Applied Investment Management XXIII
Advisory Board Presentation

Discussion Materials
04 December 2006
Agenda

• Section 1: Portfolio Investment Objectives and Guidelines
• Section 2: Economic Environment
• Section 3: Security Analysis
• Section 4: Portfolio Performance Evaluation
• Section 5: Other Activates
• Section 6: Conclusion
Portfolio Investment Objectives and Guidelines

Section 1
Course Overview

Actively engaged in hands-on portfolio management from the asset allocation decision to individual stock selection and finally to portfolio performance evaluation.
Legacy Portfolio

• Each stock in the portfolio is assigned to an analyst in May

• Each class begins with updates on newsworthy company items

• Reports are delivered throughout the first half of the semester

• Portfolio decisions are held at semester’s end
  – Exceptions made in some cases
Second Stocks

• Analysts choose a stock that may be a good fit for the portfolio according to their preference

• Analysts provide updates on newsworthy items for these companies in addition to first stock responsibilities

• Reports are due at the end of October and during November
Portfolio Decisions

- Analysts discuss the reasonableness of each other’s assumptions after each analyst’s presentation.

- Analysts make recommendations, and the class debates the merits of each stock.

- Portfolio decisions consist of an up-or-down majority vote.

- This process took place November 21st.
Investment Philosophy

• Portfolio is part of University’s endowment
  – Fiduciary relationship
  – Prudent person rule

• Primary objectives
  – Outperform S&P 500
  – Grow value of portfolio for future classes

• Long-term focus (3-5 years)

• Constant monitoring of performance
  – Daily reports on company news
Investment Philosophy

• Investment universe
  – U.S. equities
  – Traded on major exchanges
  – Companies’ values must align with those of the University

• Portfolio construction
  – Benchmarks
    • S&P 500 (Primary)
    • Russell 2000 and Russell 1000 (Secondary)
  – Sector weighting should approximate benchmark
  – No position may exceed 10% of portfolio
Additional Information

- We are stock pickers
- We are long-term investors
- We are a long-only portfolio
- We maintain a small cash position

- We do not focus on the value vs. growth decision
- We are not day traders
- We do not hold short positions
- We do not maintain margin positions
- We do not hedge
- We do not trade ADRs
Market Capitalization Profile

• Target guideline allocations
  – 65% Large Cap (> $5 billion in market capitalization)
  – 35% Middle ($1 to $5 billion) and Small Cap (< $1 billion)
  – +/- 10% boundary
  – Allocations at portfolio managers’ discretion

• Rationale
  – Offers opportunity to achieve diversification in the portfolio while maintaining an acceptable risk level
Portfolio Investment Objectives and Guidelines

Market Capitalization Profile

AIM XXI Portfolio as of 11/28/05

- Mid and Small Cap: 50%
- Large Cap: 50%

AIM XXII Portfolio as of 4/24/06

- Mid and Small Cap: 46%
- Large Cap: 54%

AIM XXIII Portfolio as of 11/24/06

- Mid and Small Cap: 23%
- Large Cap: 77%

Mid and Small Cap Stocks as of 11/28/05
- AMCOL International
- Cheesecake Factory
- Citi Trends
- Edwards Lifesciences
- Headwaters
- International Speedway
- Ixia
- Multi Fineline Electronics
- Petsmart
- Sanderson Farms
- Spartan Motors
- Univision Communications
- Waters Corporation

Mid and Small Cap Stocks as of 4/24/06
- Bluegreen
- Citi Trends
- Headwaters
- Ixia
- International Speedway
- Headwaters
- Herman Miller
- Petsmart
- Quiksilver
- Sanderson Farms
- Standard Parking
- Tupperware Brands
- Websense

Mid and Small Cap Stocks as of 11/24/06
- Cabelas
- Getty Images
- Ixia
- Petsmart
- Sothebys
- Tupperware Brands

AIM XXIII Advisory Board Presentation
Section 2
Economic Environment
Economic Report Outline

• Domestic economic analysis
  – Central issue: Federal Reserve position on interest rates
  – Analysis of inflationary economic indicators
    • Inflationary measures
    • Energy
    • Labor market
  – Analysis of economic growth
    • Housing
    • Trade deficit/international influences
    • GDP
• Potential impact on portfolio
Interest Rates: Recent Trends

- **Fed Funds Rate:** 5.25%
  - Inflationary pressures
    - 2 years of rate hikes
  - Economic growth
  - Housing market
  - Energy

- Economic uncertainty
  - Inflationary pressures not yet in Fed’s comfort zone
  - Future decisions based on incoming economic data
The Fed’s Top Priority: Inflation

“All members agreed that the risks to achieving the anticipated reduction in inflation remained of greatest concern.”

Notes from Federal Reserve Board Committee On Open Market Operations Meetings of October 24-25, 2006.
Economic Environment

Inflation Measures

- Inflation driven to “uncomfortably high” levels by higher
  - Energy prices
  - Materials prices and wages
  - Shelter costs

- Moderately offset recently by falling energy prices

PCE and Core CPI
2003-Present

Source: St. Louis Fed
Economic Environment

Inflation: Leading Indicators

- Unit Labor Costs rising
  - Wages rising
  - Productivity lagging

- Produces inflationary pressure
  - May be moderated by strong corporate profits

Unit Labor Costs Since 2003 - Present

Source: St. Louis Fed
Economic Environment

Inflation: Labor Market

- October unemployment: 4.4% - lowest level since May 2001

**Chart 1. Unemployment rate, seasonally adjusted, November 2004 – October 2006**

- Labor costs: Up 5.3% YoY – fastest increase in 16 years
- Productivity: Up 1.3% YoY – slowest growth since 1997

Source: Bureau of Labor Statistics
Inflation: Labor Market Outlook

Unemployment
- Expected to average out at 4.75% through 2007

Labor productivity
- Projected 2.0% increase YoY in 2007
- Increase as workforce thins

Labor costs
- Increase at slower rate as unemployment rises towards natural rate
Economic Environment

Inflation: Energy

Oil

- Spike in spring/summer
- 20% decline since July 2006 peak
- Prices relatively flat YoY
- Eased geopolitical factors
- Positive weather

Source: Energy Information Administration
Inflation: Energy (Cont’d)

Natural Gas

• 40% decrease from August to September 2006

• 50% increase from September to October of 2006

• Temperature sensitive

• Positive weather
### Inflation: Energy Outlook

#### Oil

- OPEC production
  - 1.2 million bbl/d cutback
  - Further cutbacks
- Non-OPEC countries production
- Oil demand during heating season

- Estimates
  - 2006: $61-$67 a barrel
  - 5%-15% increase YoY
  - 2007: $62-$68 a barrel
  - Flat YoY

#### Natural Gas

- Storage of inventories
- Winter weather forecasts

- Estimates
  - Stay below $9 per million BTU
  - 20%-50% decrease YoY
  - Increases from 2006 to 2007
Economic Environment

Inflation Outlook

• Inflationary concerns will continue to drive Fed monetary policy going forward

• Inflation expected to continue trending down towards a more “comfortable” level (2%)

• Decrease driven by
  – Moderate energy prices
  – Cooling labor market
  – Moderate economic growth
Economic Environment

Economic Growth

• Slower economic growth may influence Fed decisions going forward

• Economic growth significantly influenced by
  – Housing market slowdown
  – Consumption
  – International influences
Economic Growth: Housing

- Aggressive price-appreciation and higher mortgage interest rates decreased the affordability of housing

- Lower demand and large supply has put downward pressure on home prices
  - Inventory build-up
  - Cut back on residential investment

Source: National Realtors Association
Economic Environment

Economic Growth: Housing

- Housing’s contribution to economic growth peaked last year and is now subtracting from overall economic activity
  - Residential investment reduced Q3 GDP growth by 1.1 pp

- Limited evidence of multiplier effects on consumer spending or aggregate employment
Economic Growth: Housing Outlook

- First stage of correction is ending

- However,
  - Prices: Average Selling Price (ASP) will continue to fall
  - Demand: Stabilizing in response to lower mortgage rates and lower prices
  - Supply: Builders will reduce construction

- Residential investment will reduce 1pp from GDP growth in 2007
Economic Growth: Trade Deficit

- Trade deficit still substantial
- Trade deficit leveling off
  - Depreciating U.S. dollar
  - Strong performance of exports
- Deficit less of a drag on the economy

Source: Federal Reserve Bank of St. Louis
Economic Environment

Economic Growth: GDP

- Economy has entered the *transition phase* in the expansionary cycle

![GDP Chart]

- Q3 GDP 2.2%, down from 2.6% in Q2 and 5.6% in Q1
  - Interest sensitive consumer sectors and the housing correction drive decreased expenditures
  - On the other hand, a solid job market, healthy capital expenditures and decline in unemployment signal strong economic fundamentals

Source: Department of Commerce
Economic Growth: GDP Outlook

• Moderate economic expansion
  – 2006E: 3.3% YoY
  – 2007E: 2.6% YoY

Source: Department of Commerce and Moody’s Estimates
Interest Rates: Outlook

• Will Fed raise or lower interest rates?
  – Inflation out of Fed’s comfort zone
  – Slowing economy

• Interest rate changes
  – Fed will continue to leave rates unchanged
  – Rate cut expected early to mid 2007
    • High interest rates force inflation to subside
    • Lower rates boost a sluggish economy
Portfolio Impact

- Portfolio analyzed in light of economic forecast by sector
- Analyzed on the basis of four forecasted variables
  - Moderate energy prices
  - Easing labor market
  - Housing market correction
  - Flat interest rates

- Impact on sector based on forecast
  - Positive
  - Neutral
  - Negative
### Economic Environment

**Portfolio Impact (Cont’d)**

- **Sector impacts**
  - Consumer discretionary and consumer staples

<table>
<thead>
<tr>
<th>Sector</th>
<th>Moderate Energy Prices</th>
<th>Easing Labor Market</th>
<th>Housing Correction</th>
<th>Flat Interest Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coach, Tupperware, Cabela's</td>
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<tr>
<td>Higher unemployment and slower increases in wages drag sector</td>
<td></td>
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<tr>
<td>Consumer Staples</td>
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<tr>
<td>Sysco</td>
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<td></td>
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<tr>
<td>Staples remain resilient</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Economic Environment

Portfolio Impact (Cont’d)

- Sector impacts
  - Healthcare and information technology

<table>
<thead>
<tr>
<th>Sector</th>
<th>Moderate Energy Prices</th>
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<th>Housing Correction</th>
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<tbody>
<tr>
<td>Healthcare</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Medtronic, Amgen, Unitedhealth Group, Gilead Sciences</td>
<td></td>
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<tr>
<td>Most income comes from 3rd party insurers</td>
<td></td>
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<tr>
<td>Information Technology</td>
<td></td>
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<tr>
<td>Dell, Ixia, Symantec</td>
<td></td>
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</tr>
<tr>
<td>The sector remains highly sensitive to the labor sector for future growth</td>
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</tbody>
</table>
### Economic Environment

**Portfolio Impact (Cont’d)**

- **Sector impacts**
  
  - Energy and materials

<table>
<thead>
<tr>
<th>Sector</th>
<th>Moderate Energy Prices</th>
<th>Easing Labor Market</th>
<th>Housing Correction</th>
<th>Flat Interest Rates</th>
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<tbody>
<tr>
<td>Energy</td>
<td><strong>Green</strong></td>
<td></td>
<td></td>
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<tr>
<td>BJ Services, Exxon, XTO</td>
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</tr>
<tr>
<td><strong>Moderate energy price increases will positively benefit sector to offset labor costs</strong></td>
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</table>

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Materials</td>
<td></td>
<td></td>
<td></td>
<td><strong>Green</strong></td>
</tr>
<tr>
<td>Barrick Gold</td>
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<tr>
<td><strong>Gold acts as inflationary hedge</strong></td>
<td></td>
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</tr>
</tbody>
</table>
Portfolio Impact (Cont’d)

- Sector impacts
  - Financials

<table>
<thead>
<tr>
<th>Sector</th>
<th>Moderate Energy Prices</th>
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<th>Flat Interest Rates</th>
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</thead>
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<tr>
<td>Financials</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Citigroup, Moody's, Morgan Stanley, Western Union, McGraw Hill</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Increased productivity benefits sector while interest rate environment hurts sector</strong></td>
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</tr>
</tbody>
</table>
Section 3
Security Analysis
AIM Research Process

- Company background analysis
- Industry analysis
- Fundamental analysis
  - Business and financial risk measures
  - Growth and DuPont analysis
- Earnings forecasts and beta estimation
- Final valuation
  - DCF
  - Multiples
- Technical analysis
Citi Trends: Overview

- Discount retailer of urban fashion apparel
- Formed through reorganization of Allied Department Stores in 1999
- Refocused strategy: urban fashion market, value-pricing, and efficient store model
- 266 stores in Southeast/Mid-Atlantic
- IPO May 2005
- Market Capitalization: $555.62 M
- Revenue growth slows from 25% to 15% in five years
### Security Analysis

**Citi Trends: Continuing Value**

<table>
<thead>
<tr>
<th>CV</th>
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<tbody>
<tr>
<td>NOPLAT</td>
<td>$56,366</td>
</tr>
<tr>
<td>g</td>
<td>7.00%</td>
</tr>
<tr>
<td>ROIC</td>
<td>13.00%</td>
</tr>
<tr>
<td>WACC</td>
<td>11.05%</td>
</tr>
<tr>
<td>CV</td>
<td>$642,346</td>
</tr>
<tr>
<td>Discounted</td>
<td>$342,498</td>
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#### Intrinsic Value

<table>
<thead>
<tr>
<th>Item</th>
<th>Value</th>
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<tbody>
<tr>
<td>Value of Operations</td>
<td>$328,418</td>
</tr>
<tr>
<td>Entity Value</td>
<td>$373,793</td>
</tr>
<tr>
<td>Debt Value</td>
<td>$88,318</td>
</tr>
<tr>
<td>Equity Value</td>
<td>$285,475</td>
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<tr>
<td>Shrs. Outstanding</td>
<td>14,069</td>
</tr>
<tr>
<td>Intrinsic Value</td>
<td><strong>$20.29</strong></td>
</tr>
<tr>
<td>Share Price</td>
<td><strong>$45.59</strong></td>
</tr>
</tbody>
</table>

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**Slower growth in perpetuity**

**All value in the CV**
## Citi Trends: Valuation

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Value</th>
<th>Weight</th>
<th>Contribution to Weighted Average</th>
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<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$20.29</td>
<td>67%</td>
<td>$13.59</td>
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<tr>
<td>Price to Earnings</td>
<td>41.52</td>
<td>33</td>
<td>13.70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$27.30</strong></td>
</tr>
<tr>
<td>Market Price</td>
<td></td>
<td></td>
<td><strong>$45.59</strong></td>
</tr>
<tr>
<td>Downside</td>
<td></td>
<td></td>
<td>67.0%</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td></td>
<td></td>
<td><strong>SELL</strong></td>
</tr>
</tbody>
</table>
Western Union: Overview

• Global leader in money transfer and consumer payments business

• Two primary business segments
  – Consumer-to-consumer (C2C)
  – Consumer-to-business (C2B)

• TTM revenues of $4.4 Bn
  – C2C: 82%
  – C2B: 15%
  – Other 3%

• Market Cap - $16.5 Bn
Western Union: Overview (cont’d)

- Spun-off from First Data in February 2006
  - Began trading October 2\textsuperscript{nd}

- Largest footprint in a fast-growing, global industry
  - Over 270,000 agent locations in 200 countries/territories
  - Global migrant population expected to grow rapidly
  - WU well positioned in major emigration countries
    - India, China, Mexico, and Philippines

- Most recognizable and trusted name

- Cash cow
  - Operating margins above 30%
  - Low reinvestment needs
<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Annuity</th>
<th>CV</th>
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<tbody>
<tr>
<td><strong>FCF:</strong></td>
<td>$ 849.95</td>
<td>$1,080.26</td>
<td>$ 1,318.69</td>
<td>$ 1,425.50</td>
<td>$ 1,659.17</td>
<td>$ 13,377.03</td>
<td>$ 48,112.55</td>
</tr>
<tr>
<td><strong>DCF (at WACC of 11.6%):</strong></td>
<td>$ 761.62</td>
<td>$ 867.40</td>
<td>$ 948.81</td>
<td>$ 936.48</td>
<td>$ 8,686.88</td>
<td>$ 9,277.61</td>
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<tr>
<td>Sum of DCF's:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ 21,478.80</td>
<td></td>
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<tr>
<td>plus cash:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ 1,327.60</td>
<td></td>
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<td>Entity Value:</td>
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<td></td>
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<td></td>
<td>$ 22,806.40</td>
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<tr>
<td>minus Liabilities:</td>
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<td>$ 3,977.60</td>
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<tr>
<td>Equity Value:</td>
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<td></td>
<td>$ 19,306.80</td>
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<td>Shares Outstanding:</td>
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<td></td>
<td>764</td>
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<tr>
<td><strong>Intrinsic Value:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ 25.27</td>
<td>per share</td>
</tr>
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</table>
## Western Union: Valuation

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Value</th>
<th>Weight</th>
<th>Contribution to Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$25.27</td>
<td>100%</td>
<td>$25.27</td>
</tr>
<tr>
<td>Book Value</td>
<td>(0.75)</td>
<td>0%</td>
<td>-</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$25.27</td>
</tr>
<tr>
<td>Market Price</td>
<td></td>
<td></td>
<td>$22.57</td>
</tr>
<tr>
<td>Upside</td>
<td></td>
<td></td>
<td>12.0%</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td></td>
<td></td>
<td><strong>BUY</strong></td>
</tr>
</tbody>
</table>
Bluegreen Corp: Division Analysis

- Communities division
  - 35% of revenues, 44% profits
  - “Horizontal development”
  - 50-75 miles from cities

- Resorts division
  - 65% of revenues, 56% profits
  - 115,000 Vacation Club members
  - Global exchange network

- Market Capitalization: $421 M
- Revenue (ttm): $621 M
Bluegreen Corp: Industry Analysis

- Timeshares
  - Impressive growth over past 10-15 years
  - Growth fueled by entry of well-known companies
    - Marriott, Hilton, Walt Disney
  - Increasing competition
    - Evidenced by increasing SG&A as % of sales for Bluegreen
# Bluegreen Corp: Valuation

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Value</th>
<th>Weight</th>
<th>Contribution to Weighted Average</th>
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<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$11.86</td>
<td>50%</td>
<td>$5.93</td>
</tr>
<tr>
<td>Price to Earnings</td>
<td>9.18</td>
<td>25%</td>
<td>2.30</td>
</tr>
<tr>
<td>Price to Sales</td>
<td>12.92</td>
<td>10%</td>
<td>1.29</td>
</tr>
<tr>
<td>Price to Book</td>
<td>12.13</td>
<td>10%</td>
<td>1.21</td>
</tr>
<tr>
<td>Book Value</td>
<td>10.83</td>
<td>5%</td>
<td>0.54</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$11.27</strong></td>
</tr>
<tr>
<td>Market Price</td>
<td></td>
<td></td>
<td><strong>$13.62</strong></td>
</tr>
<tr>
<td>Downside</td>
<td></td>
<td></td>
<td>20.9%</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td></td>
<td></td>
<td><strong>SELL</strong></td>
</tr>
</tbody>
</table>
Symantec: Overview

- Computer storage and security products
- Five business segments
  - Consumer products
  - Enterprise security
  - Data protection - VERITAS
  - Storage and server management - VERITAS
  - Services
- Market Cap - $20 Bn
Symantec: Overview (Cont’d)

• **Strengths**
  – Strong management
  – Strong product base (especially Consumer AV Software)
  – Strong cash flows from subscription revenue

• **Threats**
  – Microsoft’s entry into AV Market
  – Microsoft’s new Vista OS
  – Commoditization of AV Software?
  – Inability to fully integrate Veritas
<table>
<thead>
<tr>
<th>Currently Trading at:*</th>
<th>17x</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peers*</td>
<td></td>
</tr>
<tr>
<td>McAfee (MFE)</td>
<td>19x</td>
</tr>
<tr>
<td>Microsoft (MSFT)</td>
<td>20x</td>
</tr>
<tr>
<td>Software Industry Average</td>
<td>22x</td>
</tr>
<tr>
<td>Historically</td>
<td>25x</td>
</tr>
</tbody>
</table>

20x FY07E $28.60

*Based on 2007 estimated earnings*
## Symantec: Valuation

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Value</th>
<th>Weight</th>
<th>Contribution to Weighted Average</th>
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</thead>
<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$26.11</td>
<td>55%</td>
<td>$14.36</td>
</tr>
<tr>
<td>Price to Earnings</td>
<td>28.60</td>
<td>25%</td>
<td>7.15</td>
</tr>
<tr>
<td>Price to Sales</td>
<td>24.16</td>
<td>10%</td>
<td>2.42</td>
</tr>
<tr>
<td>Price to Book</td>
<td>34.74</td>
<td>10%</td>
<td>3.47</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$27.40</td>
</tr>
<tr>
<td>Market Price</td>
<td></td>
<td></td>
<td>$20.15</td>
</tr>
<tr>
<td>Upside</td>
<td></td>
<td></td>
<td>36.0%</td>
</tr>
<tr>
<td>Recommendation</td>
<td></td>
<td></td>
<td><strong>BUY</strong></td>
</tr>
</tbody>
</table>
Armor Holdings: Overview

• Aerospace & Defense division
  – Armoring and safety systems to US Military
  – Sole provider of Armored Humvees

• Products division
  – Brand name safety and protective products to government agencies, law enforcement, etc.

• Mobile Security division
  – Armored cars for heads of state, wealthy individuals, banks & money services, etc.

• Market Cap: $1.98 Bn
Security Analysis

Armor Holdings: Business Mix

AH Business Units (2001 Earnings)

AH Business Units (2005 Earnings)

<table>
<thead>
<tr>
<th>Aerospace &amp; Defense</th>
<th>Products</th>
<th>Mobile Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>6%</td>
<td>94%</td>
<td></td>
</tr>
</tbody>
</table>

AIM XXIII Advisory Board Presentation
Security Analysis

Armor Holdings: EPS Forecast

<table>
<thead>
<tr>
<th></th>
<th>TTM</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Growth</td>
<td>23.0%</td>
<td>66.0%</td>
<td>-10.0%</td>
<td>-10.0%</td>
<td>-8.0%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>Margins:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross</td>
<td>21.0%</td>
<td>18.0%</td>
<td>20.0%</td>
<td>19.5%</td>
<td>19.5%</td>
<td>19.5%</td>
</tr>
<tr>
<td>Operating</td>
<td>13.2%</td>
<td>11.2%</td>
<td>13.2%</td>
<td>12.1%</td>
<td>11.7%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Net</td>
<td>9.3%</td>
<td>6.0%</td>
<td>7.4%</td>
<td>7.0%</td>
<td>6.9%</td>
<td>6.8%</td>
</tr>
<tr>
<td>EPS</td>
<td>$5.04</td>
<td>$5.26</td>
<td>$5.76</td>
<td>$4.84</td>
<td>$4.25</td>
<td>$3.83</td>
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</tbody>
</table>

- Armor relies heavily on US military action overseas
  - Democratic control of Congress
  - Expiration of Humvee Contracts
- Recent acquisition of Stewart & Stevenson
Armor Holdings: Valuation

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Value</th>
<th>Weight</th>
<th>Contribution to Weighted Average</th>
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</thead>
<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$54.41</td>
<td>60%</td>
<td>$32.65</td>
</tr>
<tr>
<td>Price to Earnings</td>
<td>63.18</td>
<td>40%</td>
<td>25.27</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$57.92</td>
</tr>
<tr>
<td>Market Price</td>
<td></td>
<td></td>
<td>$54.34</td>
</tr>
<tr>
<td>Upside</td>
<td></td>
<td></td>
<td>6.6%</td>
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<tr>
<td><strong>Recommendation</strong></td>
<td></td>
<td></td>
<td><strong>BUY</strong></td>
</tr>
</tbody>
</table>

- **Decision process**
  - Desire to invest in companies with strong earnings growth
  - Risk of inability to secure replacement contract
- **Final decision**
  - **DO NOT BUY**

AIM XXIII Advisory Board Presentation
Getty Images: Overview

• World’s leading provider of imagery, film footage, and digital services

• Primary customers
  – Advertising agencies, corporations, news companies

• 3 main lines of business
  – Stock photography (80%)
  – Editorial (15%)
  – Film (5%)

• Market Cap: $2.64 Bn
Getty Images: SWOT

- **Strengths**
  - Market leader and first mover in the industry
  - Business model
  - Website
  - Product offering (quantity and quality)

- **Weaknesses**
  - Revenues tied to a cyclical industry
  - Exposed to exchange rate fluctuations
 Getty Images: SWOT (Cont’d)

- **Opportunities**
  - International markets
  - Video advertising
  - New website

- **Threats**
  - Competition from Corbis and Jupitermedia
  - Downturn in the advertising industry
  - Strengthening dollar
<table>
<thead>
<tr>
<th>Year</th>
<th>Net Margin</th>
<th>TAT</th>
<th>Leverage</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>-27.4</td>
<td>0.26</td>
<td>1.28</td>
<td>-9.1%</td>
</tr>
<tr>
<td>2000</td>
<td>-34.9</td>
<td>0.44</td>
<td>1.62</td>
<td>-24.8%</td>
</tr>
<tr>
<td>2001</td>
<td>-21.1</td>
<td>0.45</td>
<td>1.67</td>
<td>-15.9%</td>
</tr>
<tr>
<td>2002</td>
<td>4.6</td>
<td>0.45</td>
<td>1.54</td>
<td>3.2%</td>
</tr>
<tr>
<td>2003</td>
<td>12.2</td>
<td>0.43</td>
<td>1.46</td>
<td>7.7%</td>
</tr>
<tr>
<td>2004</td>
<td>17.1</td>
<td>0.43</td>
<td>1.36</td>
<td>10.0%</td>
</tr>
<tr>
<td>2005</td>
<td>20.4</td>
<td>0.44</td>
<td>1.34</td>
<td>12.0%</td>
</tr>
<tr>
<td>TTM</td>
<td>20.2</td>
<td>0.49</td>
<td>1.36</td>
<td>13.5%</td>
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</tbody>
</table>
## Getty Images: Valuation

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Value</th>
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<th>Contribution to Weighted Average</th>
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<tr>
<td>P/E</td>
<td>$56.71</td>
<td>10%</td>
<td>$5.67</td>
</tr>
<tr>
<td>Price to Sales</td>
<td>66.79</td>
<td>10%</td>
<td>6.68</td>
</tr>
<tr>
<td>Price to EBIT</td>
<td>64.45</td>
<td>10%</td>
<td>6.45</td>
</tr>
<tr>
<td>Price to EBITDA</td>
<td>59.35</td>
<td>10%</td>
<td>5.94</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>50.79</td>
<td>60%</td>
<td>30.47</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$55.21</strong></td>
</tr>
<tr>
<td><strong>Market Price</strong></td>
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<td></td>
<td><strong>$44.33</strong></td>
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<td><strong>Upside</strong></td>
<td></td>
<td></td>
<td><strong>19.7%</strong></td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td></td>
<td></td>
<td><strong>BUY</strong></td>
</tr>
</tbody>
</table>
Build-A-Bear Workshops: Overview

• The concept
  – Build-your-own stuffed animal retailer
  – Niche market player in experiential retail space

• Cash flow drivers
  – Incremental sales in new stores
  – Franchise fees and royalties on international locations

• Capital structure
  – $656 million market capitalization
  – No traditional long term debt
  – Significant operating leases
Build-A-Bear: Fundamental Analysis

Du Pont Components

- Leverage swing attributable to 2004 IPO
- Drastic slowing/reversal of profit margin and turnover growth
Change In Same Store Sales
Compared to Same Quarter in Previous Year
## Build-A-Bear: Valuation

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Value</th>
<th>Weight</th>
<th>Contribution to Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$28.53</td>
<td>70%</td>
<td>$19.97</td>
</tr>
<tr>
<td>Price to Earnings</td>
<td>28.28</td>
<td>15%</td>
<td>4.24</td>
</tr>
<tr>
<td>Price to Book</td>
<td>31.11</td>
<td>15%</td>
<td>4.67</td>
</tr>
<tr>
<td>Total</td>
<td>$28.88</td>
<td></td>
<td>$28.88</td>
</tr>
<tr>
<td>Market Price</td>
<td>$29.43</td>
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<td></td>
</tr>
<tr>
<td>Downside</td>
<td>1.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td><strong>DO NOT BUY</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Gilead Sciences: Overview

• World-leader in HIV retroviral treatments
  – Principal source of sales revenue (77%)

• Large cash reserves used to purchase royalty interests owned by third parties and for acquisitions
  – Acquired Myogen, Inc. for $2.5 Bn (cash) in 4th quarter of 2006 to expand into the cardiovascular disease arena

• HIV products sold at-cost in 97 developing countries
Gilead Sciences: Background

- Major HIV products
  - **Truvada**: Fixed-dose combination of Viread and Emtriva (once-a-day)
  - **Atripla**: Stand-alone therapy combining Truvada and Bristol-Meyers’ Sustiva (July 2006)
- Growing royalty revenue from Roche’s sales of Tamiflu
  - Continued orders for pandemic readiness (globally)
Gilead Sciences: Market Analysis

- High unmet need
  - 16% covered in Asia
  - 13% in Eastern Europe and Central Asia
  - 12% in the Caribbean

Estimated Number of People living with HIV Globally

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Million</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
<td>50</td>
<td>60</td>
<td>70</td>
<td>80</td>
</tr>
</tbody>
</table>
AIDS to become the 3rd leading cause of death worldwide

- Increased awareness has led to reforms for its prevention and treatment

- Funds and need have led to sharp increase in sales

- Revenues for 2005 represented a 53% increase from 2004
Gilead Sciences: Technical Analysis

Moving Averages (50 day vs. 200 day)

5-Year Chart

- Bearish
- Bullish

AIM XXIII Advisory Board Presentation
# Gilead Sciences: Valuation

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Value</th>
<th>Weight</th>
<th>Contribution to Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$73.74</td>
<td>75.0%</td>
<td>$55.30</td>
</tr>
<tr>
<td>Price to Earnings</td>
<td>64.30</td>
<td>15.0%</td>
<td>9.64</td>
</tr>
<tr>
<td>Price to EBIT</td>
<td>80.52</td>
<td>2.5%</td>
<td>2.01</td>
</tr>
<tr>
<td>Price to Sales</td>
<td>70.11</td>
<td>2.5%</td>
<td>1.75</td>
</tr>
<tr>
<td>Price to Book</td>
<td>79.85</td>
<td>5.0%</td>
<td>3.99</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$72.71</strong></td>
<td></td>
<td><strong>$72.71</strong></td>
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<td>Market Price</td>
<td>$67.86</td>
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<td></td>
<td></td>
<td>7.1%</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td></td>
<td></td>
<td><strong>BUY</strong></td>
</tr>
</tbody>
</table>
Section 4
Portfolio Performance Evaluation
Evaluation Approach

- In comparison to S&P 500 (benchmark)
  - Sector allocations
  - Absolute performance
  - Risk
    - Beta
    - Standard deviation
  - Risk-adjusted performance
    - Sharpe ratio
    - Alpha
  - Attribution analysis

- Focus on risk-adjusted performance
- Look at long-term returns
### Market Capitalization Breakdown

<table>
<thead>
<tr>
<th>Market Capitalization</th>
<th>Portfolio Targets</th>
<th>Portfolio Percentage (As of 05/15)</th>
<th>Portfolio Percentage (As of 11/15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $5 Billion</td>
<td>35%</td>
<td>46%</td>
<td>23%</td>
</tr>
<tr>
<td>&gt; $5 Billion</td>
<td>65%</td>
<td>54%</td>
<td>77%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**05/15 Market Capitalization Breakdown**

- Small & Mid Cap: 46%
- Large Cap: 54%

**Current Market Capitalization Breakdown**

- Small & Mid Cap: 23%
- Large Cap: 77%
### Portfolio Performance Evaluation

## AIM Portfolio vs. Benchmark

(As of 11/27/06)

<table>
<thead>
<tr>
<th></th>
<th>P/E</th>
<th>Div Yield</th>
<th>EPS Growth</th>
<th>Debt/Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>16.61</td>
<td>1.82%</td>
<td>19.32%</td>
<td>1.17</td>
</tr>
<tr>
<td>AIM Portfolio</td>
<td>17.58</td>
<td>0.90%</td>
<td>29.04%</td>
<td>1.13</td>
</tr>
</tbody>
</table>

Source: Mellon
Portfolio Performance Evaluation

AIM Portfolio Performance vs. S&P 500
(As of 10/31/06)

Source: Mellon

1 Year: 15.41% (AIM) vs. 14.16% (S&P 500)
3 Year: 11.22% (AIM) vs. 9.46% (S&P 500)
5 Year: 9.46% (AIM) vs. 5.39% (S&P 500)
Since Inception: 13.16% (AIM) vs. 7.77% (S&P 500)
Portfolio Performance Evaluation

Dollar Growth: AIM Portfolio vs. S&P 500
(As of 10/31/06)

Source: Mellon

AIM XXIII Advisory Board Presentation
Risk Adjusted Performance

- **Sharpe Ratio:** $S(p) = \frac{(R_p - R_f)}{\text{StdDev}(p)}$
  - Measures our portfolio’s return over the risk-free rate per unit of risk, as defined by its standard deviation

- **Alpha:** $R_p = R_f + \beta \times (R_m - R_f) + \alpha$
  - Measures our portfolio’s return in excess of expected returns adjusted for our portfolio’s risk
Risk-Adjusted Performance: Sharpe Ratio
(As of 10/31/06)

Source: Mellon
Portfolio Performance Evaluation

Risk-Adjusted Performance: Alpha
(As of 10/31/06)

Source: Mellon
## Portfolio Performance Evaluation

### AIM Portfolio Return vs. S&P 500

(As of 10/31/06)

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation</td>
<td>.84</td>
<td>.86</td>
<td>.93</td>
<td>.91</td>
</tr>
<tr>
<td>Beta</td>
<td>1.30</td>
<td>1.28</td>
<td>1.14</td>
<td>1.21</td>
</tr>
</tbody>
</table>
Portfolio Performance Evaluation

Performance Attribution
(As of 10/31/06)

Source: Mellon

AIM XXIII Advisory Board Presentation
Portfolio Sector Allocation

(As of 11/15/06)

Source: Mellon
Portfolio Performance Evaluation

Portfolio vs. S&P 500

(As of 11/15/06)

Source: Mellon
### Individual Stock Returns

(As of 11/28/06)

#### Top 5 Individual Performers

<table>
<thead>
<tr>
<th>Stock</th>
<th>Return (TTM or *HPR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Stanley (MS)</td>
<td>35.4%</td>
</tr>
<tr>
<td>Exxon Mobil (XOM)</td>
<td>27.1%</td>
</tr>
<tr>
<td>McDonalds Corp. (MCD)</td>
<td>22.0%</td>
</tr>
<tr>
<td>PetSmart Inc. (PETM)</td>
<td>19.5%</td>
</tr>
<tr>
<td>Coach Inc. (COH)</td>
<td>17.9%*</td>
</tr>
</tbody>
</table>

Source: Mellon and CapitalIQ
## Individual Stock Returns (Cont’d)

(As of 11/28/06)

### Bottom 5 Individual Performers

<table>
<thead>
<tr>
<th>Stock</th>
<th>Return (TTM or *HPR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ixia (XXIA)</td>
<td>(29.1%)</td>
</tr>
<tr>
<td>United Health Group Inc. (UNH)</td>
<td>(21.2%)</td>
</tr>
<tr>
<td>Dell Inc. (DELL)</td>
<td>(11.4%)</td>
</tr>
<tr>
<td>BJ Services Co. (BJS)</td>
<td>(10.4%)</td>
</tr>
<tr>
<td>Tupperware Brands Corp. (TUP)</td>
<td>(5.1%)*</td>
</tr>
</tbody>
</table>

Source: Mellon and CapitalIQ
## Portfolio Performance Evaluation

### Portfolio Transactions

<table>
<thead>
<tr>
<th></th>
<th>Sells</th>
<th>Buys</th>
<th>Increases</th>
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</thead>
<tbody>
<tr>
<td><strong>SMALL CAP</strong></td>
<td>Standard Parking</td>
<td>Sotheby’s</td>
<td>PetSmart</td>
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<tr>
<td></td>
<td>Bluegreen</td>
<td>Cabela’s</td>
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<tr>
<td></td>
<td>CitiTrends</td>
<td>Getty Images</td>
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<td></td>
<td>Sanderson Farms</td>
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<td>Headwaters</td>
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<td>Quiksilver</td>
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<td>Int'l Speedway</td>
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<td></td>
<td>Herman Miller</td>
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<tr>
<td><strong>LARGE CAP</strong></td>
<td>Annheuser-Busch</td>
<td>Whirlpool</td>
<td>Barrick Gold</td>
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<td></td>
<td></td>
<td>XTO Energy</td>
<td>UnitedHealth</td>
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<td></td>
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<td>Gilead Sci.</td>
<td>Dell</td>
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<td></td>
<td></td>
<td>McGraw Hill</td>
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<td>Symantec</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Western Union</td>
<td></td>
</tr>
</tbody>
</table>

Source: Mellon
Portfolio Performance Summary

• Short Term
  – Performance gap narrowing
  – Increasing beta, decreasing alpha

• Long Term
  – Outperform benchmark (S&P 500) on year-over-year returns
  – Outperform benchmark on risk-adjusted basis
  – Positive alpha
Section 5

Other Activities
Other Activities

Trips

- Chicago – Early September
  - William Blair & Company (Investment Bank)
    - Case study on Cabela’s IPO
  - Thor Equities (Real Estate Investment Firm)
    - Tour of the Palmer House
    - Learned about real estate investment approach
  - Madison Dearborn Partners (Private Equity)
    - Emphasis on examining R&D when analyzing a company
  - Alliance Capital (Asset Management Firm)
    - Received insights on potential stocks
Trips (Cont’d)

• New York – Mid November
  – S-Squared Technology (Hedge Fund)
    • Exclusively technology and life sciences
    • Focus on stock opportunity such as Gilead
  – Nasdaq (Public Exchange)
    • Largest U.S. electronic stock market
    • Discussed aggressive growth strategies
  – Mason Capital Management (Hedge Fund)
    • Learned about investment strategies
Trips (Cont’d)

• New York – Mid November
  – Sterling Stamos (Hedge Fund)
    • Investment company with a broader mandate
    • Insight regarding future interest rate fluctuations
  – The Blackstone Group (Private Equity)
    • Investment side / advisory side
    • Stressed the importance of meeting with and assessing management when valuing a company
  – Goldman Sachs (Investment Bank)
    • Asset and private wealth management
Other Activities

Speakers

• Sankaty Advisors (Hedge Fund)
  – Distressed debt and convertible bond firm
  – Fundamental analysis

• Todd Martin (Investment Firm)
  Partner, Martin Capital Management
  – Emphasized presence of overconfidence bias
  – Discussed various people that can aid investment process
    • Company management
    • Company employees
    • Competitors
    • Suppliers
Other Activities

Newsletter

- Objectives
  - Allow AIM alumni to stay up-to-date
  - Provide quarterly overview of present portfolio

- Current newsletter points of interest
  - New stocks and new portfolio
  - AIM alumni updates
  - New York trip review
  - Economic snapshots
  - AIM XXIII analysts’ future plans
Other Activities

AIM Website

- Website address
  - http://aim.nd.edu
- E-Mail address
  - aim@nd.edu
- Specific areas of interest
  - Analysts and alumni
  - Publications
  - Portfolio
  - News
Section 6
Conclusions
Special Thanks

The AIM Advisory Board
Including those who could not make the trip
Conclusions

Special Thanks (Cont’d)

• The Notre Dame Investment Office

• AIM Professors
  – Jerry Langley
  – Scott Malpass
  – Frank Reilly
  – Ed Trubac

• Also to Rachel Karnafel for her supporting efforts
Conclusions

Closing Remarks

Please join us for dinner at the Morris Inn!