



Advisory Board Presentation

AIM XXXVII

Fall 2013



UNIVERSITY OF
NOTRE DAME

AIM XXXVII Analysts

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CarMax, United Natural Foods*

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*Rochester, MN
Cummins, Sunstone Hotel Investors*

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*Granger, IN
Select Comfort, Craft Brew Alliance*

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*Hinsdale, IL
IPG Photonics, Tesla*

Tyler Bliha

*Niles, MI
InterActiveCorp, LeapFrog Enterprises*

Douglas Boyd

*Fort Lauderdale, FL
Cinemark, Apache*

Cameron Breisch

*Edwardsburg, MI
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Logan Britt

*Minnetonka, MN
Teradata, Netflix*

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*Palatine, IL
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Julie Comfort

*La Grange, IL
Titan Machinery, J&J Snack Foods*

Steven Feczko

*Butler, PA
UnitedHealth, Autodesk*

Nicole Gantz

*Wisconsin Dells, WI
Delphi Automotive, DSW*

John Garry

*St. Paul, MN
ConAgra Foods, Orbital Sciences*

Elizabeth Garvin

*Naperville, IL
Bank of Internet, Estee Lauder*

Brandon Hall

*Minneapolis, MN
Activision Blizzard, Lifeway Foods*

Turner Harty

*Minneapolis, MN
Coach, Costco*

Kathryn Lill

*Arlington Heights, IL
Wynn Resorts, SodaStream*

Sean McKelvey

*Hazlet, NJ
Microsoft, Manchester United*

Matthew Menker

*Dayton, OH
Corning, Buffalo Wild Wings*

Michael Nettesheim

*Milwaukee, WI
Apple, Rockwell Automation*

Patrick O'Brien

*Malverne, NY
DiamondRock Hospitality, Whole Foods*

Ben O'Neill

*Plano, TX
Google, Pixelworks*

Thomas O'Sullivan

*Woodridge, IL
Joseph A. Bank, Cott Corporation*

Kyle Patel

*Chino Hills, CA
Expeditors International, Covanta*

Clayton Pauls

*Overland Park, KS
Caterpillar, Dollar Tree*

Nicolette Puckett

*Fort Lauderdale, FL
Ecolab, PetMed Express*

Jacqueline Rose

*Northbrook, IL
Gilead Sciences, Vitamin Shoppe*

Robert Wahl

*Lexington, KY
Potash, Energy Recovery*

AIM XXXVII Analyst Hometowns



UNIVERSITY OF
NOTRE DAME





Agenda

Presentation Topics

- Objectives and Guidelines
- Economic Environment
- Security Analysis
- Portfolio Performance Evaluation
- General Information

Concluding Remarks

Advisory Board Panel



Objectives and Guidelines

Overview

Individual Responsibilities

Group Responsibilities

Stock Selection Process

Investment Philosophy

Investment Policies

Market Capitalization Profile

Ethics Policies

AIM Overview



- Course Overview
 - Provide analysts with a thorough grounding in portfolio management and equity valuation
 - Combine theory with hands-on experience
- Analyst Selection
 - Selection based on academic record and diverse backgrounds
 - Analysts assume responsibilities for all portfolio management decisions

Individual Responsibilities



- Each analyst covers two companies
 - First round: analysts assigned a stock from current portfolio
 - Second round: analysts select a second stock of interest
- For each company, analysts produce and present the following reports
 - Company overview
 - Fundamental analysis
 - Industry report
 - EPS forecast
 - Technical analysis
 - Valuation and final recommendation

Group Responsibilities



Portfolio Performance Analysis

- Benchmark performance comparisons
- Risk-adjusted performance measures
- Attribution analysis

Economic Analysis

- Recent trends and expectations of key economic indicators
- Impact on the stocks in the current portfolio

Newsletter Group

- Comprehensive summary of various AIM endeavors
- Provides trip and alumni updates

Trading Group

- Coordinates trading activities for the portfolio
- Works closely with the Notre Dame Investment Office

Stock Selection Process



- Analysts discuss inputs, drivers, and assumptions
- Analysts give buy, hold, or sell recommendations based on an intrinsic valuation
- Final portfolio decisions are voted upon and require majority vote of all analysts

Investment Philosophy



- Identify undervalued stocks
- Outperform the S&P 500, Russell 2000, and HBI indices
- Bottom-up approach through fundamental analysis
- Diversify between small-, mid-, and large-cap stocks

Investment Policies



- Long only common equities listed on major U.S. exchanges
- Prefer sufficiently liquid stocks
- Three to five year investment horizon
- Adhere to the “Prudent Person Rule”

Investment Policies, cont.

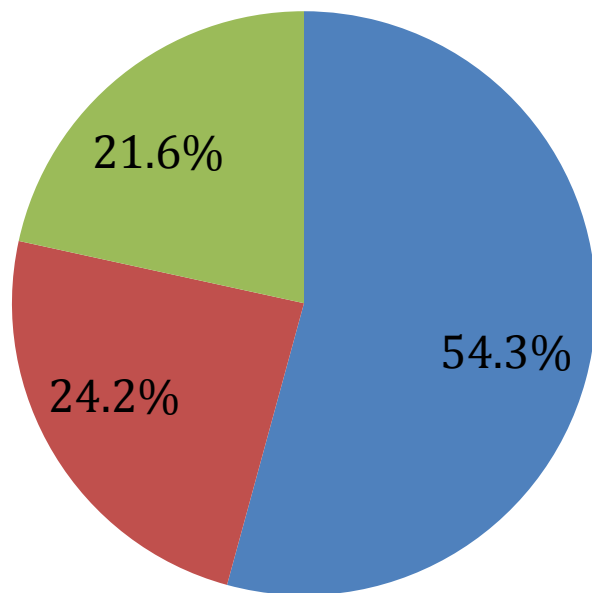


- No tax considerations
- No individual position exceeding 10% of the portfolio
- 0% long-term cash target
- Allocation Targets
 - 35% in small/mid-cap
 - 65% in large cap
 - +/- 10%
 - <1% in long/short industry position

Market Capitalization Profile



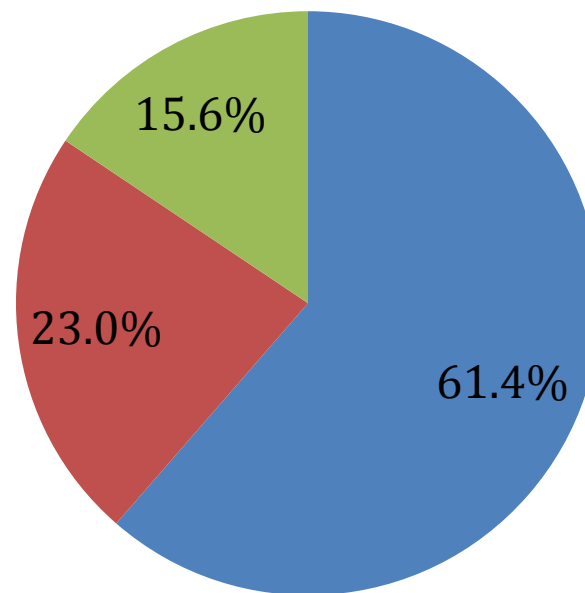
AIM XXXVI Portfolio Composition*



■ Large Cap ■ Mid Cap ■ Small Cap

*Upon inheritance 5/5/2013

AIM XXXVII Portfolio Composition**



■ Large Cap ■ Mid Cap ■ Small Cap

**As of final trades 11/25/2013

Ethics Policies



Avoid companies “whose values are inimical with those of the University”

- Including (but not limited to):
 - Tobacco
 - Abortifacients
 - Birth control

Economic Environment



GDP

Housing

Currency

Unemployment

Inflation

Monetary Policy

Fiscal Policy

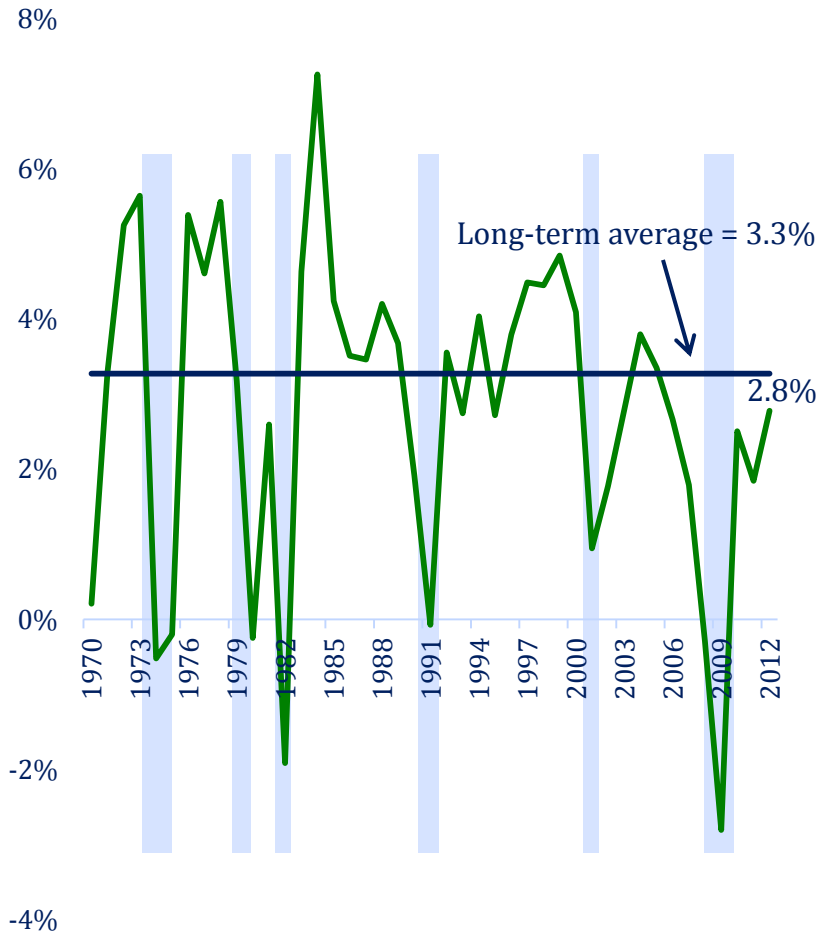
Outlook

Portfolio Impact

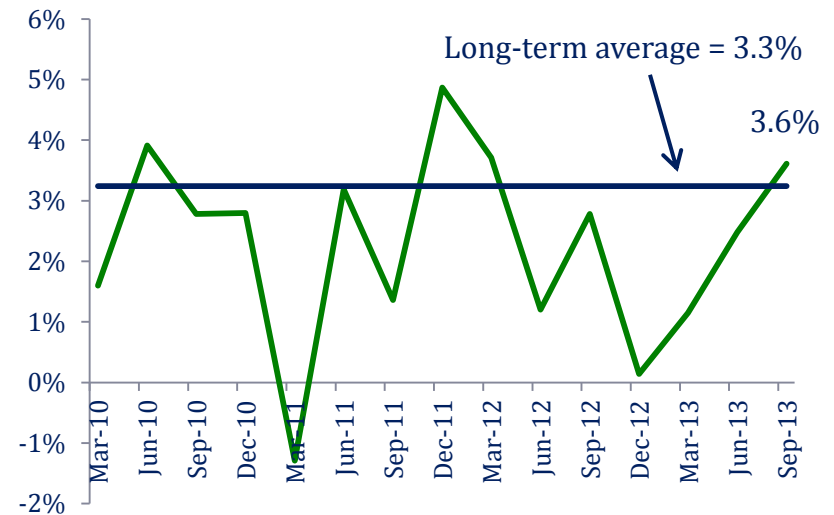
GDP

Growth is weak over the last four years

Annual Real GDP Growth



QoQ Real GDP Growth

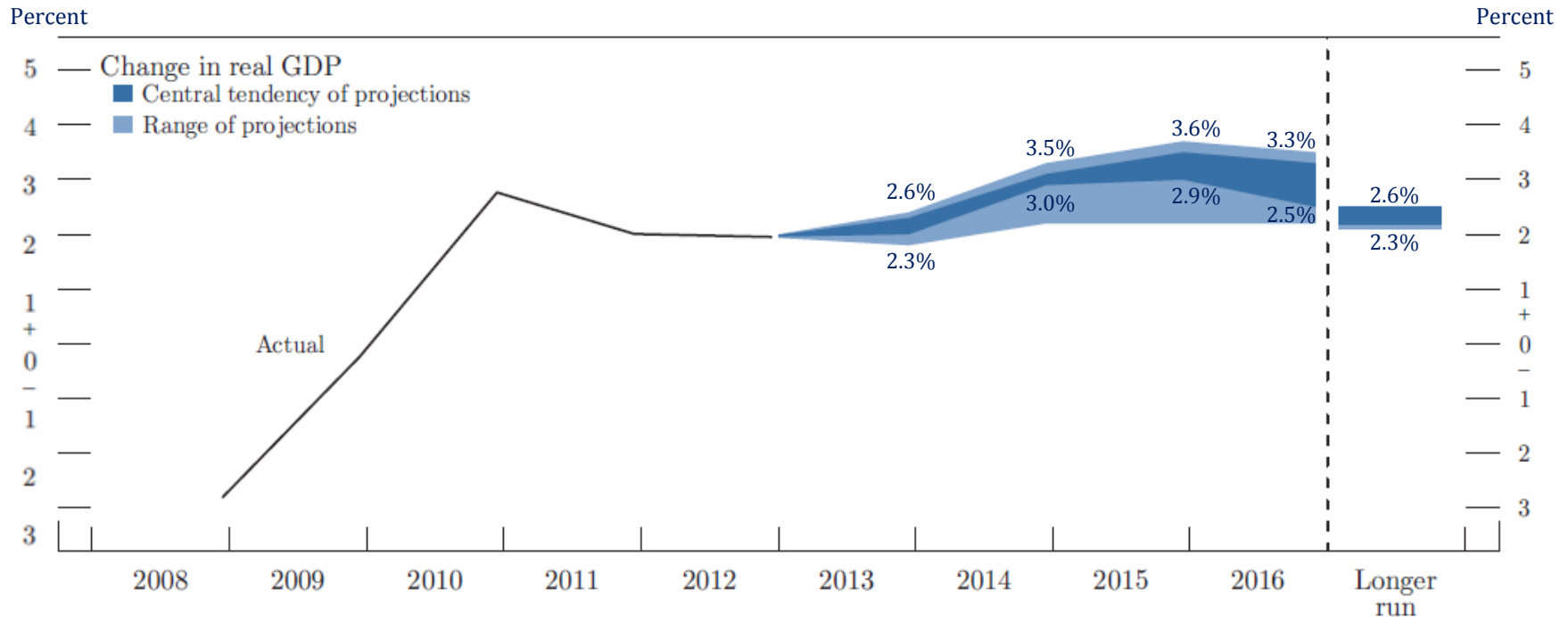


- Post-recession growth tepid
 - Personal consumption weak from high unemployment
 - Stagnation in Eurozone
 - Uncertainty from poor fiscal policy

Growth Projections

Higher growth is expected by 2015

Federal Reserve Real GDP Growth Projections



Positive Factors

- Continuance of accommodative monetary policy

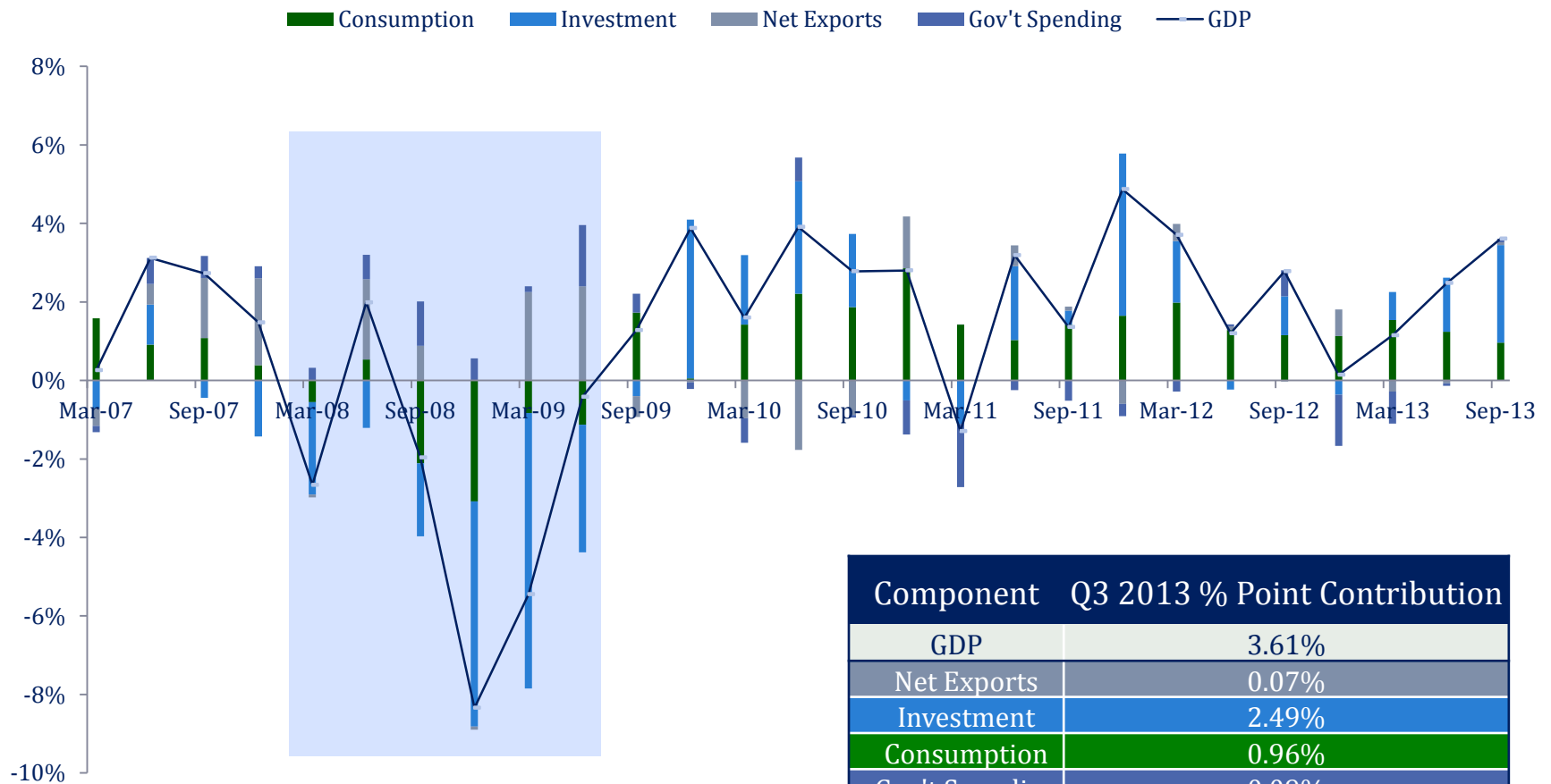
Downside Risks

- Weak foreign economic outlook
- Fiscal policy
- Weakening consumer spending / confidence

GDP Breakdown

Investment has contributed to GDP growth since recession

Component Contribution to Quarterly % Change in GDP

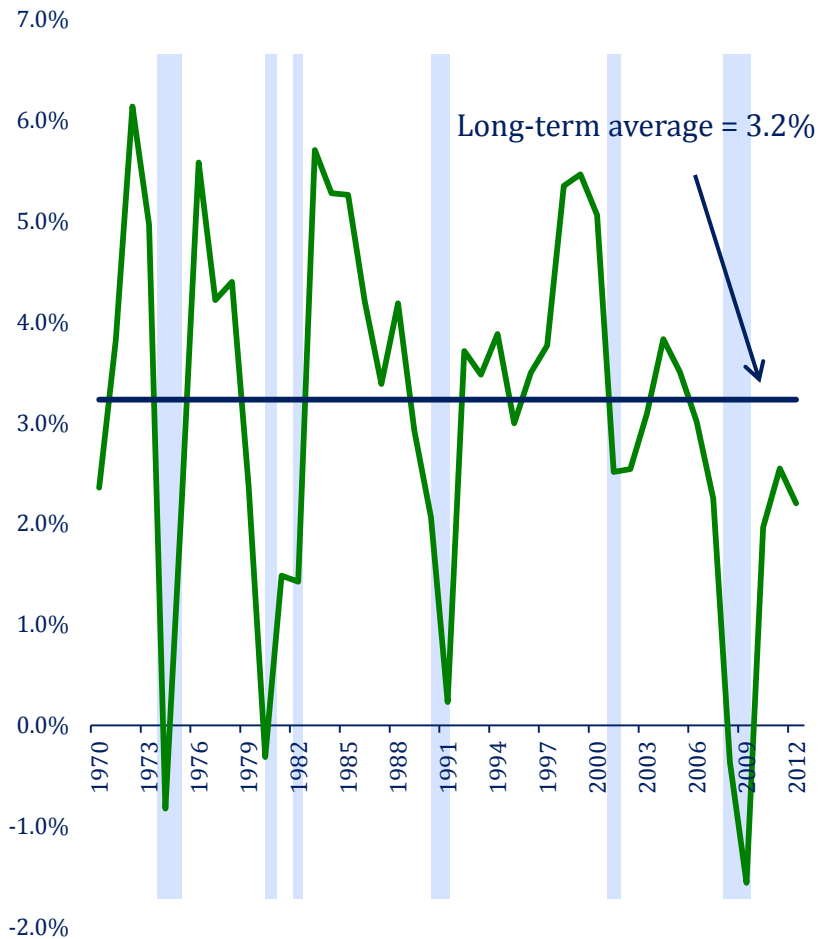


Component	Q3 2013 % Point Contribution
GDP	3.61%
Net Exports	0.07%
Investment	2.49%
Consumption	0.96%
Gov't Spending	0.09%

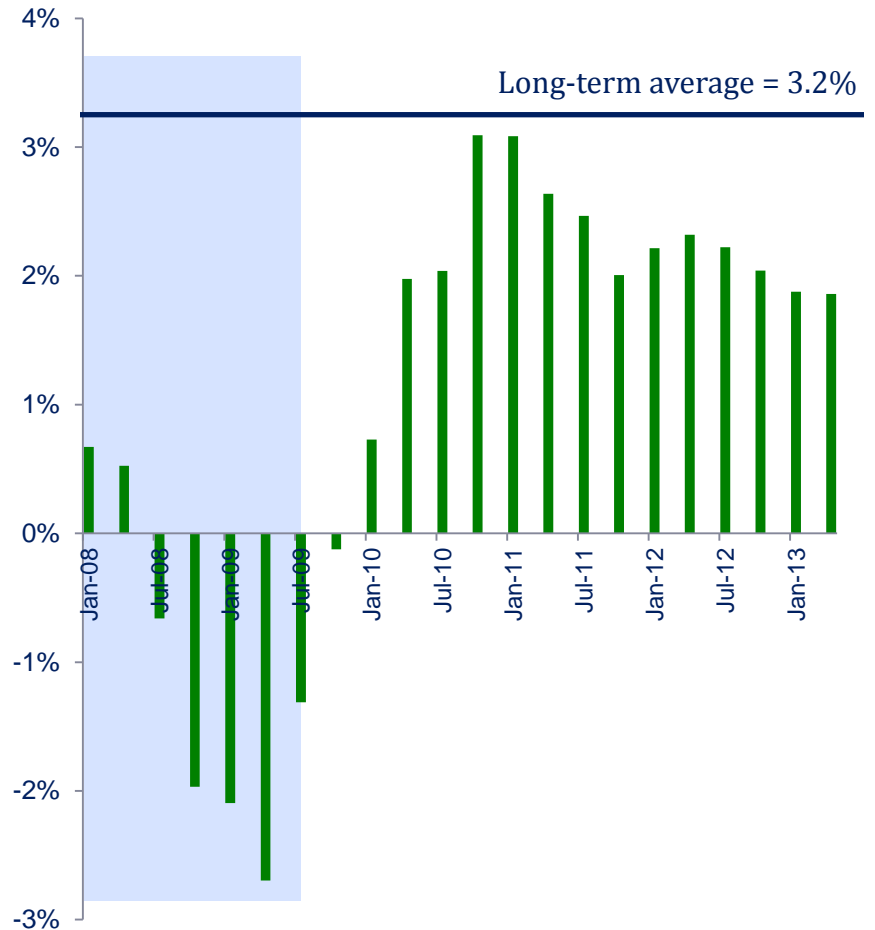
Personal Consumption

Increasing since 2009 but below long-term average

Real Personal Consumption Annual Growth



Real Personal Consumption Quarterly Growth

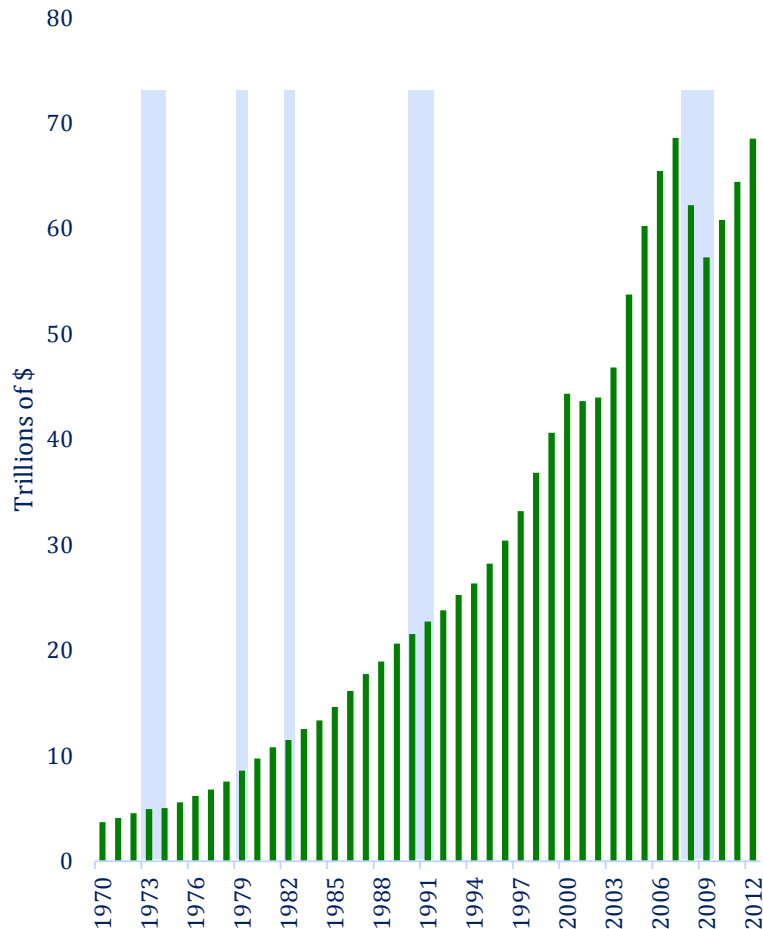


Consumption Drivers

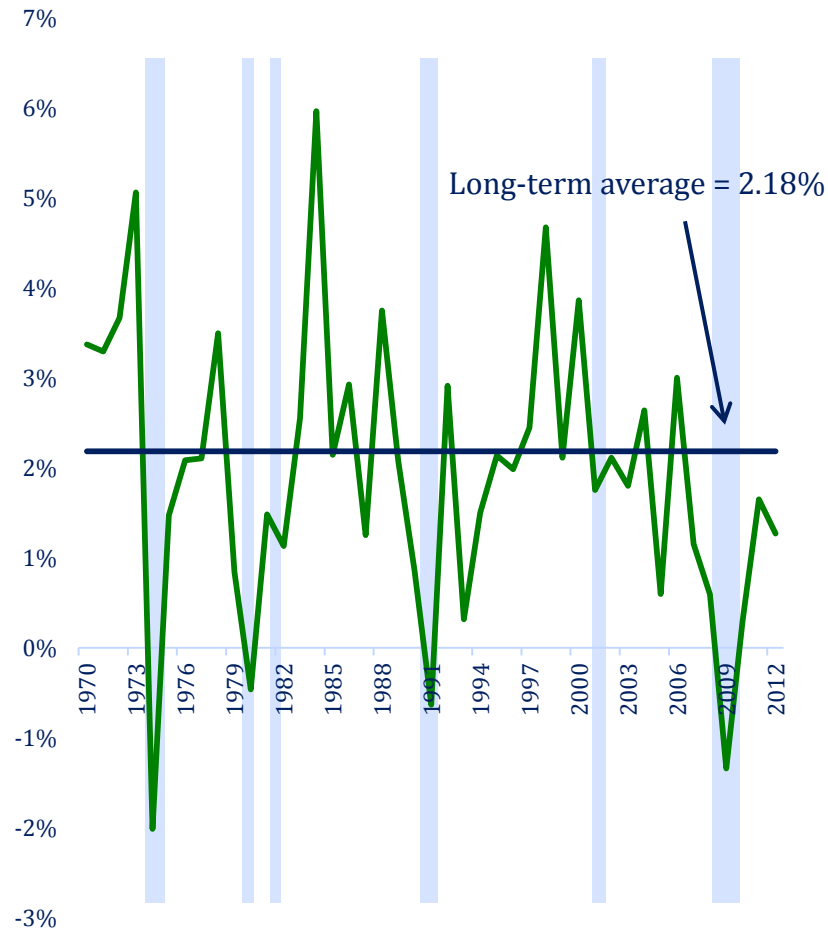
Wealth increasing yet spending weakening



Total Household Net Worth



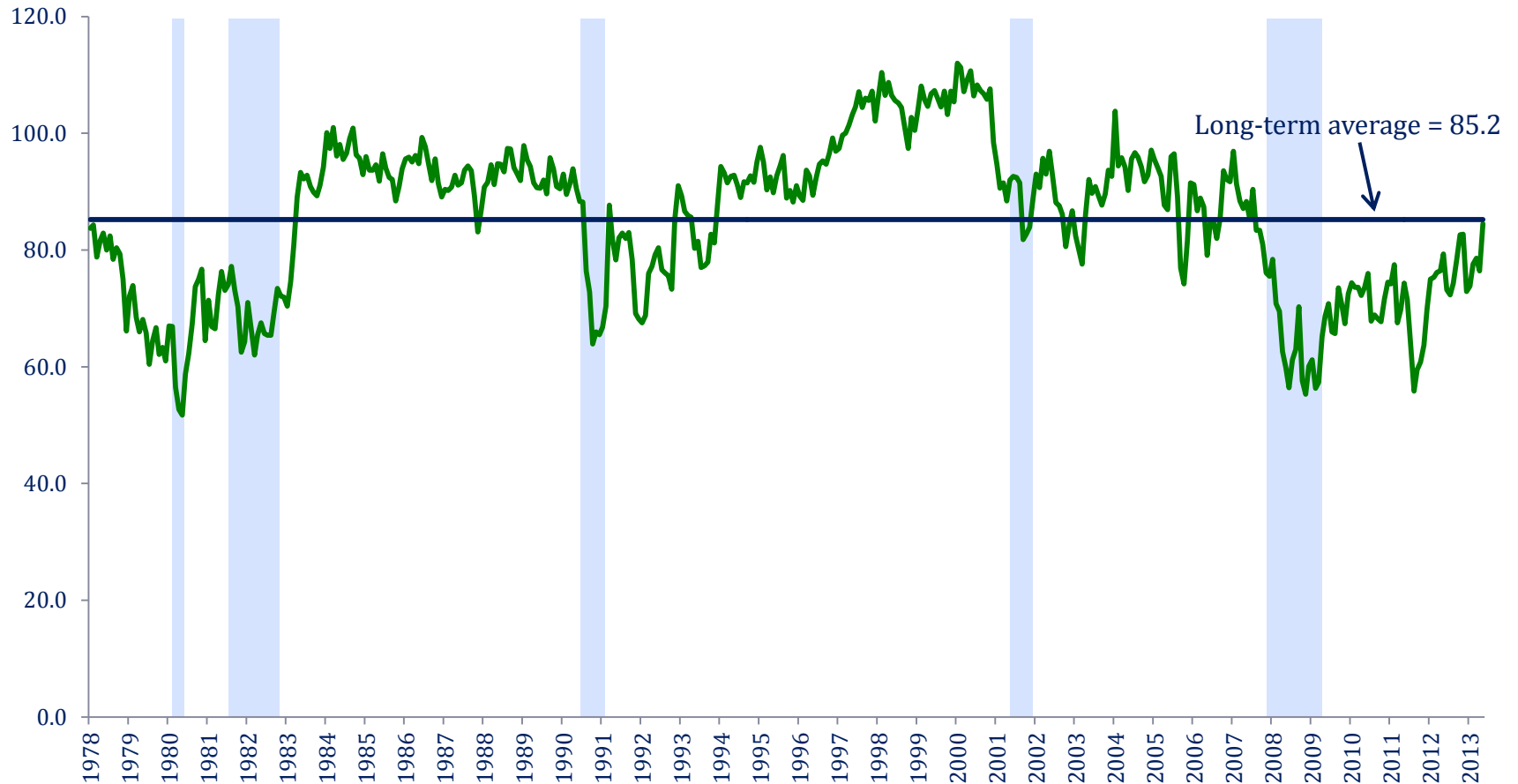
Real Disposable Income per Capita Annual Growth



Consumption Drivers

Consumer Sentiment is recovering but below average

Consumer Sentiment

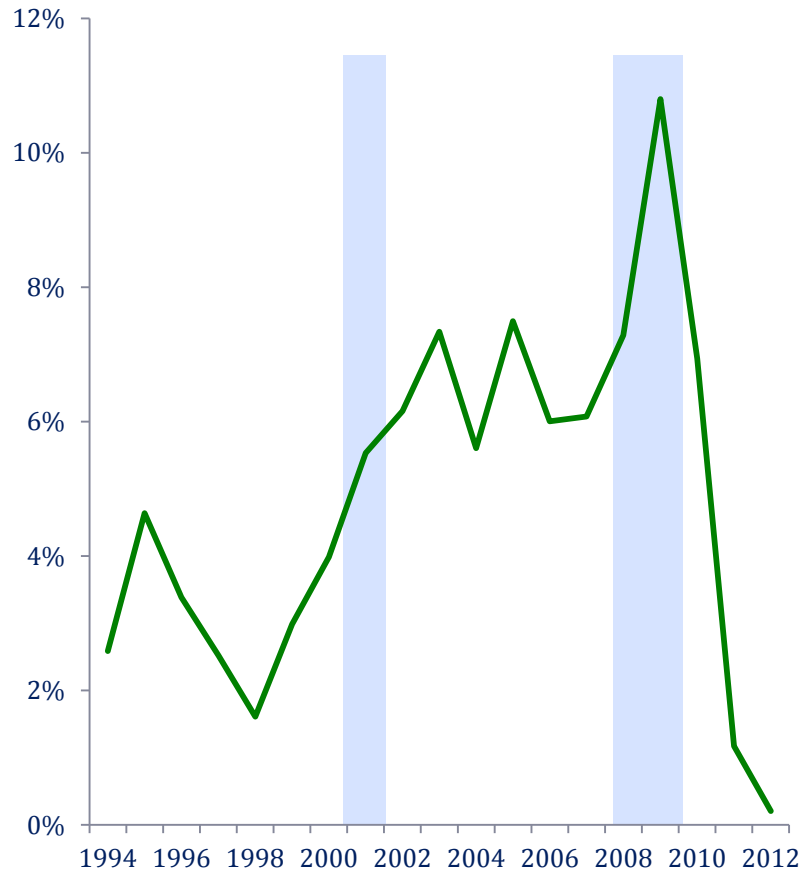


Government Expenditures

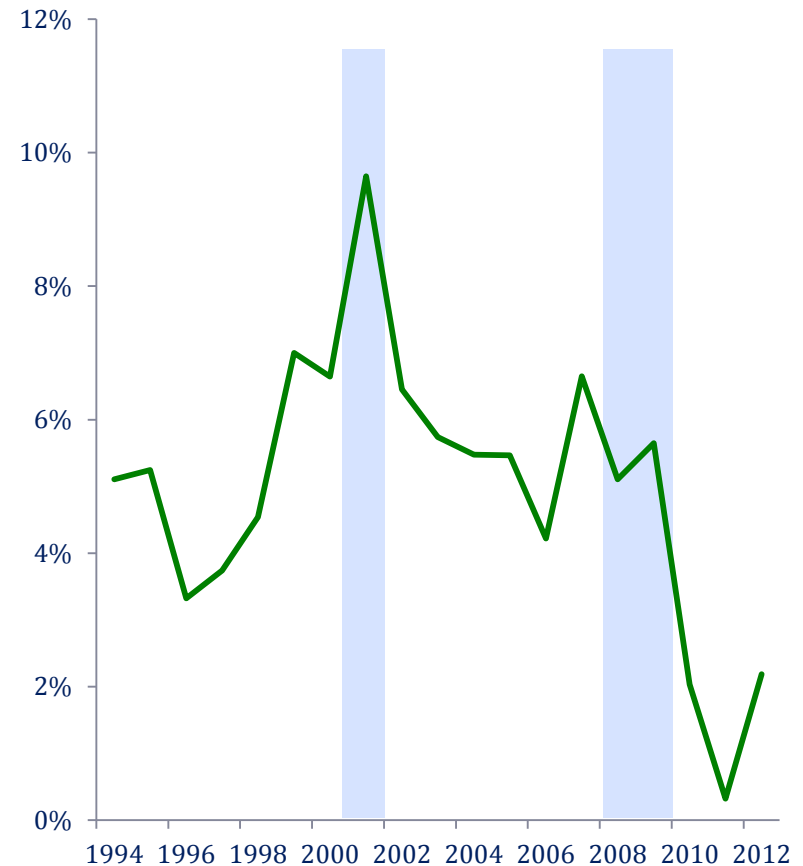


Government looking to cut costs

Federal Gov't Spending Growth



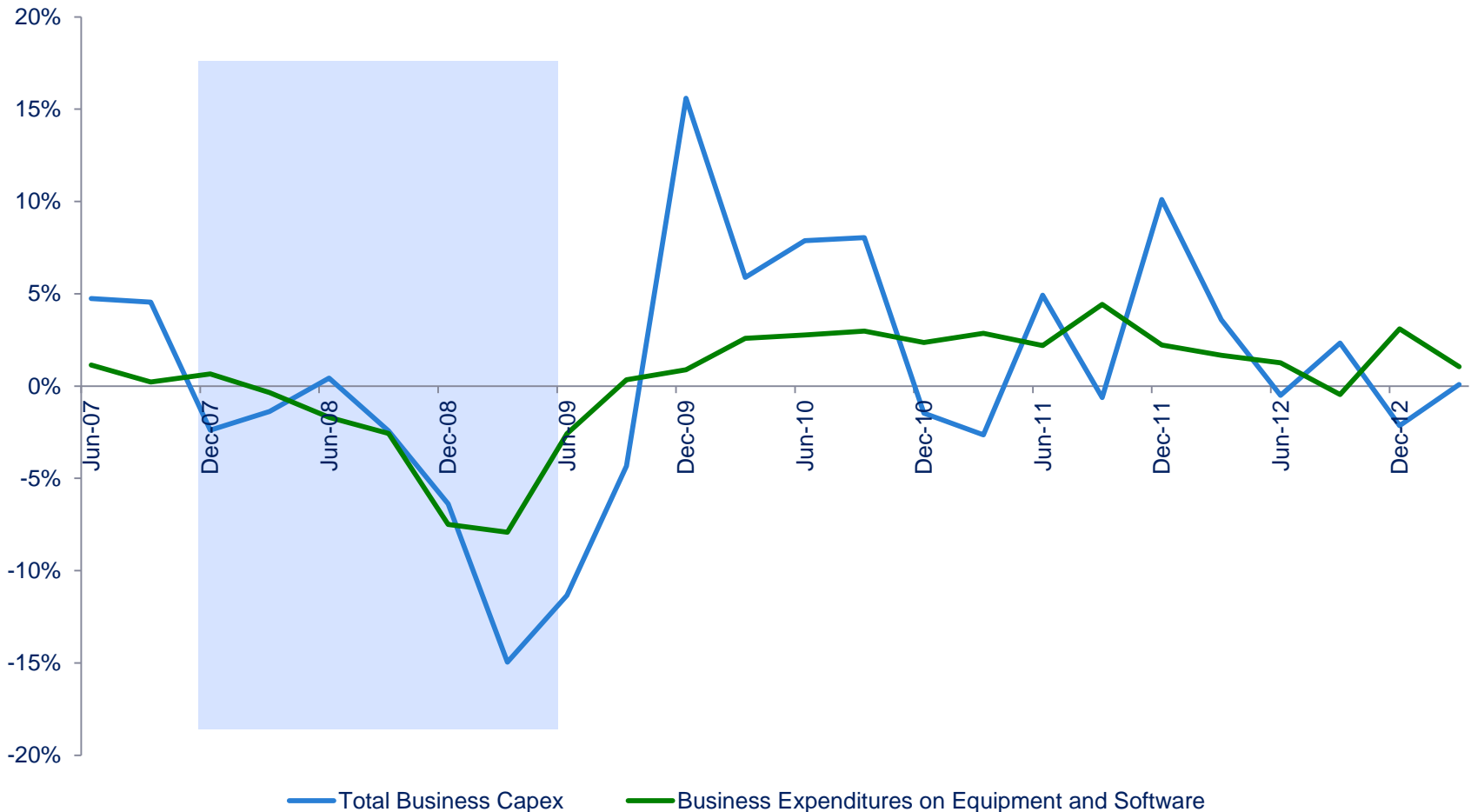
State / Local Gov't Spending Growth



Business Investment

Investment growth slow, below where it should be

Business Capex and Expenditures on Equipment and Software Growth

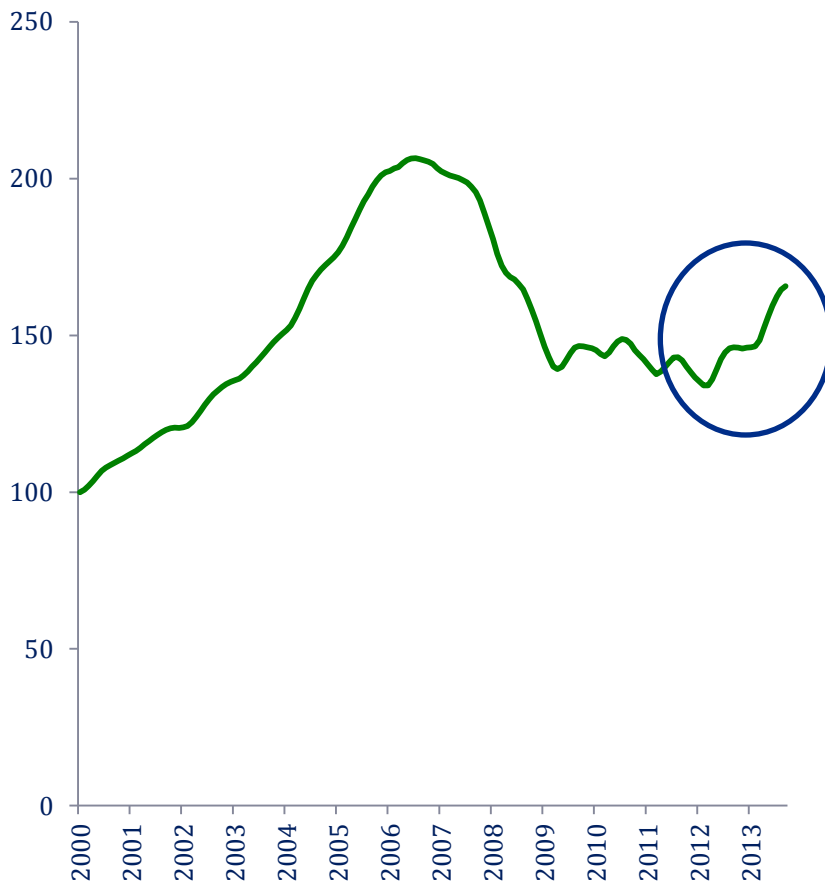


Housing Sector

Strong demand has led to price recovery



Case-Shiller 20-City Index



Recent Price Increases

Prices for single-family homes climbed in Q3

- Double-digit growth in 33% of areas
- Median price for existing home sales rose 12.5% Y-o-Y

Index Drivers:

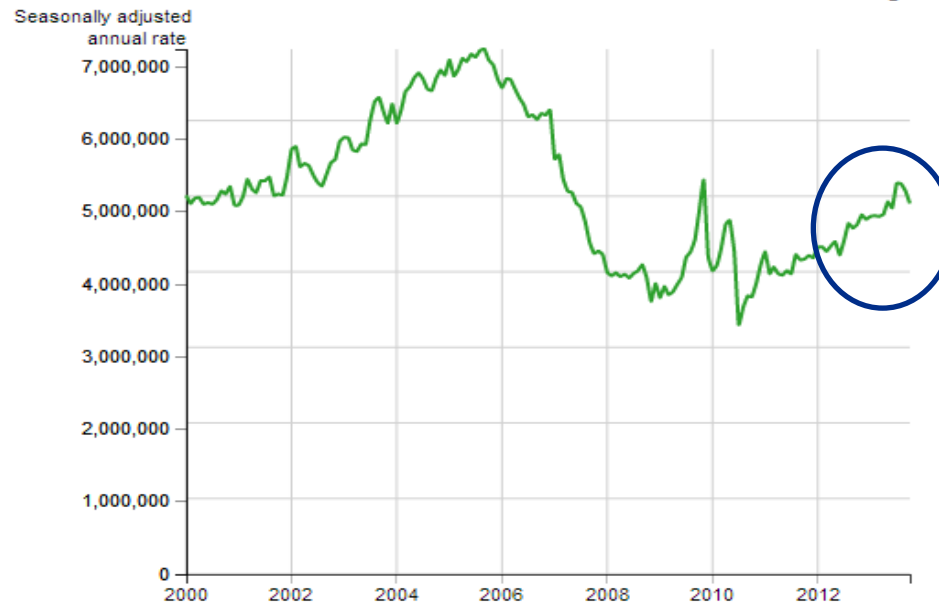
- Tight Supply:
 - Low contracts to buy existing homes
- Lack of Distressed Sales
 - Largely been exhausted by investors
- Measurement Method
 - Case-Shiller inclusion of REO appreciation

Housing Sector

Despite price increases, total sales are down



Existing Monthly Home Sales



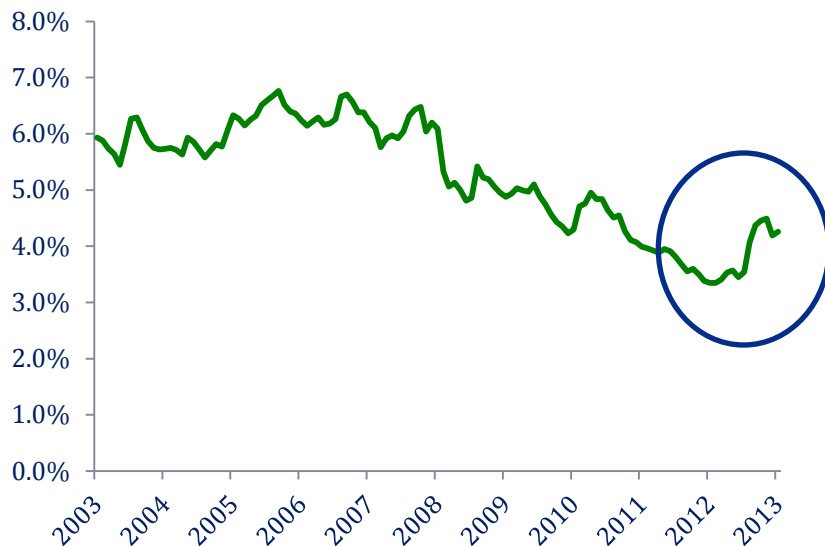
- Total existing home sales fell 3.2% in Oct.
 - 5th consecutive decline
 - Low inventory holding back sales and pushing prices up
 - Median price up 12% YoY
- Declining Housing Affordability
 - Home price growth outpaced income growth
 - Increasing rates pushing up cost of borrowing

Housing Sector

Cost of borrowing expected to rise



30-Year Fixed Rate Mortgage



15-Year Fixed Rate Mortgage



- Mortgage rates expected to rise in long run as QE eventually winds down
 - 30 year mortgage rate 4.48% as of December 4, 2013, up from near-record low of 3.35% in May

Housing Sector

Housing expected to continue rising at a slower pace

Current Status:

- Constrained inventory of existing homes for sale (supply driven price increase)
- High demand as buyers try to lock in rates

Trend:

- Rising borrowing costs
- Weak affordability (some buyers deterred in near term)
 - Reduced excess demand

Outlook:

- Borrowing cost will continue to increase (~5% 30-year fixed predicted)
- Lack of refinancing will increase borrower access to mortgages
- Newly constructed homes will relieve inventory pressure/price growth
- Slower growing, single-digit price growth rate in 2014
- Increasing inventory will increase total sales and moderate price growth in 2014

Currency

Dollar has generally weakened over the past decade



USD/EUR Exchange Ratio

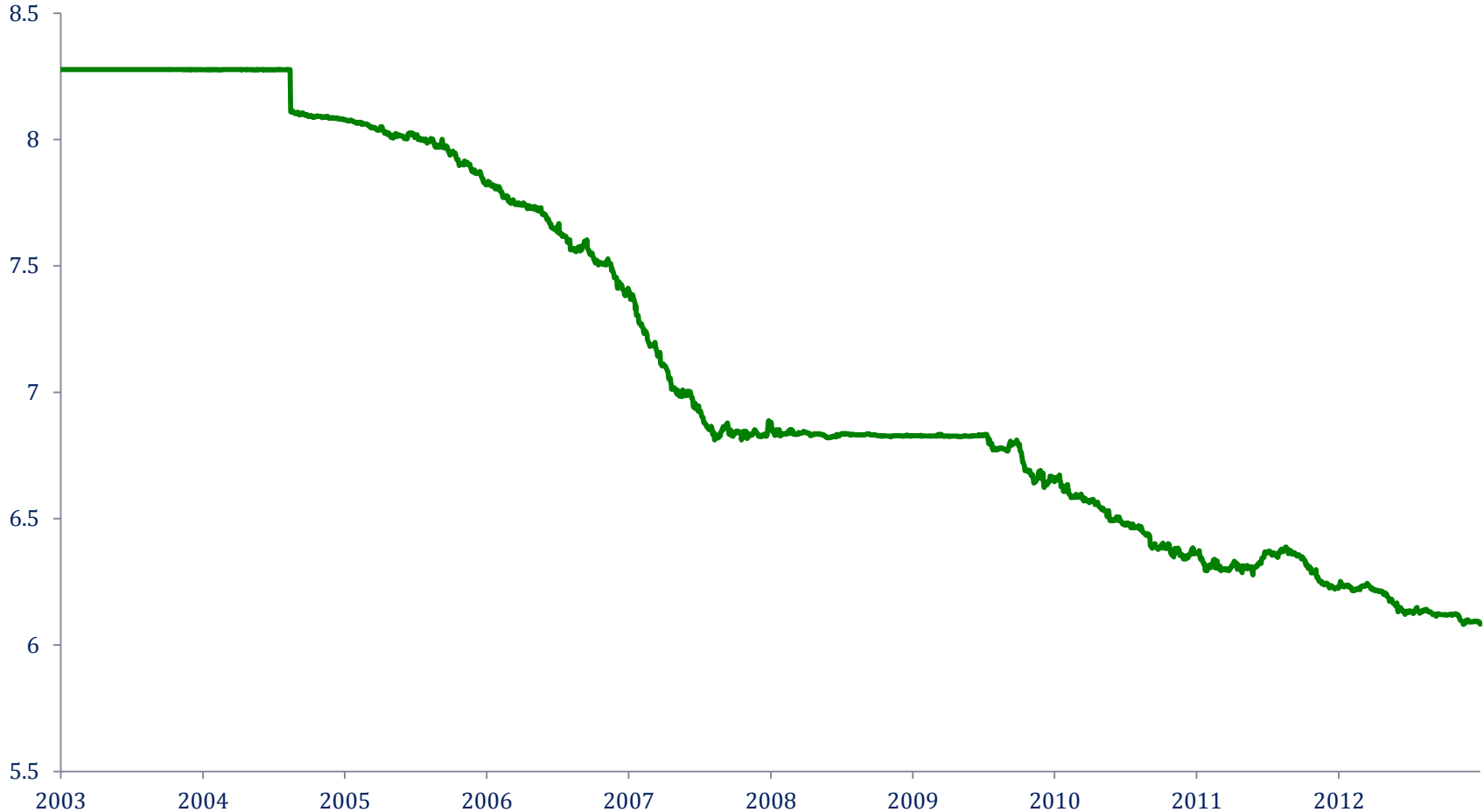


Currency

Dollar has generally weakened over the past decade



USD/CNY Exchange Ratio



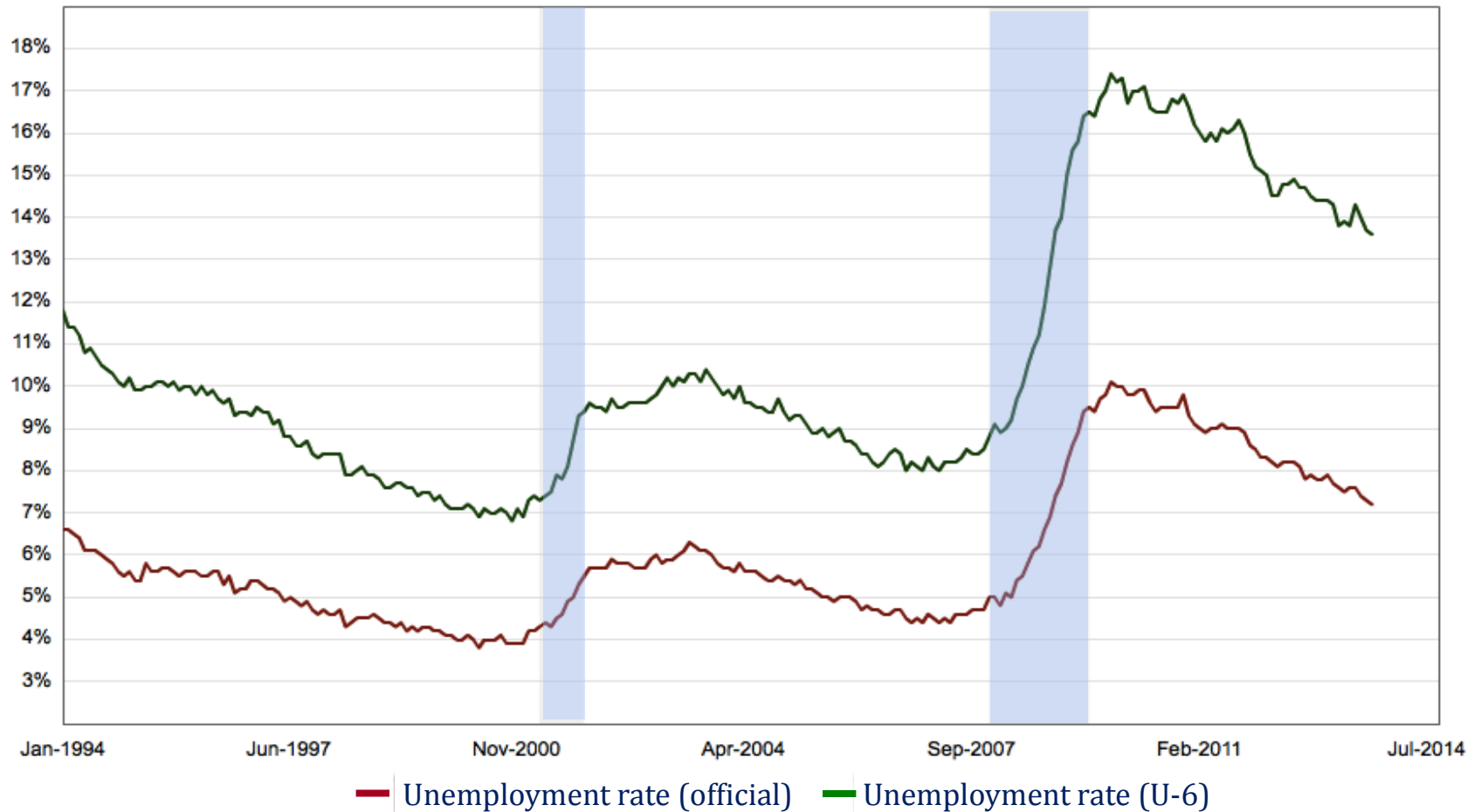
Currency

Dollar is poised to strengthen

- Safe-haven currency: generally strengthens as global economy worsens
- Recent positive movement on good news (i.e. improving manufacturing/real economic activity)
 - Potential structural shift for the currency
- Tapering expectations are strengthening dollar
- Easy money and weak economies have weakened the Euro and Yuan

Unemployment

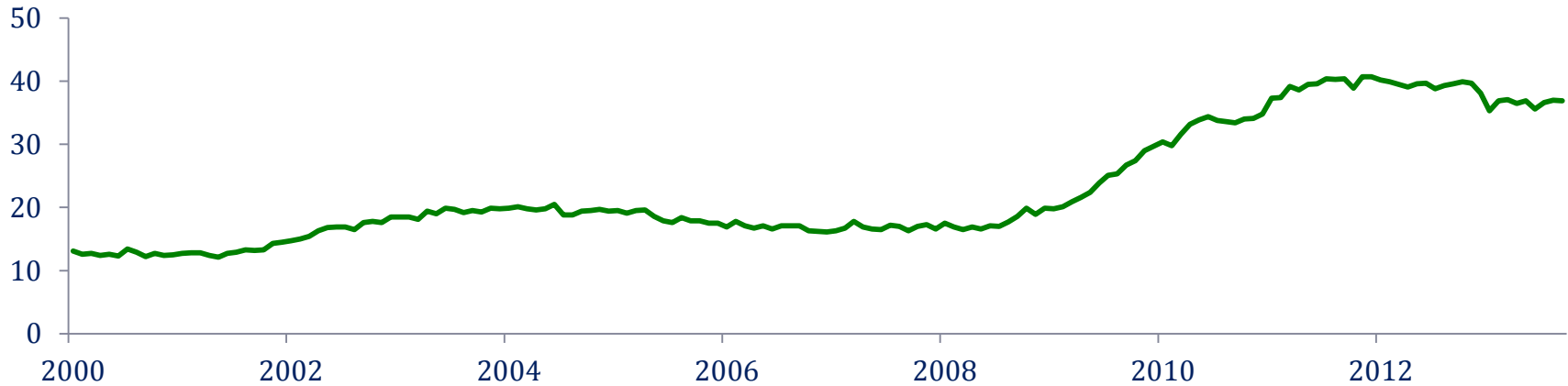
Steadily decreasing over last few years



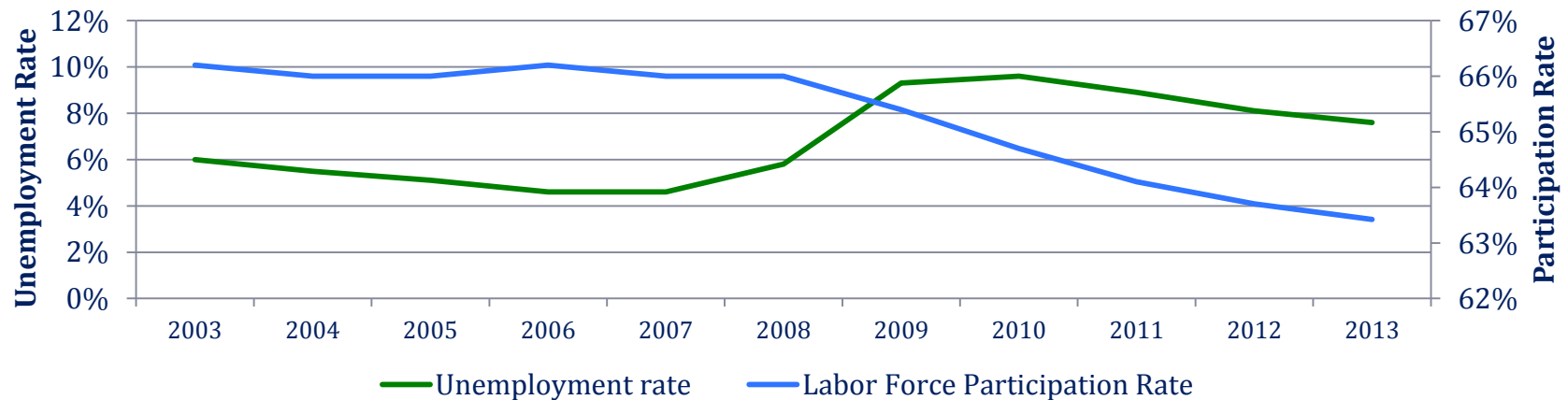
Unemployment

Lengthening unemployment duration a major concern

Duration of Unemployment (weeks)



Labor Force Participation Rate vs. Unemployment Rate

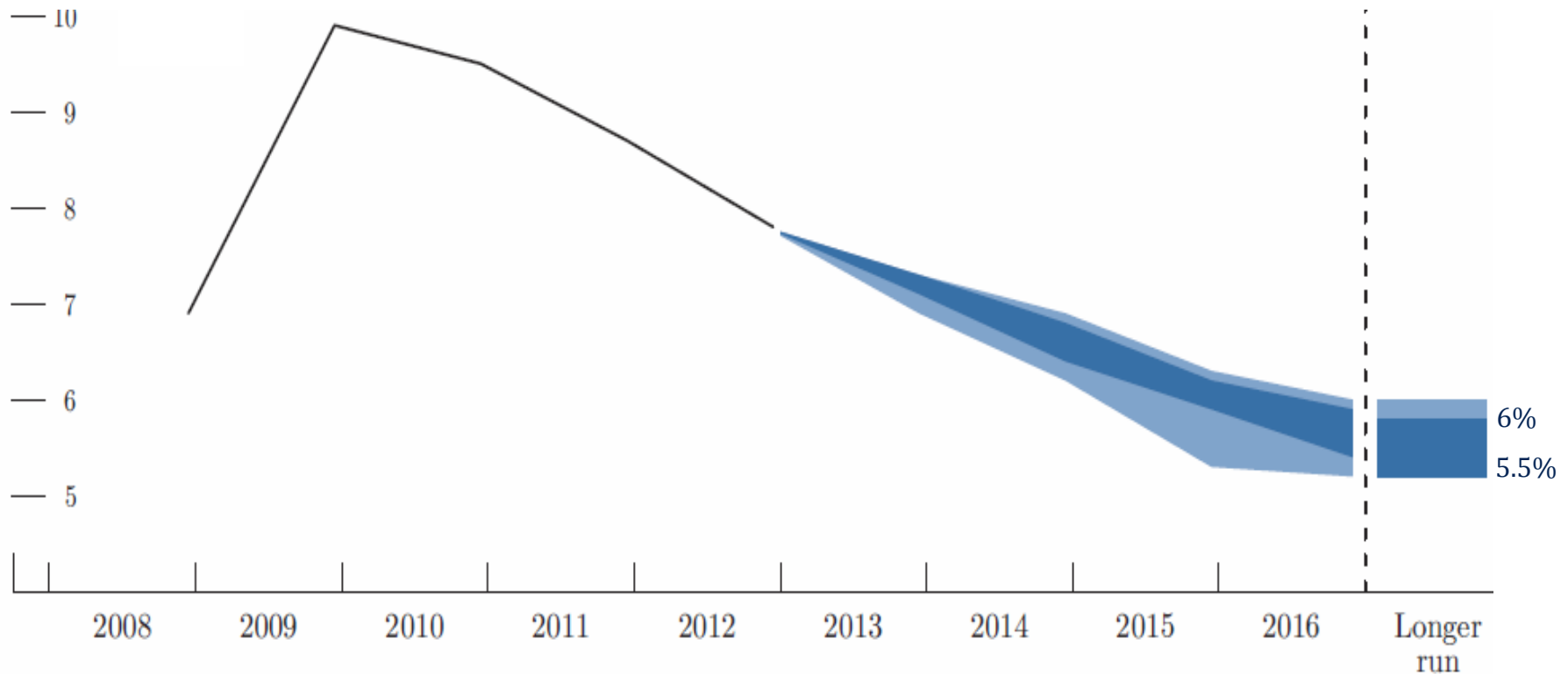


Unemployment

Projected to continue on current trend



Federal Reserve Unemployment Rate Projections

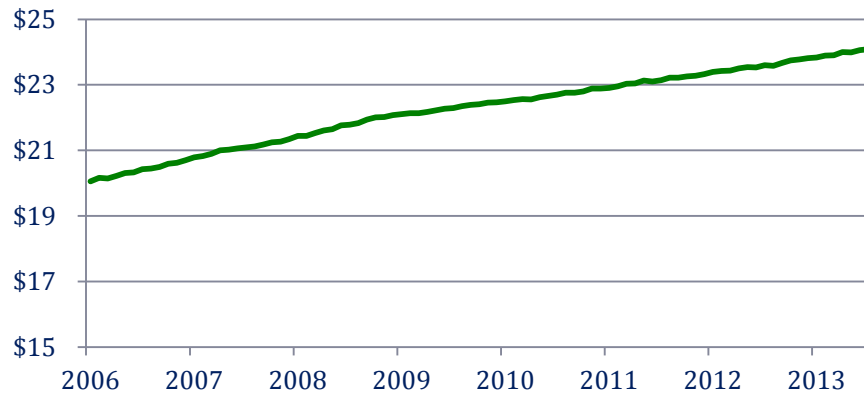


Unemployment Takeaways



Wages increasing, people slightly better off

Average Hourly Wage



Unemployment Summary

- AIM expects unemployment to remain at 7.0% by the end of the year, and 6.6% by the end of 2014

Areas of Concern

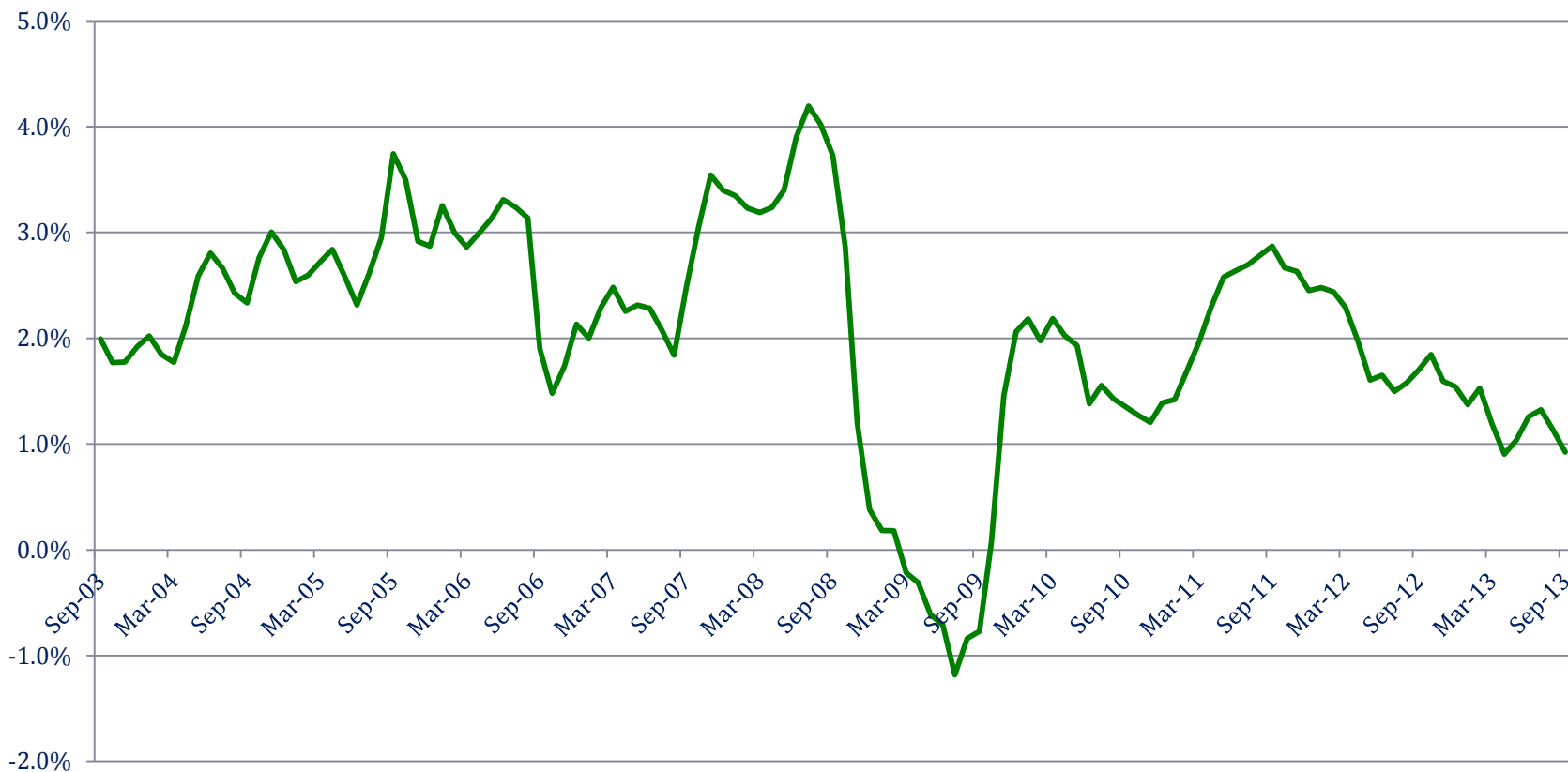
- Business investment:
 - Business investment hasn't fully recovered and businesses aren't hiring due to uncertainty
- Large gap between official unemployment and U-6 rate
 - Underemployment
 - Discouraged workers

Historical Inflation



Inflation below the Federal Reserve 2% target

PCE Price Index Continues to fall

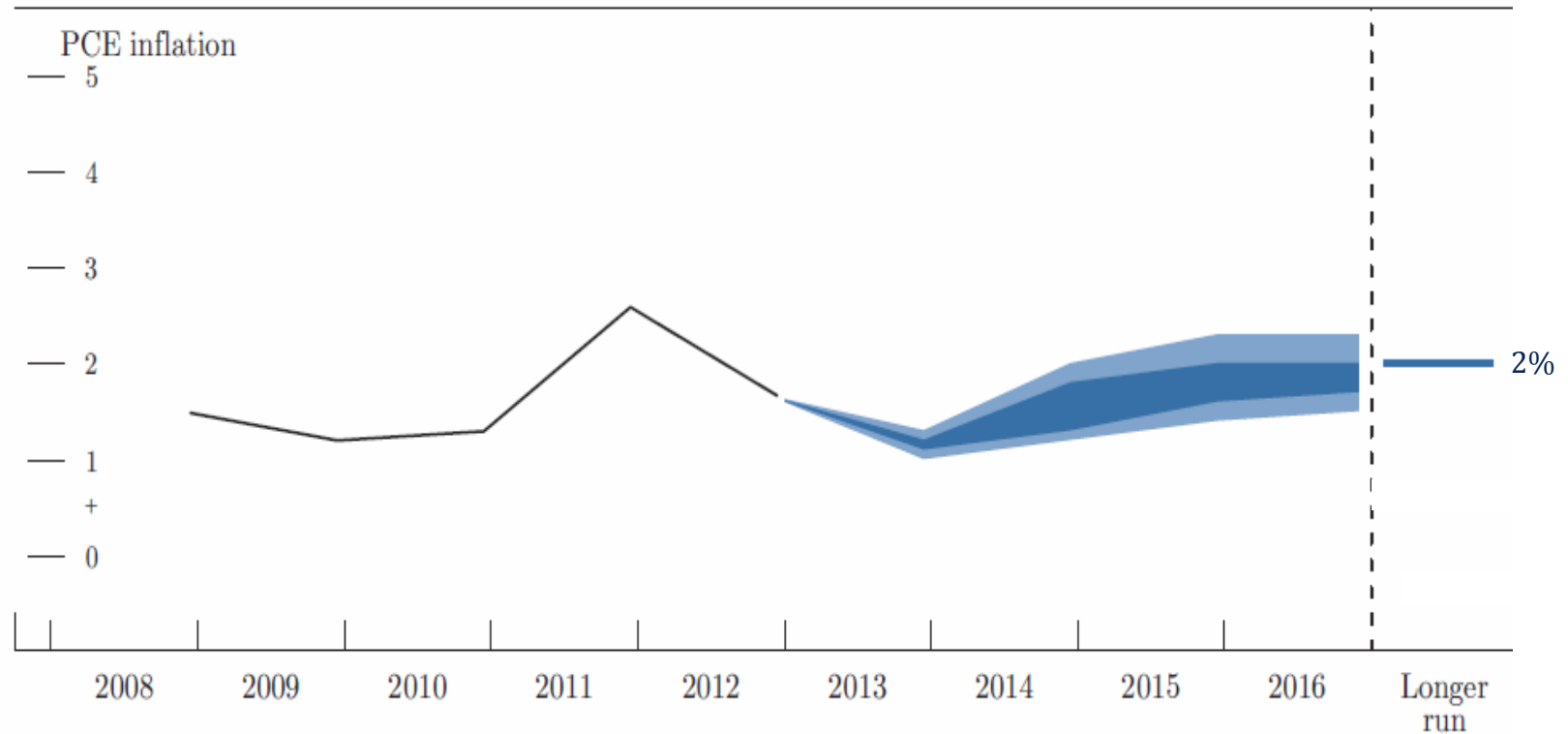


Inflation Projections

Target rate unlikely in near future



Federal Reserve PCE Inflation Projections



Inflation Takeaways

Slow inflation recovery to Fed target



PCE Inflation Estimates



Inflation Summary

- Stable commodity prices and slack in the labor and product markets cause the low inflation rate
- AIM expects inflation at 1.4% by the end of 2014

Areas of Concern

- Low inflation rate:
 - Inflation consistently below the 2% objective could pose risks to economic performance
- High inflation rate:
 - Disrupted consumer expectations and reduced public ability to make accurate longer-term economic and financial decisions

Monetary Policy

Still far from desired targets



Unemployment

6.5%

Currently – 7%

Inflation

2%

Currently – 1.2%

Long-Term GDP Growth

2.3 – 2.6%

Currently Quarterly Rate – 3.6%

Driven by dual mandate

- Unemployment reduction is main priority
- Have connected taper to “continued market improvement”

Monetary Policy



No major changes to tapering plans

October 30th Fed Meeting

- Economic activity has continued to “expand at a moderate pace”
 - No change to asset purchase program
 - Did not take possibility of a December adjustment to the bond-buying program off the table
-

Why?

- Financial conditions improving, but awaiting more evidence of sustainable economic growth – particularly in unemployment
-

Future Plan

- Asset purchases remain contingent on economic outlook
 - Highly accommodative monetary policy to continue after tapering

Monetary Policy

Yellen likely to continue dovish ways



Janet Yellen

- Long time Fed director and dove
-

Stance on Current Economy

- “Unemployment is still too high, reflecting a labor market and an economy performing far short of their potential.” - Janet Yellen
-

Future Plan

- “Let’s make sure that policy remains accommodative for a longer rather than shorter period of time in order to give the real economy time to adjust.” - Janet Yellen
- Given weakness in GDP and employment numbers, coupled with deflation concerns tapering will likely begin in the late Q2, early Q3 of 2014
 - Short term rates remain low until late 2015

Fiscal Policy

Government Shutdown Result

- S&P estimated shutdown shaved 0.6% off Q4 GDP
- Furthered distrust of Congress and damaged international credibility
- Democrats largely got what they wanted out of deal
- Debt cushion now extends through Feb. 7th

Must Act Quickly Moving Forward

- Formed budget conference committee to plan fiscal 2014 to replace sequester cuts
- Two meetings of committee have yielded no progress
 - Mostly divided on tax revenues and entitlement programs
- Next meeting (Dec. 13th) is deadline for plan as to how to fund government past Jan. 15th

Bipartisan deadlock remains a concern that will set the tone for 2014

AIM Outlook



	2013	2014
GDP	2%	2.3%
U.S. Dollar	Appreciate	Appreciate
Unemployment	7.0%	6.6%
Monetary Policy (Tapering)	No	Late Q2, Early Q3
Inflation	1.2%	1.4%

Impact on Portfolio

Consumption & Unemployment

- Low growth in consumption and disposable income
- Strong Q3 job creation

Affected:

- Apple
- Activision Blizzard
- Cott
- Estee Lauder
- Google
- Joseph A. Bank
- Pixelworks
- Select Comfort

Investment

- Slowly increasing investment in software and CapEx

Affected:

- Cummins
- IPG Photonics
- Rockwell Automation
- Teradata

U.S. Dollar

- Appreciation of dollar against major world currencies

Affected:

- Apple
- Apache
- Corning
- Cummins
- Cott
- Estee Lauder
- Expeditors
- Google
- Microsoft
- Potash
- Pixelworks

Interest Rates & Housing

- Increased interest rates due to tapering
- Slower housing growth in 2014

Affected:

- Cummins
- DiamondRock
- Delphi
- Select Comfort



Security Analysis

Overview

Company / Industry Overview

Fundamental Analysis

Earnings Forecast

Beta / WACC

Multiples Valuation

Discovery

Free Cash Flow Valuation

Technical Analysis

Special Circumstance

Security Analysis



Stock	Analyst	Focus
SodaStream	Katie Lill	Company / Industry
Cott Corporation	Tom O'Sullivan	Fundamental Analysis
Coach	Turner Harty	Earnings Forecast
Rockwell Automation	Michael Nettesheim	Beta / WACC
Buffalo Wild Wings	Matthew Menker	Multiples Valuation
Vitamin Shoppe	Jackie Rose	Discovery
Tesla Motors	Bob Besio	Free Cash Flow Valuation
Estee Lauder	Liz Garvin	Technical Analysis
Lifeway Foods	Brandon Hall	Special Circumstance

SodaStream International (SODA)



Headquarters: Airport City, Israel

CEO: Daniel Birnbaum

Price (12/3/2013): \$55.76

1-year Forward P/E: 16.90

Market Cap: \$1.16B

Dividend Yield: -

LTM EPS: \$2.29

SODA: One Year Price Chart



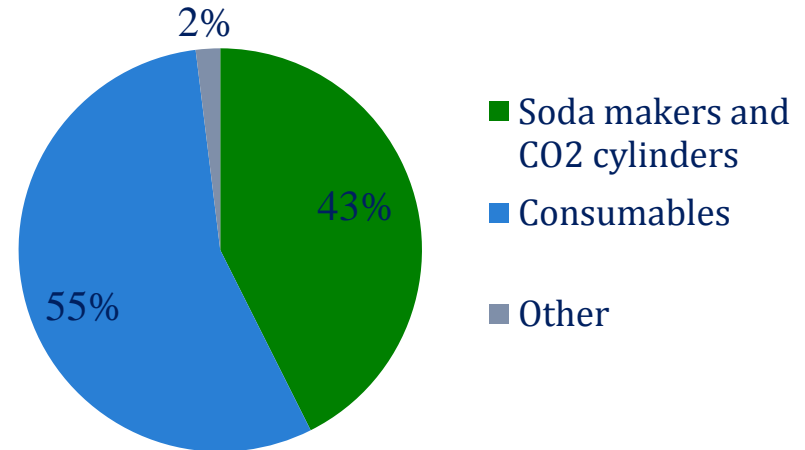
Focus: Company/Industry Analysis

SodaStream Overview

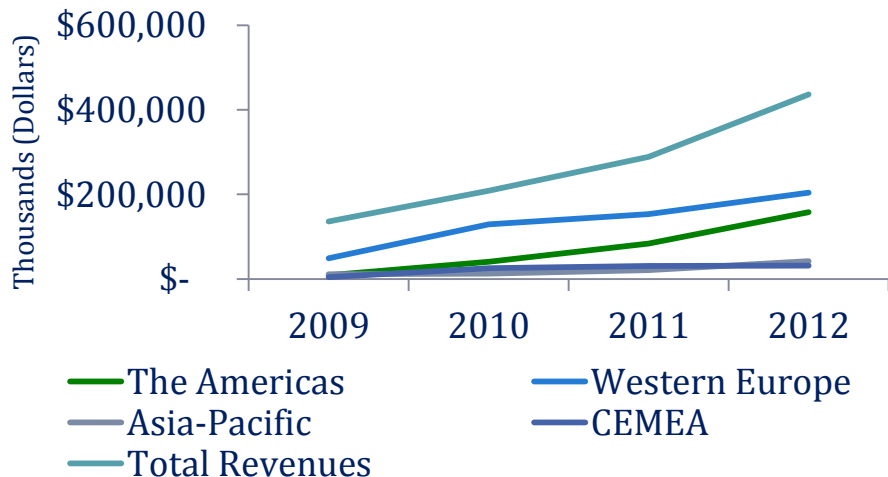


- Manufacturer of home beverage carbonation systems
 - Transform tap water into soft drinks and other beverages
 - Convenient, customizable, and environmentally conscious
- Global presence spans all regions
 - Strong American revenue growth

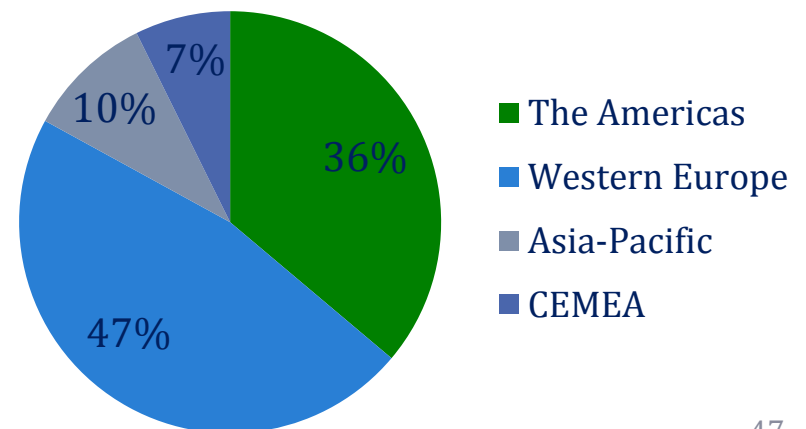
Revenue by Product



Revenue Growth



Revenue by Region



Company/Industry Analysis



SodaStream Competitive Analysis



Valuation and Thesis



Recommendation - BUY			
Valuation Method	Weight	Valuation	Contribution
FCF Value/Share	55%	\$ 59.40	\$ 32.67
Price/Earnings Multiple	15%	\$ 63.22	\$ 9.48
Price/Book Multiple	15%	\$ 59.97	\$ 9.00
DDM Analysis	15%	\$ 49.26	\$ 7.39
Book Value	0%	\$ 13.49	\$ 0.00
Final Valuation			\$ 58.54
Market Price (11/20/13)			\$ 55.81
Estimated Upside/(Downside)			4.89%

Investment Thesis:

- Strong growth potential from U.S. penetration, ad campaign, and new production facility
- Product's cost savings and stickiness are in question—could prove to be a fad
- Analyst group identified other superior investment opportunities

Cott Corporation (COT)



Headquarters: Quebec, Canada

CEO: Jerry Fowden

Price (12/3/2013): \$8.40

1-year Forward P/E: 26.33

Market Cap: \$792M

Dividend Yield: 2.70%

LTM EPS: \$0.32

COT: One Year Price Chart



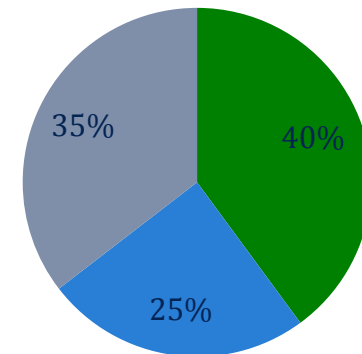
Focus: Fundamental Analysis

Cott Corporation Overview

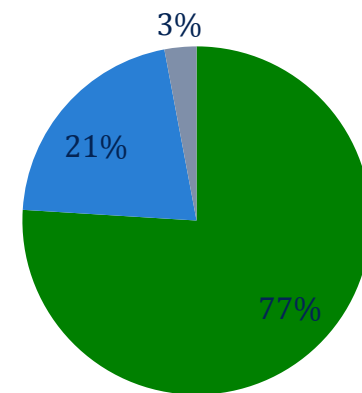


- Beverage producer on behalf of retailers, brand owners and distributors
 - Leading private-label position
- 33 manufacturing facilities throughout the US, Canada and Mexico
- Diminishing product and customer concentration

2012 Revenues

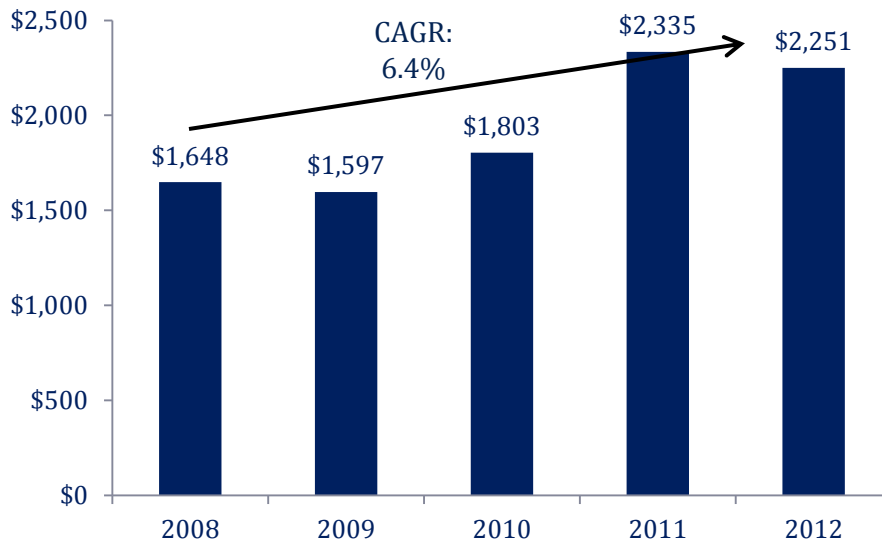


■ Carbonated Soft Drinks ■ Juices ■ Other



■ North America ■ UK ■ Other

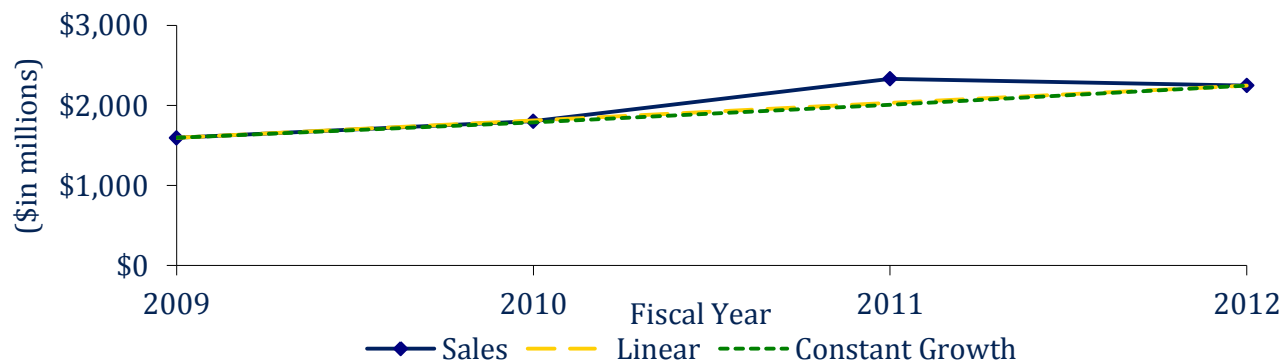
Historical Revenues (mm)



Business Risk – Low

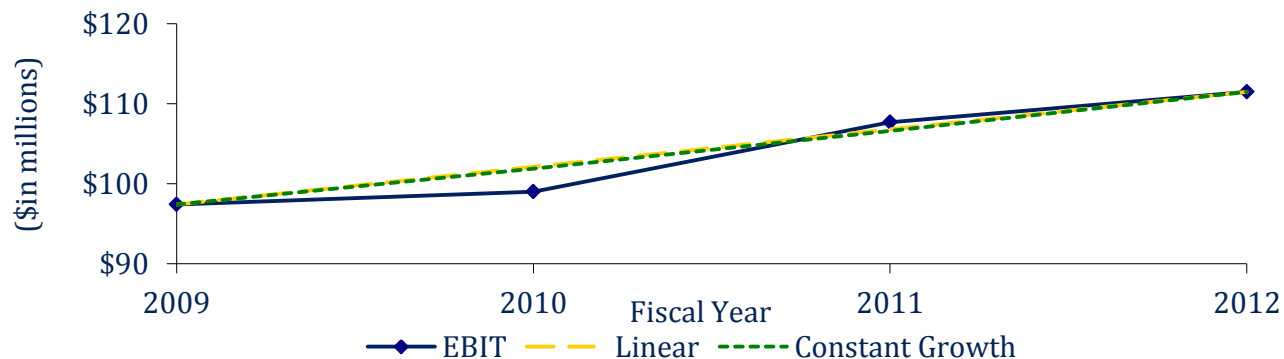


Sales Volatility



Vs. Mean: 18%
Vs. Linear: 8%
Vs. CG: 9%

EBIT Volatility

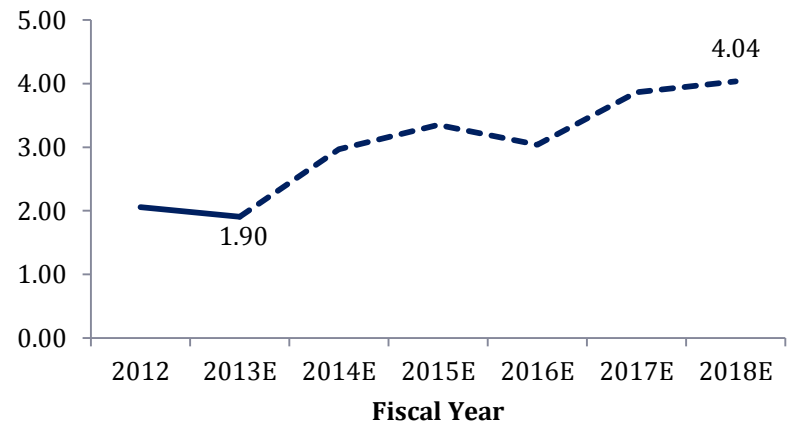


Vs. Mean: 7%
Vs. Linear: 2%
Vs. CG: 1%

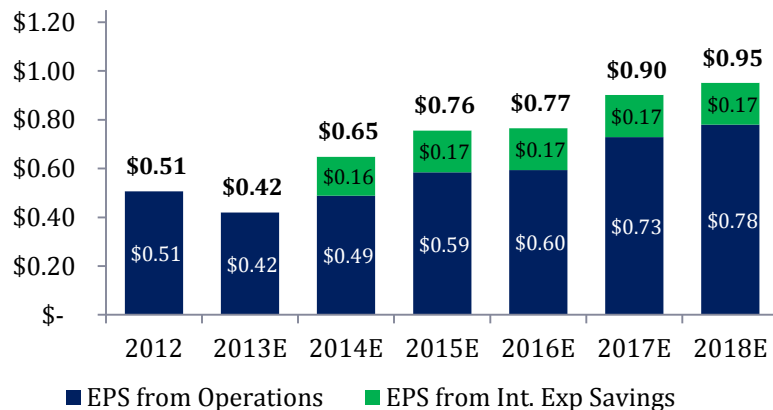
Financial Risk – Decreasing UNIVERSITY OF NOTRE DAME

- On November 15, Cott redeemed \$200M of \$215M 2017 Notes
 - Will redeem remaining \$15M in 2014
- Significantly reduces Financial Risk
 - Expected to decrease 2014 interest expense \$13M

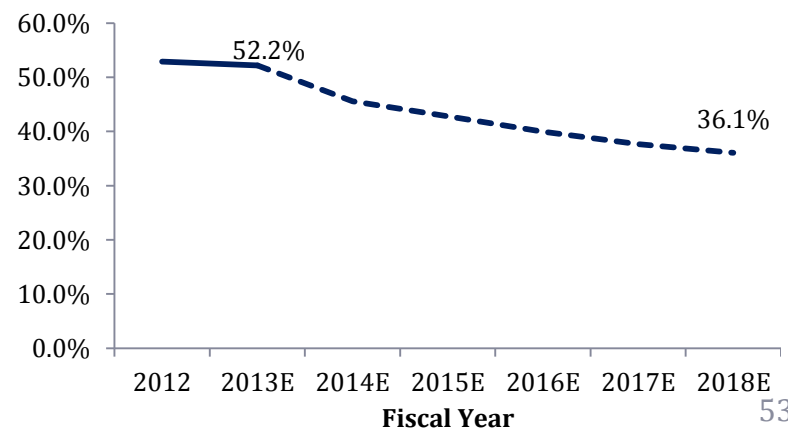
Times Interest Earned



Earnings per Share



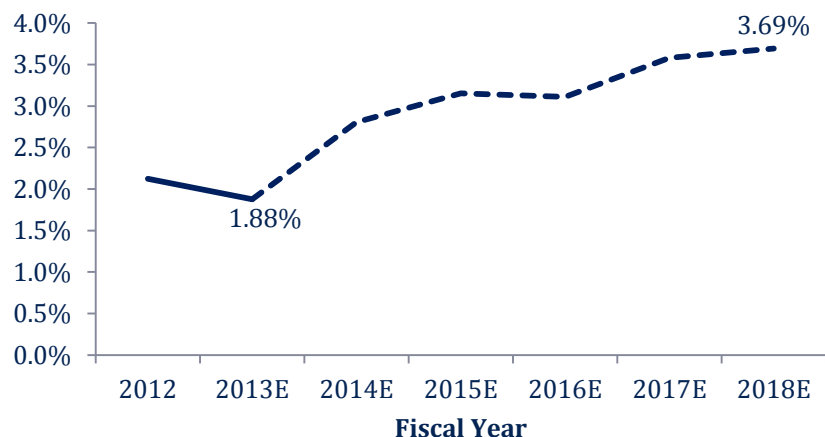
Total Debt to Capital



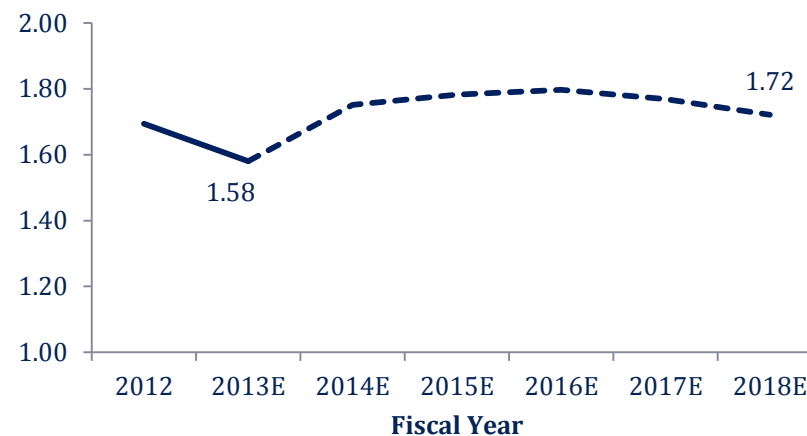
ROE – DuPont Analysis



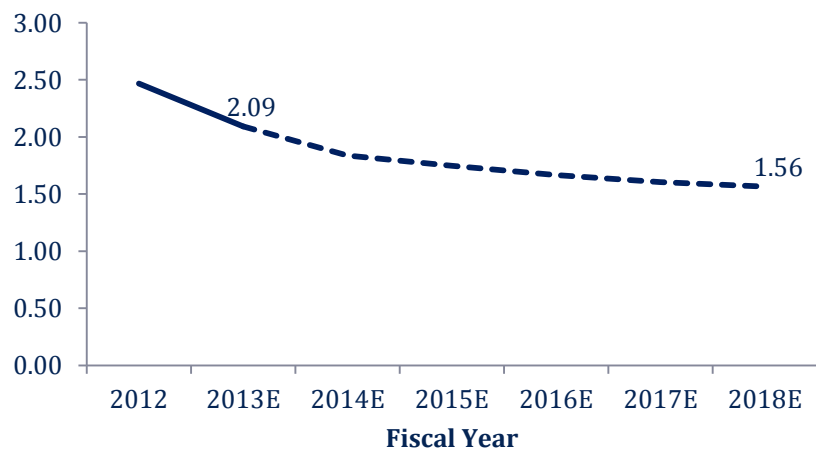
Net Profit Margin



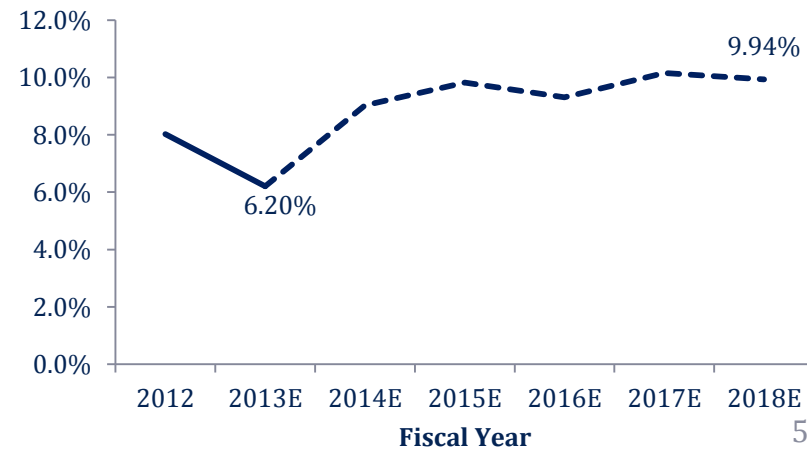
Capital Turnover



Financial Leverage



Return on Equity



Valuation and Thesis



Recommendation - BUY			
Valuation Method	Weight	Valuation	Contribution
Book Value/Share	0%	\$ 2.10	\$ -
FCF Value / Share	40%	\$ 11.79	\$ 4.71
Price/Earnings Multiple	20%	\$ 15.63	\$ 3.13
EV/Rev Multiple	15%	\$ 8.40	\$ 1.26
DDM Analysis	15%	\$ 10.01	\$ 1.50
Price/Book Multiple	10%	\$ 8.87	\$ 0.89
Final Valuation			\$ 11.49
Market Price (11/20/13)			\$ 8.59
Estimated Upside/(Downside)			33.8%

Investment Thesis:

- Product and Customer diversification further decrease already low Business Risk
- \$200M Redemption of \$215M 2017 Notes substantially and immediately increases profitability and financial security

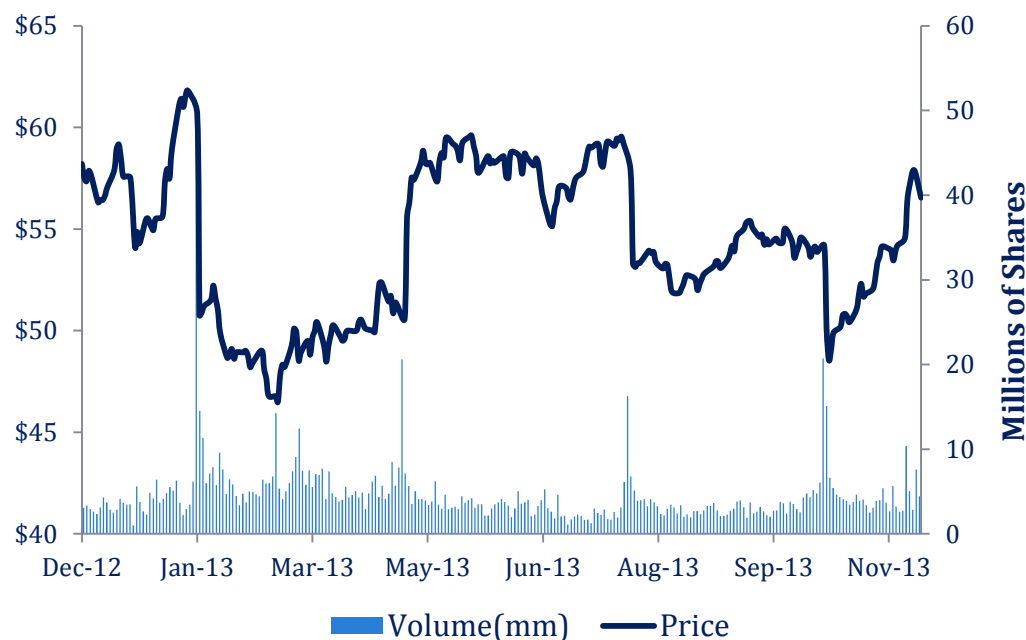
Coach (COH)



Headquarters: New York, NY
CEO: Lew Frankfort

Price (12/3/2013): \$56.64
1-year Forward P/E: 16.3
Market Cap: \$15.6B
Dividend Yield: 2.40%
LTM EPS: \$3.73

COH: One Year Price Chart



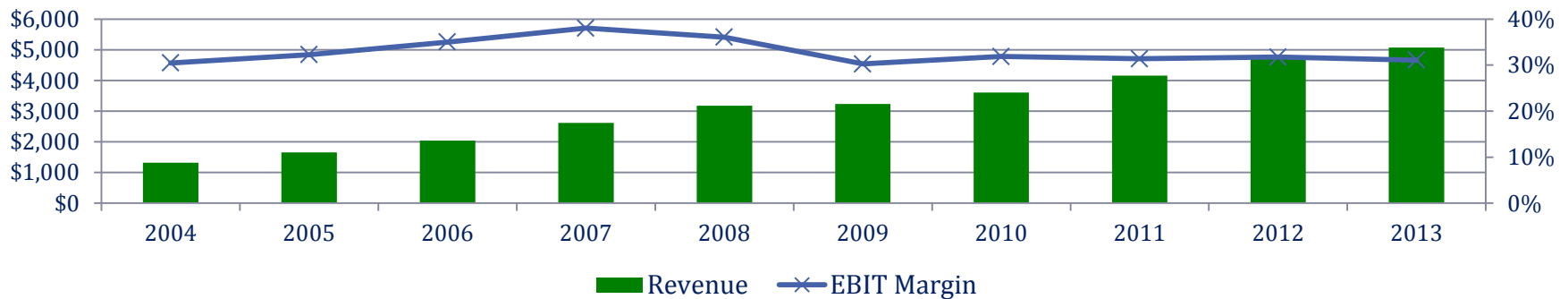
Focus: EPS Forecast

Coach Overview

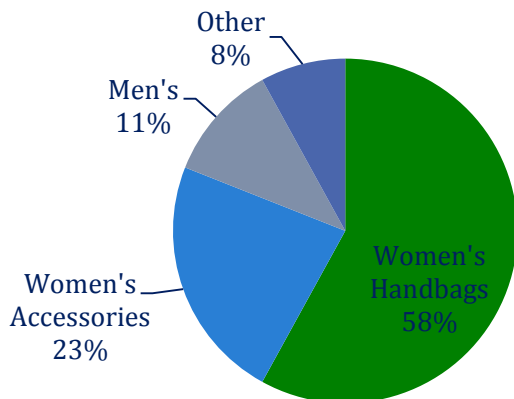


Coach is a leading retailer in the affordable luxury subsector focusing on the sale of handbags, footwear, jewelry, fragrances and other accessories

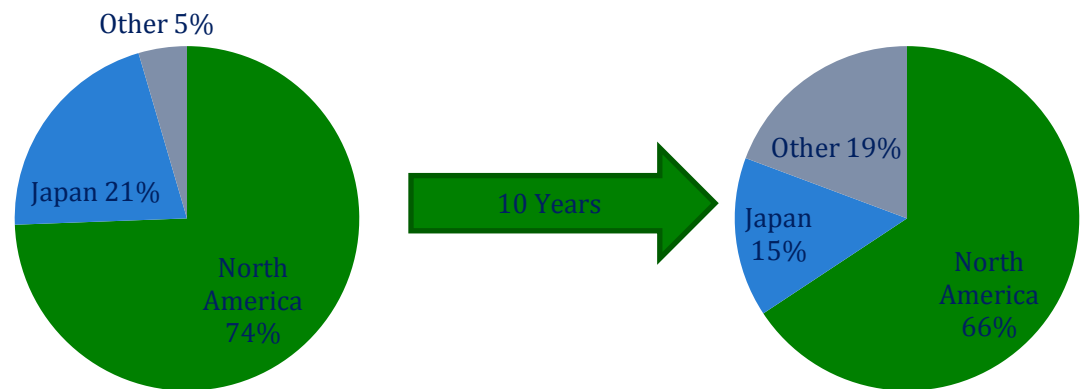
Financial Summary (\$mm, except percentages)



2013 Product Mix



Revenue by Geography 2004 vs. 2013



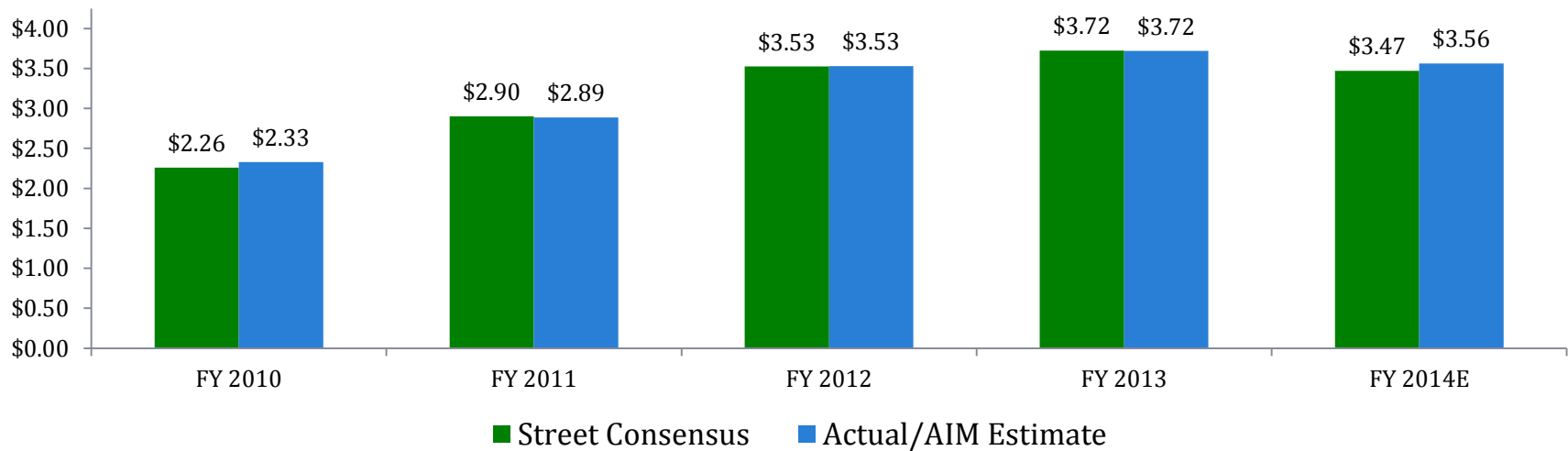
EPS Forecast: Assumptions

- Revenues projected from three reportable geographic segments
 - North America and Japan expected to grow in low single digits
 - Other International growth decreases from 30% to 15% over forecasting period
- COGS as a % of Revenue increases
- Effective tax rate decreases as international sales increase
- Shares outstanding continues historic rate of decline



EPS Forecast: Results

EPS History and Estimates



Valuation and Thesis



Recommendation - SELL

Valuation Method	Weight	Valuation	Contribution
Free Cash Flow Model	50%	\$ 44.63	\$ 22.31
Forward PE Multiple	17%	\$ 53.59	\$ 8.93
Forward Price / Sales Multiple	17%	\$ 52.87	\$ 8.81
Dividend Discount Model	17%	\$ 53.68	\$ 8.95
Final Valuation			\$ 49.00
Market Price (11/20/13)			\$ 53.45
Estimated Upside/(Downside)			(8.3%)

Investment Thesis:

- North American brand image deteriorating
- Growth in China isn't enough reason to buy Coach
- Coach's large cash position will continue to be invested in stores with questionable prospects

Rockwell Automation



Rockwell Automation

Headquarters: Milwaukee, WI

CEO: Keith Nosbusch

Price (12/3/2013): \$111.16

1-year Forward P/E: 17.8

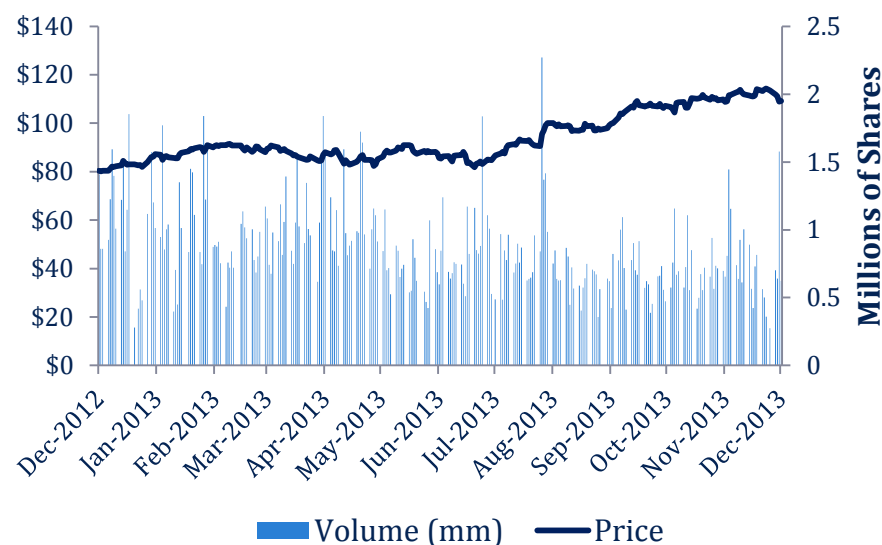
\$15.4

Market Cap: billion

Dividend Yield: 2.35%

LTM EPS: \$5.36

ROK: One Year Price Chart



Focus: Beta / WACC

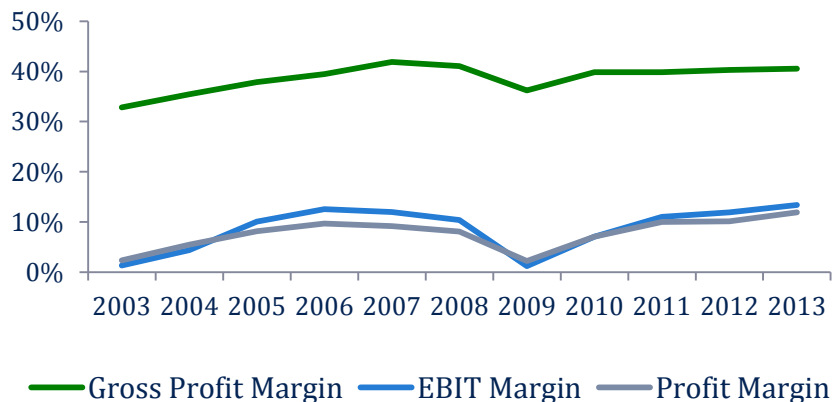
ROK Overview



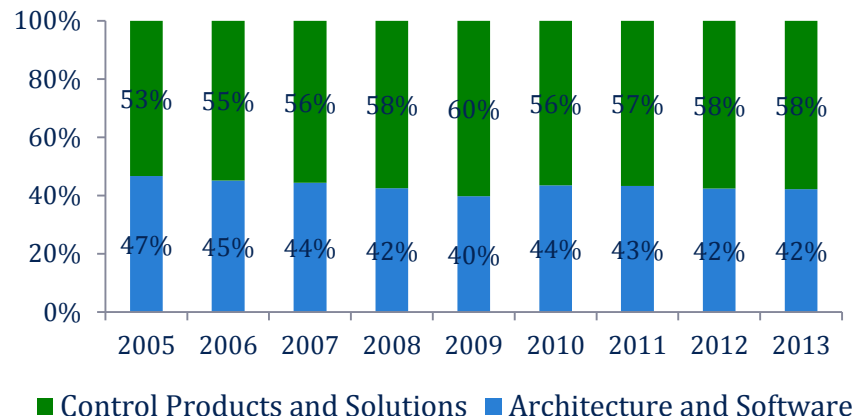
Overview

- **Architecture & Software:** Hardware, software and communications components
- **Control Products & Solutions:** Intelligent motor and industrial controls
- Serves transportation, oil and gas, metals, mining, food and beverage and life sciences markets
- Main product is Logix architecture

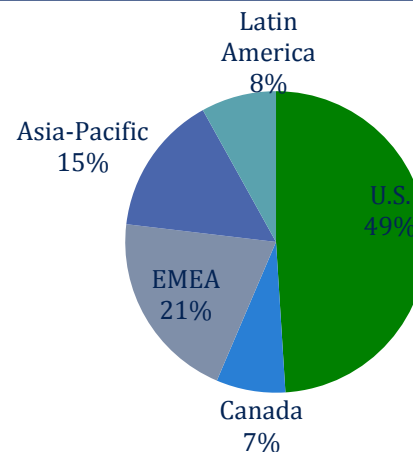
Margin History



Revenue by Segment



Revenue by Geography



ROK Beta and WACC



Regression Results

	Monthly	Weekly	Daily
Predicted Beta	1.74	1.43	1.43
R ²	0.54	0.62	0.64
Adjusted Beta			
Merrill	1.49	1.28	1.29
Value Line	1.50	1.29	1.29
Average	1.49	1.29	1.29
Weight Applied	20%	30%	50%

- **Weighted Average = 1.33**

Comparison

Weighted Average	1.33
Other Estimates	
Google Finance	1.57
Yahoo Finance	1.35
Value Line	1.25
Final Forecast	1.33

Rationale: Weighted average in-line with other estimates and consistent with fundamental risk analysis

WACC Calculation

(\$ in millions)

Total Debt	After Tax Cost of Debt	Total Equity	Cost of Equity (3% + Beta x 5%)	Debt + Equity	Tax Rate	WACC
\$1,946	3.6%	\$2,148	9.6%	\$4,094	25%	6.8%

Valuation and Thesis



Recommendation - BUY			
Valuation Method	Weight	Valuation	Contribution
FCF Value/Share	45%	\$ 140.19	\$ 63.08
DDM Analysis	25%	\$ 176.41	\$ 44.10
Price/Earnings Multiple	10%	\$ 116.29	\$ 11.63
Price/Rev Multiple	10%	\$ 91.09	\$ 9.11
EV/EBITDA Multiple	10%	\$ 107.66	\$ 10.77
Final Valuation			\$ 138.69
Market Price (11/20/13)			\$ 110.96
Estimated Upside/(Downside)			25%

Investment Thesis:

- Wide economic moat and sustainable competitive advantage
- Increasing need for automation
- Growth opportunities from investment spending in U.S., Europe, and emerging markets

Buffalo Wild Wings (BWLD)



UNIVERSITY OF
NOTRE DAME



Headquarters: Minneapolis, MN

CEO: Sally Smith

Price (12/3/2013): \$149.54

1-year Forward P/E: 33.4

Market Cap: \$2.8 B

Dividend Yield: -

LTM EPS: \$3.60

BWLD: One Year Price Chart

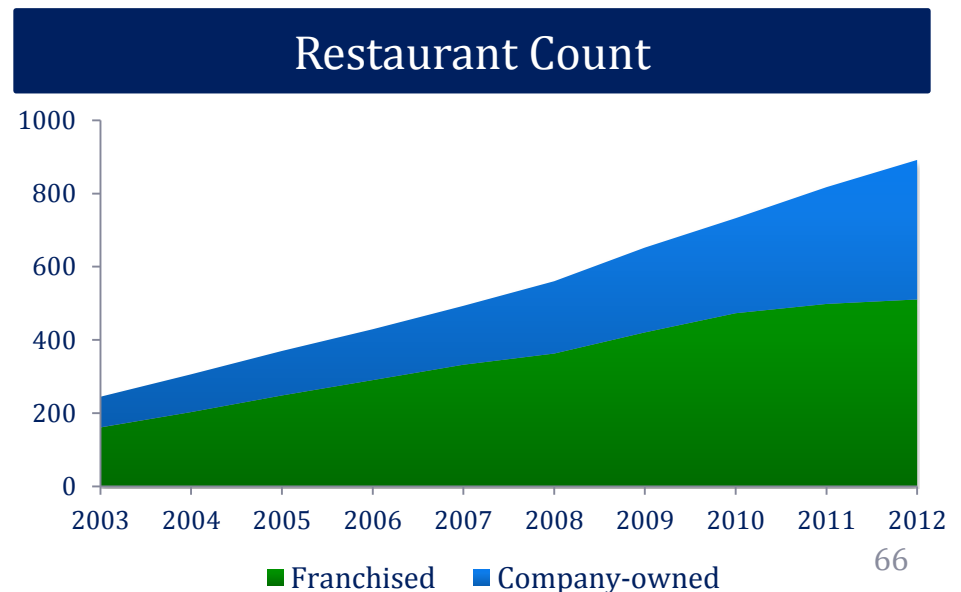
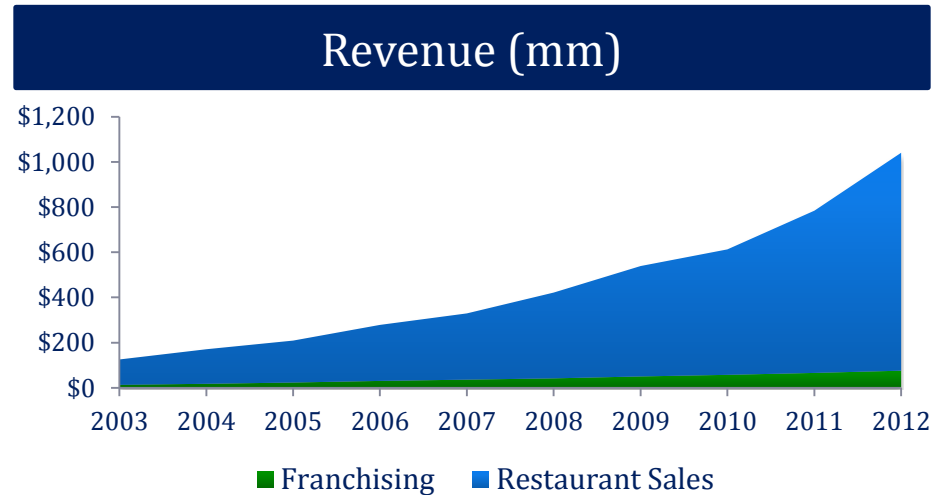


Focus: Multiples Analysis

BWLD Overview



- Owner, operator, and franchisor of Buffalo Wild Wings brand
- Wings. Beer. Sports.
 - 16 proprietary wing sauces
 - 30+ beers on tap
 - 50+ TV screens
- Tremendous growth story
 - 2003 (IPO)
 - 245 restaurants
 - \$126 M in revenue
 - Current
 - 949 restaurants (Q3 2013)
 - \$1.04 B in revenue (FY 2012)
 - Goal of 1,700 domestic locations & 300 foreign locations

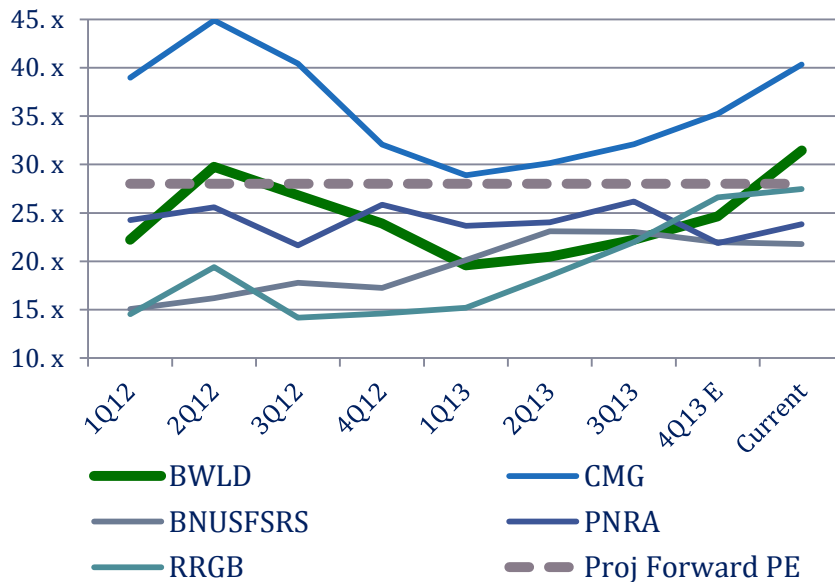


Multiples Valuation

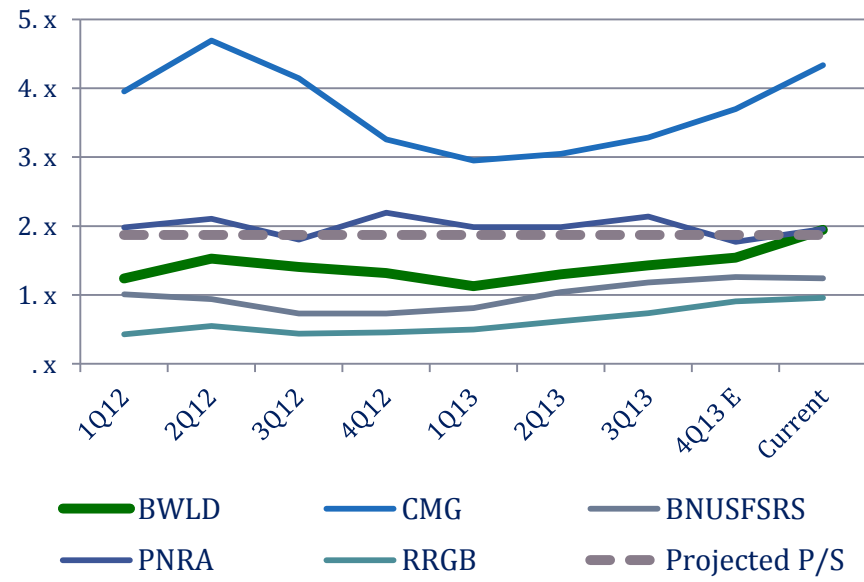


- Utilized Implied Forward P/E and Implied Forward P/S multiples
- Compared with high growth companies & Bloomberg US Full Service Restaurant Index
 - Chipotle, Panera Bread, and Red Robin Gourmet Burgers

Forward P/E



Forward P/S



Subjective Forward P/E 28.0x
 FY 2014 EPS \$ 4.75
Intrinsic Value \$ 133.09

Subjective Forward P/S 1.87x
 FY 2014 Sales \$1.45 B
Intrinsic Value \$ 143.90

Valuation and Thesis



Recommendation – DO NOT BUY

Valuation Method	Weight	Valuation	Contribution
FCF Value / Share	40%	\$ 121.45	\$ 48.58
Forward P/E Multiple	30%	\$ 133.09	\$ 39.93
Forward P/S Multiple	30%	\$ 143.90	\$ 43.17
Final Valuation			\$ 131.68
Market Price (11/20/13)			\$ 150.22
Estimated Upside/(Downside)			(14.1%)

Investment Thesis:

- Strong company with significant growth prospects and focused brand
- Low FCF generation due to high CAPEX aligning with expansion
- Rapid multiples expansion beyond industry and historic averages
- Recent price run-up eliminated profit making opportunity

Vitamin Shoppe (VSI)



Headquarters: North Bergen, NJ

Anthony

CEO: Truesdale

Price (12/3/2013): \$53.10

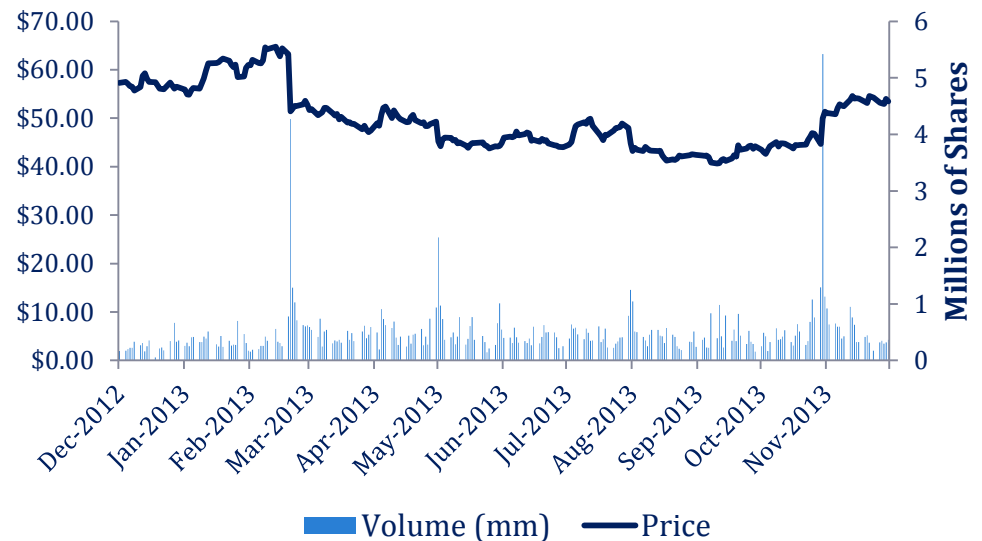
1-year Forward P/E: 20.9

Market Cap: \$1.59B

Dividend Yield: -

LTM EPS: \$2.27

VSI: One Year Price Chart



Focus: Discovery

Vitamin Shoppe Overview



Overview

- Specialty retailer of nutritional products
- Two sales channels – retail stores and direct
- Founded – 1977
- Company stores – 631
– 42 states, DC, Puerto Rico, Ontario

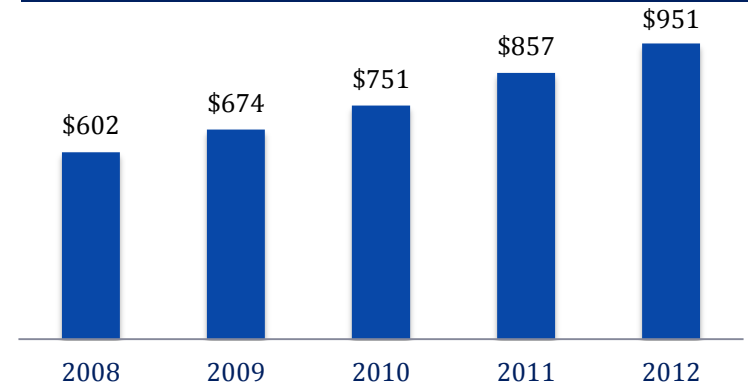
Products

- Vitamins and minerals
- Herbs and homeopathy
- Specialty supplements
- Sports nutrition

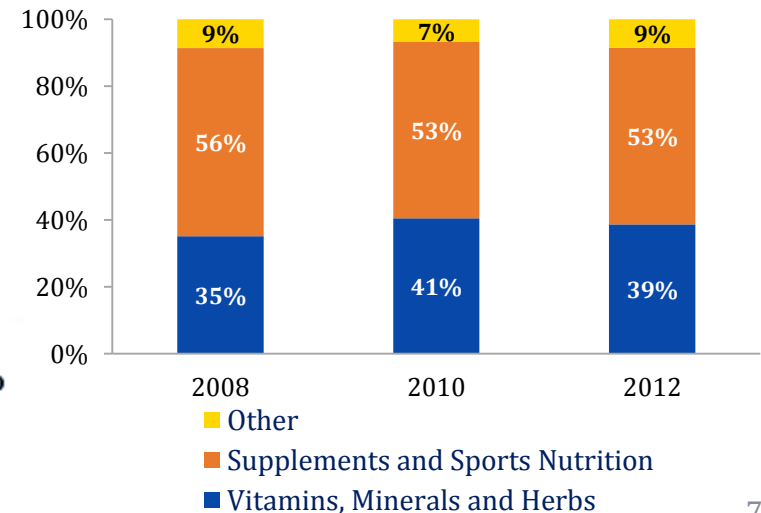
Geographical Distribution



Total Revenue



Revenue Breakdown by Product

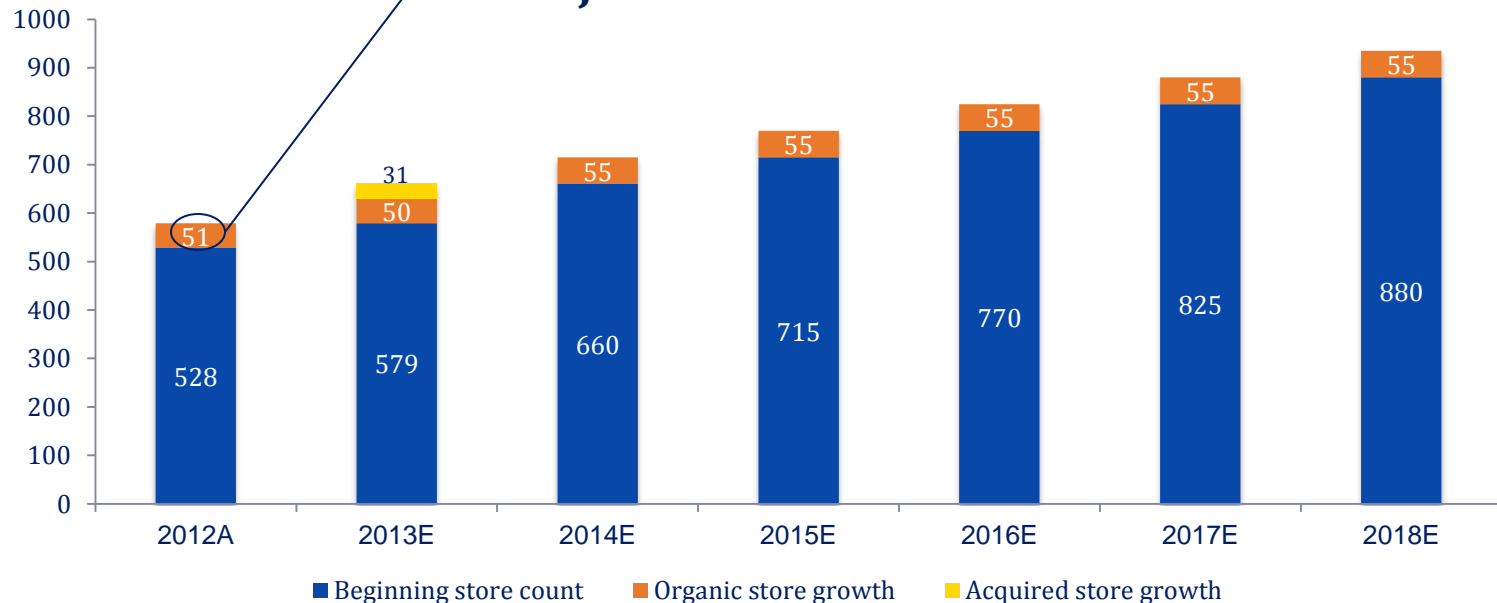


Discovery

- Testing new, smaller store format
- New model likely to be implemented in future store growth
- Allows VSI to more completely and effectively saturate existing market opportunities

Current Number of Stores	Age	Assumed Sales per Store 2012	Total Sales per Traunch 2012	Salesper ft2
51	Year 1	\$690,000	\$35,190,000	\$192
44	Year 2	852,150	37,494,600	237
46	Year 3	997,016	45,862,713	277
37	Year 4	1,110,000	41,070,000	308
60	Year 5	1,187,700	71,262,000	330
341	Over 5	1,815,521	619,092,687	504
Total			\$849,972,000	<i>1 Assumes avg sq ft of 3600/store</i>
579				

Projected Store Count



Revenue Build

STORES						
Maturity Phase	2013	2014	2015	2016	2017	2018
Year 1	81	55	55	55	55	55
Year 2	51	81	55	55	55	55
Year 3	44	51	81	55	55	55
Year 4	46	44	51	81	55	55
Year 5	37	46	44	51	81	55
Mature Stores	401	438	484	528	579	660
Total Number of Stores	660	715	770	825	880	935

Store Size Matrix (ft2)	2013	2014	2015	2016	2017	2018
Year 1	3600	3000	3000	3000	3000	3000
Year 2	3600	3600	3000	3000	3000	3000
Year 3	3600	3600	3600	3000	3000	3000
Year 4	3600	3600	3600	3600	3000	3000
Year 5	3600	3600	3600	3600	3600	3000
Mature Stores	3600	3600	3600	3600	3600	3600
Average Store Size	3600	3500	3400	3300	3200	3100

Average Sales per ft2	2013	2014	2015	2016	2017	2018
Year 1	\$192	\$194	\$196	\$198	\$200	\$202
Year 2	237	239	241	244	246	249
Year 3	277	280	283	285	288	291
Year 4	308	311	315	318	321	324
Year 5	330	333	337	340	343	347
Mature Stores	514	525	535	546	557	568
Average Store Sales	\$310	\$314	\$318	\$322	\$326	\$330

- Primary revenue driver involves number of new stores opened each year coupled with increasing sales through store maturity
- 55 new stores per year beginning in 2014
 - Assumed openings occurred half way through the year
- Average new store size decreases from 3,600 ft2 to 3,000 ft2
- Conservative 2% same store sales growth rate for mature stores

Net Sales by Maturity Tranche (mm)	2013	2014	2015	2016	2017	2018
Year 1	\$28	\$16	\$16	\$16	\$16	\$17
Year 2	43	70	40	40	41	41
Year 3	44	51	82	47	48	48
Year 4	51	49	58	93	53	53
Year 5	44	55	53	62	100	57
Mature Stores	743	827	932	1038	1161	1349
Sales	\$953	\$1,069	\$1,182	\$1,296	\$1,418	\$1,566
% growth	12.1%	12.2%	10.6%	9.7%	9.4%	10.4%

Valuation and Thesis



Recommendation – DO NOT BUY			
Valuation Method	Weight	Valuation	Contribution
FCF Value / Share	70%	\$ 46.73	\$ 32.71
Price/Earnings Multiple	15%	\$ 51.03	\$ 7.65
EV/EBITDA Multiple	10%	\$ 52.74	\$ 5.27
Price/Book Multiple	5%	\$ 51.21	\$ 2.56
Final Valuation			\$ 48.20
Market Price (11/20/13)			\$ 54.05
Estimated Upside/(Downside)			(12.1%)

Investment Thesis:

- Stock was getting hit all year, thought it was undervalued
- Believe in the growth story, a lot of opportunity domestically and internationally
- Analysts were waiting for some kind of signal that the company was still a safe investment, got this after Q3 earnings

Tesla Motors (TSLA)



TESLA MOTORS

Headquarters: Palo Alto, CA

CEO: Elon Musk

Price (12/6/2013): \$137.36

1-year Forward P/E: 91.57

Market Cap: \$16.84B

Dividend Yield: -

LTM EPS: (\$1.06)

TSLA: One Year Price Chart



Focus: Discounted Cash Flow Valuation

Tesla Motors Overview

- Manufacturer of electric vehicles and drivetrain components
- Produces luxury sedans with new models planned in 2014 and 2016
- Primary revenue streams include vehicle sales, regulatory credit sales, and work completed for other Original Equipment Manufacturers (OEMs)

Model Lineup



Roadster

Model Year	2007 - 2012
Average Price	\$118,000



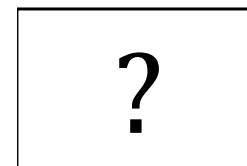
Model S

Model Year	2012
Average Price	\$95,000



Model X

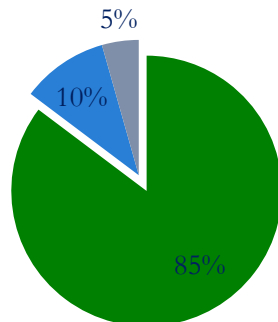
Model Year	2014e
Average Price	\$60,000 - \$80,000



Generation III

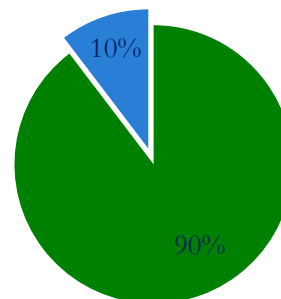
Model Year	2016e
Average Price	\$30,000 - \$40,000

9/30 LTM Revenue Breakdown



- Vehicle, Options and Related Sales
- Regulatory Credit Sales
- Other OEM Work

9/30 LTM Geographic Breakdown

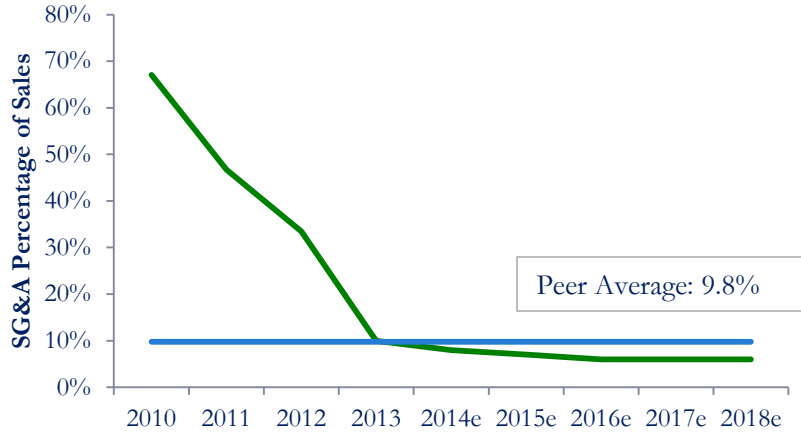


- North America
- Europe

DCF Analysis – Assumptions



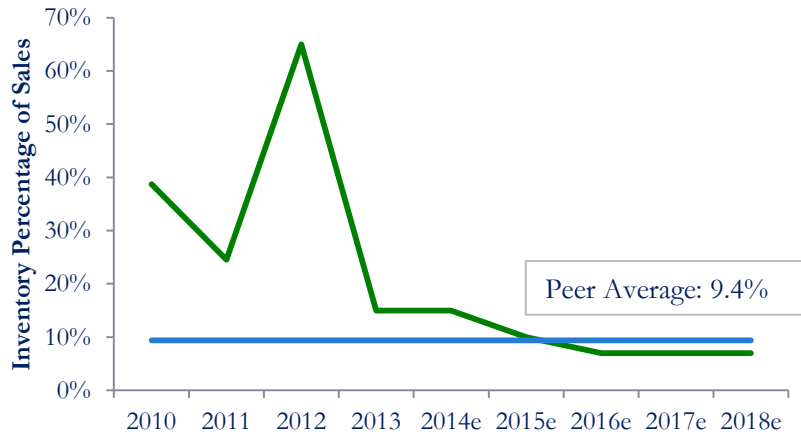
SG&A Percentage of Sales



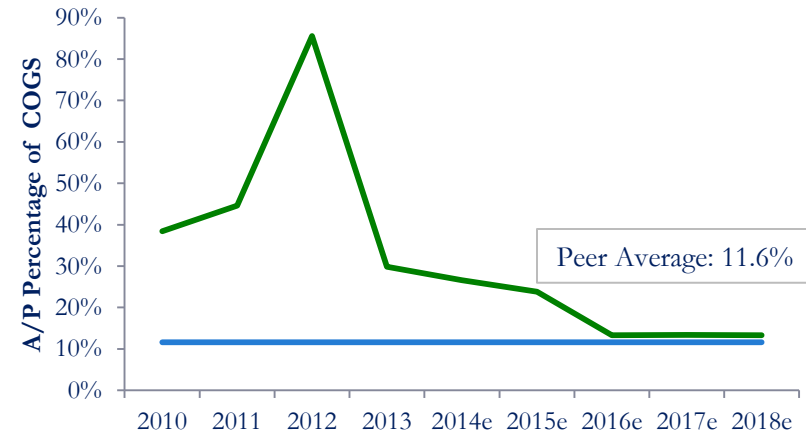
R&D Percentage of Sales



Inventory Percentage of Sales



A / P Percentage of COGS



DCF Analysis – Assumptions

- Balance sheet peculiarities
 - Warranty accounting
 - Reservation payments
 - Operating lease vehicle asset



Valuation and Thesis



Recommendation – BUY			
Valuation Method	Weight	Valuation	Contribution
Price / Sales	10%	\$ 118.29	\$ 11.83
Price / Book	10%	\$ 116.57	\$ 11.66
DDM Analysis	10%	\$ 116.58	\$ 11.66
DCF (Battery Plant)	10%	\$ 144.81	\$ 14.48
DCF	60%	\$ 133.68	\$ 80.21
Final Valuation			\$ 129.83
Market Price (11/22/2013)			\$ 121.13
Estimated Upside/(Downside)			7.19%

Investment Thesis:

- Potentially disruptive technology with room for rapid sales growth as customers recognize the electric car as a proper substitute
- Able to maintain higher gross and net margins than the industry due to control of sales and manufacturing channels

Estée Lauder Companies (EL) UNIVERSITY OF NOTRE DAME



Headquarters: New York City

CEO: Fabrizio Freda

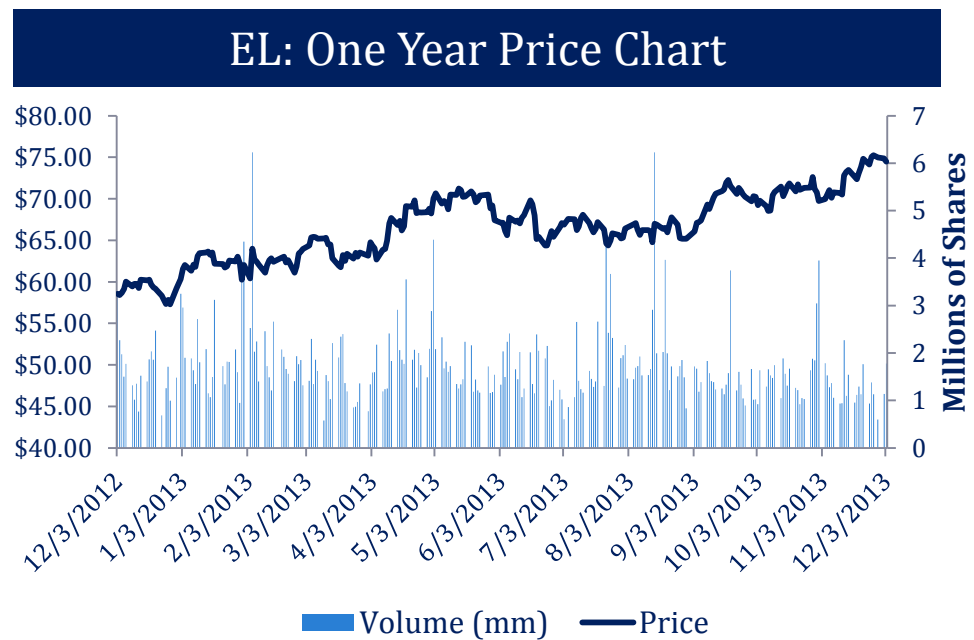
Price (12/3/2013): \$74.49

1-year Forward P/E: 22.45

Market Cap: \$28.9B

Dividend Yield: 1.07%

LTM EPS: \$2.58



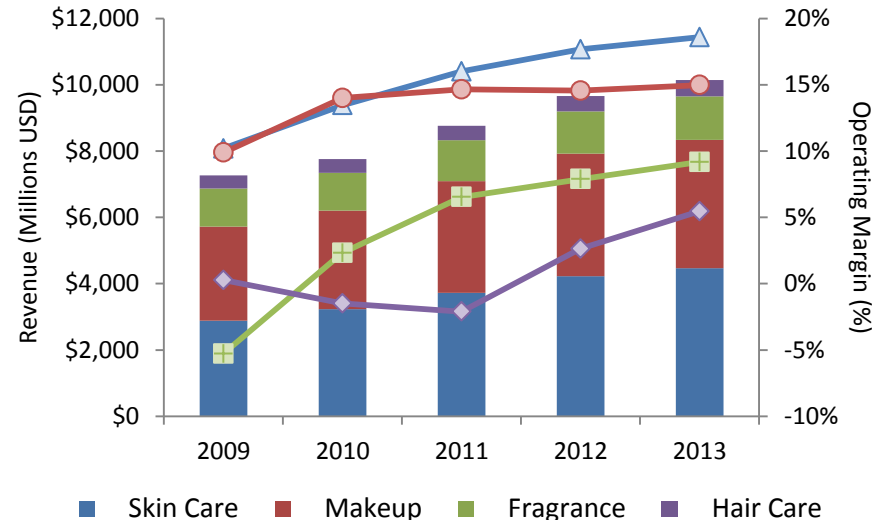
Focus: Technical Analysis

EL Companies Overview



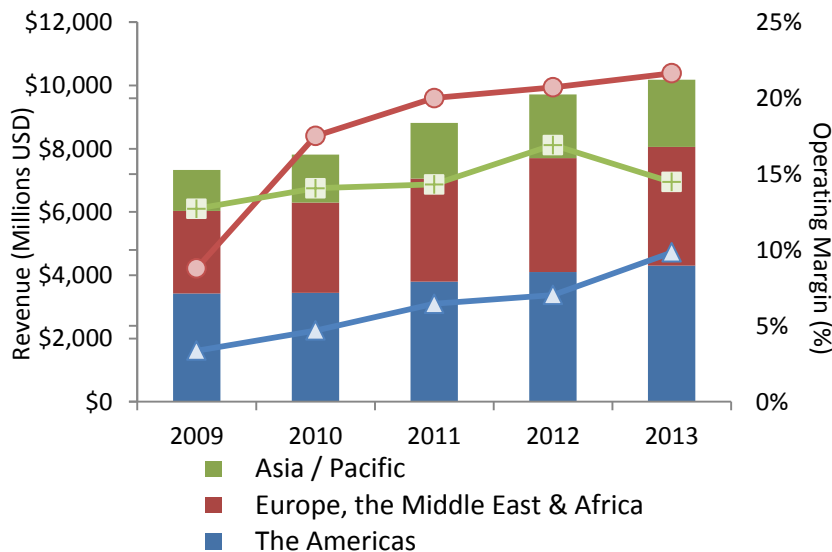
- Founded in 1946 by Estée and Joseph Lauder
- Products are sold in over 150 countries
- Growth through strategic acquisitions and partnerships with compatible brands

Revenue and Margin Growth by Segment



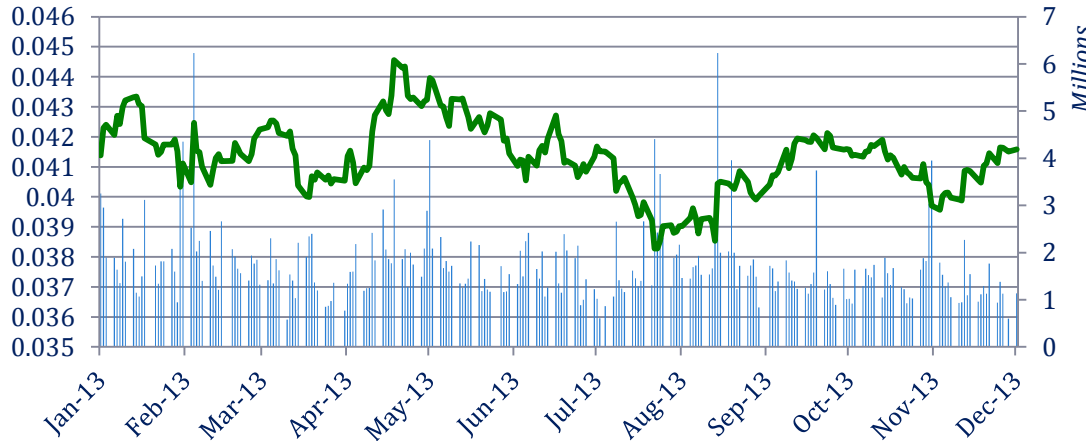
- FY2013: \$10.2B Sales, \$1.02B Earnings
- Main growth overseas & skin care segment
- **CEO's goal:** utilize production and distribution efficiencies for cost reduction

Revenue and Margin Growth by Region



Technical Analysis

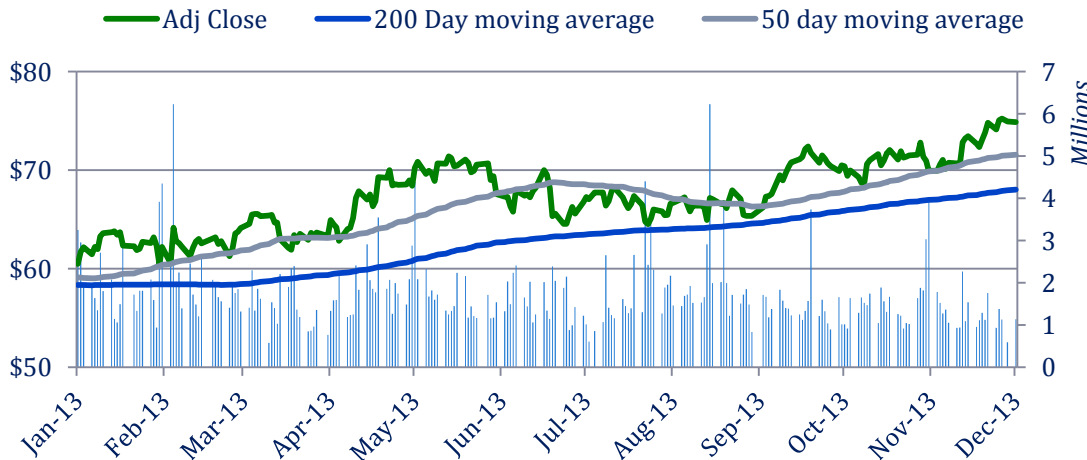
Relative Strength (YTD)



Relative Strength: Buy

- Examines performance of a stock relative to a market index

Moving Averages (YTD)



Moving Averages: Buy

- Provides smoothed indicators of the overall trend of prices

Technical Analysis

Support & Resistance (Since 2008)



Support & Resistance (YTD)

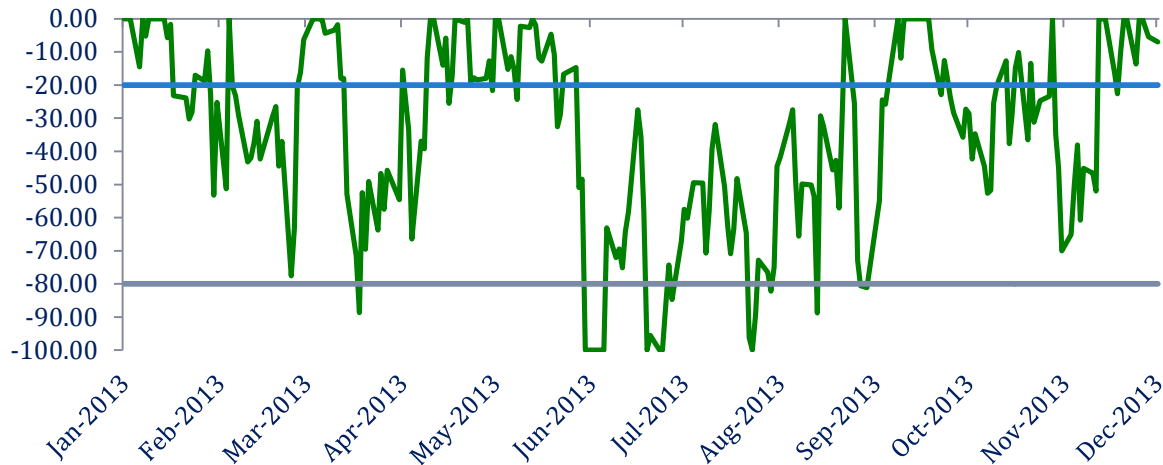


Support & Resistance: Buy

- Breaking through a channel would strongly indicate a change in direction of the price

Technical Analysis

Williams %R (YTD)



Williams %R: Sell

- Similar to a stochastic oscillator, measures overbought and oversold levels

Relative Strength:	Buy
Moving Averages:	Buy
Support & Resistance:	Buy
Williams %R:	Sell

Overall:	Buy
-----------------	------------

Valuation and Thesis



Recommendation - BUY			
Valuation Method	Weight	Valuation	Contribution
FCF Value / Share	60%	\$ 86.37	\$ 51.82
DDM Analysis	10%	\$ 88.89	\$ 8.89
Price/Book Multiple	10%	\$ 70.80	\$ 7.08
Price/Earnings Multiple	10%	\$ 70.60	\$ 7.06
Price/Rev Multiple	10%	\$ 68.34	\$ 6.83
Final Valuation			\$ 81.68
Market Price (11/20/13)			\$ 73.30
Estimated Upside/(Downside)			11.43%

Investment Thesis:

- Growth in most profitable segments (international and skin care), along with 2014 conclusion of EL's Strategic Modernization Initiative → lower restructuring expenses
- Strong and growing brand loyalty; business has been proven leader in the industry for seven decades

Lifeway Foods (LWAY)



Headquarters: Morton Grove, IL

CEO: Julie Smolyansky

Price (12/3/2013): \$14.33

1-year Forward P/E: 31.63

Market Cap: \$240M

Dividend Yield: 0.50%

LTM EPS: \$0.40

LWAY: One Year Price Chart



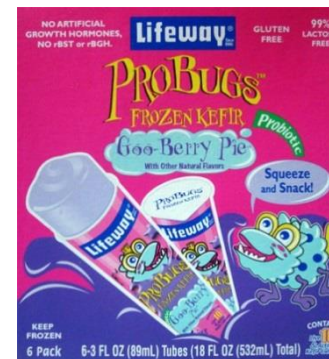
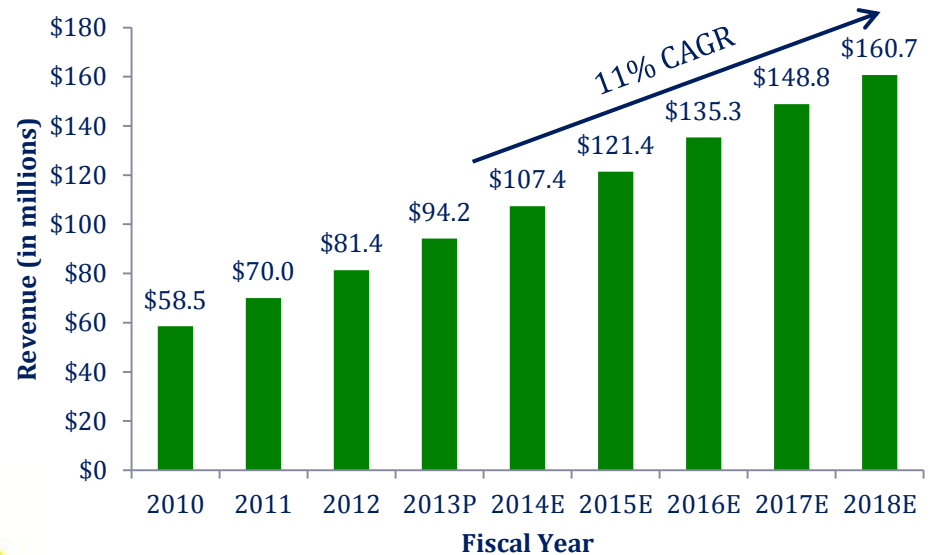
Focus: Special Circumstance

Lifeway Foods Overview

- Manufacturer of probiotic, cultured kefir and other dairy products
- Kefir is most similar to a drinkable yogurt
- Nationwide distribution through Whole Foods, Walmart, and Target
- Acquired Golden Guernsey Dairy Plant in May 2013



Rapid Revenue Growth



Valuation and Thesis



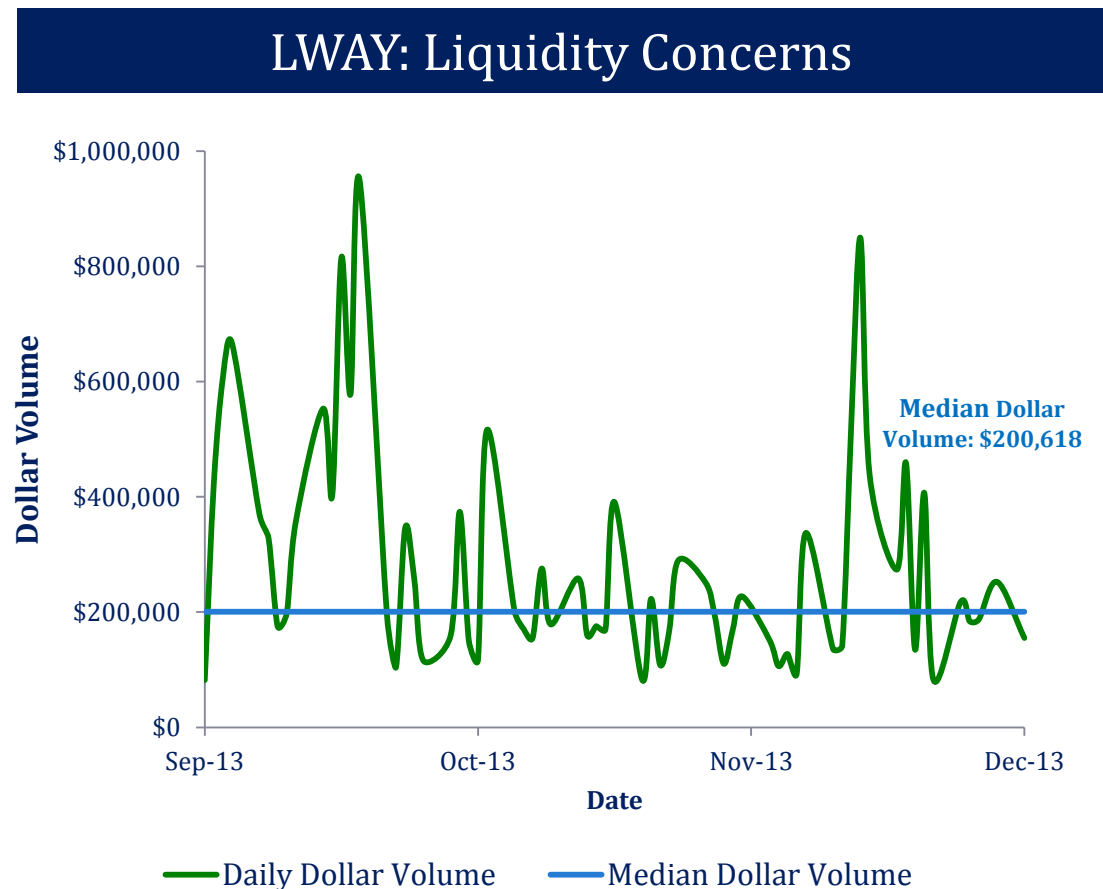
Recommendation - BUY			
Valuation Method	Weight	Valuation	Contribution
Discounted Cash Flow	20%	\$ 17.62	\$ 3.52
DCF (with Acquisition)	20%	\$ 20.58	\$ 4.12
Acquisition	15%	\$ 18.55	\$ 2.78
Forward P/E Multiple	10%	\$ 19.66	\$ 1.97
EV/EBITDA Multiple	10%	\$ 15.51	\$ 1.55
Price/Sales Multiple	10%	\$ 18.26	\$ 1.83
Price/BV Multiple	10%	\$ 19.77	\$ 1.98
Dividend Discount Model	5%	\$ 20.04	\$ 1.00
Final Valuation			\$ 18.74
Market Price (11/20/13)			\$ 14.64
Estimated Upside/(Downside)			28%

Investment Thesis:

- Differentiated, niche company in a growing industry
- Overlooked by Wall Street for more trendy organic food companies
- Tremendous growth opportunity – distribution and international expansion

Special Circumstance

- The AIM Portfolio takes a \$300,000 – \$400,000 position in each stock
 - Three Month Median Daily Dollar Volume for LWAY is only \$200,618
- Lack of liquidity could potentially eliminate much of the estimated upside
- Analysts decided the liquidity risk was too high to add to the portfolio





Portfolio Performance

Historical Performance

Attribution Analysis

Risk-Adjusted Measures

Active Share

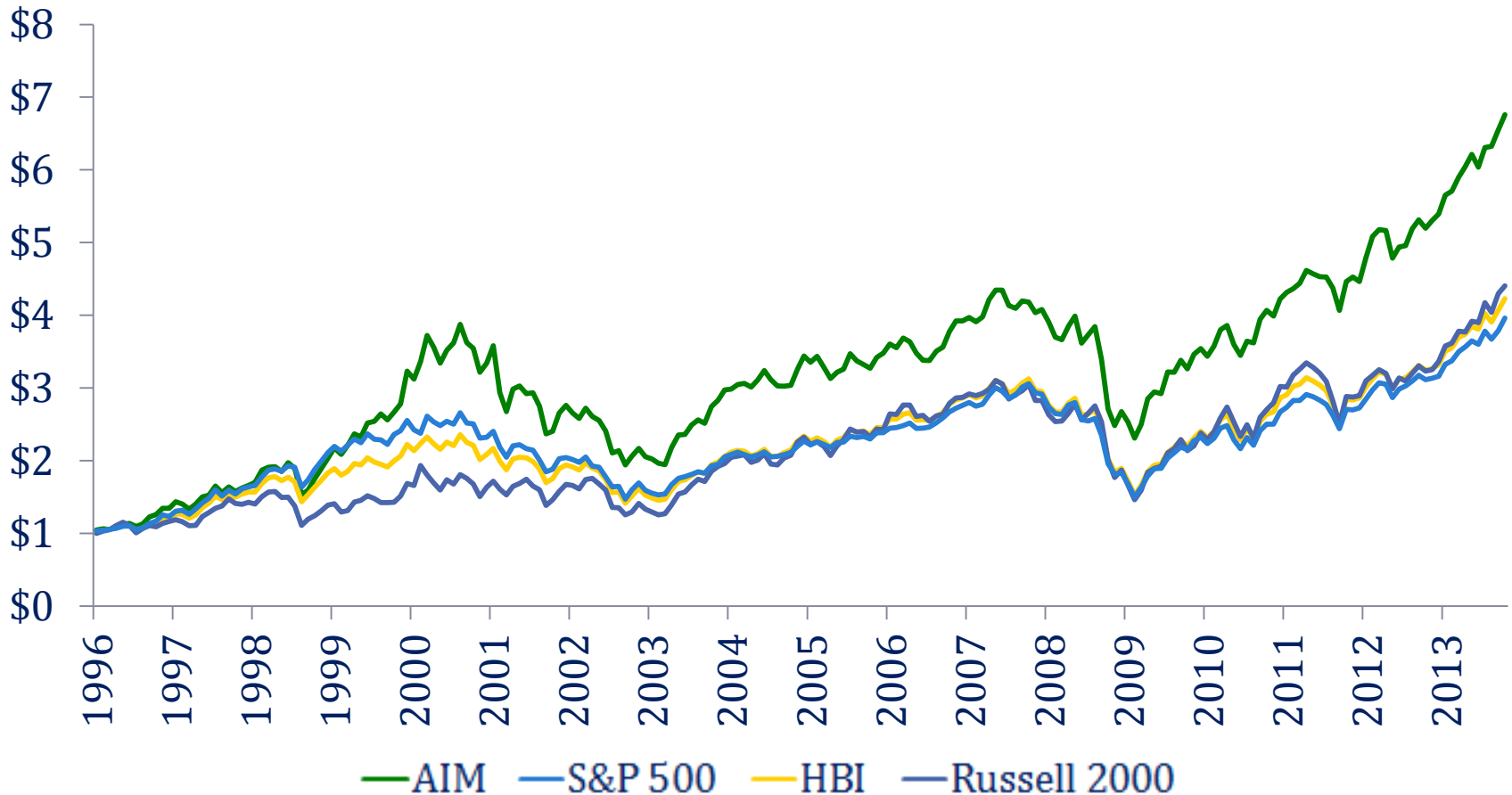
Bull vs. Bear

Final Portfolio

Return Comparison



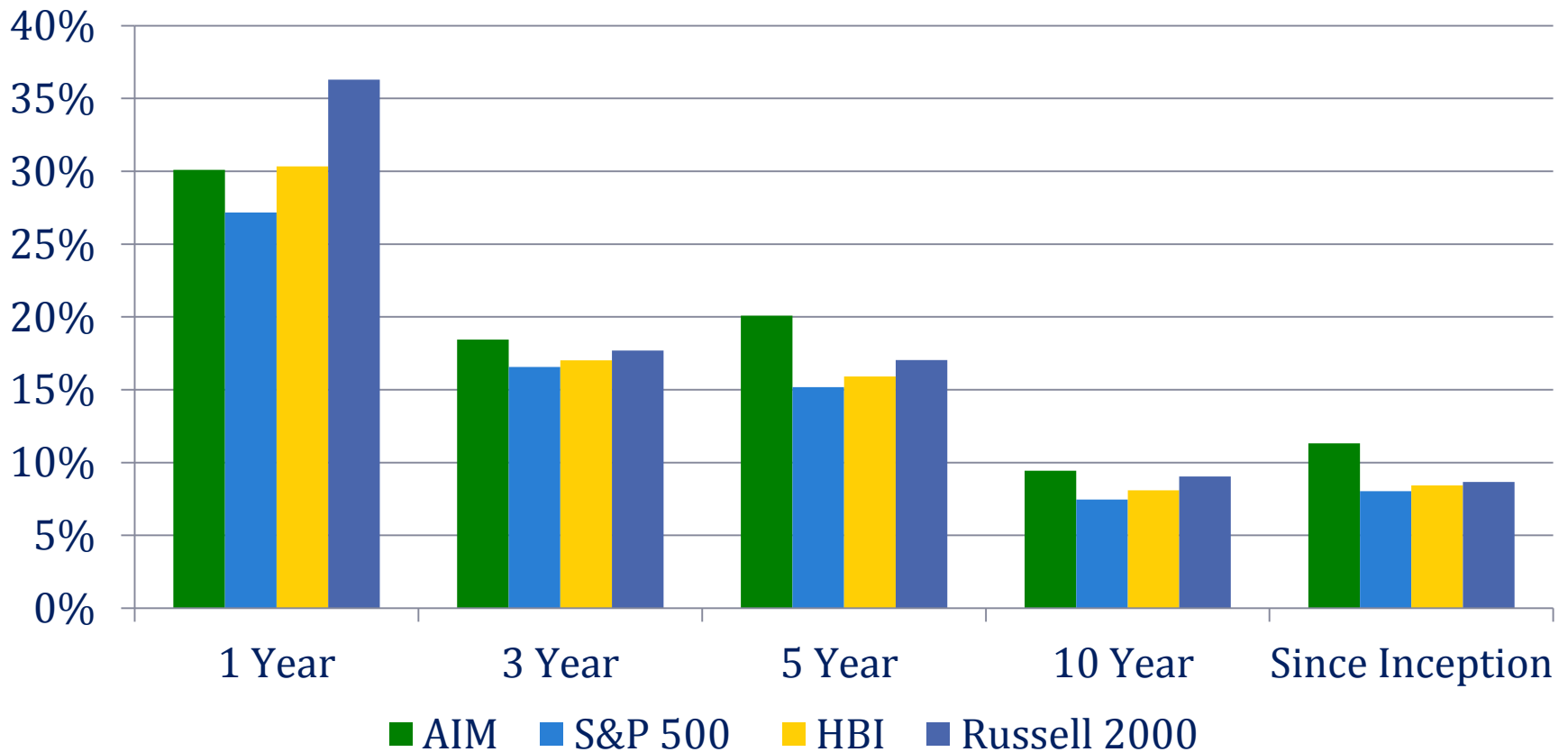
Cumulative Return of \$1



Historical Performance



AIM Portfolio Returns vs. Benchmark Returns (Annualized)



Top & Bottom Performers



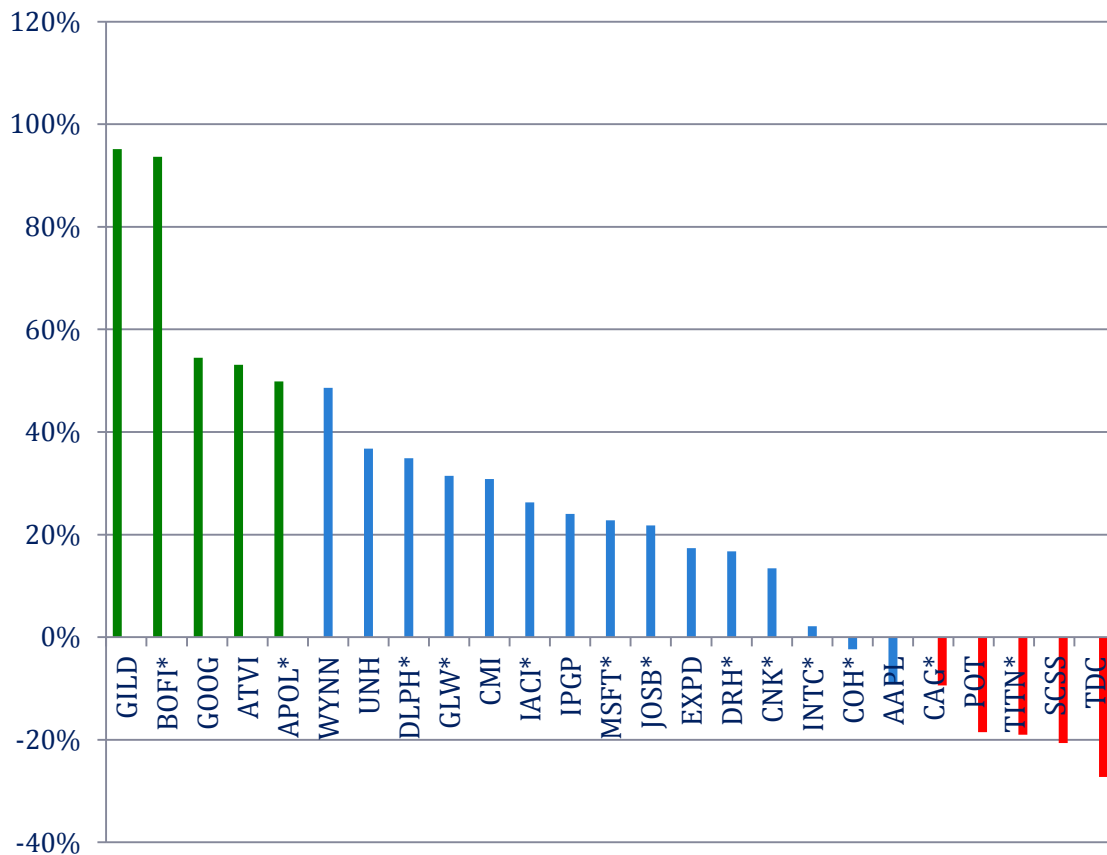
1 Year Returns or Holding Period Returns

Top Five Performers

Gilead	95%
Bank of Internet*	94%
Google	54%
Activision	53%
Apollo*	50%

Bottom Five Performers

Teradata	(27%)
Select Comfort	(21%)
Titan*	(19%)
Potash	(19%)
ConAgra*	(9%)



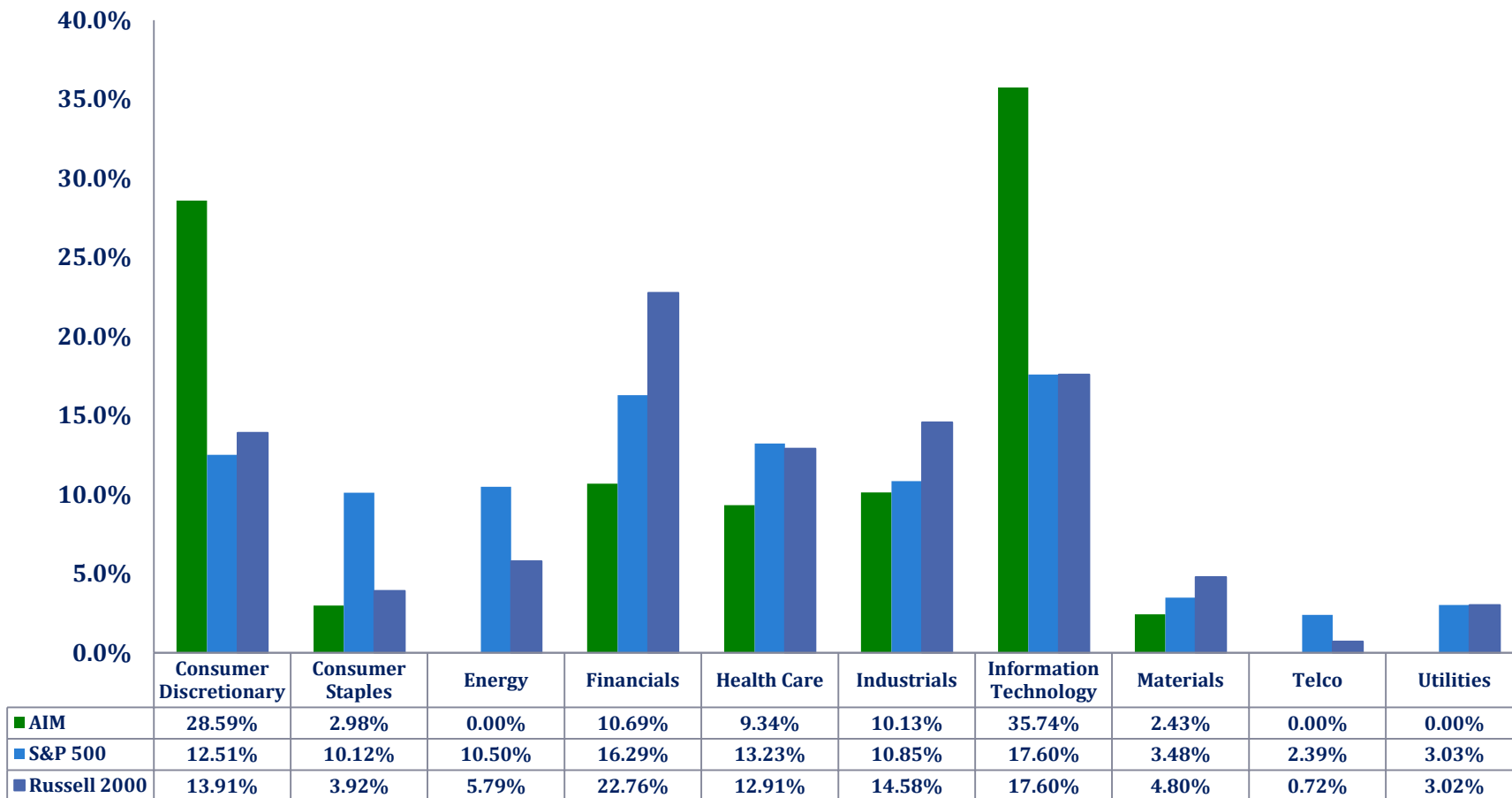
Inherited Sector Allocation

Allocation results from a bottom-up approach



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AIM Sector Weights vs. Benchmarks

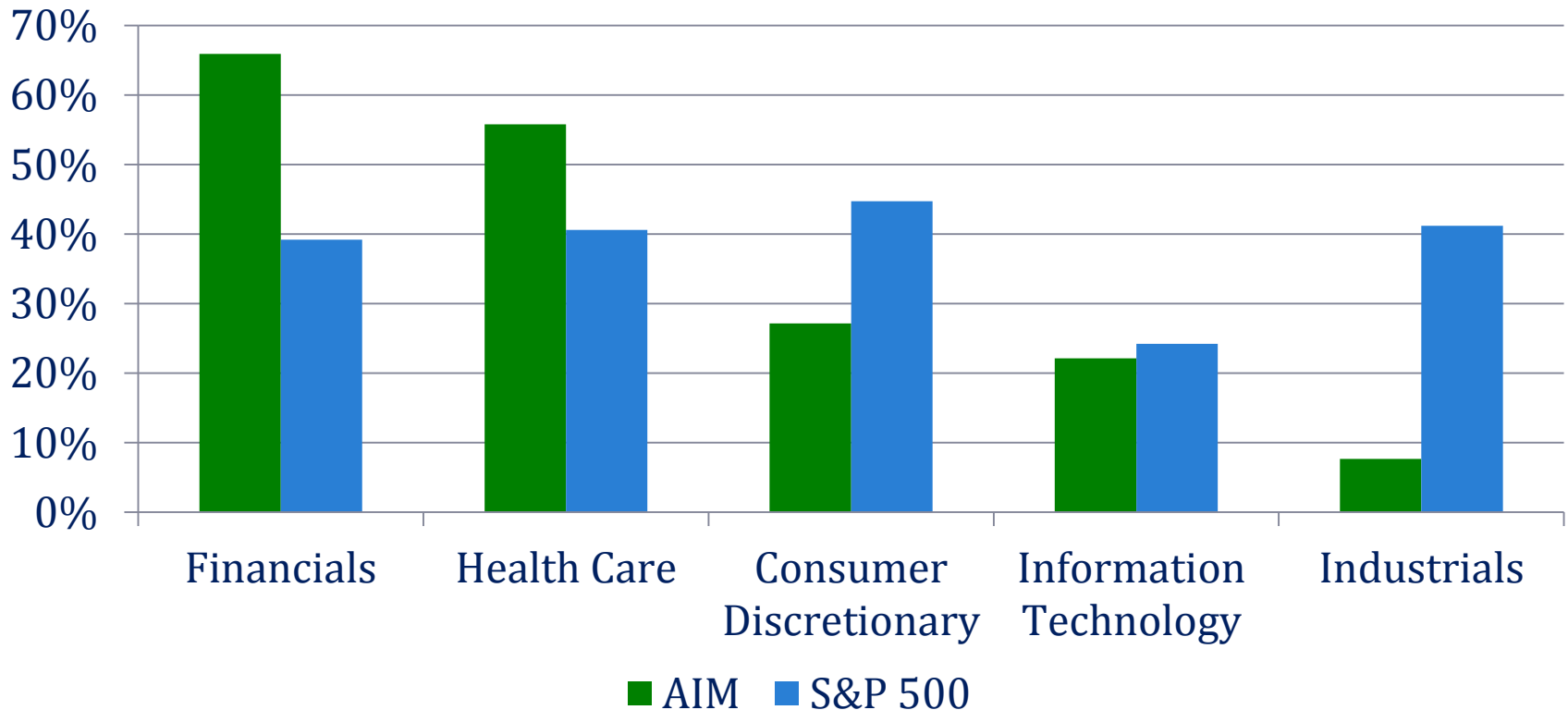


Sector Performance

Strong in financials and health care



One Year Annualized Returns

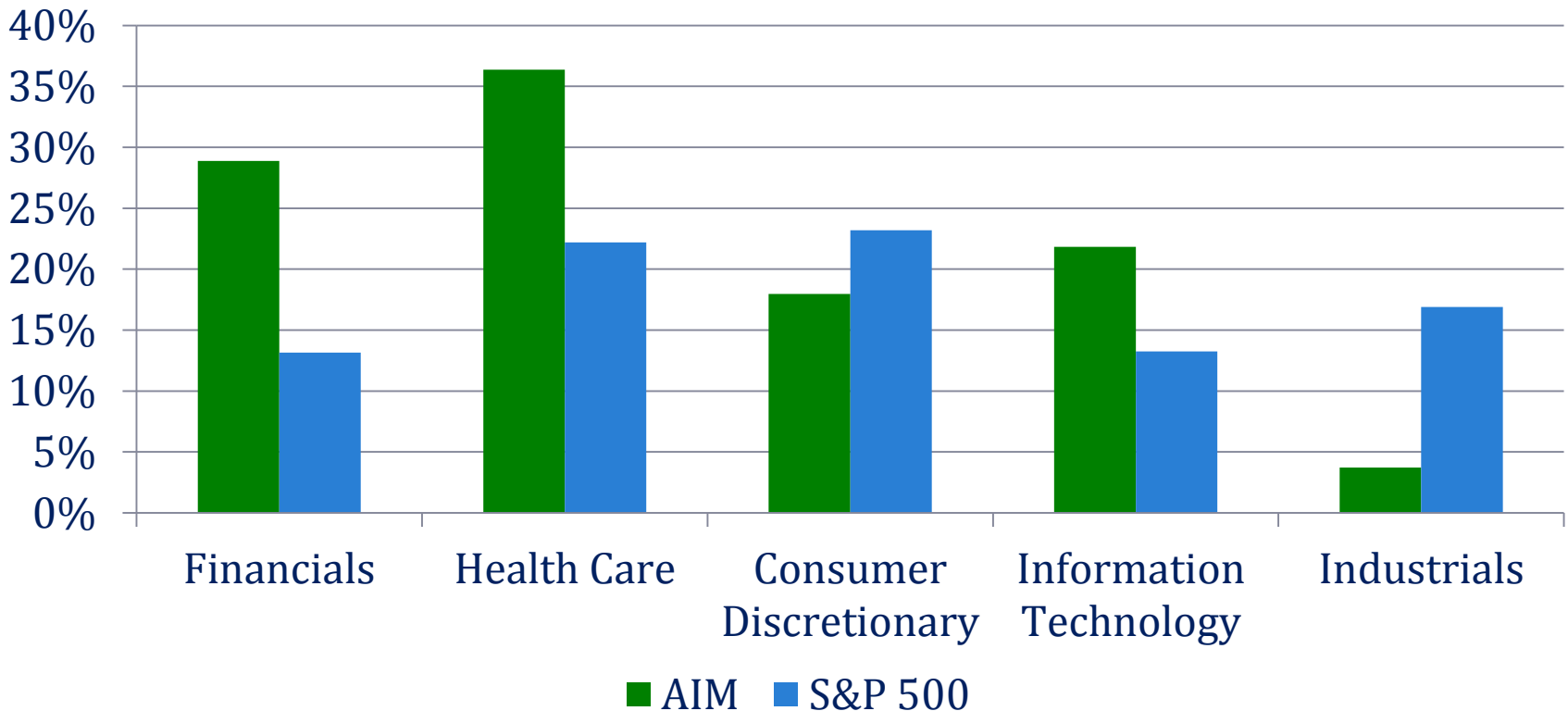


Sector Performance

Outperformance in technology



Three Year Annualized Returns

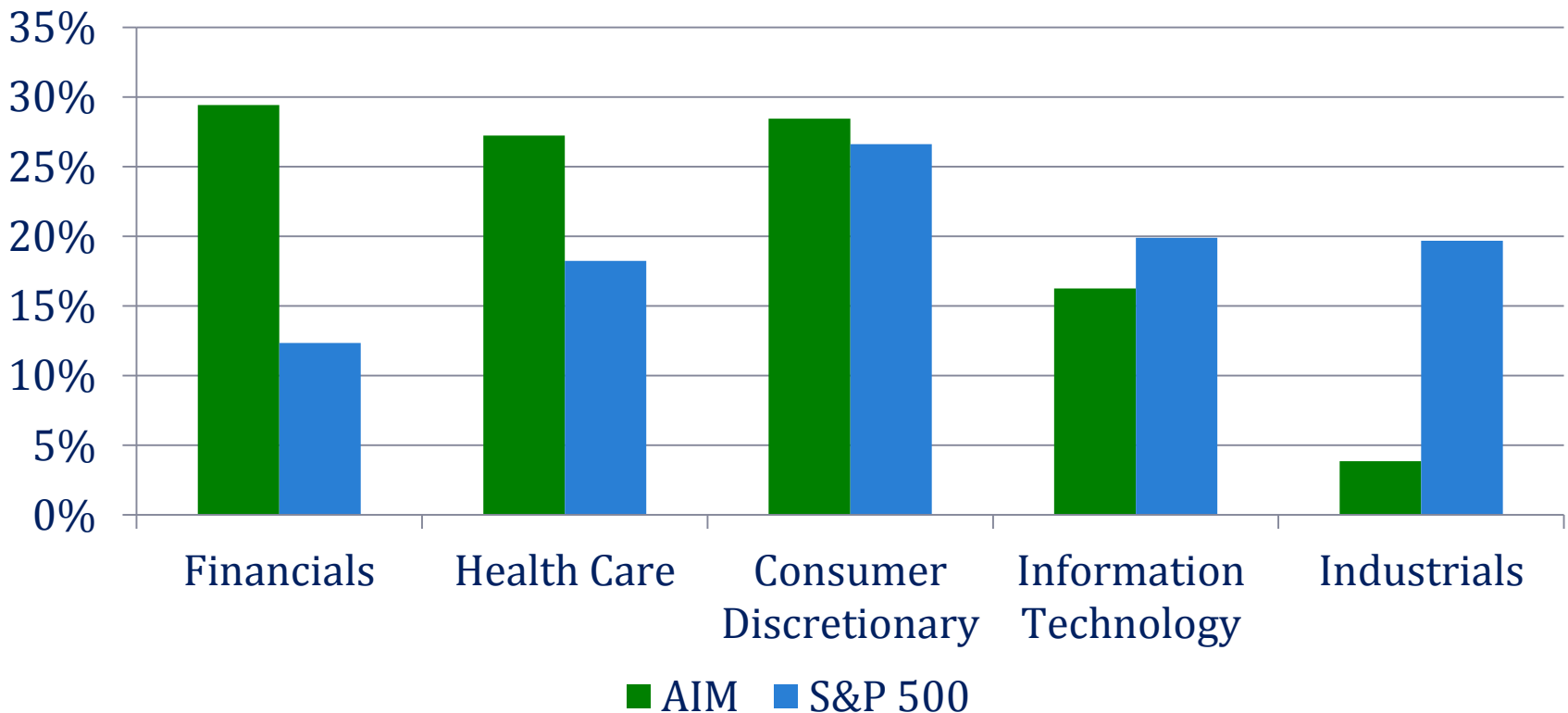


Sector Performance

Underperformance in industrials



Five Year Annualized Returns



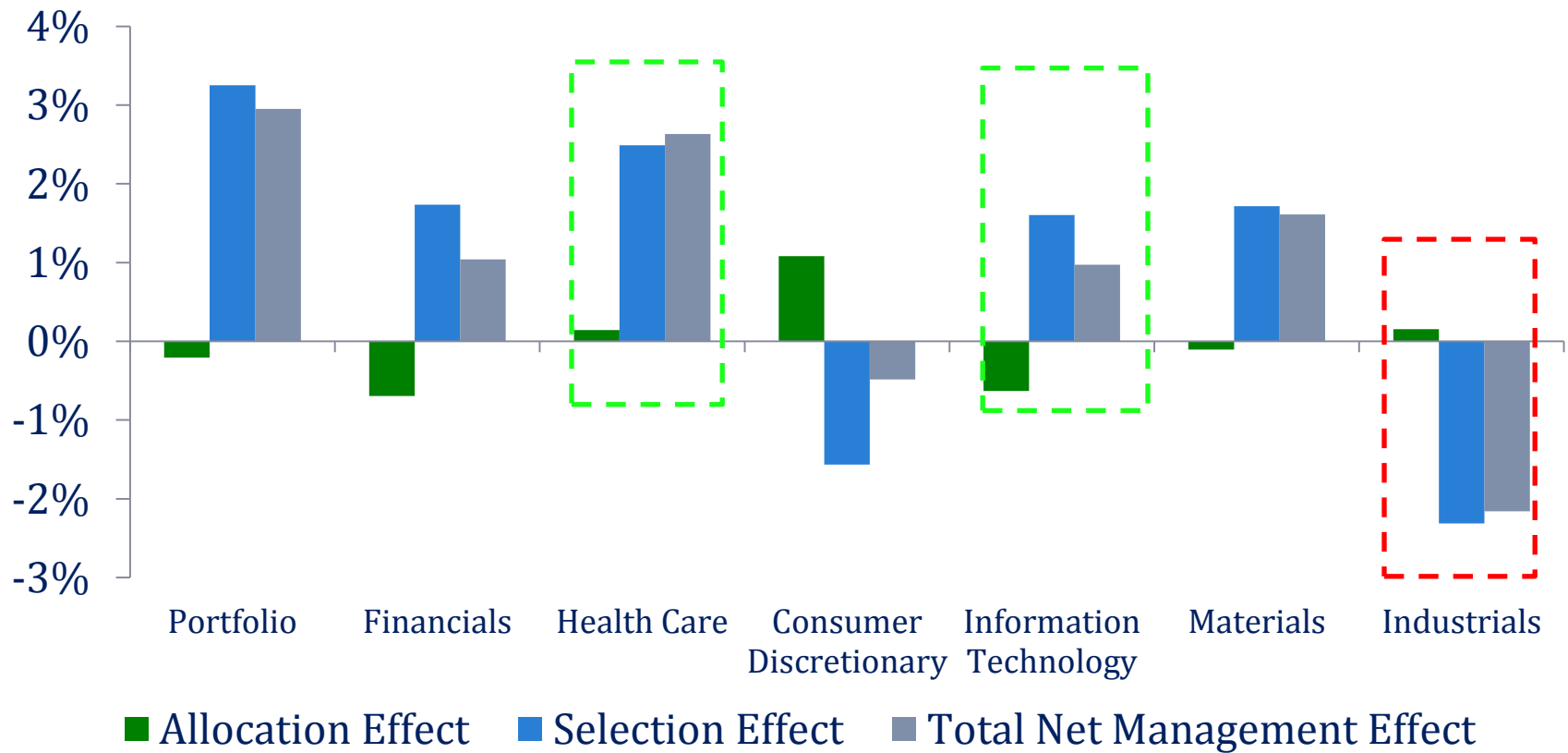
Attribution Analysis



- Allocation Effect: Ability to effectively allocate assets to various sectors
- Selection Effect: Ability to select securities within a sector relative to a benchmark
- Net Management Effect = Allocation + Selection

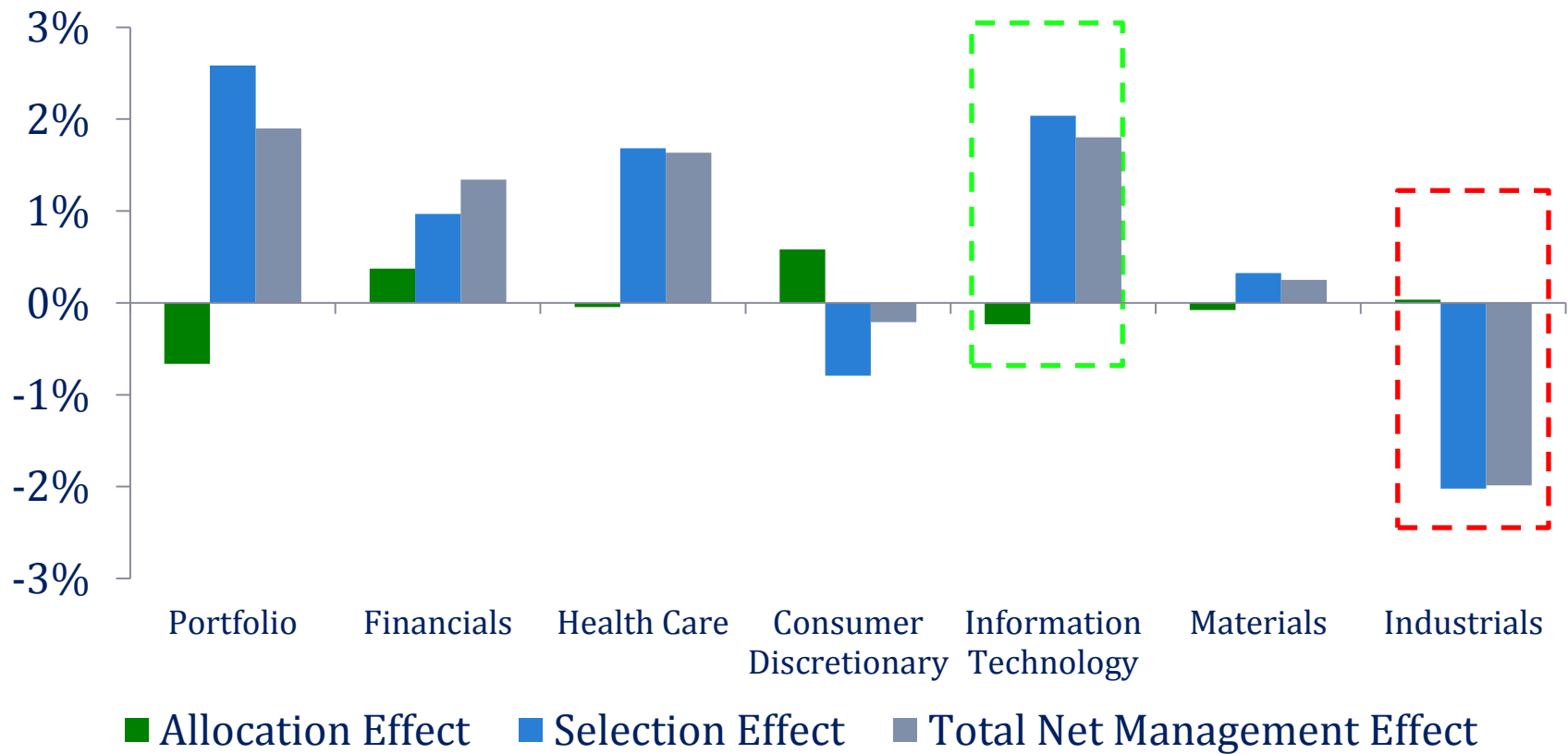
Attribution Analysis

One Year



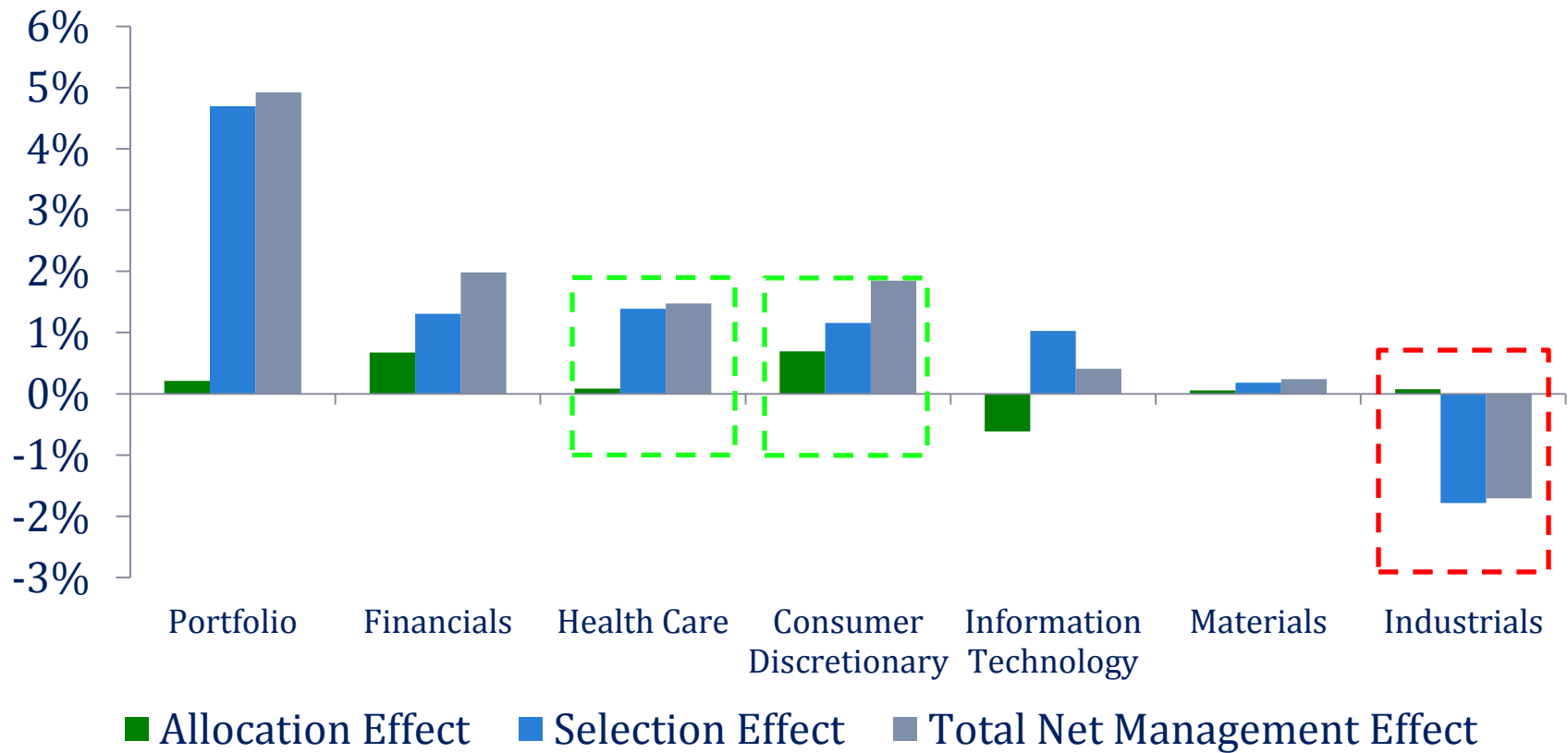
Attribution Analysis

Three Year



Attribution Analysis

Five Years

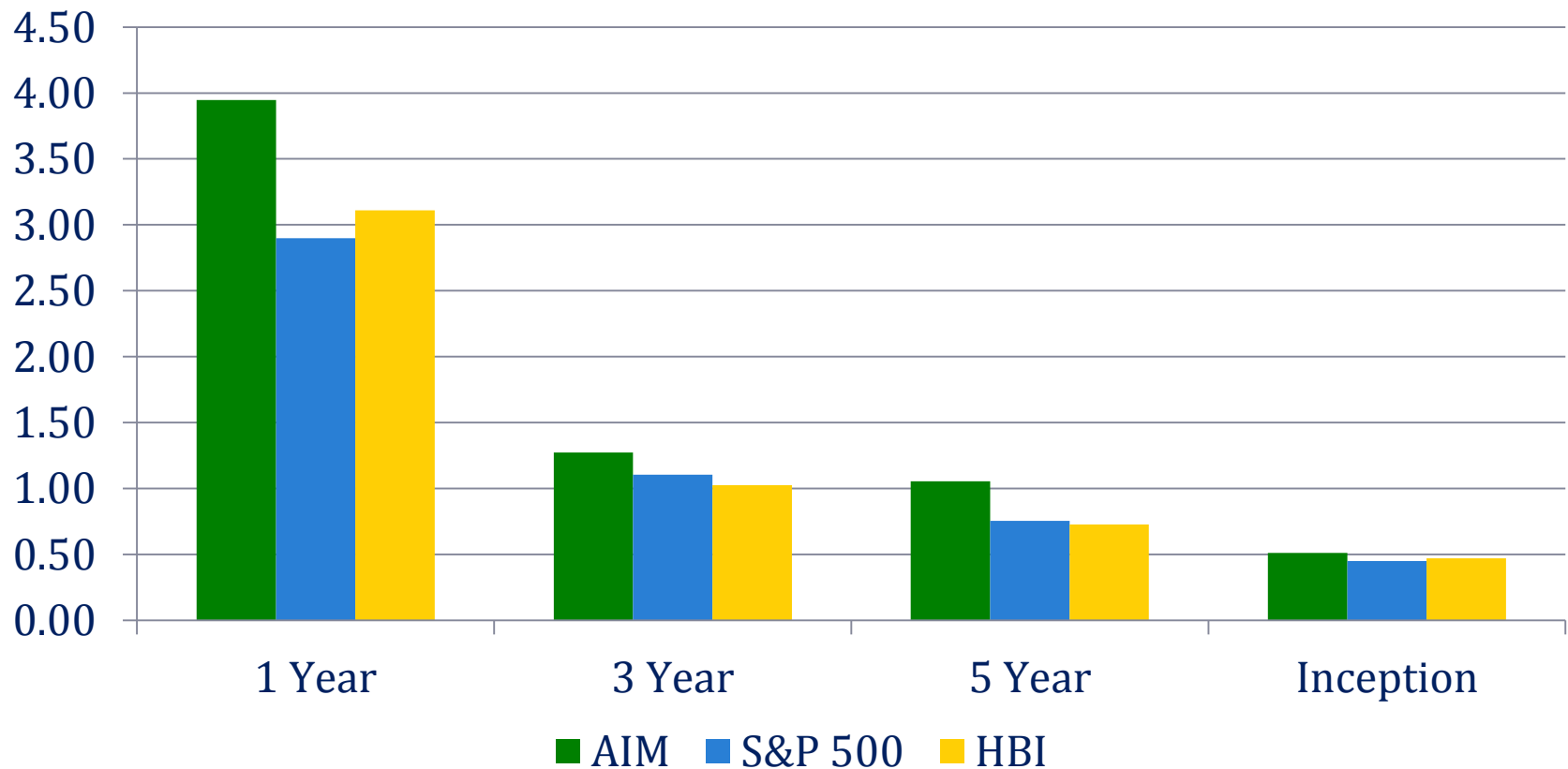


Sharpe Ratio

Returns not a result of excessive risk-taking



$$(r_P - r_f) / \sigma_P$$

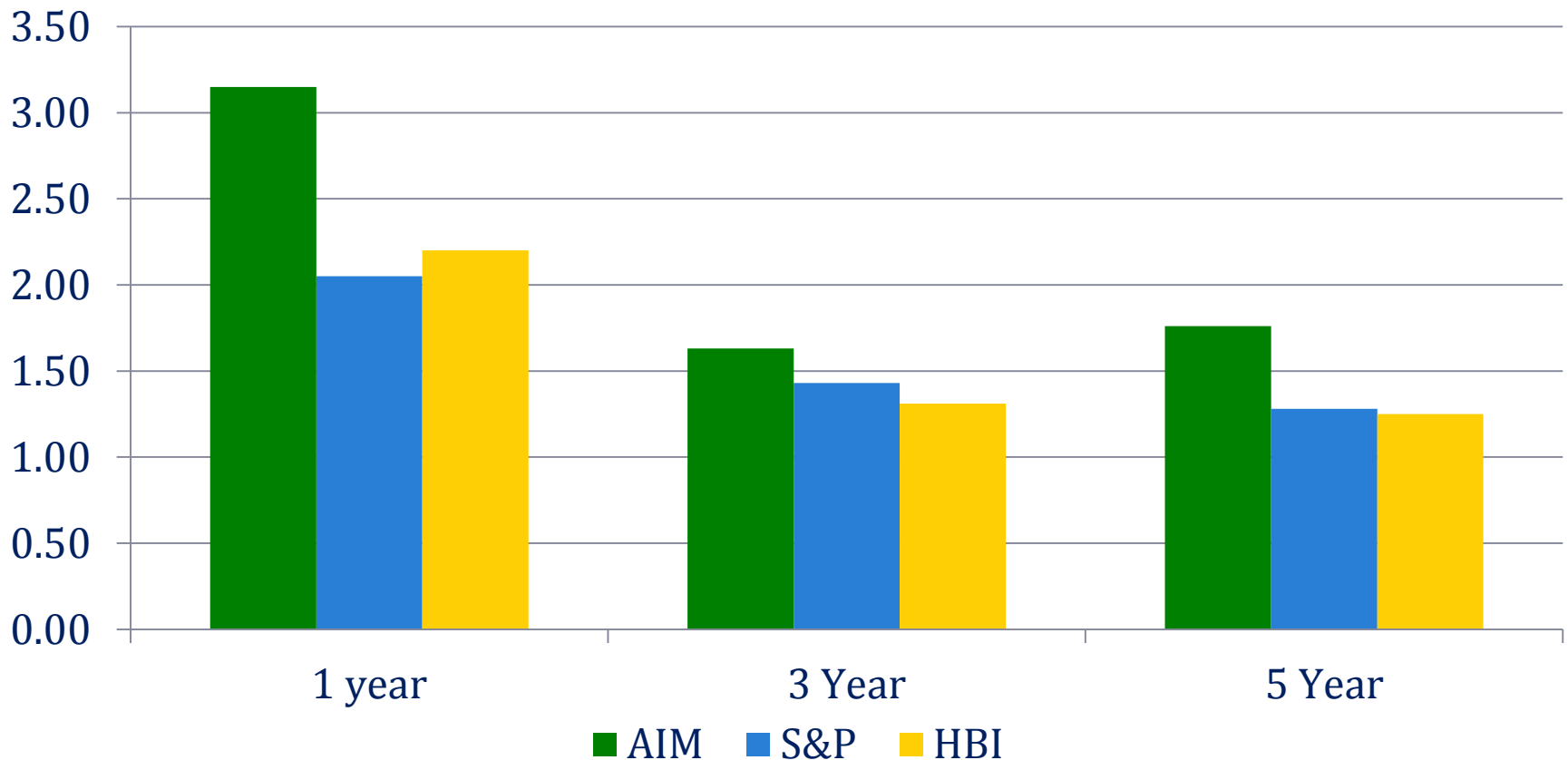


Treynor Ratio

Adjusts for risk with beta instead of σ



$$(r_P - r_f) / \beta_P$$



Jensen's Alpha

Generating abnormal returns since inception



$$\alpha_P = r_{P,t} - [r_{F,t} + \beta_P(r_{M,t} - r_{F,t})]$$



Active Share



- How “Active” is the AIM portfolio?
 - We can only outperform the market if we are different from it
- A measure of the percentage of stock holdings in the portfolio that differ from the benchmark index
- Developed by Notre Dame Professor Martijn Cremers and Antti Petajisto
- Their research examined 2,650 funds from 1990 to 2003
 - Managers with an Active Share above 80% beat their benchmark indexes by an average of 1.13% after fees
 - Managers with an Active Share under 20% underperformed on average by 1.42% after fees

Active Share

AIM portfolio has a high Active Share score

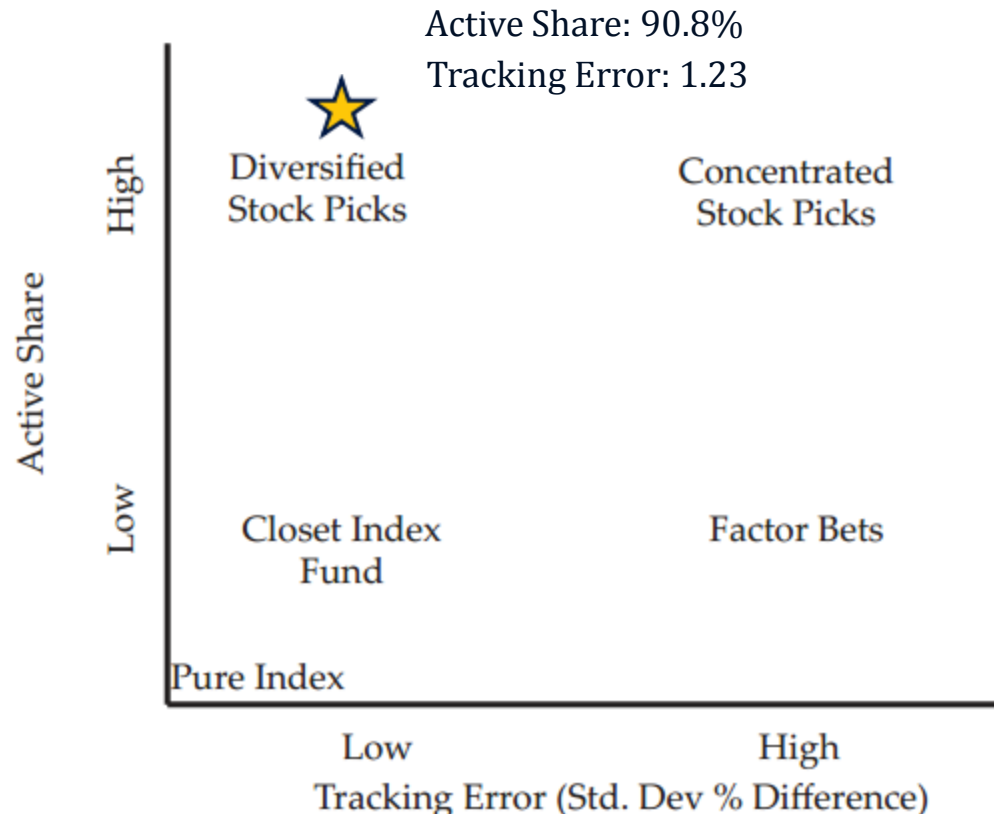


$$\text{Active Share} = \frac{1}{2} \sum_{n=1}^N |W_{fund,i} - W_{benchmark,i}|$$

- Scores are between 0 and 100%
- Inherited AIM portfolio score: **90.8%**
 - Implies a 9.2% overlap with the S&P 500
 - Closest index position is Apple
- Limited number of equities (25) in the portfolio lends to a high Active Share score

Active Share

High score, low tracking error



Active Share

High score going forward



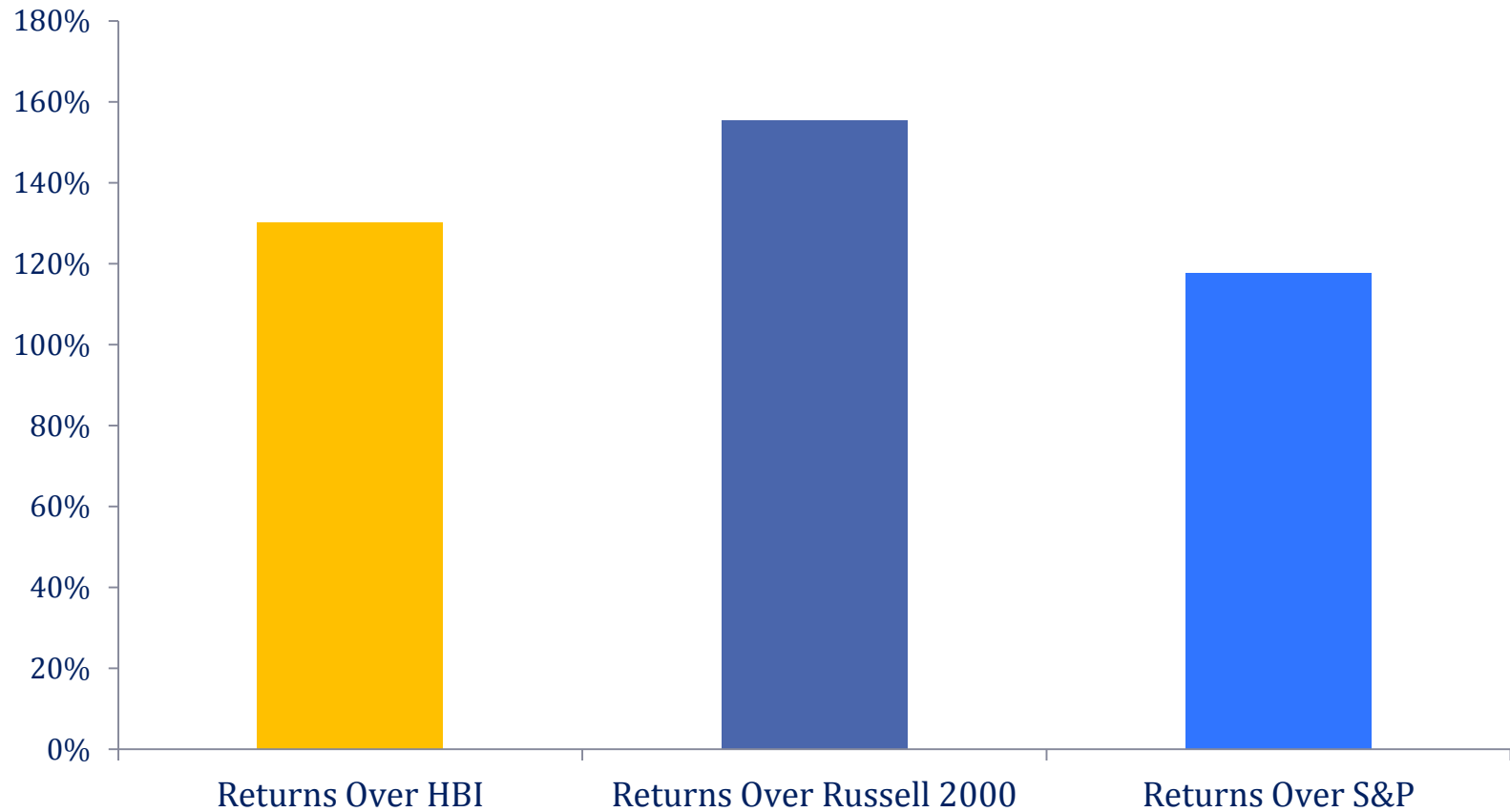
- New AIM Portfolio Active Share Score: **90.2%**
- 15 of our 25 new positions are in the S&P 500
 - Apache
 - Apple
 - Corning
 - Cummins
 - Delphi Automotive
 - Dollar Tree
 - Estee Lauder
 - Expeditors
 - Gilead Sciences
 - Google
 - Intel
 - Microsoft
 - Rockwell Automation
 - Teradata
 - UnitedHealth

Bull vs. Bear Analysis

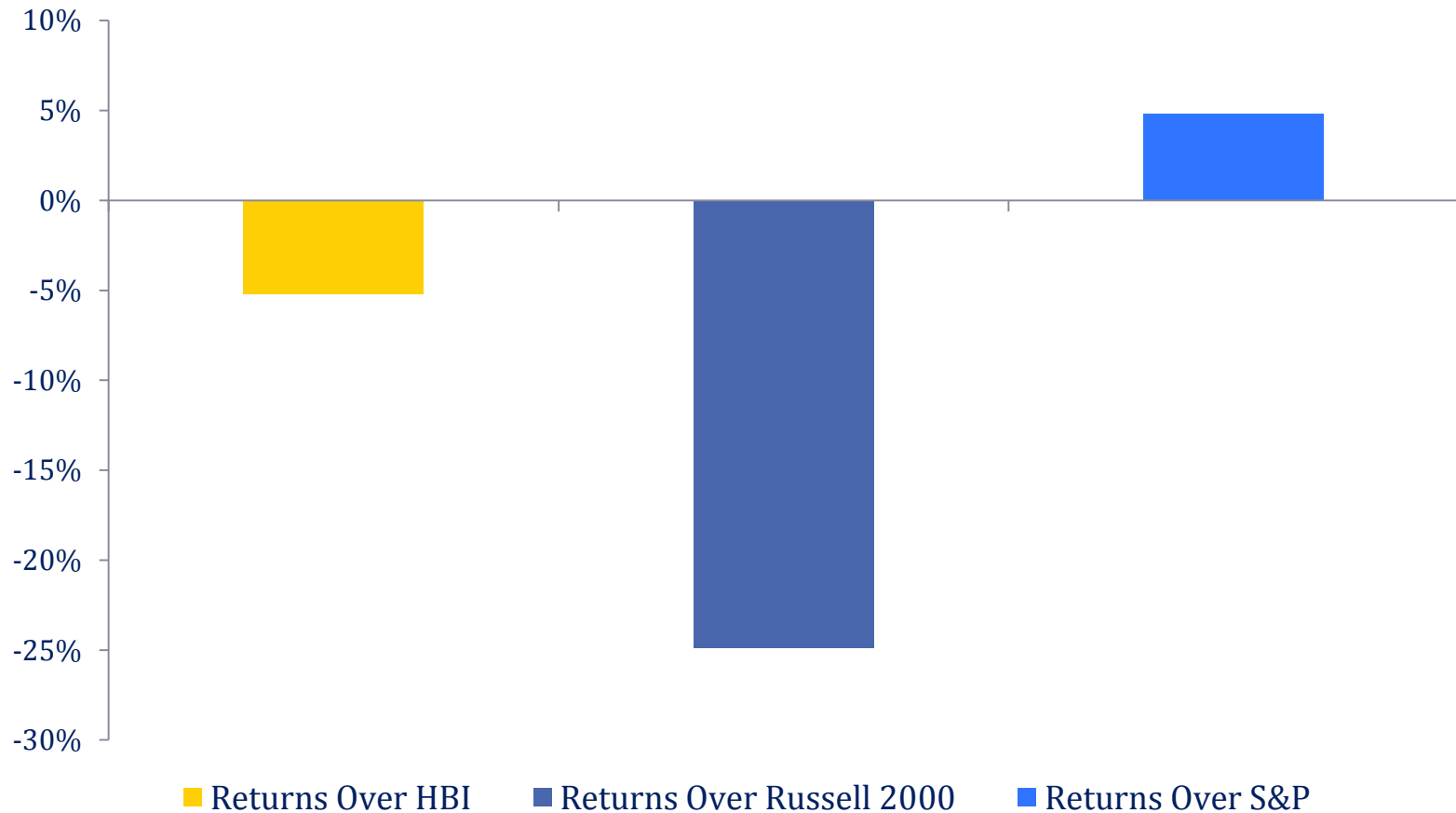


- Analysis of AIM's performance in strong Bull and Bear markets
- How does the AIM portfolio perform compared to its benchmarks in bull and bear markets?

Average Excess Returns: Bull Markets



Average Excess Returns: Bear Markets



Bull vs. Bear Takeaways



- Aggressive yet highly selective stock-picking strategy has led to outperformance in bull markets and bear markets
- Analysis suggests that stock picking focuses on quality companies that can outperform the market regardless of general economic conditions

Portfolio Turnover



SELL

- Apollo Group (APOL)
- Bank of Internet (BOFI)
- Cinemark (CNK)
- Coach (COH)
- ConAgra (CAG)
- Titan Machinery (TITN)
- Wynn Resorts (WYNN)

BUY

- Apache Corp. (APA)
- Cott Corp. (COT)
- Covanta Holding Corp. (CVA)
- Dollar Tree (DLTR)
- Estee Lauder Cos. (EL)
- Pixelworks (PXLW)
- Rockwell Automation (ROK)

Portfolio Turnover (Cont.)



HOLD

- Activision Blizzard (ATVI)
- Apple (AAPL)
- Corning (GLW)
- Cummins (CMI)
- Delphi Automotive (DLPH)
- Diamond Rock Hospitality (DRH)
- Expeditors International (EXPD)
- Gilead Sciences (GILD)
- Google (GOOG)
- Intel (INTC)
- InterActive Corp. (IACI)
- IPG Photonics (IPGP)
- Joseph A. Banks (JOSB)
- Microsoft (MSFT)
- Potash (POT)
- Select Comfort (SCSS)
- Teradata (TDC)
- UnitedHealth (UNH)

Portfolio Purchases

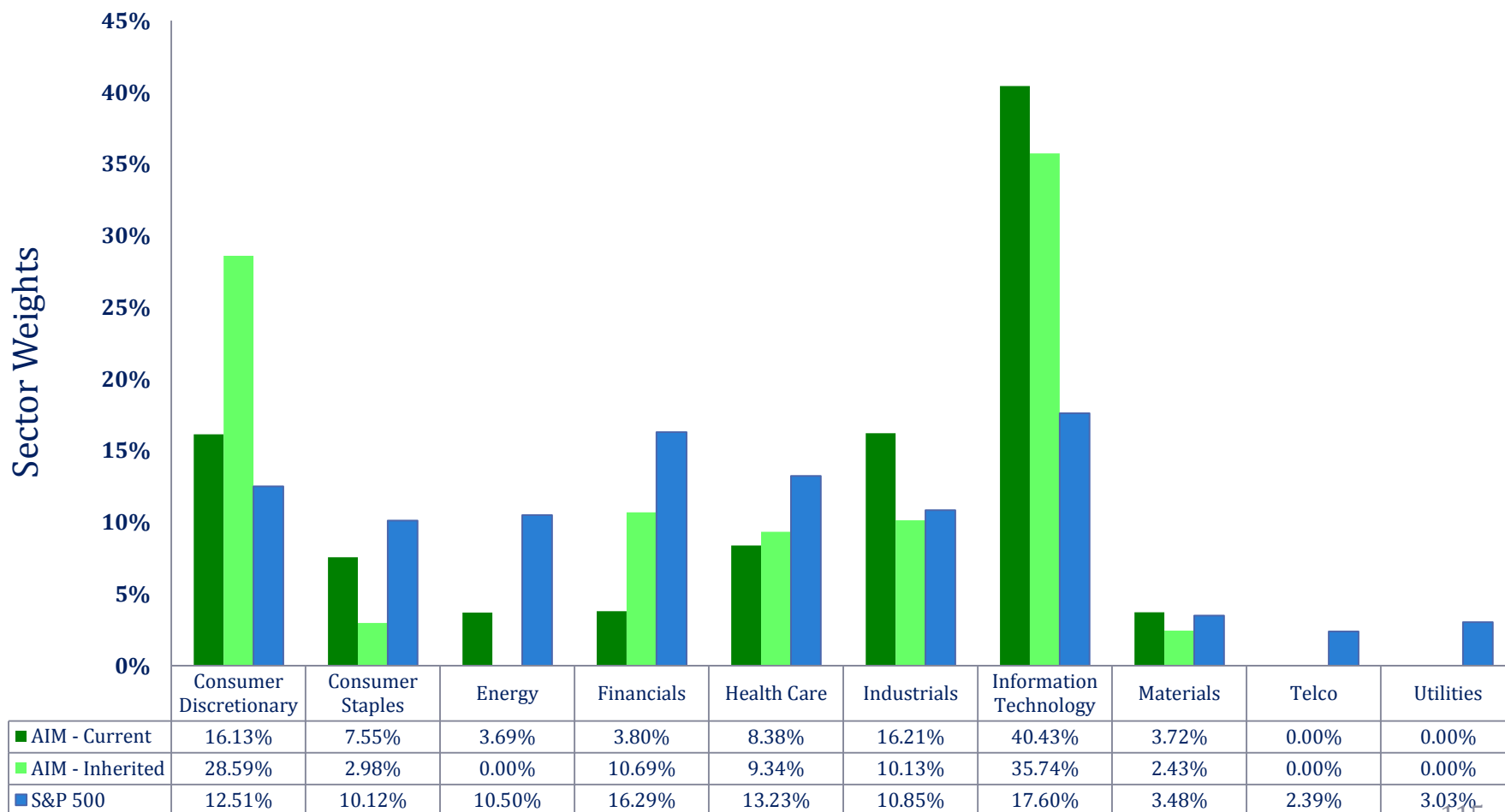


Company	Ticker	Purchase Price 11/20/13	Intrinsic Value	Upside
Apache Corp.	APA	\$93.18	\$101.05	8.4%
Cott Corp.	COT	\$8.55	\$11.49	34.4%
Covanta Holding Corp.	CVA	\$17.77	\$28.17	58.5%
Dollar Tree	DLTR	\$58.92	\$68.54	16.3%
Estee Lauder Cos.	EL	\$73.10	\$81.69	11.8%
Pixelworks	PXLW	\$4.16	\$5.50	32.2%
Rockwell Automation	ROK	\$110.96	\$138.69	25.0%
Teradata*	TDC	\$45.40	\$57.33	26.3%
Potash*	POT	\$32.08	\$36.70	14.4%

Current Sector Allocation



AIM Sector Weights vs. Benchmarks





General Information

[Guest Speakers](#)

[San Francisco Trip](#)

[AIM Website](#)

[Newsletter](#)

Guest Speakers



Ed Trubac, Finance Professor Emeritus



Scott Malpass, Chief Investment Officer

Jim Hart, Single Family Office



Rick Buhrman, Notre Dame Investment Office



San Francisco Trip



Overview

September 11-15, 2013

Westin St. Francis, on Union Square



Alumni Dinner

Networking event

St. Francis Suite, Westin St. Francis



San Francisco Trip

Sujay Jaswa

- Head of Operations, Dropbox



Golden Gate Club

- VMG Partners – Michael Mauze & Kara Cissa-Roell
- Route One Investment Company – Bill Duhamel, Jason Moment, Richard Voon, & Will Stegall
- Valiant Capital Management – Chris Hansen



San Francisco Trip



Luke Pena

- Associate Director for MBA Admissions, Stanford Graduate School of Business



Ryan Sweeney ('99, AIMVII)

- General Partner , Accel Partners



San Francisco Trip

Douglas Leone

- Partner, Sequoia Capital



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ENTREPRENEURS

Class Dinner

- Harris' The San Francisco Steakhouse



San Francisco Trip

David Glynn ('00)

- Managing Director
- Glynn Capital Management



Private Equity Panel


- Brian McMullen ('00, AIM IX) – H.I.G Capital
- Cas Schneller ('00, AIM IX) – FFL
- Jay DeCoons ('99, AIM VII) – YogaWorks




Website

aim.nd.edu


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- News and Events
- Analysts
- Alumni
 - Networking
 - Career opportunities
 - Upcoming events
- Portfolio Performance
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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.

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Q4 2013 Newsletter
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AIM Portfolio

Ticker	# of Shares	Price per Share	Value of Position	Daily % Change
AAPL	800	\$562.57	\$450,056	0.41%
APA	3,700	\$39.55	\$331,335	-0.37%
ATVI	21,000	\$17.15	\$360,150	2.20%
CFR	2,700	\$130.59	\$352,603	0.76%
COT	40,700	\$8.54	\$347,578	0.95%
CVA	23,000	\$17.37	\$399,510	0.35%
DLPH	7,100	\$58.62	\$416,202	1.88%
DLTR	6,100	\$55.65	\$339,455	0.73%
DRH	30,500	\$11.34	\$345,870	2.35%
EL	4,700	\$73.91	\$347,377	1.62%
EXPD	7,400	\$43.51	\$321,974	0.76%
GILD	5,500	\$74.01	\$407,055	1.12%
GLW	22,300	\$17.14	\$382,222	3.07%
GOOG	400	\$1,068.05	\$427,220	1.01%
IACI	6,800	\$56.54	\$373,164	0.86%
INTC	13,100	\$24.90	\$327,969	2.09%
IRGP	4,800	\$71.84	\$330,464	0.06%
JOSB	7,200	\$56.81	\$409,032	0.82%
MSFT	10,100	\$38.30	\$386,830	0.79%
POT	10,800	\$31.80	\$343,440	-0.63%
PXLW	85,800	\$4.13	\$354,354	-0.96%
ROK	3,500	\$111.80	\$391,300	2.37%
SCSS	15,000	\$20.92	\$313,800	0.72%
TDC	7,200	\$42.20	\$303,940	1.44%
UNH	4,800	\$73.21	\$351,408	0.63%
Total AIM Portfolio			\$9,113,808	

Newsletter

Objective:

- Alumni Updates
- Portfolio Performance
- Economic Outlook

AIM XXXVII

Fall 2013

AIM QUARTERLY



Greetings from AIM XXXVII

As the third quarter of 2013 comes to a close, Professors Jerry Langlely and Frank Reilly continue to lead a group of 28 undergraduate analysts in managing the AIM portfolio. The first round valuations of existing holdings are underway, and each analyst is now selecting a stock for the second round.

The AIM XXXVII class recently had the pleasure of making the first-ever class trip to San Francisco, which provided a great overview of the money management industry and the entrepreneurial culture on the West Coast.

Quarter 3, Fall 2013



State of the Economy, 2-3



Portfolio Performance, 4-6



AIM Alumni Update, 6-7



San Francisco Trip, 8-9



AIM XXXVII Class, 10

Closing



- AIM XXXVII would like to thank:
 - The Advisory Board
 - Scott Malpass and the Notre Dame Investment Office
 - Professors Langley, Reilly, and Trubac
 - Rachel Karnafel
- Post-Presentation Agenda:
 - Short break
 - Advisory Board panel discussion

Final Portfolio

As of 12/3/13



Stock	Ticker	Weight	Market Value	Stock	Ticker	Weight	Market Value
Apple	AAPL	4.97%	\$453,057	InterActive Corp	IACI	4.13%	\$376,596
Apache Corp.	APA	3.68%	\$335,072	Intel	INTC	3.39%	\$308,505
Activision Blizzard	ATVI	3.95%	\$359,520	IPG Photonics	IPGP	3.61%	\$328,624
Cummins	CMI	3.85%	\$351,081	Joseph A. Bank	JOSB	4.47%	\$407,376
Cott Corp.	COT	3.75%	\$341,880	Microsoft	MSFT	4.25%	\$386,931
Covanta Holding Corp.	CVA	4.38%	\$399,050	Potash	POT	3.77%	\$343,332
Delphi Automotive	DLPH	4.46%	\$406,262	Pixelworks	PXLW	3.95%	\$359,502
Dollar Tree	DLTR	3.70%	\$336,964	Rockwell Automation Inc.	ROK	4.27%	\$389,060
DiamondRock Hospitality	DRH	3.70%	\$336,720	Select Comfort	SCSS	3.35%	\$305,550
Estee Lauder Cos.	EL	3.84%	\$350,103	Teradata	TDC	3.58%	\$326,520
Expeditors International	EXPD	3.51%	\$320,198	United Health Group	UNH	3.88%	\$353,904
Gilead Sciences	GILD	4.37%	\$398,310	Proshr UltrShrt MSCI Japan	EWV	0.05%	\$4,155
Corning	GLW	4.11%	\$374,194	iShares MSCI Mexico	EWV	0.05%	\$4,637
Google	GOOG	4.62%	\$421,304	Cash & Cash Equivalent		0.36%	\$33,186
				TOTAL		100%	\$9,213,809



AIM XXXVII

