THE GEORGE INVESTMENTS VIEW

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Editor's Letter

by K.C. Ma, Ph.D., C.F.A.

Director, George Investments Institute

Roland George Chair of Applied Investments

We have turned another page in the proud tradition of the Roland George Investments Program (RGIP). Since 2010, RGIP has been noticed by the investments community for its long-standing superior performances in both stock and bond portfolios. Starting June 2015, on a weekly basis, The George Program has been requested for comment regularly regarding company-investments recommendations. On a daily basis, we have been often asked for immediate responses to major economic news events. During earnings season, George students have watched individual company earnings announcements and listened into the conference calls so comments will be printed to the media within the hour. For the past year alone, the George Program at Stetson University has been quoted more than 400 times by the major news media such as *U.S. News & World Report*, the Street.com, Yahoo Finance, and *Fortune Magazine*, to name a few.

For the next two articles, you can see some sample of RGIP's work.

In this issue of the *The George Investments View*, other than showing you more specific recommendations than previously, George students also want to demonstrate the new investment theses they have developed in recent years. Referred to as the "left-side reasons" to buy a new stock versus the "right-side reasons to hold a stock," RGIP has argued that we will only buy a stock if the company has a disruptive or interruptive business model, revolutionizing "the way we do everyday things," serving a niche market, and creating a new culture. We want you to see George students' innovative work.

Why Investors Should Think Twice About Quarterly Earnings

Formerly at *Fortune Insiders Commentary,* Feb. 14, 2016

by K.C. Ma, Ph.D., C.F.A.

Director, George Investments Institute

Roland George Chair of Applied Investments

BlackRock CEO Larry Fink's recent letter to 500 chief executives urging them for the first time to stop providing quarterly earnings estimates, is yet another plea for long-term value creation. Today, many companies are expected to execute corporate policies that reflect short-term earnings growth, thus forcing investors to rely mainly on what a stock is worth. When company forecasts are heavily based on earnings, one of the biggest problems is that they have been known to be overly optimistic.

On Sept. 21, 2001, despite an announcement of missed earnings and a shortfall in cash flow, Amazon.com was still trading at an unreal price-to-earnings ratio over 2000 at a time when its stock was $192 a share. The only way to justify such a lofty price would be if Amazon's earnings were to grow at an annual rate of 80% for the next 10 years. When its price peaked at $225, Amazon's market capitalization of $52 billion was larger than the economies of 125 countries. For a comparison, while today's Amazon stock is traded over $500 a share, its price-to-earnings came down to around 400, albeit still high, at least a more reasonable level. This exaggerated valuation has since been explained as an example of "stock market myopia" — investors' fixating on short-term earnings. Do I need to remind you what happened to the stock market after 2001?

Carl Icahn has argued that low interest rates have created "a new bubble," caused by firms borrowing cheap money to fund acquisitions or to buy back stock in order to inflate their fundamentals. This warning echoes with Fink's concern that "dividends paid out by S&P 500 companies in 2015 amounted to the highest proportion of their earnings since 2009 … Buybacks were up 27% over 12 months." Still, both Fink's longtime track record of promoting sustainable corporate growth, and Carl Icahn's breaking up of Xerox and his criticism on BlackRock's contributing to the high-yield bubble, should be commended for exemplifying the best "shareholders activism" at work.

See also: Why You Are a Better Investor Than Bill Ackman

Corporate shortsightedness is manifested by firms' practice of providing short-term earnings guidance. However, firms that frequently issue quarterly earnings guidance also behave myopically. Further exacerbating this problem is the fact that managers are typically evaluated and compensated based on earnings goals, providing a perverse incentive to focus on producing short-term results. Moreover, if stock prices react to short-term earnings, managers can argue that they are doing their jobs in the name of "maximizing shareholders' wealth."

Since 2002, there has been a new movement led by the CEOs of top blue-chip companies such as GE GE -0.06% , Microsoft MSFT -0.40% , and Intel INTC -0.05% , to voluntarily stop providing earnings guidance. The intention was to relieve managers from being boxed into hitting short-term targets, and investors from being misguided. The critics claim, rather, that the firms are self-serving, especially since most of the firms that stopped issuing earnings guidance had already experienced poor earnings and stock performance.

A company's earnings, measured under specific accounting standards and tax laws, are arbitrary at best, whereas cash flow, like the balance in a checking account, is an actual number and subject to little interpretation. Earnings are opinion, and cash is a fact. In Berkshire Hathaway's annual report, in 1994, Warren Buffett wrote, "We define intrinsic value as the discounted value of the cash that can be taken out of a business during its remaining life." In his 2002 annual meeting, nearly 20 years later, Buffett echoed the same testament, "We'll never buy a company when the managers talk about EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). There are more frauds talking about EBITDA. That term has never appeared in the annual reports of companies like Wal-Mart WMT -0.32% , GE, and Microsoft. The fraudsters are trying to con you or they're trying to con themselves." In other words, the most celebrated investor's message could not be clearer. In terms of value, it is what you can take out of a business that really counts, not the earnings reported by the company.

It is a reality that the public has an unusual fascination with short-term earnings. More than two-thirds of stock price movements react to the quarterly earnings estimates. As a result, less than 15% of Wall Street analysts would even give cash-flow estimates. However, whenever things take a turn for the worse — such as an economy going into a recession — stock-market bubbles burst, and for those 25% of companies with negative fundamentals, the investors will resort back to quality; watching cash flow instead of quarterly earnings.

Comparing iPhone 7 to iPhone 6 is like Comparing Apples to Apples!

Formerly at *The Huffington Post,* Sept. 12, 2016

by Chris Landers

Gee, new color bands, water resistance, and 1/10 of a millimeter thinner for iPhone 7; the suspense is killing me. This is the first time the Apple stock has been flattening into a major product launch. Though the 10 Apple major product launches had a muted performance, -0.06%, on the day of the launch, but with a +1.39% the day after. Then again, Apple was a $12 stock the day before the first product launch.

The announced iPhone 7 improvements are part of the company's long-term strategic effort to move the users into Apple's "Eco-System," which integrates all Apple software into all Apple hardware. While taking away the headphone jack does not mean people cannot use their headphones, it will help iPhone waterproofing and shift battery life to other new functionalities. By the way, Apple's largest competitor, "Android," does not have an Eco-System.

Although iPhone 7 added functions, including wireless charging (Samsung has it), water resistance (Samsung has it), stereo speakers, Pokémon Go coming on a greatly improved Apple Watch screen with updated processers and a GPS, enhanced camera with two lenses, and a larger hard drive which are welcoming, none of them are game changers. It appears that the main focus of the Apple Special Event is to pump upcoming apps for their upcoming iPhone 7 and Apple Watch 2.

Critics asked, "Is the iPhone 7 the iPhone 6?"

Chris Landers, security analyst for the Roland George Investments Program at Stetson University, said, "Comparing iPhone 7 to iPhone 6 is like comparing apples to apples."

On the bright side, Apple's Apple Watch 2, partnered with Nike, quickly sent Fitbit's stock tumbling down 2% before the day's end.

Apple's fans called the iPhone 7 launch, "A Day of Liberation," and said "we don't need wires anymore for iPhones."

In the short run, removing the headphone jack and power button may prove unpopular, especially for people who don't like Bluetooth. It is considered part of a coordinated move to educate users to accept changes that improve the efficiency and functionality of the entire iPhone experience. Remember how much we complained about there being only one USB drive left in MacBook and the screen size of the 6s Plus was too large? Now we can't live without them.

Whether the iPhone 7 changes will translate into Q3 revenue is still up in the air. As more than 235 million 2-year-old iPhones are waiting to upgrade, to them any improvements of iPhone 7 will be a plus. That being said, the same people are also waiting for the 10-Year Anniversary iPhone, which is scheduled to arrive in 2017. Hopefully, it will be significantly differentiated with an OLED display, bendability, and several brand-new designs.

Aircastle & Entergy

by Konner Krieger

Buy Candidate Analysis:

Entergy Mississippi, Inc. provides electricity to customers in 45 counties in Mississippi and is a subsidiary of Entergy Corp. Entergy Corp. is an integrated energy company engaged primarily in electric-power production and retail distribution operations.

It operates in two segments, Utility and Entergy Wholesale Commodities. The Utility segment generates, transmits, distributes, and sells electric power in portions of Arkansas, Mississippi, Texas and Louisiana, including the City of New Orleans; and distributes natural gas.

The Entergy Wholesale Commodities segment is engaged in the ownership, operation and decommissioning of nuclear power plants located in the northern United States; sells the electric power to wholesale customers; offers services to other nuclear power plant owners; and owns interests in non-nuclear power plants that sell the electric power to wholesale customers. This segment sells energy to retail power providers, utilities, electric power cooperatives, power trading organizations, and other power generation companies. It generates electricity through gas/oil, nuclear, coal, wind, and hydro power.

Entergy owns and operates power plants with approximately 30,000 megawatts of electric generating capacity, including nearly 10,000 megawatts of nuclear power. Entergy delivers electricity to 2.8 million utility customers in Arkansas, Louisiana, Mississippi and Texas. Entergy has annual revenues of approximately $11.5 billion and more than 13,000 employees. The company was founded in 1989 and is based in New Orleans, Louisiana.

Swap Rationale:

Utility bonds are staples of most bond funds. Their guaranteed cash flow, business stability, and lack of default risk make them attractive to income investors. People will always need gas, water and electricity regardless of economic conditions, and will therefore always have to pay for them, which provides a guaranteed income stream to utility companies. Because of this steady and predictable cash flow, utility companies rarely, if ever, cut dividends, and they typically pay out most of their earnings in dividends. Bondholders, being a step above stockholders, are essentially guaranteed to receive their coupon payments.

The utilities business is also structured in such a way that makes it incredibly difficult for a utility company to go out of business. Because of the immense capital investment required to enter the utility business, as well as the fact that it is not efficient or practical to have multiple power grids or sewage systems overlapping each other in one area, utilities are allowed to have monopolies over their local area. Due to this monopoly, regulators need to balance the competing interests of shareholders with the needs of consumers. Although customers need rates to remain affordable, the utility must remain profitable to stay in business. To achieve this balance, the government sets what it deems a reasonable profit to provide the company and its investors with a sufficient rate of return. This essentially means that investors are guaranteed a reasonable rate of return.

Having a position in Entergy would be a good hedge for the portfolio. Entergy has an A- credit rating, while the Roland George Portfolio is composed almost entirely of junk-bonds with credit ratings in the range of BB. Renowned financier Carl Icahn has expressed worry about a possible junk-bond asset bubble. In a near zero interest-rate environment, investors, lured by high yields, have pushed a lot of money into junk-bond assets. This push has driven junk-bond yields very low, and the spread between the 10-year and junk-bonds is expected to widen. With an A- credit rating, initiating a position in ETR will shield the portfolio if there is in fact a junk-bond asset bubble and it bursts. Not only does ETR hedge us against credit risk, but it also acts as a hedge against our portfolio interest rate risk. Investor consensus is that interest rates will rise in 2016, and this is reflected in our investment policy statement and my predictions. However, interest rates have been at zero levels for eight years, and every year, investors thought the Federal Reserve would raise the Funds rate. Each year, except for December of last year, the Fed disappointed them, meaning that every year, investors have been missing out on potential return because of this belief that interest rates will rise. I believe interest rates will fall in the next 12 months. The Fed has already gone through two meetings in January and March where they chose not to raise interest rates, citing instability in the global economy. Despite the U.S.'s economic recovery, Europe and China are still struggling to reach normal levels of growth, and the Fed will be hesitant to raise rates without seeing improvement in both of those economies.

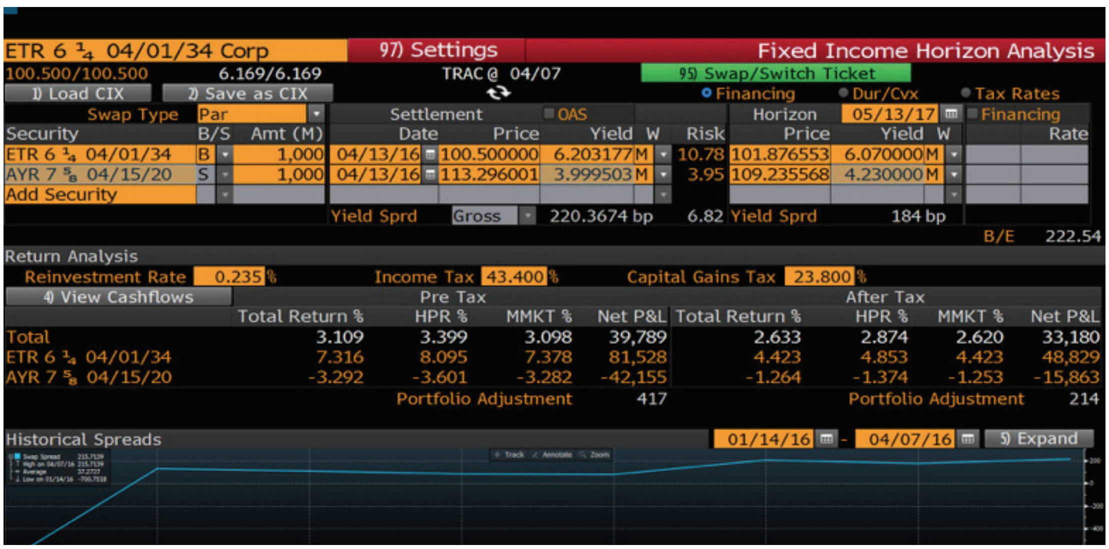
I believe interest rates will fall about 25 basis points, and even if interest rates were to rise, as stated in our investment policy statement, I do not believe ETR's yield will rise at all through the rest of 2016 and the beginning of 2017, as shown in my regression. As shown in the chart on the next page, ETR's yield remains steady compared to AYR's yield and the 10-year Treasury. As a utility, it is not as volatile as a financial, such as AYR. Plus, even if interest rates were to rise to a higher level than I predict, the advantage of a rising-rate environment when dealing with utility companies is that one can reinvest interest income at ever-higher rates and, therefore, achieve steadily increasing total returns on their bond investments. And since rates are low, there really is no reinvestment risk. Therefore, due to the fact that interest rates will fall this year, Entergy is currently undervalued and represents a good opportunity to capture a swap profit and create a hedge and more diversity in our portfolio.

Based on my analysis, I estimate the 10-year Treasury to decrease by an average of 25 basis points through our workout period and the S&P 500 to return 8% in 2016. This resulted in an estimated yield change for AYR of an increase of 24 basis points. Looking at ETR, my regression analysis resulted in an estimated decrease of 13 basis points. As evident below, with mispricing taken into account, if this estimated scenario occurred, the portfolio would still see a pickup of 310 basis points.

The proposed swap would take us out of AYR's position in the BB+ rated financials sector (top line) and place us into the A- rated utility bond sector (bottom line). As you can see below, the graph curve tenor of the Utilities rated A- is steady and has slightly increased over the past three years, while the financials BB+ is much more volatile. The spread between the two is currently approximately 270 basis points, and after a dramatic increase in January/February, which can be attributed to the market correction last January, we see the spread begin to tighten back down. Now, as the spread tightens, would be a good time to make a swap.

Conclusion:

Entergy is a utility company, and utility companies are some of the safest investments in the market. Their guaranteed cash flow, local monopoly, high credit rating, and government-established rates ensure that they will have no problem paying us out our coupons. Currently, our portfolio is made up entirely of junk-bonds with low durations. Interest rates have been expected to go up for years by investors, yet have not yet done so. If we invest in a bond with less credit risk and a higher duration, that will provide a good hedge for the portfolio if interest rates go down. Even if interest rates were to go up, I do not believe they will rise to a level that would make Entergy call their bond. The swap will earn 310 basis points if Entergy's yield decreases by 13 basis points and Aircastle's yield increases by 24 basis points, my most likely scenario. Therefore, I recommend the Roland George Investments Program swap its position in Aircastle for Entergy Mississippi.



Bond Swap Overview:

Sell Candidate		Buy Candidate
Aircastle	**Company**	Entergy Mississippi
7.625%	**Coupon**	6.25%
4/15/2020	**Maturity**	4/1/2034
3.99%	**YTM**	6.20%
3.41	**Modified Duration**	10.7
0.145	**Covexity**	1.55
$112.75	**Price**	$100.50
$102.33	**Cost Basis**	-
BB+	**Rating (S&P)**	A-
Callable	**Optionality**	Callable
Financial	**Sector**	Utility
N/A	**Basis Point Pickup**	310
4.16	**Portfolio Duration**	4.89

Aircastle & International Game Technology Inc.

by Nate Gaubatz

Buy Candidate Analysis:

International Game Technology PLC operates and provides a range of services and technology products across lotteries, machine gaming, sports betting, and interactive gaming markets in North America, Asia and Europe. It provides online lottery-transaction processing systems; a suite of lottery-enabled point-of-sale terminals; supplies instant-ticket games; and provides printing services, instant ticket marketing plans, graphic design, programming, production, packaging, and shipping and delivery services. The company also provides video lottery terminals (VLT), VLT central systems, and VLT games to government customers; video and traditional mechanical reel slot machines and casino systems to casino operators; and amusement with prize machines and games to licensed operators, as well as designs, develops, manufactures, and provides cabinets, games, systems, and software. In addition, it is involved in the provision of sports betting platform that offers betting on sporting events, motor sports, and non-sporting events, such as entertainment, music, culture, and current affairs; transaction processing of commercial transactions, such as prepaid cellular telephone recharges, prepaid mobile data, prepaid electricity and other utility-bill payments, credit-card transactions, Social Security contributions and payments, and prepaid cards; and collection, processing, and network services on behalf of third parties, as well as in the issuing of electronic money through immediate conversion of funds. Further, the company provides interactive games, such as poker, casino games, bingo, iLottery, sports betting, horse-racing, and skill-based games. The company was formerly known as GTECH S.p.A. and changed its name to International Game Technology PLC in April 2015. The company was incorporated in 2014 and is headquartered in London, of the United Kingdom.

Swap Rationale:

The fixed income fund's position in the Aircastle low yield Financial Bond is a very safe investment. The company's yield fluctuates between 3% and 5%. With such a low yield, the company has ended the profitable return that it could make for the portfolio. With its year-to-date return of -1.7% , it is one of the lower returners within the portfolio. The bond has a median duration in the portfolio. However, if we want to maximize our total return, we must bear additional risk to create a reward. Looking at the proxy, I selected the Aircastle bond. As you can see, its yield has remained over the years while the bond of IGT, with a much higher yield, has potential to decrease for a large swap profit. It had its recent spike, and I believe the company is stabilizing and going to return its yield to stable levels. This will give the portfolio and the program a substantial swap profit.

My expectations of interest rates rising by 30 bps within the workout period signals that my bond's yield will shift in a negative direction of 100 bps. The US treasury will continue to increase as long as the economy continues its growth throughout the year. I believe that this is reflected in the market's increase of 8% for the year. IGT has a 5.35% coupon and a duration of 5.88 that will help capture these returns in the portfolio. The overall portfolio duration is positioned at around 3.8 and, if the switch is passed, will increase it to 4.12, which is still within our investment policy. Focusing on IGT's increase in yield to 6.7%, I believe, based off my regression, that it will drop to 95 bps. It is currently over its historical average by 130 bps, and the drop will provide excellent returns for the portfolio. With the stability in debt and the increase in profitability in the company, it will give us a great advantage for the future of the portfolio with an encouraging situation.

Based on my analysis, I expect the 10-year Treasury to increase by an average of 30 bps through our workout period and the S&P 500 to return 8% in 2016, as well as a drop in IGT's debt to equity of 6%. This resulted in an estimated yield change for AYR of 32 basis points drop. Looking at IGT, my regression analysis resulted in an estimated decrease of 95 basis points. I am confident in the company's ability to execute financially in the coming months that will filter down to its bonds' yields decreasing back to historical levels. As evidence below, if this estimated scenario occurred, the portfolio would see a pickup of 453 bps. I applied the regression results into the Horizon Return on Bloomberg to give me the following result.

Sector Spread:

The proposed swap would take us out of Aircastle's financial sector and replace it with the Gaming sector. As you can see, the graph curve tenor between the financials rated BB+ and the technology rated BB+ is fairly consistent. They have moved similarly to each other over the past year. More recently, they have closed the spread, and are currently 0.25 basis points apart. I believe an investment in the BB+ technology sector will drop as the Financials will continue to rise. This will pay off in the future of the portfolio.

Yield Curve for IGT:

I also utilized Bloomberg's Fair Value function to find IGT's fair value when compared with the USD United States BB+ Technology Index. This resulted in a spread of 86 basis points. You can see below the spread between the bond and its industry rating.

Yield Curve for Aircastle:

I again utilized Bloomberg's Fair Value function to find Aircastle's fair value when compared with the USD United States BB+ Financials Index. This resulted in a spread of negative 68 basis points. This indicates that Aircastle bond is richer than compared to the industry credit rating. You can see below the spread between the bond and its financial rating is quite small and below the curve.

Mispricing Change:

After looking at the mispricing from the yield curves, I applied this to both my buy and sell bond. This gave me a total of a 373 bps pickup after entering my regression results into the

Horizon Return calculator on Bloomberg.

Credit Analysis:

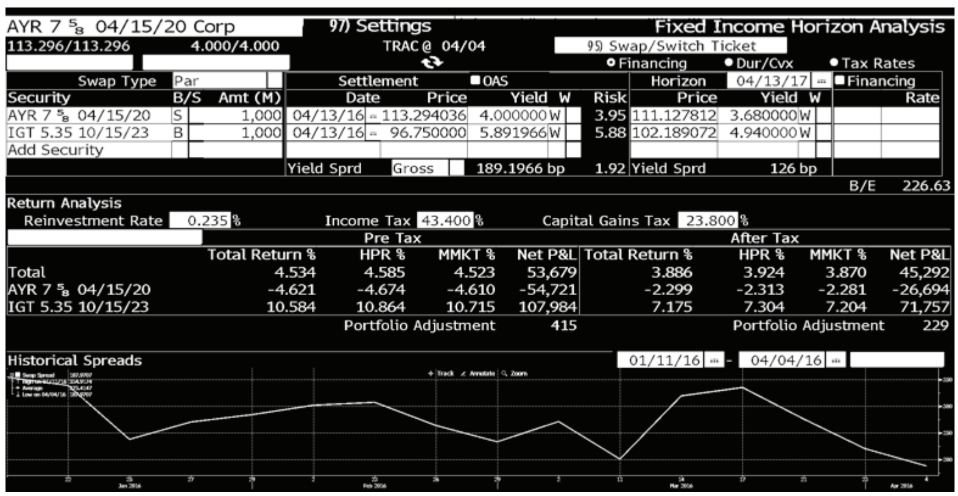
It is important to look into the financial stability of IGT when considering swapping into a position for our portfolio. The company has experienced a drastic change over the past year in revenue, operations and an increase in liabilities that stem from the large merger they entered in April of 2015. The merger added much debt to the company after joining the forces of IGT and GTECH, both of which are technology game providers. IGT currently has a debt to equity of 2.48 which is an increase from last year's quarter of 1.47. IGT's percent of long-term debt to total capital is also 71.2%, similar to the industry average of 63%. The merger raised their current ratio to 1.24 from last year's 0.59. This is substantially much higher than the industry with the increase in total assets. IGT has a poor ROA that is a percent below the industry average. Stemming from a large pickup in assets the company was in a time of rebuilding. By comparing this to the last four annual return on investments they stand at an average of 5%. I believe this will return as they currently stand at -0.5% annual ROA as the industry continues to grow and the company as well.

The bulk of all debt has been incurred and further more ceased. The leverage ratio remains at a historical high of 4.49, compared to a 3.12 historical average. It recently has remained stagnant, and I highly anticipate it to return to historical levels, due to restructuring of the company and gaining control of all its finances. Finally looking into their net margin turned around to have a 600% increase going from 0% to 6% in the last quarter. The industry currently has a 5% net margin 100 basis points below IGT's, proving that the future outlook for the company is green.

In December 2015, they released their earnings call that labeled many turnaround operations for the new companies market strategy. IGT is based out of the United Kingdom and anticipates much foreign-exchange risk. The upcoming year they have locked a forward rate lower to previous years to reduce this risk. With the lottery growth capital of $100 million and gaming capital of $500 million net debt is expected to reduce to around $7,700 – to $7,900 million. As debt continues to lower at a sufficient rate, the yield of the bond should follow suit. IGT may have a large amount of debt outstanding but is covered by its overall cash flow that remains stable. As a result of the combination of GTECH and IGT, revenue has grown 44% with a strong gaming product sales continuation with selling over 11,000 gaming machines, a 6% increase from last year.

Conclusion:

International Game Technology has produced some of the highest-quality machinery for producing a profit around the world. While they have experienced massive debt increases, the continued reconstruction of the financial system and their overall marketing will continue to be a profitable business. This continuous improvement will result in interest rates lower from their historically high levels, and switching to IGT's longer duration and higher coupon will be beneficial for the portfolio immensely. Our position in Aircastle low yield is not producing sufficient returns and could possibly be replaced with IGT. The swap will earn a potential 392 basis point pickup if IGT's yield decreases by an estimated 95 basis point and Aircastle's decreases by 32. Therefore, I recommend the Roland George Investments Program swap its position in the Aircastle Financial Bond for International Game Technology's bond.



Bond Swap Overview:

Sell Candidate		Buy Candidate
Aircastle	**Company**	Intern. Game Tech
7.63%	**Coupon**	5.35%
4/15/2020	**Maturity**	10/15/2023
4.00%	**YTM**	5.89%
3.573	**Modified Duration**	5.881
0.152	**Covexity**	0.431
$112.5/$113.5	**Bid/Ask Price**	$91.69/$92.24
4.22%/3.97%	**Bid/Ask Yield**	6.77%/6.67%
BB+	**Rating (S&P)**	BB+
Callable	**Optionality**	Callable
Financial - Other	**Sector**	Gaming - Leisure
N/A	**Basis Point Pickup**	392
4.16	**Portfolio Duration**	4.40

BONDS

Vestas - Industry: Renewable Energy

by Nicholas Kemick

Vestas Disruptive Innovation:

Historically, viable sites for wind turbines have been limited to specific areas where consistently strong winds allow for consistent power production. These areas include remote plains, ridgelines, and off shore sites with minimum geographical obstructions to wind flow. This creates issues, as the energy produced often has to be stored and transported long distances to where it is needed. This is particularly limiting in regions where high-wind areas are scarce, or where infrastructure isn't advanced and connecting remote sites to the power grid is costly. However, in September of this year, Vestas made an announcement that they will begin production of two new turbines designed to operate in previously considered not viable, low-wind conditions. These turbines are the first of their kind and will serve to expand the number of sites that wind farms can be placed in. Vestas claims that they are pushing to market these turbines especially in the United States and China, where both of the above limiting factors have inhibited the growth of wind power.

Industry Outlook:

The outlook for the wind turbine industry in coming years is strong. China, which comprised 45% of total installed wind capacity through 2014, shows no sign of slowing its pace as the country marches toward fulfilling the last 85,000 megawatts of its 200,000 MW goal for 2020. Europe is collectively working to increase its offshore wind energy production through its efforts to meet its 50,000 MW target by 2020. Additionally, recently high levels of installations in windy South American countries like Brazil and Chile, alongside increased economic activity in the United States as conditions improve, are all seen as positive indicators for the region. Further in the United States, potential for additional growth has surfaced with the likely passing of the Production Tax Credit, which can subsidize up to 30% of the cost per megawatt hour for businesses' wind turbines, and the introduction of additional clean-energy initiatives, like President Obama's Clean Power Plan.

Competitive Positioning:

Vestas benefits from a healthy mix of continued momentum in gaining in market share, success in leveraging partnerships to increase their scope of operations, large involvement in almost all major geographical markets, and the development of highly competitive products.

Stock Valuation:

Through performing a growth duration size model and sales franchise model, I found an average fair value for Vestas of 55.90 EUR, an undervaluation of 12%.

Business Description

Company:

Vestas Wind Systems Inc. (VWS.CO), based in the Netherlands, is the world's largest wind turbine manufacturer, representing over 13% of the total market share in wind energy. Vestas classifies its products by their power ratings into their 2-megawatt, 3-megawatt, or 8 megawatt platforms. A differentiating factor for Vestas is that it is the only of its competitors that makes turbines for high-wind, medium-wind and low-wind conditions. Especially important are its low-wind turbines, which are a breakthrough innovation allowing wind farms to be constructed in areas which previously didn't allow for significant energy production. Vestas gained 70 percent of its 2014 revenue from the direct sale of turbines, and 30 percent from post-sale services. Vestas operates in over 75 countries. Its two largest markets are in Europe, which comprised 62 percent of 2014 annual revenue, and the United States, which accounted for 30 percent.

Reasons for Investing:

The Roland George Investments Program should invest in Vestas for the following reasons:

RGIP in Renewable Energy:

The renewable energy industry addresses concerns over both sustainable energy production and environmental protection. Governments around the world have made collaborative efforts to support this industry and further those initiatives. The most important demonstration of this is seen in renewable energy production targets, which governments set and create subsidies to support. Examples of targets that are providing Vestas with contracts now include the European Union's target of 50 Gigawatts of offshore production by 2020 and China's target of 200 Gigawatts by 2020. These, alongside others, have contributed to the growth in installed wind power shown in figure 3, as well as Vestas' current largest-ever $15 billion contract pipeline. Further, the Roland George Program currently does not have a presence in renewable-energy. Holding a renewable energy stock would not only be a means of diversifying the portfolio, but would also allow it to capitalize on the foreseeable future growth in this space.

Market Leader:

With the exception of 2012, Vestas has held the largest percentage of global market share continuously for the past 20 years. This success has allowed them to build specialized product knowledge, strong relationships with major entities, and logistical efficiencies that position them competitively in the market. Their specialized technological know-how has allowed them to be front-runners in designing and integrating new types of towers, such as their largest offshore turbine, which is more powerful than its nearest competitor by 33%. Their strong business relationships have been credited as being a large factor in securing their recent joint venture with Mitsubishi Heavy, and in securing their largest contracts this year. With regard to logistical efficiencies, Vestas' access to capital and supply-chain bargaining power have allowed them to make investments necessary to reduce costs and bid for greater numbers of contracts.

Products:

Vestas offers the following products (% of all revenue):

- **Wind Turbines (86%):** Europe (45%), Americas (33%), Asia and Pacific (7%)
- **Related Services (14%):** Contracted maintenance and monitoring of existing turbines in all regions.

With the exception of Vestas' service segment, their revenue for each segment has fluctuated. This is due to seasonality in recognizing revenue from projects as well as the presence or absence of large contracts in a segment during any given period. Additionally, they recognize revenue upon delivery of product rather than the intake of orders, so forces impacting delivery further influence revenue for each segment.

Growth Strategies:

Vestas Wind Systems has five main growth strategies:

- **Sales Development of Low Wind Turbines:** As is mentioned above, Vestas' V110 and V126 turbines have significant disruptive potential for the wind turbine industry. In the United States, where efficiency and lifetime cost of machinery are valued more highly than initial cost, both turbines have proved to be hits, and are credited with pushing the Americas to account for 69% of order intake for their 2-megawatt platform during the first half of 2015. Vestas also expects orders from China, currently at 19%, to increase as they shift toward a lifetime cost focus for their wind turbine projects.
- **Sales Development of 3-Megawatt Platform:** For logistical reasons dealing with the strength and reliability of wind, onshore turbines have almost always been capped at a 2-megawatt power rating. Over the past four years, Siemens' ability to bring 3-megawatt platforms onshore in the United States has provided them with a competitive advantage that has allowed them to maintain the lead in American market share. However, in a move to quell this advantage, Vestas announced last year that they would begin producing onshore versions of their 3-megawatt platform turbines. Since their announcement, Vestas has signed a number of large contracts for turbines in this class, accounting for roughly 20% of the 56% year-over-year increase in order intake for Q2 2015.
- **Continued Increase in Service Revenue:** With an average term of eight years, service contracts on turbines sold can afford a stable earnings base that is particularly valuable for firms in volatile markets such as Vestas. Considering its historically low service revenue relative to its competitors, Vestas made the decision in early 2014 to create a separate division within the company with the objective of increasing service revenue. Since that point, service revenue has grown at a significantly more stable 3.5% compounded quarterly rate from 225 million Euros in Q1 2014 to 292 million Euros in Q2 2015.
- **Continued Innovation:** One of the most important ways in which Vestas displays a continued pursuit of innovation can be found in its commitment to research and development. Vestas leverages the product knowledge that it has acquired through being the oldest wind turbine manufacturer and its continued investment in research and development at 30% of capital expenditures. The success of this strategy can be seen through their increasingly specialized product offerings, which have allowed them to gain market share and reclaim their position as the industry leader over the past few years. Some current projects that the company is willing to share include turbines optimized for humid conditions, improved de-icing solutions, and grid connectivity improvements. Given the mass production of energy that is involved in the projects that Vestas is a part of, marginal increases in efficiency can have a large impact on the attractiveness of their turbines.
- **Leveraging Increased Turbine Power:** Another way in which Vestas is actively seeking to increase the attractiveness of their turbine models is by using increases in the power output of its turbines to tweak other aspects of their turbines' designs like blade length, so that they are better able to meet regulatory demands in stringent markets. Vestas announced one such design improvement this year which yielded a significant increase in power for turbines in both its 2-megawatt and 3-megawatt platforms.

Valuations:

In this section, I have estimated the fair values of Vestas Wind Systems' stock. All input data was derived from historical company data and pro forma estimates.

Growth Duration Model:

The Growth Duration valuation, a relative P/E model, is often used to compare a company with significant growth potential to a competitor and its industry. It is a relevant model for Vestas Wind Systems because they have experienced a higher volatility in growth compared with the average firm in their Industry Peer Group. I compared Vestas with its most similar large competitor that I could find: Gamesa. The Industry which I compared Vestas against Using an earnings growth rate of 17% obtained from my pro forma analysis, I estimated a fair value for Vestas Wind Systems of 57.20 EUR, an undervaluation of 15% (Appendix 2).

Sales Franchise Value Model:

The Sales Franchise valuation is often used when dealing with companies that are able to produce significant franchise value; i.e., repeating its business model at a higher profit margin. This model distinguishes between a company's current profit margin and the margin that can be derived from future opportunities. The underlying assumption for Vestas is that it will be able to improve its profit margin by lowering its operating costs through both its control of fixed costs and thanks to the company's strategy of making the switch to manufacturing modular parts, reducing their need for storage of common turbine components. Using this model, I found a fair value for Vestas of 55.24 Euro, an undervaluation of 11%.

Average Fair Value:

Averaging the fair values produced from the models above yields an average fair value for Vestas of 56.22 EUR, an undervaluation of 13%.

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Market Profile (as of 11/2/2015)

52-Week Price Range	\$11.16 - \$19.79
Average Daily Volume	52,914
Beta	2.25
Shares Outstanding	663.66M
Market Cap	13.12B
P/E (ttm)	25.37
EPS (ttm)	0.78
Div & Yield	0.19 (0.97%)

Restaurant Brands International Inc. - Buy Recommendation

by Lucas Diniz

STOCKS

Highlights:

- **Jorge Paulo Lemann, Warren Buffett and Bill Ackman:** All three successful investors own altogether about 80% of the stock. Jorge Paulo Lemann has a proven success history with companies such as AB-InBev, Kraft-Heinz and Burger King Worldwide. The strong management of the corporation and its aggressive culture will likely lead Restaurant Brands International to further expansion in international demographics.
- **Possibility of New Brands Being Added to the Portfolio:** Jorge Paulo Lemann has a strong background dealing with larger mergers and acquisitions. He coordinated mergers such as Kraft with Heinz, AB-InBev with Sab Miller, and Burger King with Tim Hortons. There are high possibilities of future expansion within the quick service restaurant industry.
- **Global Expansion of Tim Hortons and Continued Market Penetration of Burger King:** Tim Hortons is mainly located in North America. The acquisition will give Tim Hortons access to Burger King's strong master joint franchisees internationally and assist with its market infiltration. Burger King had tremendous growth in various countries; the main focus is Tim Hortons to take advantage of prosperous partnerships built abroad.
- **Stock Valuation:** Due to their successful management, likely addition of new brands into the portfolio, and potential opportunities for further international market share penetration with both brands, we estimate that Restaurant Brands International is undervalued by 21.28% with a fair value of $43.66. The total return suggests that it is an attractive buy.

Business Description

Company:

Restaurant Brands International Inc (NYSE: QSR) is the third largest fast-food chain in the world. After the IPO in December 2014, in addition to Burger King Worldwide, Restaurant Brands now also owns fast-food doughnut coffee chain Tim Hortons, which has been operating mainly in North America with 4,590 system-wide restaurants. The IPO was created to repeat Jorge Paulo Lemann's success story on Burger King and to push Tim Hortons toward global expansion.

Products:

Through its franchises and stores, the company offers the following products (% of all revenue):

- **Tim Hortons (55%):** Retail sales at Company-owned restaurants with premium coffee, fruit smoothies, doughnuts, grilled panini and classic sandwiches, wraps and soups, distribution sales exclusive to Tim Hortons franchisees (70%), royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees along with property revenues from properties leased or subleased to franchisees (30%).
- **Burger King (45%):** Retail sales at Company-owned restaurants with burgers, chicken, salads, veggies, breakfast, sides and sweets (6%) and royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees along with property revenues from properties leased or subleased to franchisees (94%).

Investment Rationale:

Restaurant Brands International is being recommended a **Buy** for the following reasons:

- **Buy Jorge Paulo Lemann Success:** Jorge Paulo Lemann and 3G Capital had tremendous success with previous purchases of AB InBev, Heinz and Burger King. Warren Buffett's conglomerate, Berkshire Hathaway, has helped finance Burger King Worldwide's $11.4 billion takeover of the Canadian restaurant chain Tim Hortons by buying $3 billion of preferred shares in the new company. Mr. Buffett described 3G as "marvelous partners" and said, "They're very smart, they're very focused. They're very determined. They're never satisfied." Jorge Paul Lemann took Burger King private in 2010, buying the then slow-growing fast-food chain for a modest $3.3 billion and, two years later, under Lemann's control, it returned to the public markets, at a valuation of around $5 billion. Burger King's same-store sales rose in 2013 and 2014, and its earnings per share steadily increased as it added additional restaurants. By the time it announced plans to buy Tim Hortons, the stock had doubled from its IPO.
- **Highly Likely Acquisitions of New Brands into Portfolio:** Technically, a burger chain and coffee shop satisfy the use of the word "brands," but the name seems to call out for more. 3G, Restaurant Brands' controlling shareholder, has a history of building conglomerates such as Anheuser-Busch InBev, and it could be about to do so again. In December 2014, during a Bloomberg interview, when hedge fund manager Bill Ackman, who is also a top Restaurant Brands shareholder, was asked by a reporter, "Is Restaurant Brands International looking to further expand its portfolio in the food industry?" Ackman replied, "Restaurant Brands International, the name itself suggests growth," noting that Restaurant Brands may be on the hunt for additional takeover targets.

Growth Strategies:

Restaurant Brands International has three main growth drivers.

- **Master Franchise Joint Venture Strategy (MFJV) will accelerate Tim Hortons International Growth:** The strategy involved sharing the rights to create Burger Kings with partners in different parts of the world. The master joint venture partners control the supply chain, procurement and marketing for franchisees in their regions. Restaurant Brands International receives a meaningful minority stake in each joint venture. Such deals have allowed Burger King to expand from 102 restaurants in Brazil in 2010 to 317 in 2013. In China and Russia, the growth rate of new restaurants has been even greater. The partnership with well-capitalized and strong local management teams has expedited the international development of the brand. Burger King's partners are willing to make substantial upfront equity commitments and agree to aggressive development targets. The international approach will help Tim Hortons in its quest for international development.
- **Jorge Paulo Lemann Building Conglomerates:** Jorge Paulo Lemann founded Banco Garantia in 1971. Throughout its duration of almost three decades, Garantia became one of the largest investment firms in Brazil, and gained a legendary reputation. Lemann and his two partners, Telles and Sicupira, completely transformed the business and banking world in Brazil. Lemann had pioneered a new culture based on meritocracy that was revolutionary in Brazil at the time. Jorge Paulo Lemann started with a Brazilian brewery called Brahma. After its successful management and rapid explosion, it acquired another Brazilian brewery, Antarctica, changing its names to AmBev. In 2004, AmBev incorporated with its Belgian counterpart, InterBrew, for $11 billion to become AmBev IB. And later it integrated with Anheuser-Busch, turning the firm into Anheuser-Busch InBev, therefore making it the largest brewery company in the world. With a quarter of the world's market share, the company owns global brands such as Budweiser, Corona, Stella Artois, Beck's, as well as a series of leading local brands. Just last week, AB InBev announced the acquisition of SAB Miller for $106 billion. Now, one out of three beers you purchase is from AB InBev. Jorge Paulo Lemann orchestrated this brewery conglomerate, and his partnership with Warren Buffett and Bill Ackman won't stop with two fast-food chains. They will take the same approach within the fast-food industry.
- **Successful Product Development:** In 2014, the Burger King brand adopted a new strategy of launching fewer, more impactful products to simplify in-restaurant operations and reduce waste, focus the innovation pipeline, and spend media dollars more wisely in a few high-impact areas. Burger King's comparable sales rose 6.7%, the most in nearly a decade, helped by the launch of items such as extra-long pulled-pork sandwiches and mozzarella bacon cheeseburgers, as well as the relaunch of chicken fries. The customers asked for the return of chicken fries via social media, and sales rose after its return. At Tim Hortons' locations, same-store sales were up 5.55% due to the success of new products like Nutella-filled doughnuts and an ice-cold chocolate beverage, along with the continued success of its dark roast coffee.

Competitors:

Restaurant Brands International's main competitors are McDonald's (NYSE: MCD) and Dunkin' Brands Group (NASDAQ: DNKN). Despite the quick-service segment being a highly competitive industry, it is still a massive industry that increases revenue year after year. Restaurant Brands is part of the Quick Service Restaurant sector (QSR).

Valuations:

In this section, we estimate the fair values of Restaurant Brands International's stock. It should be noted that all input data were derived from historical company data and pro forma estimates.

Present Value of Growth Opportunity:

The two-stage cash flow model is determined by the present value of the expected future cash flows. This is a relevant model for Restaurant Brands International because they have more stable historical cash flow growth. The median fair value if Restaurant Brands is $56.90, which shows that it is undervalued by 12.69%.

Average Fair Value:

In Exhibits 35-37, we summarize the Monte Carlo simulation for individual models. The summary estimates a fair value of $55, undervalued by 9.67%, which is derived from the combined simulation results.

Market Profile (as of 11/9/2015)

52-Week Price Range	$34.19 - $45.71
Average Volume (3m)	$987
Market Cap	7.35B
Shares Outstanding	202.41M
Annual Dividend Yield	1.25%
% Shares held by institutions	84.10%

PacWest Bancorp
Industry: Bank   Sector: Financial

by Gonzalo Arroyo-Baudet

Highlights:

- **Net Interest-Rate Spread:** The primary interest-earning assets are loans and investment securities, and the primary interest-bearing liabilities are deposits. A high yield in interest earnings and a competitive cost of deposits contribute to the high net interest margin. While an average bank has a 3-3.5% on net interest margins, PacWest achieves quarter after quarter a 5.5%.This is a key determinant of a financial institution's profitability.
- **Niche Lending Focus:** They have a good market position in key business segments, including its national commercial lending platform to middle-market companies. They lend money to small and medium-sized businesses that need venture capital. In California, there are thousands of new companies with a lot of potential that need financial help to continue their growth. PacWest is committed to the entrepreneurial and venture communities; they offer their clients a wide array of products, giving them assistance through all stages of their growth. Even though this kind of lending is more risky than lending to individuals, the default risk has been decreasing. They do a really good job in selecting their commercial lending customers.
- **Attractive Valuation Indicates a BUY:** With interest rates expected to rise in 2016, PacWest is positioned nicely for a strong return. PACW will benefit from good loan growth and growth in several fee areas. The valuations indicate an average fair value price of $54 and an undervaluation of 15%, which makes them an attractive buy.

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Business Description

Company:

PacWest Bancorp is a regional bank that operates through two segments; Pacific Western Bank, which includes lending and deposit-gathering activities, and Capital Source which provides small and middle-market businesses loans and leases; it is focused on capital venture. Pacific Western Bank has 80 offices, mainly in Southern California and San Francisco. PacWest also provides working capital financing to growing companies located throughout the Southwest, in states like Arizona or Texas. Capital Source, and Square 1 Bank divisions have offices across the United States in cities like Chevy Chase (Maryland), Denver (Colorado), Chicago (Illinois), New York (New York) and Midvale (Utah). With its strong presence in California, PacWest Bancorp has become the 14th-largest commercial bank in the U.S.

Investment Rationale:

PacWest Bancorp is being recommended as a Buy for the following reasons:

Regional Banks in Takeovers:

With PacWest being a regional bank, and having established access to the California market, any large bank looking to operate on the West Coast will consider acquiring PacWest. PacWest as of right now has 1.1% of the market share of California with 82 offices. Along with the number of offices and market share PacWest owns, they have a P/E of 15, making them relatively inexpensive compared to the industry average of regional banks whose P/E is 19. On the other hand, PacWest Bancorp has purchased 27 financial institutions since 2000. Their corporate strategy is to continuously acquire other financial institutions that help them expand in the core fields.

Barriers to Entry:

The banking industry is really hard to enter. Some barriers to entry in financial-service markets include licensure laws, capital requirements, access to financing, regulatory compliance, and security concerns. Between banks, there are so many regulations, and in many cases, the costs of compliance and threat of litigation are sufficient to deter firms from entering the market. Another barrier would be the capital requirement; high fixed costs and large sunk costs in the development of financial services make it difficult for new companies to compete with large firms that have scale efficiencies. In the banking industry, you need to be big (have a large number of clients) to be profitable.

Innovative/Niche Market:

PacWest has abnormal net interest rate spreads. While banks usually have a spread of 3 to 3.5%, PacWest achieves every year over 5.5%. This is because their loans and leases are focused on commercial loans. They have a large commercial lending platform to middle-market companies. New startups that need to borrow money to develop their business are willing to pay a higher interest rate to get capital. PacWest is committed to the entrepreneurial and venture communities; they offer their clients a wide array of products, giving them assistance through all stages of their growth. Other banks focus more on consumers or on house mortgages, and that is why their spreads are lower than PacWest. This niche market is expanded upon due to the majority of startup companies being based out of California.

- **Revenue Breakdown:** Through its diversification in the financial industry, PacWest produces revenue from different segments, Interest Income and Non-interest Income. (% of all revenue):
- **Interest Income (92%)**
- **Net Interest Income (91%):** Real Estate Mortgage (47%), Real Estate Construction and Loan (3%), Commercial Loans (50%), Consumer Loan (1%)
- **Investment (8%):** Municipal Securities (46%), Government Agency enterprise pass through securities (25%), Government Agency enterprise collateralized mortgages obligations (16%)
- **Interest Earnings Assets (1%):** These are deposits in financial institutions, mostly cash held at the Federal Reserve Bank of San Francisco.
- **Non-Interest Income (8%):** It includes service charges on deposits accounts, commissions and fee, leased equipment income and dividends realized on equity investments.

The collateral for real estate loan includes health care properties (9%), office properties (20%), multifamily properties (7%), hospitality properties (5%) and retail properties (3%). Commercial loan products, available on a nationwide basis, include equipment loans and leases (8%), asset-based loans (15%), loans for financial companies (3%) and loans secured by borrower future cash flows (22%).

As a result of the CapitalSource Inc. merger in 2014, Pacific Western Bank established the CapitalSource Division, which we also refer to as the National Lending segment (72%). The other segment is called Community Banking (28%); it includes the operations of Pacific Western Bank, excluding Capital Source Division, and it includes lending and deposit-gathering activities. The CapitalSource Division lends throughout the United States, providing middle-market businesses asset-secured loans, equipment-secured loans and leases, cash flow loans, and real estate loans secured by various property types. The Bank's leasing operation, Pacific Western Equipment Finance, and its group specializing in asset-based lending, CapitalSource Business Finance Group, are part of the CapitalSource Division. The CapitalSource Division's loan and lease origination efforts are conducted through key offices located in Chevy Chase, Maryland; Los Angeles and San Jose, California; St. Louis, Missouri; Denver, Colorado; Chicago, Illinois; New York, New York; and Midvale, Utah.

PacWest revenue breakdown for their segments have been stable even though they have been acquiring other financial institutions in the past years. Revenue comes from interest income and non-interest income. Historically, they always have strong net interest.

Highlights:

PacWest has four main growth strategies:

- **Niche Lending Focus/Net Interest Rates Spread:** The primary interest-earning assets are loans and investment securities, and the primary interest-bearing liabilities are deposits. A high yield in interest earnings and a competitive cost of deposits contribute to the high net interest margin. While an average bank has a 3-3.5% on net interest margins, PacWest achieves quarter after quarter a 5.5%.This is a key determinant of a financial institution's profitability.
- **Acquisition strategies:** PacWest specializes in acquiring banks. They have completed 27 acquisitions since 2000, including the last purchase of "Square 1 Financial" one week ago. This will help them to improve their funding profile by reducing the firm's reliance on higher-cost CDs, diversifies the loan portfolio into complementary businesses, and contributes additional sources of fee income. Last year's purchase of CapitalSource Bank made PacWest Bancorp grow mainly nationwide with a full spectrum of middle-market lending.
- **Core Deposit Growth:** While the deposit balances will fluctuate depending on deposit holders' perceptions of alternative yields available in the market, PacWest seeks to minimize these variances by attracting a high percentage of non-interest-bearing deposits. As an industrial loan bank, the former CSB (2014 acquisition) funded its balance sheet with a large proportion of higher-cost time deposits, and as a result of the CapitalSource Inc. merger, they added $5.3 billion of time deposits. The goal is to continue replacing these higher-costing time deposits with core deposits through a dedicated deposit transformation initiative that includes sourcing deposits from CapitalSource Division borrowers. As of June 30, 2015, total deposits obtained from CapitalSource Division borrowers totaled $455.5 million, of which $441.8 million were core deposits.

Competitors:

PacWest is a regional bank based in California that is increasing their operation nationwide. Thus, its most comparable competitors are City National Bank and East West Bank, which are based in California and are also focused on services to small to midsize businesses. Another competitor is Western Alliance Bank, which offers different financial services in Arizona, Nevada and California. Of course, PacWest also has other well-known large competitors, like Bank of America, Wells Fargo and JP Morgan. However, these popular federal banks are too big to be compared with any regional bank.

Valuations:

In this section, we estimate the fair values of Wells Fargo's stock. It should be noted that all input data were derived from historical company data and pro forma estimates.

Price to Book Valuation Model:

The Price to Book Ratio formula, sometimes referred to as the market to book ratio, is used to compare a company's net assets available to common shareholders relative to the sale price of its stock. The calculated fair value is $51, which is an undervaluation of 9%.

Residual Income Model:

This model values securities using the company's current book value per share and the present value of expected future residual income. The calculations can be seen in the Appendix 3. Using the estimated BPS growth rate of 7.95% for the next year, the model shows that the fair value price per share is $57.5, making this security undervalued by 22%. This model values securities using a combination of a company's current book value per share and the present value of expected future residual income.

Average Fair Value:

PacWest is currently trading at $47, and based on the average fair value from the valuations results in an average fair value price of $54, meaning they are undervalued by 15%.

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Market Profile (as of 11/8/2015)

52-Week Price Range	$40.00 - $48.86
Average Daily Volume	778,077
Beta	1.27
Shares Outstanding	102M
Market Capitalization	5.66B
Institutional Holdings	96.90%
Insider Holdings	3.37%
Debt to Total Equity	27.58%
Return on Equity	8.38%

Luxottica Group - Industry: Retail Sector: Consumer Discretionary

by Raisa Santiesteban

Highlights:

- **Smart Wearables Market:** Luxottica is about to enter the smart wearables market alongside Google and Intel through an exclusive long-term contract. The company will be developing the new Google Glasses and will distribute them through their major retailers such as Sunglass Hut and LensCrafters. Luxottica is the only company that will be able to produce smart eyewear with Google and Intel now and in the future. This presents a major opportunity for Luxottica, as it is expected that the smart wearable industry will be worth over $70 Billion by the end of 2025.
- **Significant Pricing Power:** Due to their strong vertical integration, Luxottica possesses strong pricing power. They are able to enjoy significantly higher markups than their competitors on their products without sacrificing their customer loyalty. On average, AutoNation has charged a markup of 80% on their sunglasses and prescription glasses, while still growing their quantity of sales more than the industry average. This is evidence of Luxottica leveraging their virtual monopoly around the world.
- **Rapidly Growing Eyewear Demand:** The demand for eyewear, especially prescription eyewear, is expected to grow rapidly in the next few years. This is due to the aging population, the increasing use of electronic devices such as smartphones and tablets, and continued health care reform. In addition, there are currently over 1 Billion people in the world who need corrective or prescription eyewear but do not yet have access to the eyewear. This demonstrates a huge opportunity for Luxottica, especially as they continue to penetrate emerging markets.
- **Stock Valuation:** Due to their new entrance into the smart wearable market, strong margins, and potential opportunities for emerging market penetration, I estimate that Luxottica's stock is undervalued by 12.13% with a fair value of $79.39. The total return suggests that this company is an attractive buy.

Business Description

Company:

Luxottica Group (NYSE: LUX) is the world's largest eyewear company. They specialize in the manufacturing of sunglasses and prescription eyeglasses for both proprietary brands Ray-Ban and Oakley, and licensed luxury brands such as Versace and Tiffany & Co. Most recently, Luxottica has entered the space of high-tech performance wearables through exclusive contracts with Google and Intel. The company is the only one in the world able to vertically integrate the design, manufacturing and distribution of eyewear on a global scale.

Products:

Luxottica Group has the following operations (% of all revenue):

- **Sunglasses Retail:** 57%
- **Prescription Eyeglass Production and Wholesale:** 43%
- **Global Distribution:** US & Canada (55%), Europe (20%), Asia Pacific (14%), Latin America (7%), Other (4%)

Historically, Luxottica's revenue breakdown regarding each product line has been stable, with only slight fluctuations from year to year. However, their revenues from Prescription Eyeglass Production and Wholesale continue to increase. Profit margins are significantly higher for their Prescription Eyeglass Production and Wholesale at 23%, compared to Sunglasses Retail at 14%.

Reasons to Invest in Luxottica Group:

- **Entering the Smart Wearables Market:** Luxottica has signed an exclusive long-term contract with Google to produce the new Google Glasses. Luxottica will be redesigning the glasses and has also agreed to distribute them in their major retailers such as Sunglass Hut and LensCrafters. This will increase the product's success, as customers will be able to use Google Glass with their choice of luxury brand sunglasses or prescription eyewear. Luxottica signed an exclusive agreement with Intel to use their computer chips in their eyewear. Since these contracts are exclusive, Luxottica is the only company that will be able to produce smart eyewear with Google and Intel now and in the future. This presents a major opportunity for Luxottica, as it is estimated that each pair will sell for about $1,500. In addition, it is expected that the smart wearable industry will be worth over $70 Billion by the end of 2025. Luxottica will also increase their brand recognition, as the goal of Google Glasses Project Aura is to attach the Google Glass technology to all of Luxottica's designer brand frames, for both sunglasses and prescription lenses.
- **Exclusive Licensing Contracts:** Luxottica Group distributes its licensed brands through exclusive licensing contracts that allow them to be the sole designer, manufacturer, and distributor for almost every luxury brand name in the world. These licensed brands consist of designer, luxury brands such as Prada, Versace, and Tiffany & Co. The contracts last from five to 10 years, and give Luxottica the rights to every eyewear design produced by the company they have an agreement with. Luxottica will take their designs, improve upon them, and then manufacture and distribute them through their various retailers and wholesalers. The long-term contracts also have built-in renewal clauses, so renewal of these lucrative contracts is almost guaranteed. As a result, Luxottica has guaranteed revenues from partners that no other competitor can work with.
- **Vertical Integration Leading to a Virtual Monopoly:** Luxottica Group focuses on vertical integration practices that allow them to control pricing and prevent significant competition from eroding their market share. Luxottica does this by controlling the design and development of the glasses, their production and manufacturing, and their distribution through retailers and wholesalers. As a result of their control over the entire value chain process, the company can raise prices to keep profit margins high, and can keep

competitors out of the market by removing them from their distribution channels or by acquiring. Luxottica is able to leverage this monopoly to sell frames that cost them less than $30 per unit to manufacture for anywhere from $150 to $600. This represents a minimum markup of 80%, something that very few companies have the ability to do without losing consumer demand. The virtual monopoly not only extends to sunglasses frames, but also to the prescription eyeglass market. Due to this large product offering and distribution, Luxottica is able to control over 80% of the market share. Luxottica is so large, that over half a billion people wear their products around the world.

Growth Strategies:

Luxottica Group has the following operations:

- **Emergence of Smart Wearables:** Luxottica's main growth strategy is to enter into the smart wearable market through its exclusive contracts with Google and Intel. Through these contracts, Luxottica will be the sole provider of the frames for the new Google Glasses. This is particularly important as it is expected that the upgraded Google Glasses will be able to project images on the lenses themselves. The company's goal is to secure a large portion of the smart wearable market share, an industry that is expected to grow from $20 Billion in 2015 to $70 Billion by 2025.
- **Online Retail:** Online retail is the fastest-growing retail distribution method throughout the world, and Luxottica intends to capitalize on this to drive their revenue growth. It is estimated that online retail sales will grow from $263 Billion in 2013 to $414 Billion by 2018. With recent acquisitions like Glasses.com, the company is focusing on making online retail a larger portion of their revenue. Their core strategy is to maximize the customer experience by making it interactive and allowing them to customize their eyewear. They plan to continue to grow Oakley.com, Ray-Ban.com and SunglassHut.com. In addition, Luxottica wants to expand their ecommerce presence to further include online eye examinations. Currently ecommerce accounts for 2% of the company's revenue, demonstrating a significantly large potential for growth.
- **Focus on Emerging Markets:** One of Luxottica's strategic priorities is expanding its market share in emerging markets such as China and Latin America. It is estimated that there are over 1.5 Billion people in emerging markets that need corrective and prescription eyewear, but do not have access to the necessary eyewear. Luxottica is attempting to increase market penetration in these countries, in order to capitalize on this growing need. To implement their expansion in these countries, Luxottica is focusing on a regional management style so that the individual needs of that country can be met. This has already been implemented successfully in Brazil, which has driven substantial revenue growth in Latin America. The company has also installed a country general manager in China, and this strategic move is aimed at achieving fast growth and generating synergies among all the business areas such as manufacturing, as many of Luxottica's production plants are located in China.
- **Customer Retention:** The demand for prescription eyewear has increased at a rate of 8% each year in the U.S. alone, driven by the increased use of technological devices and health care reform. It is estimated that an individual who uses prescription eyewear must replace them at least once every two years, not taking into account damaged glasses. This means that not only do 60% of people need corrective eyewear, but also these people will have to buy glasses at least every two years. This figure does not take into account individuals who purchase sunglasses, many of which own more than one pair. Similarly, these estimates do not take into account having to replace glasses due to physical damage or misplacement. As a result, Luxottica focuses on retaining customers, because once it is determined that they need corrective eyewear, they have the potential to provide a constant source of revenue for the rest of their lives.

Valuations:

I estimated the fair values of Luxottica's stock. It should be noted that all input data was derived from historical company data and pro forma estimates.

Sales Franchise Value Model:

The Sales Franchise valuation is often used when dealing with companies that are able to produce significant franchise value, meaning they can repeat the business model at a higher profit margin. This model distinguishes between a company's current profit margin and the margin that can be derived from future opportunities. The underlying assumption for Luxottica is that it will be able to improve its profit margin by continuing to lower its operating costs. Using its current profit margin of 9% and our expected future profit margin of 12%, we determined the fair value for Luxottica to be $75, undervalued by 6%.

Holts Model:

The Holts Model, also known as the Growth Duration Model, is a relative P/E model often used to compare a company with significant growth potential to its stable industry. It is a relevant model for Luxottica because they have experienced a higher level of growth in comparison to their main competitors. Using earnings growth rates between 12% and 13%, the estimated fair value for Luxottica is estimated to be $84, undervalued by 17%.

Average Fair Value:

Based on these valuation models, the estimated fair value of Luxottica is $79, which shows that the stock is undervalued by 12%.

It has been the subject of an anti-trust investigation by the French government. Luxottica and its competitors are being investigated with regard to pricing practices in the industry. The lawsuit has not yet been resolved, but the company's management confirms that it has substantial defenses against the claims, and even if the lawsuit is adversely determined, it will not have a material effect on current business operations.

Market Profile (as of 10/8/2015)

52-Week Price Range	$46.63 - $74.00
Average Daily Volume	736,417
Beta	0.54
Shares Outstanding	480.02M
Market Capitalization	34.37B
Return on Equity	16.00%

STOCKS

CoreSite (NYSE:COR)
Industry: REIT Sector: Financial

by Justin Quigley

Business Description

Company:

CoreSite Realty Corp. (NYSE:COR) builds warehouses to store data servers. Since CoreSite owns about 2 million net rentable square feet, they are classified as a REIT. However, they are a technology company that rents out space by the foot to house servers and other computing hardware for the world's largest enterprises, network operators, and cloud providers. They are the second largest multi-tenant data center provider in the United States and are strategically located in eight locations across major North American markets. CoreSite also operates the second-largest internet peering service, which allows companies in the same data center to mutually provide access to each other's customers and traffic.

Highlights:

- **Market Penetration:** CoreSite continues to focus on market penetration as a key growth driver to increase revenues and market share. Instead of reaching into unfamiliar markets, they build onto their existing campuses to add more data center space for their current customers. In 2015 alone, CoreSite has built or is undergoing additions to their Silicon Valley, Los Angeles, New York City, Chicago, Boston, and Virginia campuses. Around their current campuses, CoreSite owns significant additional land that they can build on to increase the scale of their current operations. CoreSite could double their data center footprint with land and buildings that they already own, which speaks to growth they are expecting in the future.
- **Dividend Yield:** Due to their status as a real estate investment trust, CoreSite must pay out 90% of its earnings to shareholders in the form of dividends. For the trailing 12 months, CoreSite's dividend yield is 3%, with dividends going out to shareholders every quarter. In this sense, CoreSite's stock almost acts as a fixed income investment. In 2014, shareholders received $1.47 for every share they owned.

Reasons to Buy CoreSite Realty:

- **Defensive Play in Risky Business:** Technology stocks are historically risky. Investors pay a premium for companies that have the potential to become the next Apple or Google. Oftentimes, these companies have little or no earnings to speak of. If their technology doesn't catch on, they become obsolete before they can produce significant returns. It is rare to find a technology stock structured as a REIT like CoreSite Realty. The REIT status effectively hedges against the riskiness of the technology aspect of CoreSite. Technology stocks are cyclical in that when the economy is recovering, companies tend to spend more on software and computer systems. CoreSite is defensive in that companies will need to securely store their data regardless of how the economy is doing. While the risk of the technology side of the company is hedged by the REIT status, the potential for upside remains.
- **Most Valuable Net Rentable Square Feet:** CoreSite's data centers are located in some of the most technology-heavy areas of the countries. Most notably, CoreSite has more than 860,000 square feet of space at their Silicon Valley campus that consists of five data centers. These data centers are home to servers of some of the largest technology, social media, and telecommunication carriers in the world. In addition, CoreSite is able to service New York's thriving and diverse business ecosystem with their data centers in Manhattan and Secaucus, New Jersey. The New Jersey location is strategically positioned to service New York City with 0.3 millisecond latency while keeping operating expenses significantly lower than that of Manhattan's data center.
- **All-Star Customers:** In their Los Angeles data center alone, CoreSite is home to servers for Disney, Google, Facebook, Netflix, Amazon and Microsoft. These companies sign leases for 10 years or more, as it is expensive to move in and out of data centers in a short period of time. In addition, these companies are sustainable, and have little chance of defaulting during their lease agreement. Typically, CoreSite will lease space to their all-star customers in multiple locations to minimize the risk involved with storing all of their data in one place. Oftentimes these large-scale companies will lease entire data centers at a wholesale rate, and CoreSite will build the data center to suit the customer's needs.

Growth Strategies:

- **Exponential Growth:** The advantage to a multi-tenant data center is the ability for cross connection. Cross connections are direct connections between two networks whose servers are located in the same facility. This improves processing speed and cost efficiency over the other option, connecting via the internet. CoreSite Realty's data centers become more attractive as they attain clients with a wider reach. Companies will pay a premium to store their data with CoreSite Realty if the value added is significant enough. As CoreSite grows larger and reaches more businesses, demand for their services will grow exponentially. This contributes to the significant barriers to entry for this business. Other than the obvious large capital expenditures to build the infrastructure, any new movers would need to generate a large enough base of clients to argue their value added is greater than that of CoreSite.
- **Cloud Computing:** In the second quarter of 2015, 45% of new and expansion leases were from network and cloud verticals combined. This includes seven key cloud deployments in data centers across the country. CoreSite already works

with Amazon Web Services, one of the leading cloud computing services in the world. Many of the interconnections within CoreSite's data centers come from companies attempting to connect directly with their cloud provider to improve latency and decrease costs. Cloud customers make up for 23% of total data center annualized rent. They are CoreSite's third-largest rent segment behind digital content and multimedia companies and networks and mobility enterprises.

- **Wholesale Versus Retail:** CoreSite, unlike other data center REITs, have been able to excel in both the wholesale and retail segments of data storage. Retail sales are those to small and medium-sized businesses that buy a rack, shelf, or room of data storage. Wholesales, on the other hand, are when a data center building is leased by a larger company all at once. Most recently, CoreSite leased around 30,000 square feet to a single customer in their SV3 data center located in Santa Clara, California. Both retail and wholesale deals have their benefits. On one hand, retail sales provide a higher margin, as CoreSite can charge more per square foot for data storage. Wholesale, however, locks in rent payments for a long period of time. Wholesale data centers are sometimes built to suit the customer, so it is in the customer's best interest to continue using CoreSite's services.
- **Market Penetration:** CoreSite continues to focus on market penetration as a key growth driver to increase revenues and market share. Instead of reaching into unfamiliar markets, they build onto their existing campuses to add more data center space for their current customers. In 2015 alone, CoreSite has built or is undergoing additions to their Silicon Valley, Los Angeles, New York City, Chicago, Boston, and Virginia campuses. Around their current campuses, CoreSite owns significant additional land that they can build on to increase the scale of their current operations. CoreSite could double their data center footprint with land and buildings that they already own, which speaks to growth they are expecting in the future.

Valuations:
In this section, I estimate the fair values of CoreSite's stock. It should be noted that all input data were derived from historical company data and pro forma estimates.

- **Growth Duration Model:** The Growth Duration valuation, a relative P/E model, is often used to compare a company with significant growth potential to its stable industry. Since REITs pay out 90% of their earnings in the form of dividends, price to funds from operations (P/FFO) is a better indicator than P/E. It is a relevant model for CoreSite because they have experienced a higher volatility in growth compared with the average firm in the Office REIT's industry. I also compared CoreSite to their competitor Digital Realty Trust. Using an FFO growth rate for 2016 of 28%, the median fair value for CoreSite is estimated to be $66.87, undervalued by 19.31% (Appendix 5).
- **Dividend Discount Model:** The Dividend Discount Model is often used when dealing with companies that are expecting a high short-term dividend growth rate, followed by a steadily growing dividend growth rate. Since CoreSite is required to pay out 90% of their earnings in dividends, their dividend growth rate fluctuates with their earnings growth. Using a short-term growth rate of 25.6% and long-term growth rate of 10%, I arrived at a fair value of $64.66, an undervaluation of 15.36% (Appendix 6).
- **Average Fair Value:** By taking an average of the two fair values, I arrived at a fair value of $65.77, an undervaluation of 17.3%.

Investment Risk:

- **Natural Disasters:** The primary risk involved with data storage is a natural disaster that could wipe out entire campuses of data centers. Earthquakes pose the biggest threat to CoreSite's West Coast data centers in Los Angeles and Silicon Valley. On the East Coast, New York City, Northern Virginia, and Miami data centers are exposed to hurricanes, as water damage is the most significant danger to a warehouse full of electronic equipment. To mitigate this risk, CoreSite has diversified their locations and often has the same customer in multiple locations to assist with business continuity in the case of a natural disaster.
- **Exponential Growth:** For the information technology industry, 2014 was a bad year for cybersecurity, as multiple large corporations were hacked. Data centers are equally susceptible to cyberhacks, although they put significant resources toward warding off these attacks. Fortunately, 80% of the data centers traffic never actually leaves the data center, which makes it easy to protect. CoreSite uses complex firewalls, end point security solutions, and threat intelligence to secure the 20% of traffic that reaches outside the walls of its data centers.
- **Technology Industry:** Historically, investing in technology stocks has been risky. Typically one stock out of hundreds outperforms, while the others become obsolete as technology trends change. While CoreSite is not necessarily the stereotypical technology stock like Apple or Google, they largely depend on these tech giants for revenue. The S&P Technology Sector Index has returned 5.33% year to date, but technology stocks tend to perform poorly in an economic downturn. The class predicted that we are beginning to enter an economic downturn, so this industry must be monitored closely in the months to come.

Market Profile (as of 11/08/2015)

52-Week Price Range	$37.13 - $58.32
90-Day Average Daily Volume	303,971
P/E	62.21
YTD Return	47%
Beta	0.92
Shares Outstanding	26.13M
Market Capitalization	$1.46B
Book Value per share	9.66
Debt to Equity Ratio	2.03
Return on Equity	7.98%

Air Lease Corporation (NYSE: AL) Sector: Financial

by Chris MacLeod

Business Description

Company:

Air Lease Corp. (NYSE: AL) is the largest aircraft leasing company in the world. They purchase commercial jet aircraft from the manufacturers, and lease them to airlines around the world. Currently, the company has leasing relationships with more than 200 airlines in over 70 countries. They also sell aircraft to other leasing companies, financial services companies, and airlines. Air Lease Corp. also provides fleet management services for aircraft owners. Air Lease Corp. diversifies its portfolio of leases and lessees by geography, lease term, age, and type of aircraft. International sales account for 95% of the company's revenue.

Products:

Through its aircraft leasing, the company offers the following products (% of revenue):

- **Aircraft Leases (94%):** Asia (43%), Europe (33%), U.S. & Canada (5%), Other (19%)
- **Sales, Trading, and Other (6%):** Sales of aircrafts, and fleet management services.

Historically, Air Lease Corp.'s major source of revenue has been through the leasing of their aircraft, while the sales of their aircraft and their fleet management services have been minimal to the business. This is primarily because most companies in the U.S. purchase aircraft more than leasing them, as compared to the rest of the world that leases more than purchases. The operating margin from aircraft leases has been approximately 58%.

Why Roland George Investments Program should invest in Air Lease Corp.:

- **Disruptive Business Model:** Air Lease Corp. operates unlike any other aircraft leasing company by being a new order focused fleet planner vs. sale/leaseback financier. Airlines are currently switching from owning aircraft to leasing them. The percentage of leased aircraft has increased from 18% in 2013 to 40% in 2014. Air Lease Corp. is taking advantage of this trend by keeping the aircraft on their books instead of transferring ownership to the airlines. Airlines can lease more planes right away to expand quicker rather than purchasing one plane outright every few years. With other aircraft leasing companies, although they are still leasing the aircraft to the airlines, the aircraft is placed on the airlines' books and does not allow them to exploit this ability to grow faster.
- **Dominating Market:** They are the leading aircraft leasing company in the world. Including a fleet of over 220 aircraft currently leased, an order with Boeing, Airbus, and other manufacturers for 400 new aircraft to arrive throughout 2015-2020. The next two largest companies have a fleet of 162 aircraft, and 121 aircraft. Air Lease Corp. has relationships with more than 200 airlines in over 70 countries around the world. Air Lease Corp. has a market cap of $3.96 billion compared to the next two largest companies with a market cap of $1.73 Billion and $0.58 billion.
- **High Barriers to Enter Industry:** The airline industry alone requires large amounts of capital to operate and own many aircraft. To be in the aircraft leasing industry, it is more essential to have the capital to purchase aircraft to be able to lease them to the airlines. Air Lease Corp. requires considerably more capital because of their business model to keep the aircraft on their books. Whereas with sales/lease-backs, the other aircraft leasing companies are immediately selling the aircraft to the airlines, not requiring as much direct capital.

Growth Strategies:

Air Lease Corp. has three main growth strategies:

- **Aircraft Leases:** The airline industry is complex and continuously evolves with demand and competition. This requires frequent updating and flexibility within an airline's fleet. The operating lease offered by Air Lease Corp. allows airlines to effectively adapt and manage their fleet without bearing the full financial risk of these capital-intensive assets. The leases allow the airlines to more effectively compete and change to varying market conditions. The company works directly with the airlines to manage their fleets and create a long-lasting business relationship. To limit exchange risk in other countries, the company requires that all lease payments be made in U.S. dollars. The operating lease allows Air Lease Corp. to retain the rights to the aircraft while all responsibilities required for operating the aircraft are left to the airline. Air Lease Corp. has all of their aircraft for 2015 and 2016 currently leased, and 80% of their aircraft are currently leased for 2017. However, with an additional 400 aircraft on order, they have leased 100 of those so far, the first of which is expected to arrive in 2017.
- **Aircraft Orders:** Air Lease Corp. is continuously looking to acquire the most highly in-demand and widely distributed, technologically modern, fuel-efficient, commercial jet transport aircraft. The company only orders new aircraft directly from the manufacturers. They consider the types of aging aircraft that are going to be replaced, the new technology that is becoming in-demand, and the most fuel-efficient planes to decide which model aircraft to order. The company lowers the cost of

STOCKS

acquiring new planes by purchasing the components separately and in bulk. The company also has a strategy to own an aircraft for only eight to 10 years before selling it, or transferring the title, so that they may keep an updated modern fleet of aircraft. Air Lease Corp. currently has more than 400 aircraft on order and are expected to start arriving in 2017. Not included in those 400 aircraft are an additional 40 aircraft expected to be delivered in 2015 and an additional 32 to arrive throughout 2016. All of the planes expected to arrive in 2015 and 2016 have already been leased, as well as 100 of the 400 aircraft expected to start arriving in 2017.

- **Aircraft Sales and Management Strategy:** Air Lease Corp.'s strategy is to maintain a young portfolio of aircraft that are no more than one-third of the aircrafts''s 25-year useful life. The company only orders new planes, puts them on long-term leases, and then sells the aircraft when it reaches the end of the one-third of the 25-year useful life. The company sells the aircraft long before they reach the end of the lease term, to achieve the maximum disposition value and no time in between the end of the lease and the sale of the aircraft. The company may not sell an aircraft outright to a company, but they may simply convert the operating lease into a financing lease to transfer the ownership rights of the aircraft to the airline. This would continue to bring in consistent revenue for a long period. Air Lease Corp. also offers management services for owners of aircraft fleets. By leasing an aircraft to a company, they may also provide that airline with management services for how to better manage their fleet and finance their fleet. This will bring in additional revenues and build a stronger business relationship with their customers. Further, this will help the trend of changing airlines toward leasing more aircraft rather than purchasing.
- **Financing Strategy:** Air Lease Corp. has structured their company to be an investment-grade company and has used unsecured debt financing and cash on hand to finance the purchase ratings. With a strong rating, it has lowered the cost of the company's funds and further broadened their access to favorable capital. The unsecured financing allows the company to maintain flexibility when selling or transferring aircraft from one airline to another. This has allowed Air Lease Corp. to offer more competitive prices on their leases, as well as increase their profit margin as they reduced their interest expenses. With this, they are able to grow and keep up with demand for new aircraft.

Valuations:

In this section, we estimate the fair values of Air Lease Corp.'s stock. It should be noted that all input data were derived from historical company data and pro forma estimates.

Residual Income Model:

Referencing my Pro Forma Balance sheet, I was able to anticipate the company's estimated book value and the present value of future residual income. The company's current book value is $27.9 per share, and is estimated to be $34.50 over the next 12 months. Using the capital asset pricing model, I estimated a required rate of return of 30% and using my pro forma estimates, I used a growth rate of 21%. This resulted in a fair value of $41.93, an undervaluation of 20%.

Growth Duration Model:

Referencing my Pro Forma, I anticipated EPS growth of 24% for Air Lease Corp.. I compared Air Lease to the Aircraft Leasing Industry and with AirCastle as their top competitor. The industry P/E used in the model is 14.8, and the estimated industry growth rate used is 15%. When compared to the industry, Air Lease Corp. is estimated to be undervalued by 24.27%. Their competitor AirCastle was used in the model with a P/E of 13.6 and a future revenue growth rate of 16%. When compared to AirCastle, Air Lease Corp. is estimated to be undervalued by 11.05%. This resulted in a fair P/E of 14.9 for Air Lease and an average fair value of $41.11, an undervaluation of 17%.

Average Fair Value:

The average fair value for Air Lease Corp. is $40.60, which is an undervaluation of 19%.

STOCKS

Market Profile (as of 9/14/2015)

52-Week Price Range	$28.82 - $40.79
Average Daily Volume	863, 345
Beta	1.70
Dividend Yield	0.50%
Shares Outstanding	102.6M
Market Capitalization	3.58B
Book Value per share	28.47
Debt to Equity	2.5
Return on Equity	9%
Year to Date	8%

Source: Yahoo! Finance

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Nicholas Kemick


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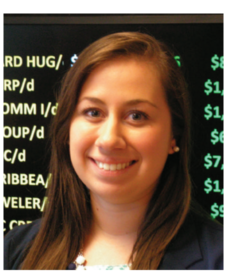
Manuel Rodriguez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John Schaly


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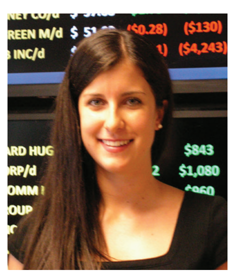
Zsofia Szurovski

(Pictured Left to Right): K.C. Ma, Manuel Rodriguez, Brannon Todd, Justin Quigley, Zsofia Szurovski, Quinn Ebright, Witt Shoaf, Raisa Santiesteban, Tanner Gaunderson, Simon Julin, Laurynas Antropikas, Nicola Navarro, Lucas Diniz, Danielle Hurme, John Schaly, Christopher Dodson, Gonzalo Arroyo-Baudet, Tim Kyle, Sean Gannon, Nicholas Kemick, Timothy Hurst, Chris MacLeod, Anthony Petrine, Brian Kehoe, Austin Remey, Charles Reyes, Taylor Kellerman

RGIP AWARDS

R.I.S.E. Competitions

2001	**Champion**	Blend Stock
2002	**Champion**	Value Stock
2003	**Second Place**	Growth Stock
2004	**Champion**	Bond
2005	**Champion**	Bond
2006	**Champion**	Growth Stock
2007	**Champion**	Bond
2008	**Champion**	Bond
2009	**Second Place**	Bond
2010	**Champion**	Bond
2011	**Second Place**	Bond
2012	**Champion**	Bond
2013	**Champion**	Bond
2014	**Champion**	Bond

G.A.M.E. Competitions

2011	**Champion**	Bond
2012	**Champion**	Core Stock
2013	**Champion**	Bond
2014	**Second Place**	Growth Stock
2014	**Champion**	Bond
2015	**Second Place**	Bond
2015	**Fourth Place**	Growth Stock


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