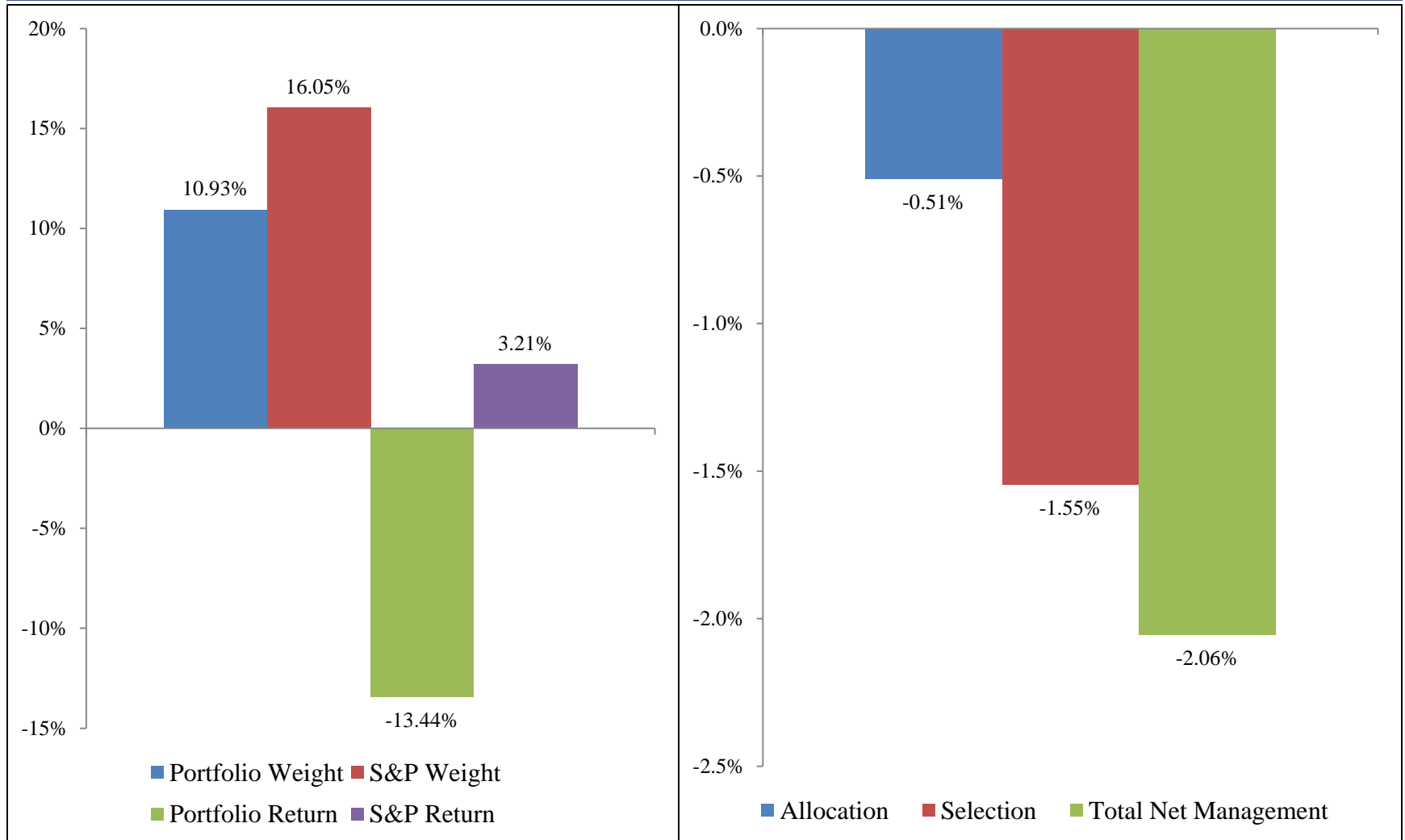


All values in Percent

Source: Mellon Workbench



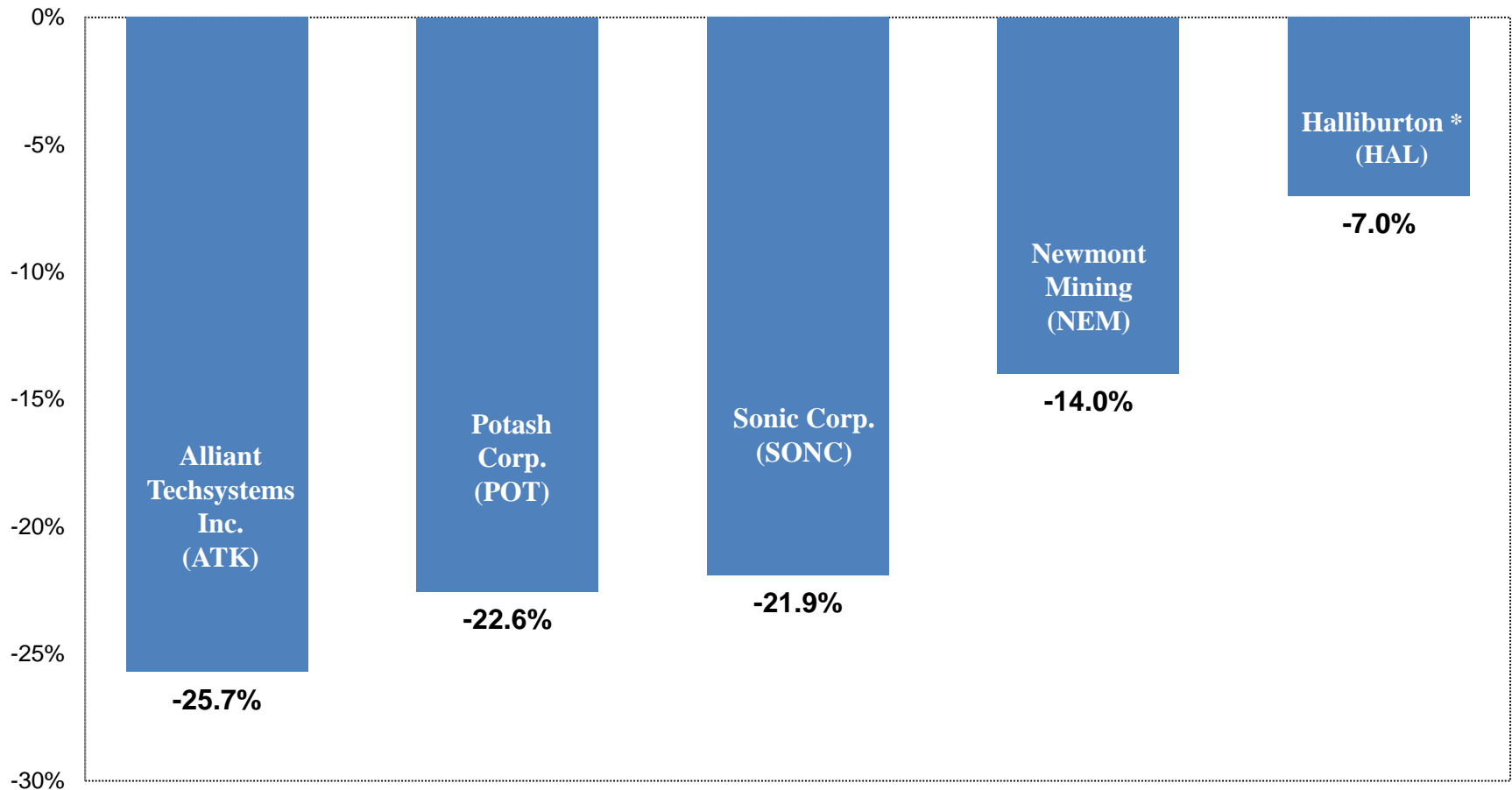
# INFORMATION TECHNOLOGY



Source: Mellon Workbench

# WORST PERFORMING STOCKS

LTM Return (as of 4/15/12)

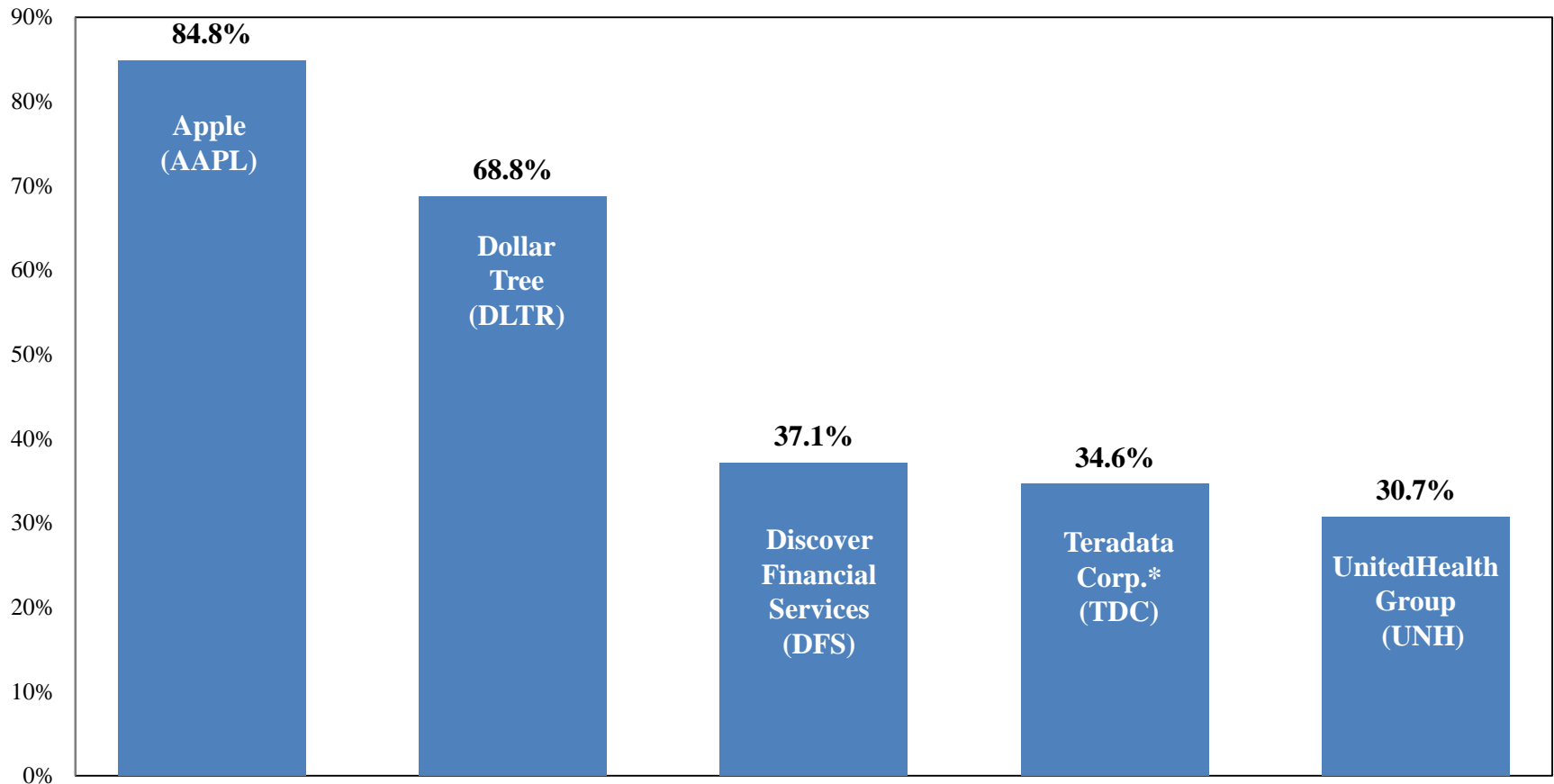


\* Holding Period Return

Source: Yahoo! Finance

# BEST PERFORMING STOCKS

## LTM Return (as of 4/15/12)



\* Holding Period Return

Source: Yahoo! Finance

# CURRENT PORTFOLIO ALERT



## Policy and Procedure:

The portfolio target allocation is:

- 35% in Small (< \$1 billion) & Mid-Cap stocks (\$1-\$5 billion)
- 65% in Large Cap stocks (> \$5 billion)
- (With a +/- 10% boundary)

| Current Weighting |           |
|-------------------|-----------|
| Small & Mid-Cap   | Large Cap |
| 11.5%             | 88.5%     |

**Using the current definitions and guidelines, the portfolio is too heavily weighted in large cap stocks.**

**New definitions at the suggestion of AIM XXXIV:**

“Small Cap” – market capitalizations of less than \$2 billion

“Mid-Cap” – market capitalizations from \$2 billion to \$10 billion

“Large Cap” – market capitalizations over \$10 billion

| With New Weighting |           |
|--------------------|-----------|
| Small & Mid-Cap    | Large Cap |
| 30.8%              | 69.2%     |

# PORTFOLIO TURNOVER

## BUY

- Activision Blizzard (ATVI)
- AeroVironment Inc. (AVAV)
- Carmax (KMX)
- Flowserve Corp. (FLS)
- PNC Financial Services (PNC)
- Williams-Sonoma (WSM)

## SELL

- Amazon (AMZN)
- Ecolab Inc. (ECL)
- Newmont Mining (NEM)
- RBC Bearings (ROLL)
- Sonic Corp. (SONC)
- Starwood Hotels (HOT)

## HOLD

- Alliant Tech Systems (ATK)
- Apple (AAPL)
- Caterpillar (CAT)
- Chevron (CVX)
- Coca Cola (KO)
- Continental Resources (CLR)
- Cummins (CMI)
- Dick's Sporting Goods (DKS)
- Discover Financial Services (DFS)
- Dollar Tree (DLTR)
- eBay (EBAY)
- Gilead Sciences (GILD)
- Google (GOOG)
- Halliburton (HAL)
- KeyCorp (KEY)
- LabCorp (LH)
- Potash Corp. (POT)
- QualComm (QCOM)
- Teradata Corp. (TDC)
- United Health Group (UNH)

# PORTFOLIO PURCHASES



| Company                | Ticker | Price as of 4/20/12 | Intrinsic Value | Upside |
|------------------------|--------|---------------------|-----------------|--------|
| Activision Blizzard    | ATVI   | \$12.20             | \$14.23         | 17%    |
| AeroVironment Inc.     | AVAV   | \$24.74             | \$36.25         | 47%    |
| CarMax Inc.            | KMX    | \$31.49             | \$37.54         | 19%    |
| Flowserve Corp.        | FLS    | \$111.52            | \$125.93        | 13%    |
| PNC Financial Services | PNC    | \$65.38             | \$81.37         | 24%    |
| Williams-Sonoma        | WSM    | \$38.39             | \$46.10         | 20%    |

# PORTFOLIO SELLS

| Company         | Ticker | Price as of<br>4/20/12 | Intrinsic<br>Value | Upside/(Downside) |
|-----------------|--------|------------------------|--------------------|-------------------|
| Amazon          | AMZN   | \$189.98               | \$190.56           | 0%                |
| EcoLab Inc.     | ECL    | \$62.22                | \$62.65            | 0.1%              |
| Newmont Mining  | NEM    | \$47.25                | \$58.21            | 23%               |
| RBC Bearings    | ROLL   | \$44.48                | \$43.97            | (1%)              |
| Sonic Corp.     | SONC   | \$7.00                 | \$7.40             | 6%                |
| Starwood Hotels | HOT    | \$57.61                | \$49.17            | (15%)             |



# V. GENERAL INFORMATION

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# GENERAL INFORMATION

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- Chicago Trip
- In Class Speakers
- Newsletter
- AIM Website



AIM XXXIV in Chicago

# CHICAGO TRIP: MARCH 29<sup>TH</sup> & 30<sup>TH</sup>

- Dinner with 28 AIM Alumni
  
- Checked in on other ND Investments
  - Palmer House Hilton
  - Santa Fe Building
  
- Visited four firms
  - RoundTable Healthcare Partners
  - R.W. Baird—Equity Research Group
  - Grosvenor Capital Management
  - Alvarez & Marsal





- David J. Koo, ND BBA '93
- Senior Partner

- David E. Tarantino, ND BS '93
- Associate Director of Research

The Baird logo consists of the word 'BAIRD' in a white, serif font, centered within a blue parallelogram shape that is tilted to the right.

## GROSVENOR

CAPITAL MANAGEMENT, L.P.

- Greg Salter, ND BBA '10
- Associate

- Eric Lorge, ND BBA '96
- Managing Director



ALVAREZ & MARSAL

# GUEST SPEAKERS

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- Edward R. Trubac
  - Professor, Mendoza College of Business
  
- John Loesch (ND MBA '07, AIM Alum.) & Tyler Ventura (ND MBA '07, AIM Alum.)
  - Research Analysts, Diamond Hill Capital Management
  
- Frank Timons (ND BA '91, JD '94)
  - Portfolio Manager, Lord Abbett & Co
  
- Gary Dagues (ND MBA '11, AIM Alum.)
  - Associate, GE Aviation Business Development

## Objective:

- Alumni News
- Portfolio Performance
- Economic Outlook

AIM XXXIV

SPRING 2012

# AIM QUARTERLY



## Greetings from AIM XXXIV

Greetings from South Bend.

Midterms are now in the rearview mirror, and we are all looking ahead to graduation.

Under the guidance of Professors Jerry Langley, Bill McDonald, and Frank Reilly, the AIM XXXIV analysts recently submitted their second round valuations. All that is left is to decide which stocks make it into the portfolio.

The class recently took a trip to Chicago. The trip began with a dinner with AIM alumni, where we swapped stories about the Notre Dame and the class. The next day we visited the offices of RoundTable Healthcare Partners (PE firm), R W Baird, Grosvenor Capital Management (alternative investments) and Alvarez & Marsal (restructuring advisory). Overall the trip was informative and an excellent

"Money is like manure. You have to spread it around or it smells." – J. Paul Getty

QUARTER 2, SPRING 2012

*In This Issue*



State of the Economy 2



Portfolio Performance 4



Alumni Updates 6



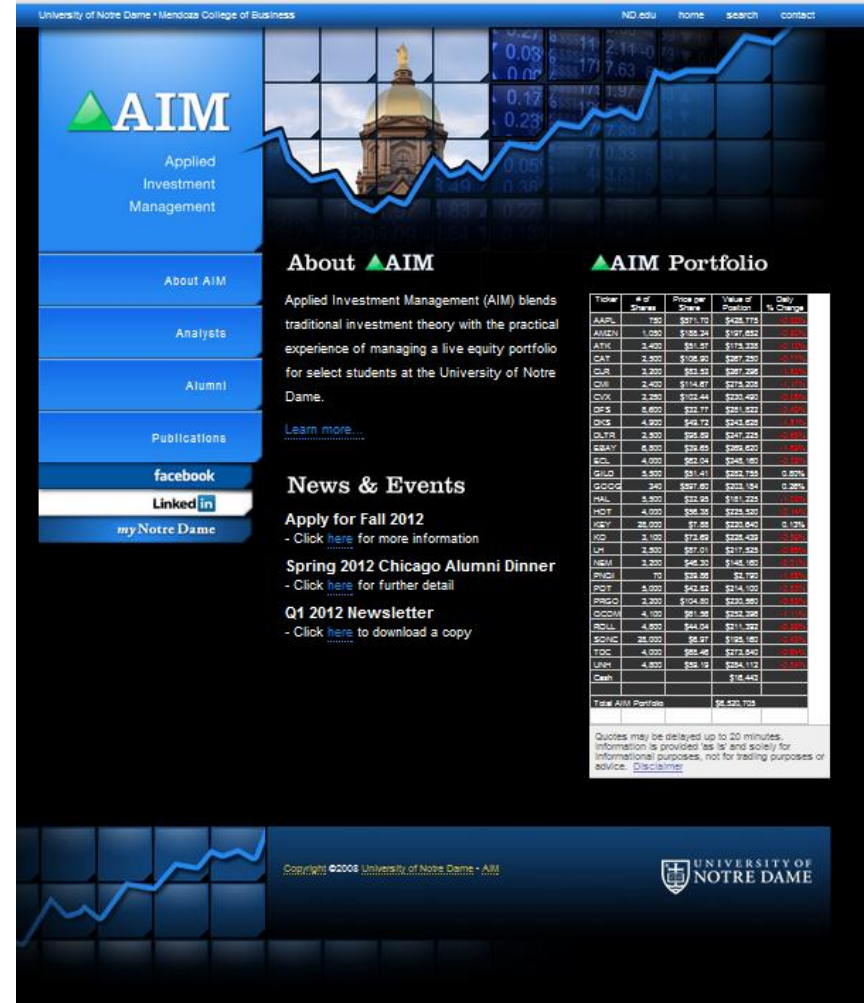
AIM XXXIV Class Profile 7



# AIM WEBSITE


- News and Events
- Analysts
- Portfolio Performance
- Publications
- Alumni
  - Career Opportunities
  - Upcoming Events
- Social Networking
  - Facebook
  - LinkedIn
  - Irish Online (MyNotreDame)

[AIM.ND.EDU](http://AIM.ND.EDU)



University of Notre Dame - Mendoza College of Business

ND.edu home search contact



Applied Investment Management

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- Alumni
- Publications
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- LinkedIn
- myNotre Dame

### About AIM

Applied Investment Management (AIM) blends traditional investment theory with the practical experience of managing a live equity portfolio for select students at the University of Notre Dame.

[Learn more...](#)

### News & Events

**Apply for Fall 2012**  
- Click [here](#) for more information

**Spring 2012 Chicago Alumni Dinner**  
- Click [here](#) for further detail

**Q1 2012 Newsletter**  
- Click [here](#) to download a copy

### AIM Portfolio

| Ticker                     | # of Shares | Price per Share | Value of Position  | Daily % Change |
|----------------------------|-------------|-----------------|--------------------|----------------|
| AAPL                       | 7,000       | \$101.10        | \$707,700          | 0.00%          |
| AMZN                       | 1,000       | \$155.24        | \$155,240          | 0.00%          |
| AT&T                       | 3,400       | \$51.27         | \$174,318          | 0.00%          |
| CAT                        | 2,500       | \$106.90        | \$267,250          | 0.00%          |
| CLM                        | 2,500       | \$53.00         | \$132,500          | 0.00%          |
| CRM                        | 2,400       | \$114.67        | \$275,208          | 0.00%          |
| CYX                        | 2,200       | \$102.44        | \$225,368          | 0.00%          |
| DPS                        | 6,600       | \$22.17         | \$146,322          | 0.00%          |
| DNS                        | 4,900       | \$49.12         | \$241,628          | 0.00%          |
| DLTR                       | 2,500       | \$25.00         | \$62,500           | 0.00%          |
| EMV                        | 6,000       | \$21.65         | \$129,900          | 0.00%          |
| ECL                        | 4,000       | \$62.04         | \$248,160          | 0.00%          |
| GLD                        | 6,500       | \$51.41         | \$333,765          | 0.00%          |
| GOOD                       | 340         | \$207.60        | \$70,590           | 0.00%          |
| HAL                        | 6,500       | \$22.00         | \$143,000          | 0.00%          |
| HGT                        | 4,000       | \$26.25         | \$105,000          | 0.00%          |
| KEY                        | 20,000      | \$7.25          | \$145,000          | 0.00%          |
| KO                         | 3,100       | \$72.60         | \$225,060          | 0.00%          |
| LH                         | 2,500       | \$27.01         | \$67,525           | 0.00%          |
| NEWM                       | 3,200       | \$46.20         | \$147,840          | 0.00%          |
| PIRG                       | 10          | \$12.80         | \$128              | 0.00%          |
| POT                        | 6,000       | \$42.50         | \$255,000          | 0.00%          |
| PRGO                       | 2,300       | \$104.80        | \$241,040          | 0.00%          |
| QCOM                       | 4,100       | \$51.36         | \$211,596          | 0.00%          |
| SBUX                       | 4,000       | \$44.04         | \$176,160          | 0.00%          |
| SONM                       | 20,000      | \$2.27          | \$45,400           | 0.00%          |
| TDC                        | 4,000       | \$65.45         | \$261,800          | 0.00%          |
| UNH                        | 4,900       | \$55.10         | \$270,045          | 0.00%          |
| West                       |             |                 | \$16,442           | 0.00%          |
| <b>Total AIM Portfolio</b> |             |                 | <b>\$2,620,725</b> |                |

Quotes may be delayed up to 20 minutes. Information is provided as is and solely for informational purposes, not for trading purposes or advice. ©2008 AIM



# THANK YOU

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We would like to extend a special thank you to:

- The Advisory Board for their input and support
- Scott Malpass and the Notre Dame Investment Office for the opportunity to participate in such a unique and valuable course
- Professors McDonald, Langley, and Reilly for their guidance and knowledge
- Rachel Karnafel for administrative support

Post – Presentation Agenda

- Food & refreshments
- Advisory Board panel discussion



# AIM XXXIV



UNIVERSITY OF  
NOTRE DAME

# FINAL PORTFOLIO AS OF 4/18/12



| Company                     | Ticker | # Shares | Price    | Total Value | % of Portfolio |
|-----------------------------|--------|----------|----------|-------------|----------------|
| Activision Blizzard         | ATVI   | 21,000   | \$12.31  | \$258,510   | 3.9%           |
| AeroVironment               | AVAV   | 10,600   | \$24.85  | \$263,410   | 4.0%           |
| Alliant Tech Systems        | ATK    | 4,600    | \$51.94  | \$238,924   | 3.6%           |
| Apple                       | AAPL   | 400      | \$585.15 | \$234,060   | 3.5%           |
| CarMax Inc                  | KMX    | 7,900    | \$31.48  | \$248,692   | 3.8%           |
| Caterpillar                 | CAT    | 2,500    | \$108.11 | \$270,275   | 4.1%           |
| Chevron                     | CVX    | 2,250    | \$102.55 | \$230,738   | 3.5%           |
| Coca Cola                   | KO     | 3,100    | \$74.17  | \$229,927   | 3.5%           |
| Continental Resources       | CLR    | 3,200    | \$85.62  | \$273,984   | 4.1%           |
| Cummins                     | CMI    | 2,400    | \$116.12 | \$278,688   | 4.2%           |
| Dick's Sporting Goods       | DKS    | 4,900    | \$50.60  | \$247,940   | 3.8%           |
| Discover Financial Services | DFS    | 8,600    | \$33.08  | \$284,488   | 4.3%           |
| Dollar Tree                 | DLTR   | 2,500    | \$99.31  | \$248,275   | 3.8%           |

Source: Mellon Workbench

# FINAL PORTFOLIO (CONT'D)



| Company                | Ticker | # Shares | Price    | Total Value | % of Portfolio |
|------------------------|--------|----------|----------|-------------|----------------|
| eBay                   | EBAY   | 6,800    | \$40.65  | \$276,420   | 4.2%           |
| Flowserve Corp         | FLS    | 2,300    | \$111.87 | \$257,301   | 3.9%           |
| Gilead Sciences        | GILD   | 5,500    | \$51.78  | \$284,790   | 4.3%           |
| Google                 | GOOG   | 340      | \$605.97 | \$206,030   | 3.1%           |
| Halliburton            | HAL    | 7,500    | \$33.73  | \$252,975   | 3.8%           |
| KeyCorp                | KEY    | 28,000   | \$7.81   | \$218,680   | 3.3%           |
| Lab Corp               | LH     | 2,500    | \$88.43  | \$221,075   | 3.3%           |
| PNC Financial Services | PNC    | 4,300    | \$64.87  | \$278,941   | 4.2%           |
| Potash                 | POT    | 5,000    | \$43.99  | \$219,950   | 3.3%           |
| QualComm               | QCOM   | 4,100    | \$62.91  | \$257,931   | 3.9%           |
| Teradata Corp          | TDC    | 4,000    | \$69.44  | \$277,760   | 4.2%           |
| United Health Group    | UNH    | 4,800    | \$59.42  | \$285,216   | 4.3%           |
| Williams-Sonoma        | WSM    | 6,900    | \$38.38  | \$264,822   | 4.0%           |

Source: Mellon Workbench