Applied Investment Management (AIM) Program

AIM Class of 2021 Equity Fund Reports
Spring 2020

Report Date: *Friday, April 3rd*

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These student presentations are an important element of the applied learning experience in the AIM program. For the time being the live in-person AIM Room Friday afternoon equity pitches will be suspended and Voiceover PowerPoint presentations will be loaded and viewed in D2L. The pdf file of the written equity reports will be distributed in the traditional manner via email and D2L quizzes will be conducted. It is encouraged that students ask questions and provide comments in the D2L Communications/Discussion Forum for the AIM presentations – and that the presenter provide follow-up responses.Buy/sell recommendations will be submitted on Saturday and emailed to AIM students - and voting will be done in the regular manner within D2L. We are likely to migrate the AIM presentations to Microsoft Teams in the near future so that we can resume live Friday presentations.

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Viavi Solutions, Inc. (VIAV)

April 3, 2020

Nicholas Rohrer Domestic Information Technology

Viavi Solutions, Inc. (NASDAQ: VIAV) is a global provider of network testing, monitoring, and assurance solutions to communications service providers, enterprises, network equipment manufacturers, civil government, military, and avionics customers. Viavi operates through the following segments: Network Enablement (65.3% of FY19 revenues), Service Enablement (9.1%), and Optical Security and Performance Products (25.6%). Viavi was founded in 1979 and is headquartered in San Jose, CA.

				FY: JUN	2019A	2020E	2021E	2022E
Price ($):	11.20	Beta:	1.02	Revenue (Mil)	1,130.30	1,195.60	1,254.06	1,316.09
Price Target ($):	14.24	M-Term Rev. Gr Rate Est (%):	4.9	% Growth	29.07%	5.78%	4.89%	4.95%
52WK L-H ($):	8.08 - 16.35	M-Term EPS Gr Rate Est (%):	8.2	Oper Inc	67.40	199.61	226.76	249.69
Market Cap (Mil):	2,554.7	LT Debt/Equity (%):	79.75	% Growth	3447%	196%	13.60%	10.11%
Insider Holdings (%):	0.84	Net Debt/EBITDA (x):	0.41	Op Margin	5.96%	16.70%	18.08%	18.97%
Avg. Daily Vol (000):	2,620.8	WACC (%):	5.52%	EPS ($):	0.02	0.69	0.78	0.84
Yield (%):	0.00	ROA (FY20, %):	7.67%	P/E (Cal)	473.10	16.29	14.42	13.33
Short Interest (%):	6.10	ROE (FY20, %):	19.50%	EV/EBITDA	25.93	11.49	10.21	9.33
ESG Rating:	BB	ROIC (FY20, %):	10.59%					

Recommendation

Viavi's Network and Service Enablement segments, collectively referred to as NSE, provide an integrated portfolio of testing solutions that access networks to perform build-out, monitoring, maintenance, and optimization tasks. Customers in this space include: AT&T, CenturyLink, Cisco Systems, Comcast, and Verizon. The Optical Security and Performance Products (OSP) segment primarily offers anti-counterfeiting security technology and 3D sensing optical filters to industrial, government, and healthcare clients including 3M and Lockheed Martin. Over the last three fiscal years, Viavi has focused on driving operational efficiencies by restructuring the SE segment, investing in significant growth areas, and refinancing convertible debt. These initiatives have allowed Viavi to become a market leader in the network performance monitoring and diagnostic space based on completeness of vision and ability to execute on that vision, according to Gartner. Financially, these initiatives have resulted in FCF growth at a 34% CAGR from FY16 to FY19. The next phase in Viavi's growth strategy can be broken down into four pillars. First, Viavi seeks to defend and expand its base business in NSE and OSP. Management expects these core segments to grow revenues at a 2-5% CAGR through FY22. Second, leveraging secular trends in fiber, 5G, and 3D sensing will expand the market and drive growth. The 2020 Gartner Market Guide for Network Performance Monitoring and Diagnostics report suggests that by 2024, 50% of network operations teams will be required to rearchitect their network monitoring stack, up from 20% in 2019. Additionally, investment in augmented/virtual reality, autonomous vehicles, and IoT will further expand the 3D sensing market and generate long-term revenue opportunities for Viavi. Management is also striving for a disciplined corporate development strategy through synergistic M&A to increase and leverage operating scale in growth areas. By decreasing its debt to equity ratio over the last three fiscal years from nearly 120% to under 80%, Viavi has freed up leverage to capitalize on synergistic and accretive acquisition targets as they are presented. Finally, VIAV seeks continual productivity improvement in operations, R&D, and SG&A. Collectively, management expects a base case EPS CAGR of 6-10% through FY22. Retaining market leadership in an area experiencing significant secular tailwinds coupled with improving operational efficiencies will allow Viavi to drive value for its stakeholders. For these reasons, it is recommended that Viavi Solutions be added to the AIM Small Cap Equity Fund with a price target of $14.24, representing a potential upside of 27.10%.

Investment Thesis

- **5G and Fiber Build-Out.** The adoption of 5G will require an optical fiber upgrade and build-out as legacy copper line networks are decommissioned. The 5G infrastructure market is expected to grow at a greater than 50% CAGR through 2027, nearing $48 billion. Annual TAM for field equipment testing is expected to be ~$300 million, of which Viavi expects to capture 25-33%. This build-out will drive 5G and wireless revenue growth rates in the high single-digit to low double-digit range through FY22.

- **3D Sensing.** Optical filters and diffusers are implemented in smartphones for facial recognition biometric authentication. With over 1.5 billion annual units in the smartphone market, the TAM for optical filters and diffusers is currently estimated at $125 million and is expected to double by 2023. Viavi currently controls about 15% of this market and expects to reach 33% by 2022. Applications of this technology extend beyond smartphones and into augmented/virtual reality, autonomous vehicles, and the IoT. Accelerated development in 3D sensing applications will be further accretive to Viavi's revenues in the long-term.
- **Operational Efficiency.** Viavi's M&A strategy through FY22 seeks to acquire competitors in spaces that Viavi already operates and attractive growth targets. M&A transactions will either be accretive to the top line or provide operational synergies. Since FY17, Viavi has executed four transactions. Over this period operating expenses as a percentage of revenue have decreased from ~70% to ~52%, resulting in significant margin improvement. Additionally, individual sales productivity has increased 40% since FY17 and the number of sales reps at or above quota is increasing each year. Decreasing leverage over the last three fiscal years, from FY17 debt to equity of nearly 120% to less than 80% in FY19, has prepared the balance sheet to make strategic acquisitions as they become available.

Valuation

To reach an intrinsic value for VIAV, a five-year DCF model was constructed. Using a terminal growth rate of 2.00% and a cost of equity of 6.09%, an intrinsic value of $15.26 was reached. A sensitivity analysis of +/- 50 bps on the terminal growth rate and +/- 50 bps on the WACC ranged from $12.35-$20.07. Additionally, a Price/Sales multiple valuation was conducted using a blended NTM P/S multiple of 2.37x, resulting in a relative value of $12.47. Further, an EV/EBITDA multiple valuation was conducted using a blended NTM EV/EBITDA multiple of 10.67x, resulting in a relative valuation of $12.92. By weighing the three models 60/20/20, a price target of $14.24 was reached, representing a 27.10% potential upside. VIAV does not pay a dividend.

Risks

- **Cyberthreats.** Viavi's operations within currency technology, mobile security, and e-identification for both corporate and federal clients persistently pose a significant threat to confidential data and information of Viavi and its clients. A cyberattack could result in costly lawsuits while also jeopardizing Viavi's business relationships and future revenue opportunities.
- **Reliance on Network Development.** Viavi's NSE revenues are heavily reliant on service providers' capital expenditure on network development, specifically the 5G network rollout. Any events, such as a market downturn, that negatively impact the 5G network rollout would have adverse effects on Viavi's NSE revenue stream.
- **Virtualized Networks and Software Solutions.** As the markets for the NSE segments are increasingly looking toward virtualized networks and software solutions, demand for legacy hardware products and barriers to entry will subsequently fall.

Management

Mr. Oleg Khaykin has served as President and Chief Executive Officer at Viavi since February 2016. Mr. Khaykin has served on many various boards and executive teams throughout the electronic technology industry. Mr. Amar Maletira has served as Chief Financial Officer and Executive Vice President at Viavi since September 2015.

Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues (Mil)	ROE (%)	ROA (%)	LT Debt/Equity (%):	Operating Margin (%)
Viavi Solutions, Inc.	VIAV	1,130.30	0.74	0.28	79.75	5.96
Keysight Technologies	KEYS	4,303.00	22.80	10.00	59.70	16.50
NetScout Systems	NTCT	909.90	-3.50	-2.20	26.60	-0.90
Spirent Communications	SPT-GB	503.60	21.00	14.20	6.10	17.60
Anritsu Corp.	6754-JP	898.70	10.90	7.10	13.00	11.20
II-VI Inc.	IIVI	1,130.30	1.10	0.40	83.30	6.80
Peer Averages		1,549.10	10.46	5.90	37.74	10.24

Based on most recent fiscal year results

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P / EBITDA	P/E	EV/EBITDA	P/S
Viavi Solutions, Inc.	VIAV	2,554.72	9.34	14.74	9.65	2.12
Keysight Technologies	KEYS	16,313.30	12.78	16.41	12.75	3.60
NetScout Systems	NTCT	1,927.00	8.56	13.80	9.35	1.89
Spirent Communications	SPT-GB	1,368.40	12.80	17.71	11.44	2.85
Anritsu Corp.	6754-JP	2,329.40	12.26	20.96	11.01	2.46
II-VI Inc.	IIVI	4,706.10	4.95	12.18	8.82	1.03
Peer Averages		5,328.84	10.27	16.21	10.67	2.37

Multiple valuations calculated using NTM estimates

Source: FactSet

CompuGroup Medical SE ADR (CMPUY)
April 3, 2020

Vince Park International Healthcare

CompuGroup Medical (NASDAQ:CGM) is a global provider of eHealth solutions, offering comprehensive software products and information technology services that support medical and organizational activities across doctors' offices, pharmacies, hospitals, and more. The firm operates in four segments: Ambulatory Information Systems (AIS, 61.9% of 2019 revenue), Pharmacy Information Systems (PCS, 16.1%), Hospital Information Systems (HIS, 15.6%), and Consumer & Health Management Information Systems (CHS, 6.5%). With over 1 million professional users and a presence in 56 countries, CGM serves as market leader in Germany (55.3% of 2019 revenue) and Europe's pioneer in healthcare digitization. Headquartered in Koblenz, Germany, CompuGroup Medical was founded in 1987 by Chairman and CEO Frank Gotthardt.

				FY: Dec	2019A	2020E	2021E	2022E
Price ($):	61.39	Beta:	1.20	Revenue ($mil):	818.30	850.33	916.23	980.14
Price Target ($):	75.15	M-Term Rev. Gr Rate Est (%):	5.66	% Growth:	4.01	3.91	7.75	6.98
52-Week Range ($):	50.33 - 81.02	M-Term EPS Gr Rate Est (%):	6.35	Oper Inc. ($mil):	132.73	148.19	163.33	179.31
Market Cap ($mil):	2,989.31	Long-Term Debt/Equity (x):	1.69	% Growth:	-15.54	11.65	10.21	9.78
Insider Holdings (%):	59.27	Net Debt/EBITDA (x):	4.13	Op Margin (%):	16.22	17.43	17.83	18.29
Avg. Daily Volume:	93,500	WACC (%):	7.06	EPS ($):	1.79	1.84	1.92	2.12
Yield (%):	0.78	ROA (%):	8.19	P/E (x):	34.21	33.37	31.93	29.01
Short Interest (%):	-	ROE (%):	30.64	EV/EBITDA (x):	18.95	18.07	16.78	15.62
ESG Rating:	BB	ROIC (%):	17.30					

Recommendation

In the global healthcare landscape, Germany is the world's second biggest spender on healthcare by proportion of GDP, the fourth largest healthcare market by aggregate value, and the nation with the third highest aging population. These factors in conjunction with rapidly rising healthcare costs and years of German political gridlock have demanded a need for superior solutions in order to deliver a higher quality patient and public health experience for constituents—a service CompuGroup Medical has fortunately been able to provide. Catalyzed by innovations in information technology and recent proactive legislative action in promoting the development of national healthcare digitization, the German healthcare IT industry has boomed, thrusting CGM to a position of market leadership in eHealth services. The company's product portfolio includes mission-critical solutions covering end-to-end clinical, administrative, and billing-related functions with a client base including healthcare professionals, organizations, institutions, and consumers. Since its IPO in 1996, the company has achieved a sales CAGR of 12%, operating income CAGR of 16%, and operating margin expansion from 7% to 15%, thanks to its innovations in healthcare IT, a disciplined strategy of placing the integrity of clinical data privacy and accuracy at the center of its philosophy, and its strong recurring revenue business model. This network of coverage and demonstrated excellence earned CGM designation as the first company to receive approval by the German government for implementation of the ambitious telematics infrastructure (TI), the nation's first eHealth plan marketed as the largest IT project in the world. The TI establishes a private and secured network of patients, doctors and practitioners, pharmacies, hospitals, insurance companies, and other constituents via an electronic health card and offers tremendous opportunity to CGM to expand coverage, institutionalize eHealth, and grow organically. With a truly global presence and the opportunities to grow eHealth coverage in the context of Covid-19, enhance accessibility via digitization in home markets, and expand regional coverage through accretive M&A while maximizing synergies through integrated platforms, it is recommended that CompuGroup Medical be added to the AIM International Equity Fund with a price target of $75.15, representing an upside of 22.41%.

Investment Thesis

- **1 (800) COV-ID19: Telemedicine & eHealth.** While the Covid-19 pandemic is devastating, it has revealed and identified deficiencies in healthcare systems across the world, particularly the scarcity of telemedicine and eHealth, a strategy unanimously endorsed by health organizations and professionals as critical to “flattening the curve.” A 2018 PwC-European Commission joint study projects the EU telemedicine market to grow at a CAGR of 14% over the next several years, driven by increased demand among patients and practitioners, cost and operational efficiencies, and democratization of IT. As Covid-19 ushers in broader uptake and comfort with these technologies, CGM is well positioned to capitalize on this tipping point, accelerating widespread integration and healthcare digitization while capturing market share and globally.

- **Driving Deutsche Digitization.** Consistent with Germany’s ambitious mandatory telematics infrastructure (TI) plan, CGM has adopted a refined strategic focus centered on enhancing accessibility via digitization, especially with consumers. Upon the firm’s completion of rolling out the TI throughout 2020, CGM is expected to benefit not only from TI sales, but from consequent organic growth through vertical integration strategies, providing the company a cross-sector information exchange platform to expand its customer base. These TI-enabled clients gain easy access to the firm’s comprehensive product portfolio, allowing seamless integration into the CGM ecosystem and magnifying organic revenues from additional sales of products, services, and anonymous clinical data collected through the TI. Additionally, the newly formed CHS segment further advances digitization and accessibility through user-friendly online portals and mobile apps, supporting earnings growth in its home market and boosting valuation.
- **Increased M&A Appetite.** CGM is set on greater regional expansion, bringing to life this vision in 2020, when it announced acquisition of Cerner Corp.’s European product portfolio used in over 250 hospitals in Germany and 65 in Spain, its largest acquisition to date, and a proposed change in legal form from a societas Europaea (SE) to a German KGaA, which allows easier access to capital while still maintaining publicly traded shares. Considering the firm’s highly accretive M&A track record, strong synergy potential through integrated platforms, net debt approaching a multi-year low, the heightened barriers to entry from regulations such as GDPR and Germany’s new eHealth law, and current historically low valuations, the firm is likely to continue feeding its increased M&A appetite, which will further drive earnings and valuation expansion.

Valuation

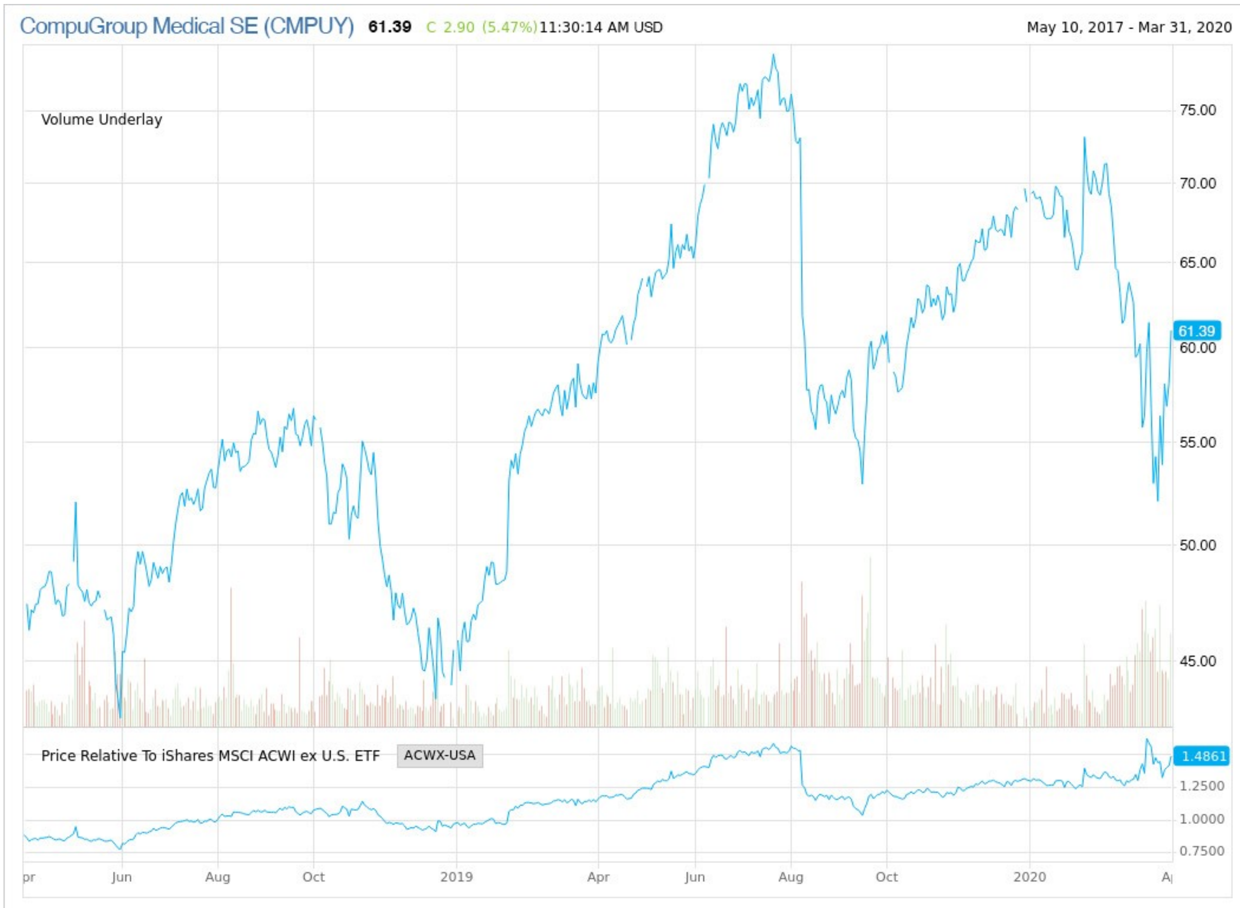
In order to reach an intrinsic value for CGM, a five-year DCF model was constructed. Using a terminal growth rate of 2% and a WACC of 7.06%, an intrinsic value of $80.45 was reached. A sensitivity analysis on the terminal growth rate and WACC of ± 50bps each produced a range from $68.21 to $98.60. Additionally, a relative valuation was conducted using a P/E ratio of 39.6x and an EV/EBITDA multiple of 19.6, resulting in an average relative value of $67.19. Weighting the three models 60/20/20, respectively, an intrinsic value of $75.15 was computed, representing an upside of 22.41%. CompuGroup Medical pays a dividend of $0.38, yielding 0.78%.

Risks

- **Covid-19.** There is a global effort in combatting the existential threat of the novel coronavirus from a medical and economic standpoint. Healthcare, regulatory, political, public, and private endeavors could detract from short-term goals and progress and reduce earnings potential.
- **Integration Resistance.** Despite the value add of digitizing healthcare, the approach is still met with resistance from some industry incumbents and certain patients due to cultural and traditional, technical, capital-intensive, and regulatory barriers. While not having an impact on TI rollout, this could reduce adoption of CGM’s other integrated solutions among certain clientele.
- **Operational Risks.** Due to the highly complex nature of healthcare technology, there are several operational risks related to R&D, data privacy, market maturity and competition, and more.

Management

Frank Gotthardt has served as CEO and Chairman since founding CMPUY in 1987 and is set to retire by the end of 2020. Incoming CEO Dr. Dirk Wössner brings over 20 years of experience in international telecommunications and IT. Michael Rauch has served as CFO since 2019.



Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues ($Mil)	ROE (%)	ROA (%)	Debt/Equity (%):	Operating Profit Margin (%)
CompuGroup Medical	CMPUY	818	30.64	8.19	310.08	16.22
Pulsion Medical Systems	PUS-DE	29	29.90	17.70	68.26	18.40
EMIS Group	EBIS-GB	214	24.78	13.01	3.79	16.82
Cerner	CERN	5,693	22.31	7.84	27.73	12.34
Nexus	NXU-DE	165	11.97	5.12	9.74	11.82
Getinge B	GETI.B-SE	2,807	10.03	2.78	48.49	10.84
Peer Average		1,782	19.80	9.29	31.60	14.04

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap ($Mil)	P/E	EV/EBITDA	P/CF	P/S
CompuGroup Medical	CMPUY	2,989	34.21	18.95	24.66	3.65
Pulsion Medical Systems	PUS-DE	186	25.68	34.90	24.71	6.45
EMIS Group	EBIS-GB	780	35.17	10.58	1.39	3.65
Cerner	CERN	19,215	36.99	14.27	184.82	3.38
Nexus	NXU-DE	488	45.06	12.20	2.02	2.95
Getinge B	GETI.B-SE	5,023	40.98	25.92	19.62	1.79
Peer Average		5,139	39.55	19.58	46.51	3.64

Source: FactSet

Federal Signal Corporation (FSS)
April 3, 2020

Jimmy O'Brien Domestic Industrials

Federal Signal Corporation (NYSE: FSS) designs, manufactures and supplies a diverse portfolio of products and integrated solutions for municipal, governmental, industrial and commercial customers. FSS derives revenues from two main segments: Environmental Solutions Group (ESG) and Safety and Security Systems Group (SSG). ESG 81% of 2019 revenue and is a leading manufacturer and supplier of street sweepers, sewer cleaners, industrial vacuum loaders, safe-digging trucks, high-performance waterblasting equipments, dump truck bodies, and trailers. SSG 19% of 2019 revenue and manufactures and supplies systems for community alerting, emergency vehicles, first responder interoperable communications, and industrial communications. Federal Signal Corporation was founded in 1901 and is headquartered in Oak Brook, IL.

Price ($):	27.09	Beta:	1.06	FY: Aug	2019	2020 E	2021 E	2022 E
Price Target ($):	35.14	M-Term Rev. Gr Rate Est:	9.00%	Revenue (Mil)	1,221.30	1,314.88	1,534.38	1,732.42
52WK L-H ($):	23.32-35.75	M-Term EPS Gr Rate Est:	15.00%	% Growth	12.10%	7.66%	16.69%	12.91%
Market Cap (Mil):	1,674.16	Debt/Equity (%):	13%	Oper Inc (Mil)	147.10	144.64	187.19	220.71
Insider Holdings:	1.92%	Debt/EBITDA (ttm):	1.16	% Growth	21.07%	-1.67%	29.42%	17.90%
Avg. Daily Vol (Mil):	432.07	WACC:	8.89%	Op Margin	12.04%	11.00%	12.20%	12.74%
Yield:	1.30%	ROA:	9.90%	EPS ($)	1.76	1.63	2.14	2.55
Short Interest:	2.20%	ROE:	18.50%	Price/Earnings	15.38	16.61	12.68	10.63
ESG Rating:	BBB	ROIC:	13.40%	EV/EBITDA	9.84	9.74	7.71	6.60

Recommendation

Federal Signal Corporation has been in existence for over 100 years and has survived by offering a diverse portfolio of niche products that serve industrial and governmental units in the United States (82% revenue) and Canada (18% revenue). FSS' two segments target sustainable markets where there is a consistent need to upgrade infrastructure and to focus on public safety. Decades of under-investment in U.S. infrastructure has resulted in pent up demand, which puts FSS in a promising position for long-term growth. With an addressable market of $4 billion the ESG segment currently holds ~35% of the market share, competing against mostly smaller private companies. One of the major opportunities for growth in this segment is the acceptance and application of 'Safe Digging' excavation as an alternative to traditional equipment and methods. This process has been widely accepted in Canada and is beginning to become more prevalent in the US, with 19 states now considering it a safe excavation practice. As the popularity of safe digging grows in the US, Federal Signal has positioned themselves to significantly benefit from this trend and they are in the process of an expansion to one of their manufacturing plants- which will increase capacity by 40%. Federal Signal's SSG segment has an addressable market of $2.6 billion and they hold about an 11% of market share. The main objective for this segment is to expand sales through a new e-commerce platform, product portfolio expansion, and the development of new smart products. Over the last five years Federal Signal generally has a revenue CAGR of about 10% and an EPS growth of 11%. This strong performance is a result of both inorganic and organic growth, as well as experienced management. Since Jennifer Sherman took over as CEO in 2016, the company has increased in value by 83%. Over the course of her tenure, FSS has made four acquisitions with a total value of $440 million and has strengthened their internal operations through cost reductions and increased aftermarket revenues. For these reasons, it is recommended that Federal Signal Corporation be added to the AIM Small Cap Equity Fund at a price target of $35.14, representing a 29.73% upside.

Investment Thesis

- **Inorganic growth.** Federal Signal Corporation has been extremely active in the middle market, acquiring Mark Rite Lines Equipment Co. (MRL), Truck Bodies and Equipment Co. (TBE) , Joe Johnson Equipment Co. (JJE), and Westech Vac Systems Ltd (WVS) over the past four years. All of these deals have followed the same strategy of acquiring niche market-leaders in specific regions throughout the US and Canada. TBE and JJE together are recognized for annual EPS accretion of $.22-.32. MRL, which closed in July of 2019, is expected to add $.10-.12 annually beginning in 2021. FSS' used their warehouse credit line for acquisitions, which they recently refinanced for $500 million with an additional $250 million available for future acquisitions. With a proven track record of acquisitions and the availability of inexpensive capital for future transactions, FSS will continue to successfully grow inorganically.

- **Aftermarket Initiative.** FSS has implemented an internal strategy to grow their aftermarket business, allowing them to increase the overall value of their machinery and services. They are transitioning into a unified full scale platform that is expanding parts and services sales, used equipment sales, and rentals. This transition in their business model will allow them to grow organically and offer additional recurring revenues through their rental agreements. Thus far, they have had solid success with aftermarket revenues growing 12% y-o-y and a backlog of $387 million, which is the largest on record. As they continue to perfect their aftermarket initiative through the development of their e-commerce capabilities this will be a huge opportunity for organic growth.
- **COVID-19 Clean Up.** Following the COVID-19 outbreak in the US, FSS created a website called Fedsigresponse.com. This website explains how their sewer cleaners, safe-digging trucks, street sweeper, and waterblasting equipment can be used to clean public areas. Their equipment can be modified to sanitize a large array of surfaces- including public transportation units. Although there is no guidance as to how this will benefit their growth, it should mitigate some of the risk associated with the pandemic as social distancing ends and communities need to disinfect their populated areas.

Valuation

In order to reach an intrinsic value for FSS a 5 year DCF model was created. Using a terminal growth rate of 2.00% and a WACC of 8.89%, an intrinsic value of $41.17 was reached. A 100 bps sensitivity analysis on the terminal growth rate and CAPM ranged from $32.16-$57.51. Additionally, a P/E multiple valuation was calculated using a P/E of 16.34x and a peer average P/E mutplie of 20.1x, resulting in an intrinsic value of $32.70. Furthermore, an EV/EBITDA valuation was created using a 2020 estimated 9.59x value for FSS and a peer average of 11.6x, resulting in an intrinsic value of $26.73. Lastly, an EV/Sales valuation was calculated using a 2020 estimated 1.39x value for FSS and a peer average of 1.7x, resulting in an intrinsic value of $33.50. By weighing the four models 40/20/20/20, a price target of $35.27 was reached, representing a 27.32% potential upside. FSS dividend yields 1.39%.

Risks

- **Covid-19** As the country has shut down, supply chains have been heavily stressed. FSS will most likely face some extra costs from their suppliers as cargo yields increase.
- **Government Spending.** FSS generates approximately 78% of their revenues from the U.S government and municipalities. If budgets in these areas are altered, it could impact their top and bottom line.
- **Blackrock Ownership.** Blackrock currently owns 14% of outstanding shares. If they were to unload these shares, it would have a negative impact on the stock price.

Management

Jennifer Sherman has been the CEO and President of Federal Signal Corporation since 2016. She has been with the company for 26 years with positions as chief administrative officer, general counsel, and chief operating officer. Ian Hudson is the CFO and has been with company for 7 years.

Peer Fundamentals

Name	Ticker	Revenues (Mil)	ROE (%)	ROA (%)	ROIC (%)	BETA
Federal Signal Corporation	FSS	$1,221	18.50%	9.90%	13.40%	1.06
Alamo Group	ALG	$1,119	11.68%	6.50%	7.88%	1.04
Donaldson	DCI	$2,774	29.14%	11.86%	17.05%	1.12
Heartland Express	HTLD	$597	11.22%	8.56%	11.22%	0.81
John Bean Technologies	JBT	$1,948	25.19%	7.70%	12.12%	1.25
Tennant	TNC	$1,138	13.55%	4.45%	6.82%	1.05
Peer Average		$1,515	18.16%	7.81%	11.02%	1.06

Source: Factset TTM

Peer Valuation

Name	Ticker	Market Cap (mil)	Debt/Equity	P/E	EV/EBITDA	EV/Sales
Federal Signal Corporation	FSS	$1,674.2	13.00	16.61	9.74	1.41
Alamo Group	ALG	$993	76.20	17.00	11.79	1.33
Donaldson	DCI	$4,618	69.09	18.87	14.35	1.95
Heartland Express	HTLD	$1,492	0.00	20.46	8.56	2.37
John Bean Technologies	JBT	$2,631	126.50	20.64	12.28	1.71
Tennant	TNC	$992	93.86	23.29	11.05	1.20
Peer Average		$2,145	73.13	20.05	11.61	1.71

Source: Factset TTM

Unilever ADR (UL)
April 3, 2020

Molly O'Neill International Consumer Discretionary

Unilever ADR (NASDAQ: UL) is a multinational consumer goods company that provides fast moving consumer goods. UL's portfolio of industry leading product categories includes salad dressings and spreads; ice cream and beverages (39.67% of revenue); personal care (40.45%), and home care (19.87%). UL's brands include Axe & Lynx, Blue Band, Dove, Becel & Floral, Heartband ice creams, Hellmann's, Knorr, Lipton, Lux, Omo, Rexona and Sunsilk. ULR operates in three regions: Asia, Africa, and Central and Eastern Europe, the Americas and Western Europe. The company is headquartered in London, United Kingdom and was first publicly traded in 2013.

Price ($):	51.22
Price Target ($):	69.15
52WK H-L ($):	43.99 - 65.62
Market Cap (B):	131.5
Insider Holdings	5.9%
Avg. Daily Vol (mil):	1.575
Yield (%):	3.7%
ESG Rating	A
Short Interest	0.12

Beta:	0.57
M-Term Rev. Gr Rate Est:	4.00%
M-Term EPS Gr Rate Est:	6.26%
Debt/Equity:	214%
Debt/EBITDA:	2.30
WACC:	5.20%
ROA (%):	8.90
ROE (%):	44.90
ROIC (%):	16.30

FY: Dec	2019A	2020E	2021E	2022E
Revenue (Mil)	$58,179.00	$57,597.21	$59,325.13	$61,401.51
% Growth	-3.27%	-1.00%	3.00%	3.50%
Oper Inc	$11,134.00	$10,878.67	$11,161.53	$11,797.79
% Growth	-1.3%	3.4%	3.7%	4.2%
Op Margin	19.14%	18.89%	18.81%	19.21%
EPS	$2.80	$2.83	$2.91	$3.10
P/E (Cal)	18.3	18.1	17.6	16.5
EV/EBITDA	11.6	11.2	10.6	9.9

Recommendation

In 1930, Unilever was founded by Antonius Johannes Jurgens, Samuel van den Bergh, and William Hulme Lever as a soap company. Today, Unilever is the world's 4th largest fast-moving consumer goods company, offering a diverse portfolio of household brands. After the installation of a new CEO in 2019, the firms focus has moved towards growth execution and enhanced organizational culture. UL plans to accomplish this through their commitment to innovation and designing for growth channels, and then by creating products that give purpose to their customers. Unilever has been increasing its growth in ecommerce and operational efficiency. In 2019 the company's operating margin was 19.1%, which was slightly higher than the previous year. By implementing direct sales to customers and smaller retailer e-commerce platforms, UL's e-commerce sales grew 30% in 2019 (6% of revenue). UL is also partnering with large retailers like Tesco, Carrefour, and Walmart on omnichannel sales models. The company's products can be found in over 190 countries, they hold the #1 share in the personal care and #2 in home care in most countries. Customer's always need personal care, home care products, and food, but environmentally cautious products are on the rise. Recognizing this, UL has launched a number of products across all their segments, that are actively sustainable. Moreover, Unilever has been acquiring companies that have a mission of social awareness and eco-friendliness. That being said, UL is well positioned in meeting customers' essential and sustainable needs. They have also been expanding their business into new markets. In 2019, 37.3% of all UL's revenues were generated from emerging markets, driving incremental growth for the company. The company strategic analyzes each market and places a variety of advertisements specific to the market. Due to UL's position as a market leader and dedication to sustainable products, catering towards new customer segments, and strong brand presence, it is recommended that UL be added to the AIM International Equity Fund with a target price of $69.15, representing a potential upside of 35.01%.

Investment Thesis

- **Eco-friendly Products.** The company has a strong focus on catering toward eco-conscious customers through all three business segments. In the personal care space, Unilever has implemented a plan to reduce the use of plastic in their packaging. By 2020, all Dove products will be sold using 100% recycled bottles and they see this expanding in the future for all their personal care products. In home care, UL has emphasized the use of recycled plastic, less plastic, and plant-base detergents. UL's commitment to sustainability has positively impacted its home care segment. Similarly, The Seventh Generation's Ultra detergent comes in a 100% recycled bottle. According to Unilever, 62% of customers say reuse is even more important than recycling. In 2019, UL launched the Cif Ecorefill, which allows UK costumers to refill their Cif spray bottles. Similarly, the launch of Plant Home and Planet in the US and China is a plant-based, vegan home care product line. Unilever has stepped up their availability of plant-based products including: Magnum Vegan, Hellmann's Vegan Mayonnaise, and Sir Kensington's Vegan range. In 2019, Unilever partnered with Burger King to launch the new Rebel Whopper featuring vegan Vegetarian Butcher patties, which are sold in more than 25 countries.

- **Diversification Through M&A.** Unilever has acquired 41 companies since its inception, to help diversify their product lines. The company is looking to invest in other businesses with high growth. In 2019 UL acquired 16 companies - one business being, Olly Nutrition. Noteworthy, this is the first acquisition of a pharmaceutical company. UL sees high growth in the health and wellness, and personalized nutrition space. Olly is an innovative company which personalizes vitamins based on the customer's health. Moreover, they have strong brand in US and UL is hoping to grow into the international space.
- **Strong Brand Presence**. Unilever strategically analyzes markets and then decides which channels would fit best. In 2019, Omo Express pickup, a dry-cleaning store, opened in Brazil. This allowed Omo to brand themselves in the form of a brick and mortar store. UL also has big presence in the e-commerce channel. For example, Cif Engagement is an online platform throughout Europe, used to reach more people and understand customers' needs. Likewise, another online site is Cleanipedia. This is UL's website that provides cleaning tips and interacts with over 63 million visitors per year**.** Unilever's strong marketing plans cater towards specific markets.

Valuation

In order to reach an intrinsic value for UL, a 5-year DCF model was constructed. Using a terminal growth of 2% and a WACC of 5.10%, an intrinsic value of $69.30 was reached. A sensitivity analysis of +/- 20bps on the terminal growth rate and +/- 50 bps on WACC ranged from $46.41-$104.81. Using a P/E multiple of 26.1x, an intrinsic value of $73.91 was calculated. Moreover, an EV/EBITDA multiple valuation was conducted using a weighted average of 12.7x, resulting in value of $63.93. By weighing the models 60/20/20, a price target of $69.15 was reached, resulting in potential upside of 35.01%. Unilever pays a dividend yielding an impressive 3.7%.

Risks

- **COVID-19.** Based on the current environment Coronavirus has presented many customer products firms with a significant challenge over the short-term. The performance of their Chinese business in 2020, in particularly the food business, was negatively impacted. UL is monitoring the impacts from other countries, although the extent is not clear yet.
- **Foreign Exchange.** Sales from the United Kingdom only make up for 5.1% and the rest is generated outside of the UK. The offset a loss due to fluctuation in currency, Unilever has raised prices in certain counties.
- **Tea Business.** Tea is a mature business and today most people would prefer to drink herbal or green tea. Unilever's tea business is 2/3 black tea and has been struggling to produce solid sales. Management has not yet announced how they are going to improve this business line.

Management

Mr. Alan Jope was appointed CEO of Unilever in May of 2019. Prior to serving as CEO, Mr. Jope served as President of Unilever's Beauty & Personal Care and business form 2014-2018. Mr. Jope has been with Unilever since 1985. Greame Pitkethly has been CFO since 2015.

Source: FactSet

Peer Valuation

Name	Ticker	Mrk Cap (B)	P/S	P/E	EV/EBITDA	P/B
Unilever	UL	131.5	2.6	18.3	11.6	10.2%
Nestle	NESN	293.5	3.3	24.3	17.1	5.8%
Procter & Gamble	PG	272.1	4.1	76.7	17.0	5.9%
Reckitt Benckiser	RB	52.7	3.4	-11.8	14.6	2.9%
Henkel Vz	HEN3	32.4	2.0	19.2	12.0	2.2%
Kimberly-Clark	KMB	40.4	2.6	22.0	3.0	-1423.2%
Peer Averages		162.7	3.1	26.1	12.7	4.2%

Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues	ROE (%)	ROA (%)	D/E	Div Yld
Unilever	UL	58,179	44.9	8.90	214.2%	3.7%
Nestle	NESN	93,433	23.1	9.50	71.4%	2.8%
Procter & Gamble	PG	69,594	7.8	3.30	63.8%	3.0%
Reckitt Benckiser	RB	16,388	-23.1	-8.00	130.2%	2.9%
Henzel Vz	HEN3	22,513	11.7	6.70	13.6%	2.8%
Kimberly-Clark	KMB	18,450	39.0	14.50	-1927.3%	3.7%
Peer Averages		44,075.6	20.4	8.5	69.8%	3.0%

Source: FactSet

Discovery, Inc. (DISCA)
April 3, 2020

Kat Christian | Communication Services

Discovery, Inc. (NASDAQ: DISCA) is a media company that distributes content via traditional and new media platforms. DISCA operates through three segments: United States Networks, International Networks, and Other. The United States Networks (64% of total revenues) is made up of television networks, including the Discovery Channel and Animal Planet. The International Networks (36%) is made up of international television networks and websites. The Other segment (<1%) consists of education and service-based provisions. DISCA is headquartered in Silver Spring, MD and was founded in September 1982 by John S Hendricks.

Price ($):	$ 21.06
Price Target ($):	$ 32.17
52WK H-L ($):	$33.66-$17.12
Market Cap (Mil):	9,772.00
Insider Holdings (%):	4.4%
Avg. Daily Vol.:	5,122.2
Yield (%):	0.0%
Short Interest (%):	25.2%
ESG Rating:	BBB

Beta:	1.18
M-Term Rev. Gr Rate Est (%):	2%
M-Term EPS Gr Rate Est (%):	5%
Debt/Equity (%):	150%
Debt/EBITDA (ttm):	3.48
WACC (%):	7.4%
ROA (%):	6.2%
ROE (%):	22.4%
ROIC (%):	8.3%

FY: Dec	2019A	2020E	2021E	2022E
Revenue ($Mil):	$11,144.00	$11,411.46	$11,559.80	$11,848.80
% Growth:	5.6%	2.4%	1.3%	2.5%
Oper Inc:	$3,009.00	$3,195.11	$3,261.29	$3,425.81
% Growth:	55.6%	6.2%	2.1%	5.0%
Op Margin %:	27.00%	28.00%	28.21%	28.91%
EPS:	$2.90	$2.56	$2.62	$2.83
P/E (Cal):	7.26	8.23	8.03	7.45
EV/EBITDA:	6.42	6.38	6.30	6.09

Recommendation

Discovery Inc. is a worldwide leader in the entertainment space with a constant dedication to providing remarkable content that stimulates, entices, and entertains their loyal fanbase. DISCA provides its clientele with over 8,000 hours of content each year, while achieving categorical leadership in genres across the globe. Their products are available in 120 countries in almost 50 languages, reaching billions of viewers. To reach people across the globe, DISCA uses multiple distribution methods including traditional television, as well as TV-everywhere products such as streaming services and direct-to-consumer services. Discovery's collection of top brand includes Discovery Channel, HGTV, Food Network, TLC, and Animal Planet. In FY2017, Discovery acquired Scripps Networks Interactive, for a total of $14.8B with pro forma revenues in excess of $10B and they obtained a 20% market share in ad-supported TV audiences. From the acquisition, DISCA realized over $350M in cost synergies while becoming a media powerhouse. Since the acquisition, revenues have been growing at a CAGR of 2.7%. As the media world is everchanging and transitioning away from traditional television, DISCA has been making investments in direct-to-consumer streaming services. This strategy should produce an increase in annual revenue growth of 3.5% over the next five years. In 2020, DISCA is expected to make a decision regarding their content library and its streaming deployment. They will either deploy their content over several streaming services or create their own Discovery streaming service, available by language and country. The firm has made investments to further the products released by their key brands across the globe, including Magnolia, Food Network Kitchen, and GOLFTV. With the combined expectations of DISCA's direct-to-consumer investments, the Food Network Kitchen App, and their Magnolia project, it is recommended that Discovery Inc., be added to the AIM Equity Fund with a price target of $32.17, representing a potential upside of 52.77%.

Investment Thesis

- **Direct-to-Consumer International Expansion.** In FY2019, DISCA committed $300m to digital investments, which generated $700m in revenues. In 2020, the firm is committing $600m to digital investments and broadening their reach from 10 international markets to 20. This expansion is reinforced by the success of their direct-to-consumer strategy which has been generating products like D-Play, their international local offering. This is expected to generate over $1b revenues in 2020, representing over 40% growth. This initiative demonstrates their commitment to the changing times in media, where digital revenue by the end of FY2020 will represent around 10% of total revenue.

- **Magnolia.** Last year, when fans of the show Fixer-Upper discovered that the show's five seasons came to an end, they had no idea what the new year would bring. In October 2020, Discovery will launch an entirely new network: Magnolia Network, which is expected to have an instant audience. It is replacing a different network, generating 52 million US households through the transition – and it should attract more when fans realize Chip and Joanna Gaines are back. Revenue from this endeavor will include ad-based revenue, which is expected to be larger than normal given show's popularity among their largest target population: middle aged women. In addition to the new channel, an app will be made to include live and video-on-demand programming; this stream of revenue will be SVOD, or subscription-based video on demand.
- **Food Network Kitchen.** At the end of 2019, DISCA launched a new form of direct to consumer product, an app for those who enjoy their show on television, Food Network Kitchen. On this app, the viewer can find recipes, take cooking classes from home, ask questions to chefs, shop and order groceries, and re-watch shows. This offering is rolled into one area and it already garners 4.8 stars in the app store. In a partnership with Amazon, the Food Network Kitchen app is also compatible with Amazon Alexa, and is available on Amazon FireTV. Discovery is six months into the app being live and interactive with 200,000 consumers, which should generate about $27m in incremental revenues by the end of FY 2020.

Valuation

In order to reach an intrinsic value for DISCA, a five year DCF model was constructed. Using a terminal growth rate of 1.00% and a WACC of 7.45%, an intrinsic value of $34.14 was reached. A sensitivity analysis was conducted on the terminal growth rate and WACC resulting in a price range from $24.87-35.14. Additionally, Price/Sales, EV/Sales, and an EV/EBITDA multiple valuationd were calculated. Utilizing a blended average, Price/Sales resulted in a multiple of 2.16x, EV/Sales resulted in a miltiple of 3.24x, and EV/EBITDA resulted in a multiple of 8.6x, with intrinsic values of $34.46, $28.18, and $31.91, respectively. Weighing each the four models 25% generated a price target of $32.17, representing a 52.77% potential upside. DISCA does not pay a dividend.

Risks

- **COVID-19.** As a result of the Coronavirus in the US and internationally, the media industry could take a hit. With the virus sending the economy into a state of confusion, there is no saying what the virus will do to consumer spending. As a result of the novel virus, the 2020 Summer Olympics, which DISCA owns the international broadcast rights to, has been postponed to 2021.
- **Economic Downturn and Ratings.** In the US, advertising spending tracks GDP very closely. In the case of an economic downturn, advertising revenues could be greatly impacted. The growth of advertisement revenues is also based on the television rating of the listed shows. Ratings have proven volatility and could come in less than expected. As of December 2019, advertising makes up 54% of DISCA's total revenues.
- **International Investment.** DISCA has and will continue to invest in international markets like China, Japan, Germany, and the UK. One international investment is Eurosport Player, the foremost provider of local, relevant sports and the home of the Olympic Games in Europe.

Management

David Zaslav has been the President, CEO, and Director since 2007, previously holding positions at several media companies such as National Broadcasting Co., NBC Universal Cable, and NBC Universal Inc. Gunnar Wiedenfels has been the CFO at DISCA since 2017. Prior to DISCA, Wiedenfels was CFO at ProSiebenSat.1 Media. David Leavy has been the Chief Operations and Communications Officer since 2000, previously working as the Director for Public Affairs at the National Security Council.

Source: FactSet

2019 Peer Fundamentals

Name	Ticker	Revenues ($mil)	ROE (%)	ROA (%)	Debt/Equity	Dividend Yield (%)
Discovery Corporation	DISCA	11,144.0	22.4%	6.2%	149.73%	0.00%
Walt Disney	DIS	69,385	14.0%	6.5%	53.60%	1.70%
Fox A	FOXA	11,389	17.2%	10.5%	70.90%	1.80%
DISH Network A	DISH	12,808	13.9%	4.4%	123.50%	0.00%
Thomson Reuters	TRI	5,906	16.9%	9.3%	37.40%	2.50%
Charter Communications	CHTR	45,764	4.9%	1.1%	255.50%	0.00%
Peer Blended Averages		29,050	13.4%	6.4%	108.18%	2.00%

Source: Factset

2019 Peer Valuation

Name	Ticker	Market Cap ($mil)	Price/Sales	EV/Sales	EV/EBITDA	P/B
Discovery Corporation	DISCA	9,772	1.34	2.49	6.42	1.12
Walt Disney	DIS	181,862	2.45	3.17	15.04	2.09
Fox A	FOXA	14,439	1.28	1.71	7.82	1.48
DISH Network A	DISH	10,795	0.91	1.78	9.07	1.01
Thomson Reuters	TRI	29,791	5.13	5.53	21.96	3.25
Charter Communications	CHTR	98,542	2.00	3.99	11.05	3.03
Peer Blended Averages		67,086	2.16	3.24	8.60	2.17

Source: Factset

ITT, Inc. (ITT)
April 3, 2020

Brook Seifu — Domestic Industrials

ITT (NYSE: ITT) is a diversified manufacturer of highly engineered critical components and customized technology solutions for the transportation, industrial, and oil and gas markets. ITT primarily generates revenue through the following three segments: Motion Technologies (44% of FY2019 revenue) which delivers brake components, shock absorbers and damping technologies to the transportation end markets; Industrial Process (33%) which provides engineered fluid process equipment, efficiency solutions, and aftermarket services and parts to global infrastructure industries such as chemical, O&G and mining; and Connect & Control Technologies (23%) which supplies electronic connectors, valves and noise absorption products for the aerospace and defense markets. ITT mainly derives revenue from the Americas (45%) and EMEA (55%). The company was founded in 1920 and is headquartered in White Plains, NY.

Price ($):	45.75
Price Target ($):	65.22
52WK H-L ($):	75.56-35.41
Market Cap (mil in $):	4,041
Insider Holdings (%):	0.94
Avg. Daily Vol:	895,871
Dividend Yield (%):	1.50
ESG Rating:	A
Short Interest (%):	1.20

Beta:	1.42
M-Term Rev. Gr Rate Est:	5.00%
M-Term EPS Gr Rate Est:	6.42%
Debt/Equity:	0.04
Debt/EBITDA (ttm):	0.20
WACC (%):	7.44
ROA (%):	8.10
ROE (%):	16.60
ROIC (%):	16.20

FY: April	2019A	2020E	2021E	2022E
Revenue (mil)	2,846.40	2,561.76	2,613.00	2,717.52
% Growth	3.69	-10.00	2.00	4.00
Oper Income (mil)	402.80	333.03	378.88	434.80
% Growth	10.33	-17.32	13.77	14.76
Op Margin (%)	14.15	13.00	14.50	16.00
EPS ($)	3.70	2.96	3.32	3.91
P/E (Cal)	12.37	15.45	13.78	11.69
EV/EBITDA	7.11	8.14	7.33	6.54

Recommendation

Over the years, ITT has established itself as a leading global manufacturer of highly engineered industrial products and service solutions. The company owns over 20 diversified brand portfolios with strong presence in niche end markets and sell their products in over 125 countries. Worldwide, capital projects and infrastructure spending are expected to total more than $9 trillion by 2025. ITT is well suited to capitalize from these upcoming opportunities by taking advantage from their geographical presence and unique product line. Investment in R&D (3-4% of revenue) and strategic expansion in various industries has enabled the firm to record strong YoY organic revenue growth at a CAGR of 6%. In FY 2019, ITT increased organic revenue by 4.5%, driven largely by the strength of their diversified revenue streams in sectors such as industrial process, oil & gas and transportation. Following solid performance in 2019, ITT returned approximately $94 million to shareholder in the form of dividends and share repurchases. In addition, management has announced a new $500 million indefinite share repurchase program to further increase shareholders' returns. Currently, ITT has an outstanding orders backlog of $854 million, with a 90% visibility read within the next 12 months. ITT has over $1 billion in liquidity - with $612 million of cash and $596 million of short-term receivables - and nearly no LT debt. The firm's strong balance sheet provides them with room to weather the upcoming economic disruption from coronavirus. In addition, with ITT's wide array of product mix, diverse customers, operational facilities in different geographical areas and solid management team, this will enable them to navigate the critical period ahead. Therefore, it is recommended that ITT be added to the AIM Small Cap Fund with a price target of $65.22 representing a potential upside of 42.56%.

Investment Thesis

- **Demand for Friction Brakes.** The global friction brake market, which ITT's Motion Technologies operates within, is projected to reach $47 billion by 2023, growing at a CAGR of 5%. Although, it is evident there is an ongoing short-term headwind on vehicle production, the future for this segment is bright with growing demand for electric vehicles, increased emphasis on vehicle safety, and the need for friction brake replacements in the after-market. In FY 2019, Friction OEM sales outperformed the global auto markets by more than 11%, with strong performance in China (+18%), Europe (+10%) and North America (+11%). Their strategic geographical positioning and strong global market share of 25% will enhance ITT' ability to achieve a 700-bps sales growth in FY 2021 and 2022. This global dominance would take competitors 5 to 10 years to catch up with ITT's competitive advantages.

- **Cost Reduction.** After maintaining solid top-line growth, management is now focused on cost reducing strategies in all three of their segments. To expand operating margins, ITT is implementing initiatives to improve shop floor management, increase critical equipment efficiency and redesign capital-intensive products. In 2020 and beyond, ITT is determined to transfer product lines from high cost regions like North America and Europe to facilities in Nogales, Mexico and Shenzhen, China. These efforts are expected to increase annual operating margins between 50-100 bps in all segments over the next five years. In FY 2019, the CCT segment was a true testament to their cost reduction plans as operating margins increased by 150-bps to 17.3%. ITT's initiatives to reduce cost will position them well to capture additional incremental revenue moving forward.
- **Strategic Acquisitions.** In 2019, ITT allocated $118 million to acquire privately held companies, Rhenhutte Pumpen Group (RPG) and Matrix Composites, in order to expand their niche end markets and geographic presence. During FY 2019, these acquisitions contributed approximately $54 million to ITT net sales. The firm believes these acquisitions can add 1-2% to growth annually, with primary targets in the emerging markets. In addition, a strong balance sheet and existing cash reserves will allow ITT to take advantage of the current economic disruption to acquire fragmented competitors and potentially accelerate ITT's share gains.

Valuation

In order to reach an intrinsic value for ITT, a five year DCF model was constructed. Using a terminal growth rate of 1.5% and a WACC of 7.44%, resulting in an intrinsic value of $67.61. A sensitivity analysis of +/- 50 bps on the terminal growth rate and WACC was performed resulting a price range from $55.02-$98.84. Additionally, a PE multiple relative valuation was conducted by using a weighted PE of 16.57x, which resulted an instrinsic value of $60.63. Furthemore, an EV/EBITDA relative valuation was conducted by using a weighted EV/EBITDA of 9.71x, which resulted an intrinsic value of $62.63. By weighting the three valuations 60/20/20, a price target of $65.22 was reached, which resulted in an upside of 42.56%. ITT pays a divdend of $0.92 per share, yielding 1.6%.

Risks

- **COVID-19.** The coronavirus pandemic is a major risk that can impact ITT's revenue streamline. In addition, supply chain disruptions, operation shutdowns and a substantial decrease of consumer demand could impact near-term revenues. Potential economic downturn can hinder the growing demand from the commercial aerospace industry.
- **Oil & Gas Exposure**. ITT generates approximately 21% of revenue from the O&G, chemical and mining industries. Customers in these areas are primarily profit driven and tend to delay capital projects and maintenance which could shrink the demand for ITT's products and services. Capex cuts mainly from O&G customers could have an unpleasant effect on IP and could hurt revenue growth through 2021.
- **Asbestos Liability.** Pending asbestos liability and claims estimated to be filed over the next 10 years are critical obligations. Failure in these claims can lead to additional costs ITT is expected to pay $430 million during this span. Additional asbestos claims can impact ITT's cost and balance sheet.

Management

Luca Savi was appointed as CEO in 2019. He held several leadership and vice president positions at the firm since 2011. Thomas M. Scalera has served as EVP and CFO since 2015.

Peer Valuation

Name	Ticker	Market Cap	P/S	P/E (LTM)	EV/EBITDA (LTM)	P/B
ITT Inc	ITT	4,041.40	2.30	12.50	7.09	3.10
IDEX	IEX	9,099.90	5.30	21.40	13.89	5.80
Crane Co.	CR	2,723.70	1.60	20.90	5.99	3.50
Nordson Corporation	NDSN	6,925.00	4.20	20.50	13.70	5.70
Curtiss-Wright Corporation (CW)	CW	3,763.00	2.40	12.40	8.57	3.40
Flowserve	FLS	3,010.70	1.70	11.90	7.34	3.60
Peer Averages		5,104.46	3.04	16.57	9.71	4.40

Peer Fundamentals

Name	Ticker	Revenues (MM)	ROE %	ROA %	Debt/Equity	ROIC %
ITT Inc	ITT	2,846.40	16.60	8.10	0.04	16.20
IDEX	IEX	2,494.60	20.00	11.70	40.60	14.10
Crane Co.	CR	3,283.10	8.90	3.10	63.30	5.50
Nordson Corporation	NDSN	2,191.20	22.40	9.80	73.40	12.20
Curtiss-Wright Corporation (CW)	CW	2,488.00	18.60	8.80	51.70	12.30
Flowserve	FLS	3,944.90	14.80	5.30	84.80	8.00
Peer Averages		2,880.36	16.94	7.74	62.76	10.42

Weight: 20%,15%,15%,25%,25%.