STERN IAG

Board of Advisors Meeting

Nov 8th, 2021

Table of Contents

Letter from Portfolio Managers

Dear Board of Advisors,

Since our prior meeting, there have been several internal developments. Most notably, we brought on our third class of the IAG Training Program. We are excited to have these new members on the team and will continue evaluating fit and commitment as the training program progresses.

Arthur Chen ('25), Robert Eisenman ('24), Pravar Jain ('25), Nithin Mantena ('25), Karen Phua ('25), Carol Sun ('25), Orisa Thanajaro ('25), and Winston Yin ('25)

Over the past twelve months, IAG has outperformed the S&P 500 by 29.21%, resulting in an AUM of ~88.6K. The overall market is up ~8% since our last meeting, with the Fed announcing its intentions to hold rates at current levels, despite broad concerns of elevated inflation over the past few months. As discussed in our last meeting, we are continuing to pursue investment opportunities with defensible business models and industries. Bearing all this in mind, we are pleased to share the following investment recommendation:

Monster Beverage Corporation (NASDAQ: MNST) – a leading beverage business with promising international expansion opportunities

Willis Towers Watson (NYSE: WLTW) – a highly FCF-generative insurance brokerage pursuing a turnaround story

In hopes of making our investment research process more transparent to the Board of Advisors, we would also like to highlight two other ideas we have been discussing internally. In some of our recent discussions, we have found ourselves questioning whether we are buying businesses for their idiosyncratic qualities or rather their underlying industry exposure. This "top-down" perspective inspired the following two ideas.

Brown & Brown (NYSE: BRO) – a niche and operationally superior insurance brokerage. In the process of researching WLTW, we found the overall insurance brokerage space to be quite defensible and attractive. BRO is a SME-focused insurance brokerage roll-up with a high degree of insider ownership and a strong capital allocation track record.

Oak Street Health (NYSE: OSH) – the leading value-based care (VBC) provider in the US. VBC services are steadily taking share from traditional fee-for-service models, as these forms of care creates a "win-win" dynamic for the majority of stakeholders in the healthcare system. We find the economics of this model as well as future TAM penetration quite interesting.

We will continue researching these ideas internally and will hopefully bring further updates to the next meeting. We would be happy to hear any questions or feedback that the Board has regarding these ideas or our overall process. We appreciate the Board's continued guidance and hope to finish the semester strong.

Best,

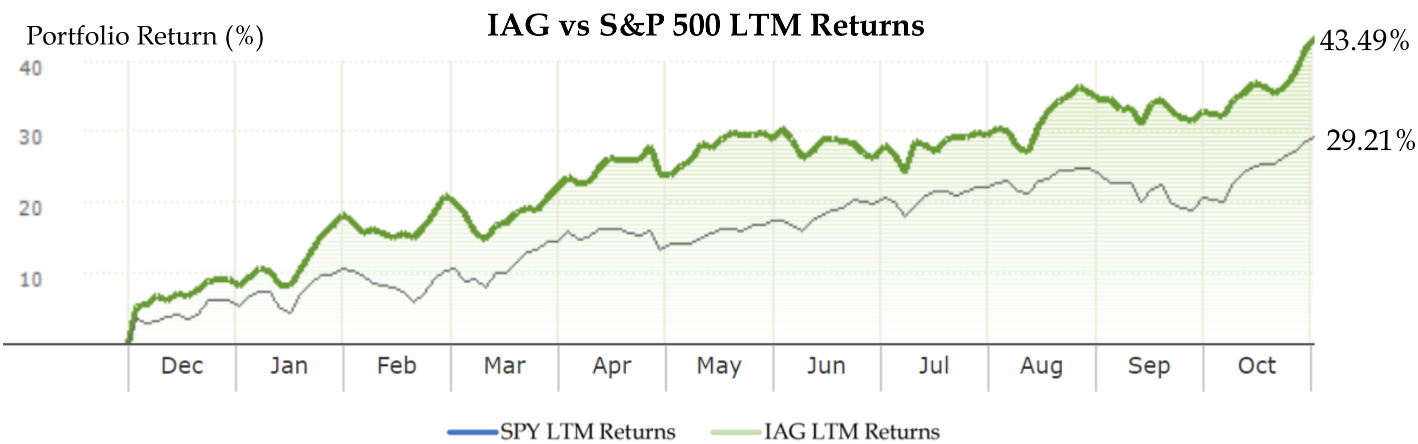
Caleb Nuttle & Tony Wang

Portfolio Managers

II. Performance Analysis

Holdings Summary *(as of Nov 5th, 2021)*

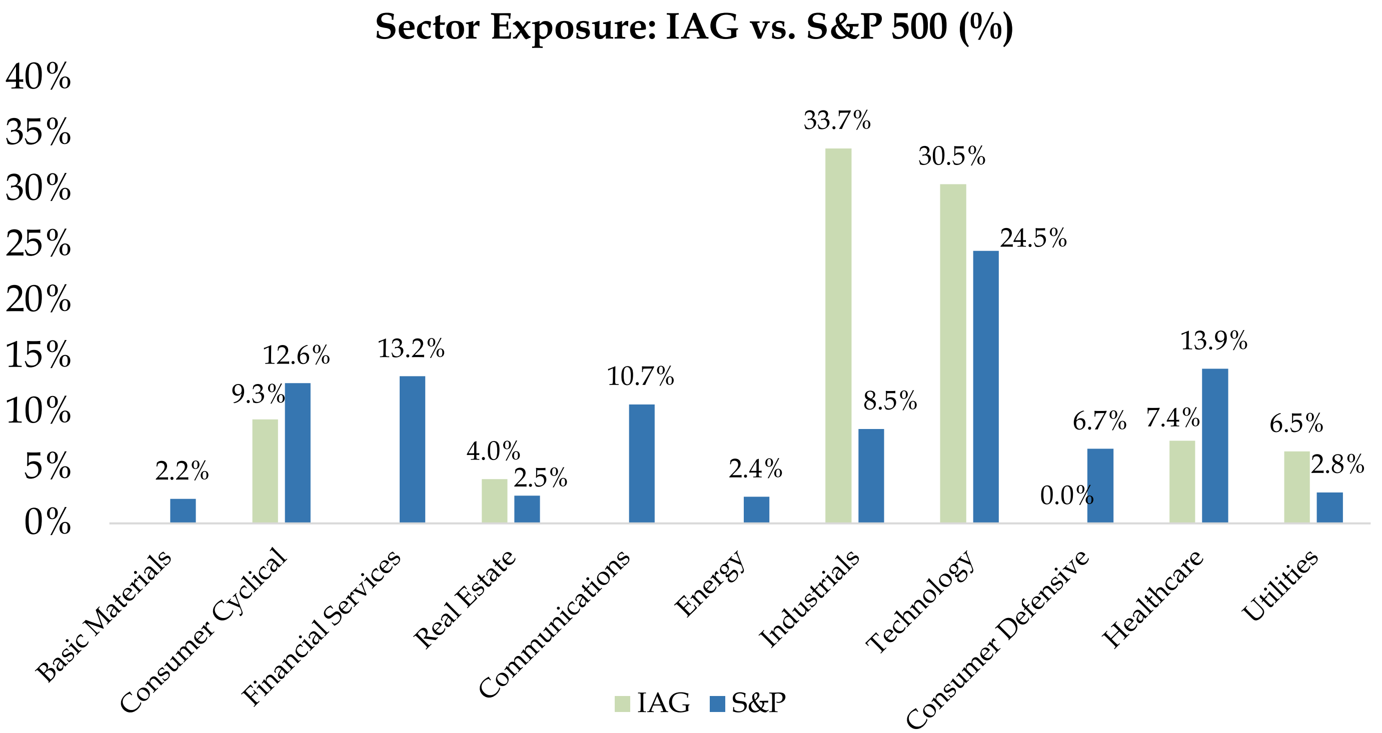
Current Holdings										
Company Name	**Ticker**	**Coverage**	**Date of Purchase**	**% of Portfolio**	**Share Count**	**Price At Purchase**	**Share Price**	**Current Return**	**Morningstar Industry**	**Holding Type**
Allison Transmission Holdings Inc	ALSN	Cody Fang	12/3/19	**2.0%**	50	$47.72	$35.34	**(25.9%)**	Consumer Cyclical	Core
APi Group Corp	APG	Srikar Alluri	9/24/20	**4.2%**	160	$14.29	$23.14	**61.9%**	Industrials	Core
Berry Global Group Inc	BERY	Sophie Pan	12/2/20	**3.8%**	50	$54.60	$68.08	**24.7%**	Consumer Cyclical	Core
Builders FirstSource Inc	BLDR	Rahul Parikh	10/5/21	**6.1%**	80	$52.20	$67.24	**28.8%**	Industrials	Core
Concrete Pumping Holdings Inc	BBCP	Cody Fang	3/26/21	**3.1%**	300	$7.07	$9.21	**30.3%**	Industrials	Core
CVS Health Corp	CVS	Srikar Alluri	12/16/16	**2.1%**	20	$77.28	$93.78	**21.4%**	Healthcare	Core
Exelon Corp	EXC	Rhys Berezny	4/30/21	**4.3%**	70	$44.83	$54.14	**20.8%**	Utilities	Oppt.
FirstEnergy Corp	FE	Simran Korpal	10/29/19	**2.2%**	50	$45.66	$39.07	**(14.4%)**	Utilities	Core
Flex Ltd	FLEX	Rhys Berezny	10/5/21	**4.7%**	230	$17.88	$18.22	**1.9%**	TMT	Core
GXO Logistics Inc	GXO	Tony Wang	8/2/21	**4.8%**	45	$32.21	$93.49	**190.3%**	Industrials	Core
HCA Healthcare Inc	HCA	Srikar Alluri	9/26/19	**5.3%**	19	$119.99	$248.27	**106.9%**	Healthcare	Core
Identiv Inc	INVE	Tony Wang	9/24/20	**11.1%**	400	$5.68	$24.63	**333.6%**	TMT	Oppt.
JD.com Inc ADR	JD	David Zhou	4/30/21	**3.5%**	40	$77.55	$77.57	**0.0%**	Consumer Cyclical	Core
Methode Electronics Inc	MEI	Achyut Seth	2/19/21	**4.3%**	80	$38.56	$47.12	**22.2%**	TMT	Core
Office Properties Income Trust	OPI	Cody Fang	10/28/20	**4.0%**	130	$17.85	$27.10	**51.8%**	Real Estate	Oppt.
Palo Alto Networks Inc	PANW	David Zhou	9/24/20	**5.6%**	10	$240.50	$493.78	**105.3%**	TMT	Core
Points International Ltd	PCOM	Tony Wang	10/28/20	**4.8%**	240	$10.01	$17.76	**77.4%**	TMT	Oppt.
TransDigm Group Inc	TDG	Jaro van Diepen	4/9/20	**2.3%**	3	$362.96	$665.14	**83.3%**	Industrials	Core
United Rentals Inc	URI	Caleb Nuttle	3/14/19	**6.2%**	14	$114.85	$391.96	**241.3%**	Industrials	Core
XPO Logistics Inc	XPO	Tony Wang	10/20/19	**4.0%**	45	$42.87	$78.60	**83.3%**	Industrials	Core
ZTO Express (Cayman) Inc ADR	ZTO	David Zhou	3/14/19	**3.1%**	100	$19.43	$27.84	**43.3%**	Industrials	Core
Total Equity Holdings				**91.4%**			**$81,000.74**			
Cash				**8.6%**			**$7,619.25**			
Total Portfolio Holdings				**100.0%**			**$88,619.99**			

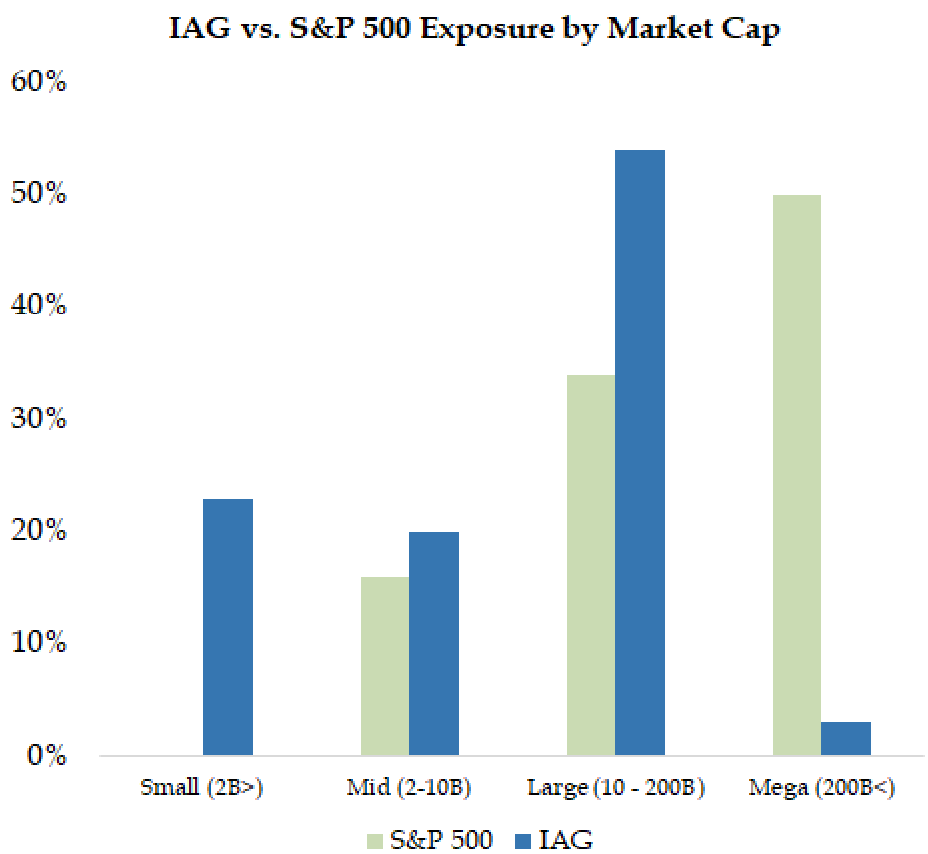


On a last twelve-month basis, **IAG's portfolio has returned 43.49%** while the S&P 500 returned 29.21%. Since the last oversight meeting, **the spread between IAG's portfolio and the S&P 500 contracted from 16.28% (10/4/21) to 14.28% (11/5/21).**

Our opportunistic positions now represent ~24% of our portfolio which is in line with our expectations.

Portfolio Exposure vs. Benchmark





IAG continues to use the S&P 500 as the core benchmark as specified in the fund mandate. While our industrial exposure is still substantially overweight, the two proposed positions today will help improve the composition.

IAG continues to be underexposed to mega-cap positions, yet drastically overexposed to small-cap companies. We will continue to look at the mega cap space for potential opportunities but do not think that the underexposure poses a major issue.

Pitch Log Since Oct 2021 Meeting

Internal Pitches Since Mar 2021 Meeting				
	Company	Stage	Date	Analysts
1	**Willis Towers Watson**	**Quick Screen**	**10/7/21**	Mikhail Talib
2	**Monster Beverage Co.**	**First Update**	**10/14/21**	Achyut Seth, Alice Yu
3	**Willis Towers Watson**	**First Update**	**10/14/21**	Mikhail Talib
4	**U.S. Silica Holdings, Inc.**	**Quick Screen**	**10/14/21**	Niranjan Narasimhan
5	**EchoStar Corp.**	**Quick Screen**	**10/21/21**	Amy Chen
6	**Liquidia Corp.**	**Quick Screen**	**10/21/21**	Alex Isaac
7	**SEMrush Holdings, Inc.**	**Quick Screen**	**10/21/21**	Alice Yu
8	**PetIQ, Inc.**	**Quick Screen**	**10/21/21**	Caleb Nuttle
9	**Willis Towers Watson**	**First Update**	**10/28/21**	Mikhail Talib
10	**Oak Street Health**	**First Update**	**10/28/21**	Sophie Pan
11	**U.S. Silica Holdings, Inc.**	**First Update**	**10/28/21**	Niranjan Narasimhan
12	**PetIQ, Inc.**	**First Update**	**10/28/21**	Caleb Nuttle, Robert Eisenman
13	**Monster Beverage Co.**	**Third Update**	**11/4/21**	Achyut Seth, Alice Yu
14	**Willis Towers Watson**	**Third Update**	**11/4/21**	Mikhail Talib
15	**Willis Towers Watson**	**Devil's Advocate**	**11/4/21**	Karen Phua, Vinny Ye
16	**EchoStar Corp.**	**First Update**	**11/4/21**	Amy Chen
17	**Catapult Group.**	**Quick Screen**	**11/4/21**	Rahul Parikh
18	**Brown & Brown, Inc.**	**Quick Screen**	**11/4/21**	Mikhail Talib

Active Pipeline				
	Company	Stage	Date	Analysts
1	**U.S. Silica Holdings, Inc.**	**First Update**	**10/28/21**	Niranjan Narasimhan
2	**EchoStar Corp.**	**First Update**	**11/4/21**	Amy Chen
3	**Oak Street Health**	**First Update**	**10/28/21**	Sophie Pan
4	**Catapult Group**	**Quick Screen**	**11/4/21**	Rahul Parikh
5	**Brown & Brown, Inc.**	**Quick Screen**	**11/4/21**	Mikhail Talib

Oversight Meeting				
	Company	Stage	Date	Analysts
1	**Monster Beverage Co.**	**Third Update**	**11/4/21**	Achyut Seth, Alice Yu
2	**Willis Towers Watson**	**Third Update**	**11/4/21**	Mikhail Talib

III. Key Holdings Update

Portfolio Updates Since Mar 2021 Meeting

Company	Ticker	Update
Allison Transmissions	**ALSN**	We propose holding our stake in Allison Transmissions. Since the last meeting ALSN reported Q3 earnings, guiding down revenue to $2.325-2.400B vs. the previous guidance of $2.325-2.475B and EBITDA to $795-845M, or $820M at the midpoint, which compares to the consensus estimate of $817M and previous guidance of $795-885M. The company continues to experience weakness in the NA on-highway market driven by raw material inflation and widespread industry supply chain issues. However it is important to note that there are built in price escalators starting in 2022 with several major contracts, and the business is expecting to be able to pass on over 100bps of commodity pricing in 2022. Overall, the story remains intact and the end market demand remains strong both in the long term and short term - boosted by increased demand for hydraulic fracking applications.
APi Group	**APG**	We would look to recommend a hold on the APi Group. We are looking forward to the acquisition of Chubb, a division of Carrier Global, to expand the presence of the fire safety division and increase its percentage of revenue to 70%. With the acquisition and integration, we see significant opportunity for margin improvement and a multiple re-rating to a mid teens multiple in line with other service providers and fire safety providers with similar end markets. Leverage, while expanded to roughly 4.5x can be reduced to sub 3.5x over the next twelve months.
Berry Global	**BERY**	We propose a hold in our stake in Berry Global. Since the last oversight meeting, Berry has not reported earnings (with Q4 coming in 10 days on November 18). The company has not experienced any significant changes or announcements. We believe that the original thesis still holds. In terms of organic growth, to focus on the Latin America region, Berry is very well positioned in this market because they have two core products that are in competition for customers to then produce their product in the hygiene market. Capacity-wise, Berry turned on a new machine and still has room to grow and increase market share. Berry does not have any packaging or engineered materials operations in Latin America but has looked at smaller companies for possible M&A ($100-200mm sales, flexible packaging companies in Brazil) - appetite is still winding down from paying down the last large RBC acquisition. For this industry, the expensive CapEx requires the volume associated with Berry's position as one of the largest producers for nonwovens to be successful. Another highlight is sustainability. A former sales director at Berry stated that reductions in waste and basis weight grows unit margin and drives cost savings for the company. For example, in the last month, Berry partnered with Wendy's to introduce a new clear, recyclable plastic cup that uses 20% ISCC-certified recycled plastic. We believe that Berry has kept up with sustainability standards in the industry and remains attractive in their opportunities to grow in international/emerging markets.
Builders FirstSource	**BLDR**	We propose a hold on Builders Firstsource. Since our last meeting, Builders Firstsource reported record Q3 earnings. Our thesis seems to be well intact as the company reported strong core organic growth (16%) on the back of 44% growth in the manufacturing components segment. Gross profit and Net sales increased 102% and 62% (YoY) respectively, while the business saw more stability with lumber prices and commodity inflation. Builders has pursued 5 tuck in M&A acquisitions since our meeting, all in the manufacturing and digital homebuilding space. The biggest acquisition was California TrusFrame LLC., the largest producer of value-add (prefab) building products in California. The BMC merger cost synergies are still one year ahead of schedule. Overall, a record breaking quarter and a positive response from the market (BLDR up 13% since earnings). We will continue to keep an eye on lumber prices, the prefab and digital developments, and integration of assets going forward.

Portfolio Updates Since Mar 2021 Meeting

Company	Ticker	Update
Concrete Pumping Holdings	**BBCP**	We propose holding our stake in Brundage-Bone Concrete Pumping. Our position is up 24.9% since our purchase at $7.08 per share. BBCP has continued to perform as the primary operator in the fragmented concrete pumping industry. BBCP has continued its M&A strategy, recently purchasing Pioneer Concrete Pumping. This move will expand BBCP's presence in the Atlanta, Dallas, and San Antonio end markets and increase the fleet size by 83 units. The acquisition will also increase the customer base for BBCP's eco-pan offerings. On the whole, BBCP is expecting to benefit from the long-term demand drivers in these markets. We expect management to successfully execute on the M&A strategy, driving inorganic revenue growth. Specifically, executives are focused on tapping into underserved growing markets. In all, BBCP's performance since the last update has reaffirmed our thesis, justifying a continued position in IAG's portfolio.
CVS Health	**CVS**	We propose a hold in our stake in CVS. Our original thesis centered around CVS' competitive positioning in the oligopolistic PBM market and ability to maintain margins. In the most recent quarter, total revenue grew by 10%, driven by membership gains in healthcare benefits and pharmacy services as well as higher volume in retail. Healthcare benefits revenue increased 9.5% YoY. CVS' pharmacy services delivered a revenue growth oof 9.3%, reflecting a retention rate of 98% and $8.9bn net new business wins. The specialty pharmacy revenue was up 8.7% versus the prior year, and retail outperformed expectations by delivering 10% growth YoY. Pharmacy sales and prescriptions filled both increased 8% YoY, primarily driven by COVID-19 vaccine administration and core pharmacy services. Tailwinds for CVS include strong selling seasons in the pharmacy services segment and in commercial national accounts in the healthcare benefits segment. Headwinds include consistent pressure in Pharmacy Services from client price improvements and reimbursement pressure in retail and uncertainty regarding the expected revenue from COVID-19 vaccines and testing in retail operations.
Exelon Corp	**EXC**	We propose holding our position in Exelon. The original thesis is still intact and, most importantly, we are waiting for February 2022 when the spin-off takes place. There have been no material changes to current overall operations. The regulated utilities side has been performing strong as usual and continues to outperform other comps both operationally and financially. With regards to the generation side, management has expressed relief with the last minute passage of a new energy bill to provide subsidies to the Byron and Dresden plants. As a result, management reversed the retirement of these two plants which will remain operational for the foreseeable future. In terms of broad policy, the future looks fairly positive. Biden's Build Back Better plan includes nuclear energy investment and management remains confident that the bill (or some form of it) will pass.
First Energy	**FE**	We propose a hold on FirstEnergy at the current price of $39.02. There has been recent clarity surrounding the scandal that occurred in March of 2020 before the pandemic occurred. First Energy has reached a settlement with Ohio customers which includes a $96 million in direct refunds of which $51 million will go to residential customers. The company has already agreed to also pay $230 million in penalty correction to the alleged bribery scheme that included former House Speaker Larry Householder. Since November 2020, the stock has risen 46% and will continue to rise as it benefits from operational efficiencies. The company had a strong Q3 and expects that Q4 earnings will see a 9% increase from FY2020 operating levels due to increase in commercial revenue. Additionally, the company has seen a $600 million increase with cash from operations and has restructured their credit facility, returning to investment grade with all three agencies. As the company continues to recover from pre-COVID levels and benefits from increased operational and management efficiencies, the stock will also continue to recover.

Portfolio Updates Since Mar 2021 Meeting

Company	Ticker	Update
Flex Ltd.	**FLEX**	We propose a hold on Flex. Since our last meeting, two significant events have occurred. First, on October 18, Flex acquired Anord Mardix, a global leader in critical power solutions, in a $540 million all-cash transaction. Management has stated that this transaction will be margin accretive to the Industrial segment and Revathi, herself, stated she has extensive experience within the power solutions space. Although we were hoping for primarily sharebacks with Flex's extra cash, we remain very optimistic in management's decision-making and execution abilities. Second, Flex reported Q2 earnings. While margins have remained steady throughout the global supply chain difficulties and actually exceeded expectations, revenue guidance was slightly lowered for the next year. Management cited several supplier decommits, logistical difficulties, and automotive OEM shutdowns. Although the stock took a significant 6% hit after earnings, Flex has mostly recovered since then. None of these short-term supply chain issues change our theses and we remain confident in our outlook.
GXO Logistics	**GXO**	We propose a hold on GXO. The company released its first stand-alone earnings after the XPO spin-off. The company increased revenues by 25% YoY compared to its revenues as a segment of XPO. This was largely driven by secular tailwinds in the automation, e-commerce, and outsourcing markets. Large demand from scale customers has allowed GXO to add $1B of a total of $4B of life-time contract value just this quarter, positioning it for strong and reliable future growth. The company has shown a strong ability to win contracts from new players entering the space, as 40% of its new customer wins come from new outsourced contracts, with another 31% being from expansion of scope. The company views supply chain disruptions as temporary but is also set-up to do fine if these issues persist, as a large number of their contracts allow them to get paid even if volume doesn't go through to warehouses. Further, their highly variable cost basis prevents significant margin contraction.
HCA Healthcare	**HCA**	HCA has experienced a swell of COVID patients for Q3 as they are heavily concentrated in Texas and Florida. This has hindered some surgical volume, but the company has benefitted from a higher commercial mix which has contributed to a 21% EBITDA margin. The company has divested from poorer performing markets and expects to generate $1.5bn in capital which will contribute to their $5.9bn in liquidity. The company has expanded to 2,200 outpatient facilities and is investing heavily into the construction of new ambulatory surgery centers. HCA is actively looking for ways to either return capital to shareholders and expand into new markets. Recent challenges have been labor issues in particularly hospital staff, but the company had made efforts to mitigate this through increased benefits and better retainment. With this in mind, we recommend a hold.
Identiv	**INVE**	We propose a hold on Identiv. Since our last meeting, Identiv reported Q3 earnings and it appears that our thesis is continuing to unfold as expected. The business has signed several large blue-chip customers (CVS and Apple/Amazon) and pursued several promising RFID unit opportunities in the cannabis space as well. Identiv has also retired its entire outstanding balance of debt. The business is still in search of a permanent CFO but has poached several key RFID executives in the meantime. Overall, a strong quarter and a strong positive reaction by the market (INVE up 10% after-hours). We will continue to closely monitor margin expansion over time, which has been less impressive given the heavy reinvestment over the past year, but we are reassured by the significant backlog growth and recalibrated capital structure.

Portfolio Updates Since Mar 2021 Meeting

Company	Ticker	Update
JD.com	**JD**	We propose to hold our position in JD. The company's fundamentals remain strong despite regulatory concerns. Our theses, including leveraging better product quality, superior logistics, and customer service to gain market share, using the Jingxi business to accelerate user acquisition in lower tier cities, and utilizing economies of scale to drive earnings power, remain intact. We are confident in JD's ability to continue its penetration of the lower-tier cities, generate growth in its Jingxi business segment, and serve even more price-sensitive customers. We are confident concerns over China regulation will gradually lessen as the Chinese government has never meant to crack down or restrict Internet firms but to rationalize the industry, and price would again follow business fundamentals.
Methode Electronics Inc.	**MEI**	We propose to hold our position in Methode Electronics, which is up 21.4% since our investment in February of last year, because there are no significant changes in our investment thesis despite the ongoing headwinds with supply chain issues, specifically the semiconductor chip shortage and port congestion. Despite these headwinds, which are likely to stay in the short-term, MEI continues to maintain strong organic growth with increasing capital allocation towards EV, which should bolster the top-line. With no recent earnings changing our viewpoint or any news of significant material impact on Methode's fundamentals, we continue to believe in Methode's value proposition as a one-stop shop with industry leading margins.
Office Property Income	**OPI**	We propose holding our stake in Office Properties Income Trust (OPI). Our original theses were the following: (1) Solid portfolio of tenants resulting in minimal disruption, (2) Compelling capital recycling story to continue post COVID, and (3) Attractive Entry Point and Dividend Yield. As of right now, all of these points remain. Our initial target price was $22.21 (representing a 15.5% upside at the time) and OPI is currently trading at $26.11. Since buying the stock OPI has continued to make attractive acquisitions of high grade properties with creditworthy tenants, including Google's midwest headquarters in Chicago and Insight Global's headquarters in Atlanta (as discussed last update). Quarter 3 earnings showed growth in normalized FFO and same property cash basis NOI that exceeded prior expectations primarily due to a decrease in operating expenses of $1.1 million driven by a decrease in real estate taxes and lower repairs and maintenance costs at certain of OPI's properties. Leasing volume accelerated with 659,000 square feet of new and renewal leasing with a weighted average lease term of 10.9 years. In terms of acquisition activity, OPI acquired a property located in Boston, MA containing approximately 49,000 rentable square feet for a purchase price of $27.0 million. OPI's portfolio cap rate is 6.63% compared to 5.26% the previous update. The capital recycling program remains strong. The attractive dividend yield remains intact and has been paid out in full each quarter since we made the purchase. No significant updates to be made in this regard.
Palo Alto Networks	**PANW**	We propose a hold on PANW. Not much has materially changed since the last oversight meeting. The company continues to validate our theses by continuing to dominate the fire-wall space. Recently, they announced an extension of their partnership with Siemens Ruggedcom, which will allow for joint-shipment of their firewall products and expansion of their scalable hardware offerings. Further, the company has seen recent interest from large 5G technology providers such as AT&T and IBM, opening up potential new business opportunities for PANW. In general, the cybersecurity market has significant tailwinds, as an increased focus on cybersecurity in the wake of several major attacks combined with increased spending fueled by the Infrastructure bill should lead to strong industry growth. PANW's status as an industry leading firewall provider and growing cloud security segment puts it in a good position to capitalize.

Portfolio Updates Since Mar 2021 Meeting

Company	Ticker	Update
Points International	**PCOM**	We propose a hold on PCOM. Q3 earnings will be announced next week and no notable developments have occurred since our last update. The business continues to deepen its relationships with its installed base of customers, most recently evidenced by Copa Airlines introducing loyalty functionality powered by Points. The stock continues to trade at an undemanding valuation (LDD multiple of normalized FCF) and airline traffic volumes are steadily reverting to the mean. Given that the business is once again net cash and still steadily winning customers, we believe PCOM is a solid hold.
TransDigm Group	**TDG**	We propose a hold on TransDigm. The business reports Q3 earnings on November 16. The key issue we will be watching for is capital allocation. With passenger volumes nearly at pre-pandemic levels and strong aftermarket recovery, TransDigm should have meaningful cash flow to deploy across different avenues. Although the business recently called off the Meggitt acquisition, we have heard estimates that there is still ample M&A runway (~200 aftermarket parts/businesses that could be suitable targets). Whether TransDigm prioritizes this over de-leveraging will depend on the price paid for these assets, as well as the size. We would also note that, even without M&A, the business can grow EPS organically at mid-teens for the next decade. TransDigm remains an incredible business that we are happy to own at this price and we trust management to deploy capital in a prudent manner.
United Rentals	**URI**	We would like to propose holding our stake in United Rentals (URI) at $391.96, up 241.43% since inception in March 2019. While the position has certainly performed well within its industry, we still believe the company trades at an unfair discount to other construction equipment companies, such at CAT. United Rentals currently trades at 13.9x EV/EBITDA. This is overall at a discount to Caterpillar, which trades at 14.9x EV/EBITDA. This is despite the fact that the equipment rental business model is more attractive in the US' current construction economic environment, where economic activity has slowed and construction project volume is down, making it harder to justify a purchase of new construction equipment rather simply rent. Additionally, URI's management has continued their promise to focus on decreasing leverage rather than revert to their historic acquisition heavy strategy. Overall, while the market has certainly realized a portion of its previous discount, we still believe URI is a position worth holding. We believe that it should be considered as one of the portfolio's core holdings, especially within the industrial holdings.

Portfolio Updates Since Mar 2021 Meeting

Company	Ticker	Update
XPO Logistics	**XPO**	We propose a hold on XPO. The company recently announced Q3 earnings on November 2nd, posting a quarterly record for revenue. For the North American LTL segment, revenues increased 15% YoY, driven by increases in average weight per shipment and yield. On the downside, the operating ratio increased to around 83.9% due to XPO's decision to maintain insourcing purchased transportation amidst labor shortages and other input cost increases. XPO's operating ratio still seems to be below industry average, however the separation between it's operating ratio and ODFL has widened. To combat future supply chain issues, XPO announced a dedicated action-plan to enhance the network efficiencies of the LTL segment. This includes improving network flow via selective freight embargoes, pulling planned rate increases forward by a couple of months, expanding the graduate count and XPO driver training schools, increasing trailer manufacturing production capacity at their Arkansas facility, and allocating capital to expand door count by 900 doors. These investments bolster our thesis on the attractiveness of their LTL segment. On the truck-brokerage side, revenues increased 21% YoY, driven by increases in truck brokerage loads per day, increased volume from top 20 customers, and a 100% YoY increase in carrier usage on the XPO connect digital platform.
ZTO Express	**ZTO**	We propose to hold ZTO. Not much has fundamentally changed since the last update, yet there are several events worth noting. First, Best Express, the industry's 6th largest player exited the market and sold its operations to J&T Express, marking the first major exit amongst the price war. Second, in the opening of the November shopping season (double 11), ticket prices have seen a slight uptick, which we view as a signal for rationalization after dramatic price declines starting from last year. Third, on the regulatory side, the government is looking for additional ways to rationalize the price war. In April, the government banned delivery businesses from setting prices below their costs, but the effectiveness of the rule is limited, as companies use rebates, coupons, etc. to go around it. Recently, the government has been exploring opening up delivery services options to end consumers, which would add gravity to the service quality of delivery companies. Historically merchants and platforms choose the service, and their decision is based solely on price. Although nothing is beyond mere rumor and news, the direction of government policies is clear. We believe that competitive forces and regulation would eventually rationalize prices and ZTO as the cost leader remains on track to win.

IV. New Position Proposal

Monster Beverage (NASDAQ: $MNST)
Analysts: Achyut Seth, Alice Yu

Business Description:
Monster Beverage develops and sells energy beverages and concentrates in over 154 countries. Its main business segments include Monster Energy (93.6%), Strategic Brands (5.8%), and Other (0.6%). The Monster Energy segment sells ready-to-drink beverages to bottlers and full service beverage distributors; the Strategic Brands segment generates revenue by selling "concentrates" and "beverages bases." In terms of manufacturing, Monster mainly outsources the manufacturing process to third-party bottlers and contract packers. This allows Monster to operate as an asset-light business. For example, Monster entered into agreements with various bottlers and distributors for 20+ years, with a deal with Coca-Cola from 2015 providing Monster with full access to Coca Cola's global network to serve as a primary domestic and international distributor. Monster had been facing headwinds from COVID-19 since it has been difficult to release innovative products, especially given declines in foot traffic in the convenience store sector where a lot more customers would sample new products. Another headwind is rising aluminium shortages, resulting in margin contraction.

Q3'21 Earnings (11/4/21): Monster was able to generate $1.41bn in sales, representing an increase of 13.2%. Monster also experienced strong growth in sales and market share in international markets, particularly the roll out of low-cost portfolio Predator and Fury. Gross margins were 55.9% compared to 59.1%, primarily the result of increased aluminum can costs, logistics, and geographical sales mix. To combat aluminum headwinds while maintaining product demand, Monster is reducing promotions and looking into the possibility of a full price increase later in 2022.

Industry Dynamics

- **Co-Existing with Red Bull in Virtually a Duopoly (Figure 1):** Energy drinks are part of the soft drink category, with energy drinks being the most popular supplements for teens and young adults in the US along with multivitamins. The industry is highly fragmented with the Big 2 being Red Bull (~34% market share in US) and Monster (~23% in US).
- **More Bang for the Buck (Figure 2):** When Monster first started rolling out, consumption was more focused on functionality than refreshment and taste. Then, shifting consumer preferences resulted in a more balanced mix between the two, allowing Monster to grow its brand through its value proposition: roughly the same price as Redbull, but double the quantity (16-24 oz instead of 8-12 oz) and greater the variety in flavors. As this saturated industry continues to be transformed by the greater health trend of prioritizing natural/organic ingredients (e.g. guarna, maca) and larger focus on more exotic ingredients, Monster is able to move faster on capitalizing on consumer trends than Red Bull (deemed the first-mover), which has been slow to responding to innovation (only launched new product sizes like 12 oz & 16 oz with less variety on flavors).
- **Distribution Channels:** The two main distribution channels are on-premise (e.g. bars, taverns, restaurants) and off-premise (e.g. grocery stores, liquor stores, convenience). While Red Bull

Key Ratios and Statistics:

Recommendation	**Buy/Long**
Price Target	$95.87
Implied Return	13%
Share Price (11/1/21)	$85.46
Market Cap	$44.96 B
52-Week Low	$76.92
52-Week High	$99.89
Cash	$2.6 B
Long-Term Debt	$20.8 M
Date	11/1/2021

Figure 1 – Market Share in US (2021)

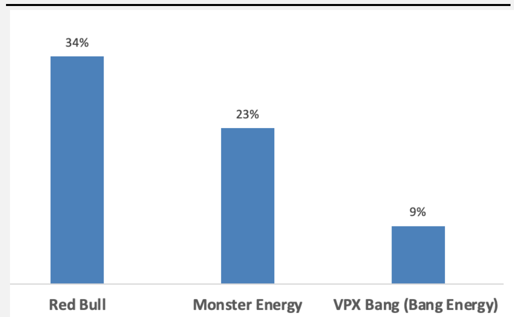


Figure 2 – Red Bull vs Monster

	Red Bull	Monster
Protein	NA	Muscle Monster Energy Shake
Coffee	NA	Java Monster; Muscle Monster Energy Shake, coffee flavor
Organic	NA	NA
Cane Sugar	NA	NA
Green Tea	NA	Monster Rehab Green Tea + Energy
Zero Calorie	Red Bull Total Zero, Red Bull Zero Editions	Monster Energy Zero Ultra
No/Low Carb	Red Bull Sugarfree	Monster Energy Lo-Carb,
Electrolytes	NA	Monster Rehab
Other	Red Bull Editions (five fruit-flavored varieties)	Monster Extra Strength with nitrous oxide

(original flavor)	Redbull (12 oz can)	Monster (16 oz can)
CVS	$ 2.37	$ 2.77
Target	$ 2.59	$ 1.89
Walgreens	$ 3.19	$ 2.59
Walmart	$ 2.50	$ 1.88

(Pack of 24)	Redbull	Monster
Amazon	$ 33.98	$ 33.98
Walmart	$ 33.98	$ 44.57

dominates the on-premise channel that is more focused on price, Monster dominates the off-premise channel due to better marketing and POS. It is worth noting that in the past, Monster tried to increase its presence in the on-premise channel, but deprioritized this initiative over time with management believing that the return isn't there. Additionally, COVID-19 greatly benefited the off-premise channel, while the on-premise channel was weakened by the decline in foot traffic due to state lockdowns and COVID protocols.

Investment Thesis:

- **Monster's strong fundamentals and consistent growth will allow it to rebound from short-term downward pressure on market share from macro headwinds:** Currently, Monster is suffering from margin contraction as a result of the price of aluminum skyrocketing (reaching decade-high prices), which can be attributed to a military coup in Guinea (producer of 22% of world's supplier of bauxite, a raw ingredient needed for the production of aluminum), China's limits on production, and increased overall demand. There are also supply chain disruptions, with shortages of shipping containers and port entry congestion delaying the international supply of aluminum cans. Although Monster entered new supply agreements to source additional quantities of cans in the second half of 2021, these macro headwinds could last anywhere from 1-3 years. However, industry dynamics favor Monster to be able to weather the storm and continue to lead the industry in growth & margins. Because competitors face challenges with distribution, obtaining shell space, and product differentiation, Red Bull and Monster are able to maintain their market leading positions with their economies of scale and global distribution channels. Rising input costs affecting the entire industry will likely destroy the ability for much smaller players (Bang, Celsius, C4) to directly compete with Red Bull and Monster, who in the long-term could gain incremental market share. It is also important to note that Monster could pass the increased costs to the consumer by raising prices of its products like it did in 2018 when aluminum prices surged. However, management has stated it prioritizes protecting market share rather than profit margins, which is why Monster will wait for competitors to make a price move first (Red Bull unlikely to raise prices until 2022 due to current supply chain transformations) and will reduce promotional allowances (price reduction/discount for special promotions) to slightly offset the margin contraction. Additionally, Monster continues to achieve record sales in the past quarter and sees heightened demand across all markets, which is a positive sign for top-line growth in the near future.
- **Increase in top-line growth attributed to international expansion and product innovation strategy:** Monster is able to effectively capitalize on international markets given their ability to cater to domestic tastes through product innovation. For example, net sales to customers outside of the US increased from 21% in 2015 to 33% in 2020. In Argentina, Monster grew its market share by 40% since Monster first launched two years ago. Monster has also released Reign and Predator, affordable energy brands that target international markets in EMEA. Monster's international strategy is to price their products closer to Red Bull and adjust the product mix then manage margins (e.g. by reducing

Figure 3 – Aluminum Prices (5-Yr)

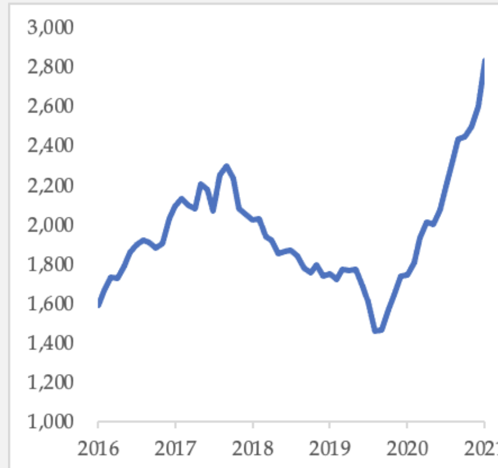


Figure 4 – Retail E-Commerce Share based on Amazon sales (as of 4-wk period ended April 17, 2021)

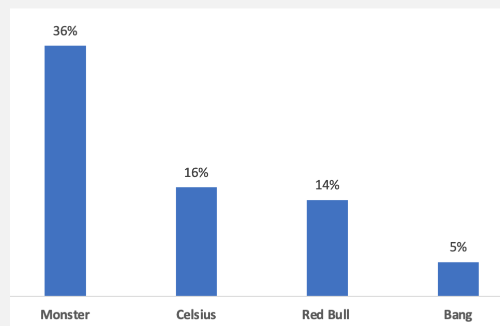


Figure 5 – YoY Volume Growth (Based on Case Sales in Thousands)

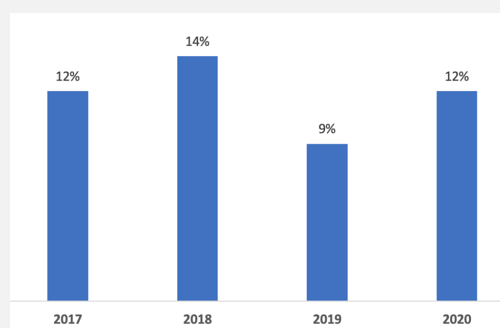


Figure 6 – Main Distribution Channels

juice mix). Furthermore, Monster's emphasis on product innovation allows it to become a complete beverage company, not just an energy company. Monster released a line of products such as coffee (Java Monster), diet (Ultra), electrolytes (Ultra), tea (Rehab), juice (Juice Monster, with Mango Loco being highly popular), plant-based (True North to be released in 2022). For product innovation, Monster's main strategy utilizes a copycat method. For example, if a company releases a successful flavor or beverage, Monster will try to replicate that and integrate it into its own portfolio to squeeze out competition, replacing slower movers. Constant product innovation, consistent with Monster's brand, allowing Monster to dominate less competitive/newer markets.

- **Partnership with Coca-Cola and potential share buyback program provides a hedge against downside case:** In 2015, Coca-Cola acquired a 17% stake in Monster, with all energy drinks between the two companies to be launched by Monster under the non-compete terms of investment. Although Coca Cola pushed the limits of its deal with Monster by launching Coca Cola Energy in 2020, it has discontinued the energy drink in North America, highlighting how competitive the industry is. Having access to Coca Cola's global distribution network is a key competitive advantage for Monster to continue scaling in local markets and establishing key supplier relationships, while the potential for Coca-Cola to either gradually increase its stake or purchase Monster outright provides a hedge against bear case. Additionally, Monster virtually has no debt (Total Debt/EBITDA at .1x), and management could continue to repurchase shares with its large cash balance as it decided to do in March 2020 ($500mn buyback program announced).

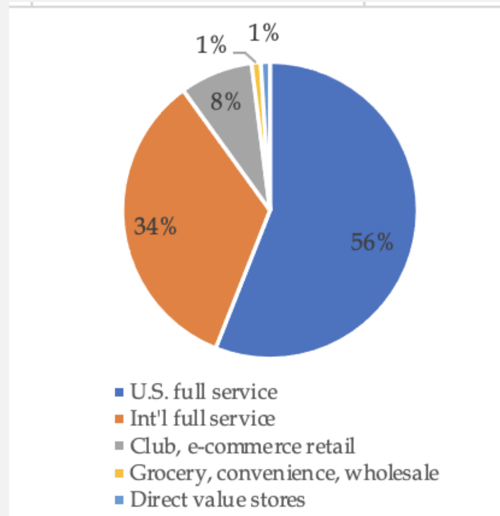


Figure 7 – U.S. Product Innovation (2021)

Relative Valuation and Historic Multiples

Given Monster's ability to maintain high growth and industry-leading margins in a tightly competitive space, we believe Monster deserves a premium multiple to the industry (21.5x which aligns with historic multiples)

(as of October 23, 2021)	TEV	LTM Revenue	LTM EBITDA	LTM TEV/Revenue	LTM TEV/EBITDA	NTM TEV/Revenue	NTM TEV/EBITDA	NTM P/E	LTM Gross Margin %	LTM EBITDA Margin %	LTM Net Income Margin %	LTM Total Revenues, 1 Yr Growth %	LTM EBITDA, 1 Yr Growth %	LTM Net Income, 1 Yr Growth %
The Coca-Cola Company (NYSE:KO)	29,010.0	36,412.0	13,000.0	8.0x	20.3x	6.86x	20.28x	23.46x	60.6%	35.7%	22.19%	6.08%	15.57%	(12.08%)
Keurig Dr Pepper Inc. (NasdaqGS:KDP)	14,243.0	12,183.0	3,886.0	5.5x	16.7x	5.00x	15.32x	21.09x	56.5%	31.9%	13.49%	8.00%	17.79%	41.24%
PepsiCo, Inc. (NasdaqGS:PEP)	34,407.0	76,681.0	13,886.0	3.3x	17.5x	3.20x	16.96x	24.59x	53.9%	18.1%	10.62%	11.85%	10.80%	15.62%
National Beverage Corp. (NasdaqGS:FIZZ)	(205.0)	1,090.6	249.6	3.9x	16.3x	4.41x	19.76x	29.46x	39.4%	22.9%	16.21%	5.86%	21.62%	20.60%
Monster Beverage Corporation (NasdaqGS:MNST)	42,280.1	5,148.4	1,857.6	10.6x	28.6x	7.53x	21.50x	30.75x	57.9%	36.1%	29.88%	19.54%	19.89%	34.46%
Max	42,280.1	76,681.0	13,886.0	10.6x	28.6x	7.5x	21.5x	30.8x	60.6%	36.1%	29.9%	19.5%	21.6%	41.2%
Mean	23,947.0	26,303.0	6,575.8	6.3x	19.9x	5.4x	18.8x	25.9x	53.7%	28.9%	18.5%	10.3%	17.1%	20.0%
Low	(205.0)	1,090.6	249.6	3.3	16.3	3.2	15.3	21.1	39%	18%	11%	6%	11%	-12%
Median	29,010.0	12,183.0	3,886.0	5.5	17.5	5.0	19.8	24.6	57%	32%	16%	8%	18%	21%

(as of October 23, 2021)	2016	2017	2018	2019	2020	2021	Mean	Median
P/LTM EPS	44.72x	40.64x	37.86x	31.67x	34.79x	33.95x	37.27x	36.32x
P/NTM EPS	34.66x	33.69x	32.04x	28.40x	31.82x	34.19x	32.47x	32.87x
TEV/NTM Revenues	8.27x	8.22x	8.12x	7.26x	8.19x	8.69x	8.13x	8.21x
TEV/NTM EBITDA	20.07x	20.52x	22.04x	20.28x	22.76x	24.23x	21.65x	21.28x
TEV/NTM EBIT	20.65x	21.23x	22.97x	21.07x	23.80x	25.14x	22.48x	22.10x

Source: CapIQ

Geographic Market Share

- Global energy drink sales reached $57.4bn in 2020 and has a CAGR of 7% between 2020 and 2025
- Monster maintains a ~39% market share in the US
- With North America being the largest and most mature market, international expansion is critical to top-line growth. Increase in demand is attributed to rising incomes and increase in sports activities/urbanization

	2016	2017	2018	2019	2020	Diff B/w 2020 and 2016
US and Canada					**Average:**	**11%**
Canada	30%	32%	35%	37%	41%	11%
EMEA					**Average:**	**11%**
Great Britair	15%	19%	20%	22%	27%	12%
Spain	27%	29%	30%	36%	37%	10%
France	23%	24%	25%	28%	31%	8%
Belgium	11%	11%	13%	13%	15%	4%
Ireland	12%	17%	19%	23%	28%	16%
Sweden	11%	11%	14%	13%	14%	3%
Netherlands	5%	7%	7%	6%	8%	3%
Germany	15%	16%	18%	16%	16%	1%
Norway	11%	16%	17%	24%	31%	20%
Greece	29%	34%	34%	35%	38%	9%
Italy	10%	14%	19%	20%	28%	18%
South Africa	16%	16%	16%	18%	21%	5%
Czech Repub	12%	10%	14%	13%	15%	3%
Poland	0%	8%	11%	14%	21%	21%
Denmark	0%	0%	0%	23%	26%	26%
Asia Pacific					**Average:**	**19%**
Australia	6%	7%	8%	22%	24%	18%
South Korea	24%	25%	38%	52%	57%	33%
New Zealand	6%	6%	8%	24%	24%	18%
Japan	43%	44%	47%	56%	49%	6%
China	N/A	N/A	N/A	N/A	N/A	#VALUE!
Latin America and Caribbean					**Average:**	**24%**
Chile	27%	34%	35%	40%	47%	20%
Brazil	5%	15%	19%	25%	32%	27%
Mexico	27%	32%	31%	29%	28%	1%
Argentina	0%	0%	17%	34%	46%	46%

Source: CapIQ

Valuation - Considerations

Revenue: First Half of 2021 already showing strong international expansion, with less dependence on North American market

Six-Months Ending June 30	**2020**	**2021**
US and Canada	$ 1,527,739	$ 1,769,570
% of Revenue	*71%*	*65%*
YoY Growth		*16%*
EMEA	$ 327,833	$ 535,891
% of Revenue	*15%*	*20%*
YoY Growth		*63%*
Asia Pacific	$ 209,239	$ 241,125
% of Revenue	*10%*	*9%*
YoY Growth		*15%*
Latin America and Caribbean	$ 91,182	$ 158,165
% of Revenue	*4%*	*6%*
YoY Growth		*73%*
Total	$ 2,155,993	$ 2,704,751

Source: CapIQ

Valuation - Considerations

Assumptions kept consistent in bear, base, and bull case for valuation:

- D&A kept at 1.5% of revenue (historical average)
- Capex increasing slightly YoY as aluminum shortage headwind gradually becomes less significant
- NWC kept at 7% of revenue

% of Revenue		**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
D&A		1.45%	1.50%	1.54%	1.33%	1.5%	1.5%	1.5%	1.5%	1.5%
CapEx (Must consider aluminum shortage)		2.48%	1.63%	2.42%	1.06%	1.2%	1.4%	1.8%	2.0%	2.0%
NWC (from CapIQ)										
Current Assets	1,432,270	2,086,377	1,804,170	2,316,309	3,140,955					
(-) Cash and ST Investment	598,136	1,201,555	958,163	1,331,020	2,061,767					
	834,134	884,822	846,007	985,289	1,079,188					
Current Assets (Excluding Cash and ST Investments)										
Current Liabilities	470,589	560,351	601,145	661,097	749,988					
NWC	363,545	324,471	244,862	324,192	329,200	380,856	422,047	462,091	498,520	537,439
as % of Revenue	*12%*	*10%*	*6%*	*8%*	*7%*	*7%*	*7%*	*7%*	*7%*	*7%*
Change in NWC		(39,074)	(79,609)	79,330	5,008	51,656	41,191	40,044	36,430	38,919

Source: CapIQ

Base Case > 13% Upside

- Strong growth in international markets (consistent with historical rapid market share growth)
- Corporate expenses increasing YoY (aligned with top-line growth) and advertising & promotional expenses slowly becoming a greater % of revenue, as international expansion requires increase in marketing investments
- Freight-out costs normalizing to 3% of revenue as supply chain disruptions gradually become less significant

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Revenue Build	Doesn't disclos	Doesn't disclose								
US and Canada			$ 2,829,597	$ 2,995,534	$ 3,214,566	$ 3,600,314	$ 3,924,342	$ 4,199,046	$ 4,450,989	$ 4,718,048
% of Revenue			*74%*	*71%*	*70%*	*66%*	*65%*	*64%*	*62%*	*61%*
YoY Growth				*6%*	*7%*	*12%*	*9%*	*7%*	*6%*	*6%*
EMEA			$ 578,667	$ 674,509	$ 745,827	$ 1,044,158	$ 1,190,340	$ 1,356,987	$ 1,492,686	$ 1,641,955
% of Revenue			*15%*	*16%*	*16%*	*19%*	*20%*	*21%*	*21%*	*21%*
YoY Growth				*17%*	*11%*	*40%*	*14%*	*14%*	*10%*	*10%*
Asia Pacific			$ 251,426	$ 351,744	$ 423,792	$ 474,647	$ 522,112	$ 574,323	$ 631,755	$ 694,931
% of Revenue			*7%*	*8%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*
YoY Growth				*40%*	*20%*	*12%*	*10%*	*10%*	*10%*	*10%*
Latin America and Caribbean			$ 147,493	$ 179,032	$ 214,453	$ 321,680	$ 392,449	$ 470,939	$ 546,289	$ 622,769
% of Revenue			*4%*	*4%*	*5%*	*6%*	*7%*	*7%*	*8%*	*8%*
YoY Growth				*21%*	*20%*	*50%*	*22%*	*20%*	*16%*	*14%*
Total	$ 3,049,393	$ 3,369,045	$ 3,807,183	$ 4,200,819	$ 4,598,638	$ 5,440,798	$ 6,029,243	$ 6,601,295	$ 7,121,719	$ 7,677,703

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Operating Expenses										
Corporate and Unallocated	$ 228,505	$ 245,833	$ 269,325	$ 330,741	$ 348,170	372,542	398,620	426,523	456,380	488,326
YoY Growth		*8%*	*10%*	*23%*	*5%*	*7%*	*7%*	*7%*	*7%*	*7%*
Freight-Out Costs	$ 83,600	$ 91,900	$ 128,500	$ 122,500	$ 134,100	217,632	241,170	231,045	213,652	230,331
% of Revenue	*3%*	*3%*	*3%*	*3%*	*3%*	*4%*	*4%*	*3.5%*	*3%*	*3%*
Advertising and Promotional Expenses	$ 270,600	$ 324,000	$ 353,900	$ 391,600	$ 345,700	380,856	482,339	594,117	640,955	690,993
% of Revenue	*9%*	*10%*	*9%*	*9%*	*8%*	*7%*	*8%*	*9%*	*9%*	*9%*
Other	$ 273,957	$ 277,170	$ 260,031	$ 270,805	$ 262,757	326,448	361,755	396,078	427,303	460,662
% of Revenue	*9%*	*2%*	*7%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Total	$ 856,662	$ 938,903	$ 1,011,756	$ 1,115,646	$ 1,090,727	$ 1,297,478	$ 1,483,884	$ 1,647,763	$ 1,738,289	$ 1,870,313

Source: CapIQ

Base Case > 13% Upside

- Gross profit margin compression attributed to aluminum price headwind and supply chain disruptions, with EBIT margin normalizing to be roughly the same as 5-year historical average of 34.8%

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
YoY Growth										
Revenue		10.5%	13.0%	10.3%	9.5%	18.3%	10.8%	9.5%	7.9%	7.8%
Guggenheim						18.5%	10.9%	8.3%		
JP Morgan						17.6%	9.7%	10.0%		
EBIT		10.5%	7.1%	9.3%	16.4%	12.1%	13.0%	13.7%	9.9%	8.0%
Net Income		15.2%	21.0%	11.6%	27.2%	-1.6%	13.0%	13.7%	9.9%	9.8%
Margins										
Gross Profit	63.7%	63.5%	60.3%	60.0%	59.2%	57.5%	57.5%	58.5%	59.0%	59.0%
Guggenheim						57.1%	57.0%	56.9%		
JP Morgan						57.1%	57.2%	57.4%		
EBIT	35.6%	35.6%	33.7%	33.4%	35.5%	33.7%	32.9%	33.5%	34.6%	34.6%
Guggenheim						33.5%	32.1%	32.9%		
JP Morgan						33.7%	33.0%	32.8%		
Net Income	23.4%	24.4%	26.1%	26.4%	30.7%	25.5%	26.0%	27.0%	27.5%	28.0%
JP Morgan						25.7%	25.5%	25.3%		
Tax Rate		32%	23%	22%	24%	24.0%	24.0%	24.0%	24.0%	24.0%

(in thousands)	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Net Sales	$ 3,049,393	$ 3,369,045	$ 3,807,183	$ 4,200,819	$ 4,598,638	5,440,798	6,029,243	6,601,295	7,121,719	7,677,703
COGS	1,107,393	1,231,355	1,511,808	1,682,234	1,874,758	2,312,339	2,562,428	2,739,538	2,919,905	3,147,858
Gross Profit	1,942,000	2,137,690	2,295,375	2,518,585	2,723,880	3,128,459	3,466,815	3,861,758	4,201,814	4,529,845
Operating Expenses	856,662	938,903	1,011,756	1,115,646	1,090,727	1,297,478	1,483,884	1,647,763	1,738,289	1,870,313
EBIT	1,085,338	1,198,787	1,283,619	1,402,939	1,633,153	1,830,981	1,982,931	2,213,995	2,463,525	2,659,532
Other (expense) income, n	(5,653)	2,836	9,653	13,023	(6,996)					
Pre-tax Income	1,079,685	1,201,623	1,293,272	1,415,962	1,626,157					
Taxes	367,000	380,945	300,268	308,127	216,563					
Net Income	$ 712,685	$ 820,678	$ 993,004	$ 1,107,835	$ 1,409,594	1,387,404	1,567,603	1,782,350	1,958,473	2,149,757

Source: CapIQ

Base Case > 13% Upside

	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
EBIT	1,198,787	1,283,619	1,402,939	1,633,153	1,830,981	1,982,931	2,213,995	2,463,525	2,659,532
*(1-Tax Rate)	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
NOPAT	**818,772**	**985,563**	**1,097,098**	**1,249,362**	**1,391,546**	**1,507,028**	**1,682,636**	**1,872,279**	**2,021,244**
(+) D&A	48,887	56,979	64,814	60,973	79,116	90,439	99,019	106,826	115,166
(-) Capex	83,435	61,941	101,661	48,722	65,290	84,409	118,823	142,434	153,554
(-) Delta in NWC	(39,074)	(79,609)	79,330	5,008	51,656	41,191	40,044	36,430	38,919
Unlevered FCF	**823,298**	**1,060,210**	**980,921**	**1,256,605**	**1,353,716**	**1,471,866**	**1,622,789**	**1,800,241**	**1,943,937**
Discount Factor					1.08	1.16	1.24	1.34	1.44
PV of FCF					1,259,271	1,273,653	1,306,281	1,348,021	1,354,066

WACC	
ERP	4.30%
Beta	1.11
Risk-Free Rate	1.2%
COE	5.97%
Weight	99.6%
CoD	5.50%
Weight	0.4%
Tax Rate	24%
WACC Calculated	5.97%
WACC Used	7.50%

Perpetuity Growth		
Growth Rate		4.0%
TV		57,762,695
NPV of TV		40,235,104
NPV of FCF		6,541,292
Cash		2,553,191
Debt		20,769
Equity Value		49,308,817.96
DSO		528,108
Target Price	$	93.37
Current Price	$	84.71
ROI		10%

Exit Multiple		
EBITDA Multiple		21.50x
TV		59,655,995
NPV Of TV		41,553,898
NPV of FCF		6,541,292
Cash		2,553,191
Debt		20,769
Equity Value		50,627,612.49
DSO		528,108
Target Price	$	95.87
Current Price	$	84.71
ROI		13%

		Perpetuity Growth				
		3.0%	3.5%	4.0%	4.5%	5.0%
WACC	6.5%	14%	30%	53%	86%	143%
	7.0%	0%	12%	28%	50%	83%
	7.5%	-10%	-1%	10%	26%	47%
	8.0%	-19%	-12%	-3%	8%	24%
	8.5%	-26%	-20%	-13%	-5%	7%

		EBITDA Multiple				
		17.5x	19.5x	21.5x	23.5x	25.5x
WACC	6.5%	0%	9%	18%	27%	36%
	7.0%	-2%	7%	16%	24%	33%
	7.5%	-4%	5%	13%	22%	30%
	8.0%	-6%	2%	11%	19%	28%
	8.5%	-8%	0%	9%	17%	25%

Source: CapIQ

Bear Case > -3% Downside

- Significantly slower growth than historically in international markets
- Corporate and advertising & promotional expenses becoming a greater % of revenue, as international expansion requires increase in marketing investments
- Freight-out costs normalizing to 3% of revenue as supply chain disruptions gradually become less significant

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Revenue Build	Doesn't disclos	Doesn't disclose								
US and Canada			$ 2,829,597	$ 2,995,534	$ 3,214,566	$ 3,471,731	$ 3,714,752	$ 3,937,638	$ 4,134,519	$ 4,341,245
% of Revenue			*74%*	*71%*	*70%*	*67%*	*66%*	*65%*	*64%*	*63%*
YoY Growth				*6%*	*7%*	*8%*	*7%*	*6%*	*5%*	*5%*
EMEA			$ 578,667	$ 674,509	$ 745,827	$ 969,575	$ 1,066,533	$ 1,173,186	$ 1,267,041	$ 1,368,404
% of Revenue			*15%*	*16%*	*16%*	*19%*	*19%*	*19%*	*20%*	*20%*
YoY Growth				*17%*	*11%*	*30%*	*10%*	*10%*	*8%*	*8%*
Asia Pacific			$ 251,426	$ 351,744	$ 423,792	$ 466,171	$ 503,465	$ 543,742	$ 587,241	$ 634,221
% of Revenue			*7%*	*8%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*
YoY Growth				*40%*	*20%*	*10%*	*8%*	*8%*	*8%*	*8%*
Latin America and Caribbean			$ 147,493	$ 179,032	$ 214,453	$ 300,234	$ 360,281	$ 425,132	$ 484,650	$ 542,808
% of Revenue			*4%*	*4%*	*5%*	*6%*	*6%*	*7%*	*7%*	*8%*
YoY Growth				*21%*	*20%*	*40%*	*20%*	*18%*	*14%*	*12%*
Total	$ 3,049,393	$ 3,369,045	$ 3,807,183	$ 4,200,819	$ 4,598,638	$ 5,207,712	$ 5,645,031	$ 6,079,697	$ 6,473,452	$ 6,886,678

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Operating Expenses										
Corporate and Unallocate	$ 228,505	$ 245,833	$ 269,325	$ 330,741	$ 348,170	365,579	383,857	403,050	423,203	444,363
YoY Growth		*8%*	*10%*	*23%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Freight-Out Costs	$ 83,600	$ 91,900	$ 128,500	$ 122,500	$ 134,100	208,308	225,801	212,789	194,204	206,600
% of Revenue	*3%*	*3%*	*3%*	*3%*	*3%*	*4%*	*4%*	*3.5%*	*3%*	*3%*
Advertising and Promotional Expenses	$ 270,600	$ 324,000	$ 353,900	$ 391,600	$ 345,700	364,540	451,602	547,173	582,611	619,801
% of Revenue	*9%*	*10%*	*9%*	*9%*	*8%*	*7%*	*8%*	*9%*	*9%*	*9%*
Other	$ 273,957	$ 277,170	$ 260,031	$ 270,805	$ 262,757	312,463	338,702	364,782	388,407	413,201
% of Revenue	*9%*	*2%*	*7%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Total	$ 856,662	$ 938,903	$ 1,011,756	$ 1,115,646	$ 1,090,727	$ 1,250,890	$ 1,399,963	$ 1,527,794	$ 1,588,424	$ 1,683,965

Source: CapIQ

Bear Case > -3% Downside

- Gross profit margin compression more severe than expected, with EBIT margin normalizing to be lower than 5-year historical average of 34.8%

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
YoY Growth										
Revenue		10.5%	13.0%	10.3%	9.5%	13.2%	8.4%	7.7%	6.5%	6.4%
Guggenheim						18.5%	10.9%	8.3%		
JP Morgan						17.6%	9.7%	10.0%		
EBIT		10.5%	7.1%	9.3%	16.4%	2.0%	8.4%	12.0%	8.5%	6.7%
Net Income		15.2%	21.0%	11.6%	27.2%	-7.6%	8.4%	12.0%	8.5%	8.4%
Margins										
Gross Profit	63.7%	63.5%	60.3%	60.0%	59.2%	56.0%	56.0%	57.0%	57.0%	57.0%
Guggenheim						57.1%	57.0%	56.9%		
JP Morgan						57.1%	57.2%	57.4%		
EBIT	35.6%	35.6%	33.7%	33.4%	35.5%	32.0%	31.2%	31.9%	32.5%	32.5%
Guggenheim						33.5%	32.1%	32.9%		
JP Morgan						33.7%	33.0%	32.8%		
Net Income	23.4%	24.4%	26.1%	26.4%	30.7%	25.0%	25.0%	26.0%	26.5%	27.0%
JP Morgan						25.7%	25.5%	25.3%		
Tax Rate		32%	23%	22%	24%	24.0%	24.0%	24.0%	24.0%	24.0%

(in thousands)	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Net Sales	$ 3,049,393	$ 3,369,045	$ 3,807,183	$ 4,200,819	$ 4,598,638	5,207,712	5,645,031	6,079,697	6,473,452	6,886,678
COGS	1,107,393	1,231,355	1,511,808	1,682,234	1,874,758	2,291,393	2,483,814	2,614,270	2,783,584	2,961,272
Gross Profit	1,942,000	2,137,690	2,295,375	2,518,585	2,723,880	2,916,319	3,161,217	3,465,427	3,689,867	3,925,407
Operating Expenses	856,662	938,903	1,011,756	1,115,646	1,090,727	1,250,890	1,399,963	1,527,794	1,588,424	1,683,965
EBIT	1,085,338	1,198,787	1,283,619	1,402,939	1,633,153	1,665,429	1,761,254	1,937,633	2,101,443	2,241,442
Other (expense) income, r	(5,653)	2,836	9,653	13,023	(6,996)					
Pre-tax Income	1,079,685	1,201,623	1,293,272	1,415,962	1,626,157					
Taxes	367,000	380,945	300,268	308,127	216,563					
Net Income	$ 712,685	$ 820,678	$ 993,004	$ 1,107,835	$ 1,409,594	1,301,928	1,411,258	1,580,721	1,715,465	1,859,403

Source: CapIQ

Bear Case > -3% Downside

	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
EBIT	1,198,787	1,283,619	1,402,939	1,633,153	1,665,429	1,761,254	1,937,633	2,101,443	2,241,442
*(1-Tax Rate)	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
NOPAT	**818,772**	**985,563**	**1,097,098**	**1,249,362**	**1,265,726**	**1,338,553**	**1,472,601**	**1,597,097**	**1,703,496**
(+) D&A	48,887	56,979	64,814	60,973	75,726	84,675	91,195	97,102	103,300
(-) Capex	83,435	61,941	101,661	48,722	62,493	79,030	109,435	129,469	137,734
(-) Delta in NWC	(39,074)	(79,609)	79,330	5,008	35,340	30,612	30,427	27,563	28,926
Unlevered FCF	**823,298**	**1,060,210**	**980,921**	**1,256,605**	**1,243,620**	**1,313,586**	**1,423,935**	**1,537,167**	**1,640,136**
Discount Factor					1.08	1.16	1.24	1.34	1.44
PV of FCF					1,156,856	1,136,689	1,146,212	1,151,031	1,142,451

WACC	
ERP	4.30%
Beta	1.11
Risk-Free Rate	1.2%
COE	5.97%
Weight	99.6%
CoD	5.50%
Weight	0.4%
Tax Rate	24%
WACC Calculated	5.97%
WACC Used	7.50%

Perpetuity Growth		
Growth Rate		4.0%
TV		48,735,480
NPV of TV		33,947,120
NPV of FCF		5,733,239
Cash		2,553,191
Debt		20,769
Equity Value		42,212,780.46
DSO		528,108
Target Price	$	79.93
Current Price	$	84.71
ROI		-6%

Exit Multiple		
EBITDA Multiple		21.50x
TV		50,411,948
NPV Of TV		35,114,877
NPV of FCF		5,733,239
Cash		2,553,191
Debt		20,769
Equity Value		43,380,538.43
DSO		528,108
Target Price	$	82.14
Current Price	$	84.71
ROI		-3%

WACC \ Perpetuity Growth	3.0%	3.5%	4.0%	4.5%	5.0%
6.5%	-2%	11%	30%	59%	106%
7.0%	-14%	-4%	9%	28%	56%
7.5%	-23%	-15%	-6%	7%	26%
8.0%	-30%	-24%	-17%	-7%	6%
8.5%	-36%	-31%	-26%	-18%	-9%

WACC \ EBITDA Multiple	17.5x	19.5x	21.5x	23.5x	25.5x
6.5%	-14%	-7%	1%	9%	16%
7.0%	-16%	-8%	-1%	6%	14%
7.5%	-18%	-10%	-3%	4%	12%
8.0%	-19%	-12%	-5%	2%	9%
8.5%	-21%	-14%	-7%	0%	7%

Source: CapIQ

Bull Case > 23% Upside

- Significantly rapid-growth in international markets
- Corporate and advertising & promotional expenses becoming a greater % of revenue, as international expansion requires increase in marketing investments
- Freight-out costs normalizing to 3% of revenue as supply chain disruptions gradually become less significant

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Revenue Build	Doesn't disclos	Doesn't disclose								
US and Canada			$ 2,829,597	$ 2,995,534	$ 3,214,566	$ 3,664,605	$ 4,067,712	$ 4,393,129	$ 4,700,648	$ 5,029,693
% of Revenue			*74%*	*71%*	*70%*	*65%*	*64%*	*63%*	*61%*	*60%*
YoY Growth				*6%*	*7%*	*14%*	*11%*	*8%*	*7%*	*7%*
EMEA			$ 578,667	$ 674,509	$ 745,827	$ 1,118,741	$ 1,297,739	$ 1,505,377	$ 1,686,022	$ 1,888,345
% of Revenue			*15%*	*16%*	*16%*	*20%*	*20%*	*21%*	*22%*	*23%*
YoY Growth				*17%*	*11%*	*50%*	*16%*	*16%*	*12%*	*12%*
Asia Pacific			$ 251,426	$ 351,744	$ 423,792	$ 483,123	$ 541,098	$ 606,029	$ 678,753	$ 760,203
% of Revenue			*7%*	*8%*	*9%*	*9%*	*9%*	*9%*	*9%*	*9%*
YoY Growth				*40%*	*20%*	*14%*	*12%*	*12%*	*12%*	*12%*
Latin America and Caribbean			$ 147,493	$ 179,032	$ 214,453	$ 343,125	$ 425,475	$ 519,079	$ 612,513	$ 710,516
% of Revenue			*4%*	*4%*	*5%*	*6%*	*7%*	*7%*	*8%*	*8%*
YoY Growth				*21%*	*20%*	*60%*	*24%*	*22%*	*18%*	*16%*
Total	$ 3,049,393	$ 3,369,045	$ 3,807,183	$ 4,200,819	$ 4,598,638	$ 5,609,593	$ 6,332,023	$ 7,023,615	$ 7,677,937	$ 8,388,757

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Operating Expenses										
Corporate and Unallocate	$ 228,505	$ 245,833	$ 269,325	$ 330,741	$ 348,170	379,505	413,661	450,890	491,470	535,703
YoY Growth		*8%*	*10%*	*23%*	*5%*	*9%*	*9%*	*9%*	*9%*	*9%*
Freight-Out Costs	$ 83,600	$ 91,900	$ 128,500	$ 122,500	$ 134,100	224,384	253,281	245,827	230,338	251,663
% of Revenue	*3%*	*3%*	*3%*	*3%*	*3%*	*4%*	*4%*	*3.5%*	*3%*	*3%*
Advertising and Promotional Expenses	$ 270,600	$ 324,000	$ 353,900	$ 391,600	$ 345,700	392,672	506,562	632,125	691,014	754,988
% of Revenue	*9%*	*10%*	*9%*	*9%*	*8%*	*7%*	*8%*	*9%*	*9%*	*9%*
Other	$ 273,957	$ 277,170	$ 260,031	$ 270,805	$ 262,757	336,576	379,921	421,417	460,676	503,325
% of Revenue	*9%*	*2%*	*7%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Total	$ 856,662	$ 938,903	$ 1,011,756	$ 1,115,646	$ 1,090,727	$ 1,333,136	$ 1,553,425	$ 1,750,259	$ 1,873,499	$ 2,045,679

Source: CapIQ

Bull Case > 23% Upside

- Gross profit margin compression less severe than expected, with EBIT margin normalizing to be roughly the same as 5-year historical average of 34.8%

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
YoY Growth										
Revenue		10.5%	13.0%	10.3%	9.5%	22.0%	12.9%	10.9%	9.3%	9.3%
Guggenheim						18.5%	10.9%	8.3%		
JP Morgan						17.6%	9.7%	10.0%		
EBIT		10.5%	7.1%	9.3%	16.4%	19.3%	17.2%	15.0%	11.3%	9.3%
Net Income		15.2%	21.0%	11.6%	27.2%	3.5%	17.2%	15.0%	11.3%	11.2%
Margins										
Gross Profit	63.7%	63.5%	60.3%	60.0%	59.2%	58.5%	58.5%	59.0%	59.2%	59.2%
Guggenheim						57.1%	57.0%	56.9%		
JP Morgan						57.1%	57.2%	57.4%		
EBIT	35.6%	35.6%	33.7%	33.4%	35.5%	34.7%	34.0%	34.1%	34.8%	34.8%
Guggenheim						33.5%	32.1%	32.9%		
JP Morgan						33.7%	33.0%	32.8%		
Net Income	23.4%	24.4%	26.1%	26.4%	30.7%	26.0%	27.0%	28.0%	28.5%	29.0%
JP Morgan						25.7%	25.5%	25.3%		
Tax Rate		32%	23%	22%	24%	24.0%	24.0%	24.0%	24.0%	24.0%

(in thousands)	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Net Sales	$ 3,049,393	$ 3,369,045	$ 3,807,183	$ 4,200,819	$ 4,598,638	5,609,593	6,332,023	7,023,615	7,677,937	8,388,757
COGS	1,107,393	1,231,355	1,511,808	1,682,234	1,874,758	2,327,981	2,627,790	2,879,682	3,132,598	3,422,613
Gross Profit	1,942,000	2,137,690	2,295,375	2,518,585	2,723,880	3,281,612	3,704,234	4,143,933	4,545,338	4,966,144
Operating Expenses	856,662	938,903	1,011,756	1,115,646	1,090,727	1,333,136	1,553,425	1,750,259	1,873,499	2,045,679
EBIT	1,085,338	1,198,787	1,283,619	1,402,939	1,633,153	1,948,476	2,150,809	2,393,674	2,671,839	2,920,465
Other (expense) income, ı	(5,653)	2,836	9,653	13,023	(6,996)					
Pre-tax Income	1,079,685	1,201,623	1,293,272	1,415,962	1,626,157					
Taxes	367,000	380,945	300,268	308,127	216,563					
Net Income	$ 712,685	$ 820,678	$ 993,004	$ 1,107,835	$ 1,409,594	1,458,494	1,709,646	1,966,612	2,188,212	2,432,740

Source: CapIQ

Bull Case > 23% Upside

	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
EBIT	1,198,787	1,283,619	1,402,939	1,633,153	1,948,476	2,150,809	2,393,674	2,671,839	2,920,465
*(1-Tax Rate)	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
NOPAT	**818,772**	**985,563**	**1,097,098**	**1,249,362**	**1,480,842**	**1,634,615**	**1,819,192**	**2,030,598**	**2,219,554**
(+) D&A	48,887	56,979	64,814	60,973	81,570	94,980	105,354	115,169	125,831
(-) Capex	83,435	61,941	101,661	48,722	67,315	88,648	126,425	153,559	167,775
(-) Delta in NWC	(39,074)	(79,609)	79,330	5,008	63,472	50,570	48,411	45,803	49,757
Unlevered FCF	**823,298**	**1,060,210**	**980,921**	**1,256,605**	**1,431,625**	**1,590,376**	**1,749,710**	**1,946,406**	**2,127,852**
Discount Factor					1.08	1.16	1.24	1.34	1.44
PV of FCF					1,331,744	1,376,205	1,408,447	1,457,470	1,482,174

WACC	
ERP	4.30%
Beta	1.11
Risk-Free Rate	1.2%
COE	5.97%
Weight	99.6%
CoD	5.50%
Weight	0.4%
Tax Rate	24%
WACC Calculated	5.97%
WACC Used	7.50%

Perpetuity Growth	
Growth Rate	4.0%
TV	63,227,613
NPV of TV	44,041,739
NPV of FCF	7,056,040
Cash	2,553,191
Debt	20,769
Equity Value	53,630,201.25
DSO	528,108
Target Price	$ 101.55
Current Price	$ 84.71
ROI	20%

Exit Multiple	
EBITDA Multiple	21.50x
TV	65,495,377
NPV Of TV	45,621,370
NPV of FCF	7,056,040
Cash	2,553,191
Debt	20,769
Equity Value	55,209,831.76
DSO	528,108
Target Price	$ 104.54
Current Price	$ 84.71
ROI	23%

WACC	Perpetuity Growth 3.0%	3.5%	4.0%	4.5%	5.0%
6.5%	24%	42%	66%	103%	165%
7.0%	9%	22%	39%	63%	100%
7.5%	-3%	7%	20%	37%	61%
8.0%	-12%	-4%	5%	18%	35%
8.5%	-20%	-14%	-6%	4%	16%

WACC	EBITDA Multiple 17.5x	19.5x	21.5x	23.5x	25.5x
6.5%	9%	19%	29%	39%	49%
7.0%	7%	16%	26%	36%	45%
7.5%	4%	14%	23%	33%	42%
8.0%	2%	12%	21%	30%	39%
8.5%	0%	9%	18%	27%	36%

Source: CapIQ

Willis Towers Watson (NYSE: WLTW)

Insurance Brokerage with Compelling Turnaround Story

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Expected IRR: XX.X% November 8th, 2021

Business Description:

Willis Towers Watson operates the third largest insurance brokerage and consulting business in the world behind AON and MMC. In 2020 WLTW generated $9.4bn in sales; insurance brokerage accounted for about 50% of sales while consulting services accounted for the other 50%. They operate globally and 53% of revenue comes from North America and 47% internationally. WLTW places insurance with more than 2,500 insurance carriers, none of which individually accounted for a significant concentration of the total premiums for its clients. WLTW focuses on large enterprises, serving 91% of the Fortune 1000, and 91% of the Fortune 500. The company operates in the following segments: Risk & Broking (insurance brokerage and risk advisory business) and Health, Wealth & Career (consulting business focused on retirement and health benefits, and talent and rewards). In July, the DOJ blocked WLTW's megamerger plans with AON. Since then, the stock has recovered and WLTW hired a new CEO who introduced a large transformation plan, which the market seems to be ignoring.

Investment Thesis:

Although historically the worst capital allocator of the Big Three (AON, MMC, and WLTW), WLTW presents an attractive risk/reward given the (a) widening valuation gap to comps, (b) ability to repurchase ⅓ of its market cap in the next 3 years and (c) defensible business model with margin expansion opportunities.

- **Widening valuation gap to comps despite clear operational improvements:** Historically, WLTW trades much cheaper than comps due to lower EBITDA margins and ROIC (see Appendix B) driven by poor capital allocation, a history of failed promises, lack of organic growth, talent retention issues, and integration problems (see Appendix C). The biggest risk to any insurance brokerage is losing talent because all the publicly traded insurance brokers depend, for some part of their growth, on acquiring other brokers. WLTW has faced some employee retention issues but they are hiring back aggressively, and top talent attraction is a priority in their transformation plan
- **New management team looking to close that gap:** Carl Hess has worked at the company for 30+ years. He previously led IRR, WLTW's fastest growing sector. He improved IRR's operating margin over 540bps during 2017-2020. Led American side of business and grew revenue over 6.5% CAGR during tenure. WLTW is planning to make senior management's compensation packages tied to their strategic goals and metrics as outlined above. He has plans to generate enough FCF to purchase 1/3 of market cap (see Appendix D). On bottom line, he expects to drive $300mm+ in cost reductions. If they can execute, they expect 24-25% operating margins by 2024.
- **Activist involvement hedges out poor capital allocation risk:** Recently large activist funds such as Elliot and Starboard took stakes in WLTW. They are largely there to ensure that management does not deviate from their transformation plan and targets and, like us, they see attractive upside from here. The increased regulatory scrutiny from the DOJ after the failed AON merger puts handcuffs on the management team such that they cannot purse large-scale and sloppy M&A as they have in the past.

Risks:

- Execution risk on management's operating plan
- Talent retention risk – brokers leaving WLTW for other Big Three players

Key Ratios and Statistics:

3Y Price Target: $340
Expected IRR 14.33%

Share Price (11/05/21)	$231.31
Market Cap ($mm)	$28,882
EV/EBITDA (fwd)	11.52x
P/E (fwd)	16.72x
Average Daily Volume (mm)	1.83
52-Week Low	$185.67
52-Week High	$271.87

FY ($mm)	2021E	2022E	2023E
Revenues	$8,966	$3,817	$4,127
EBIT	278	339	409
EBITDA	358	407	483
Net Income	177	223	281

Figure 1 – Company Sales and EBIT Mix

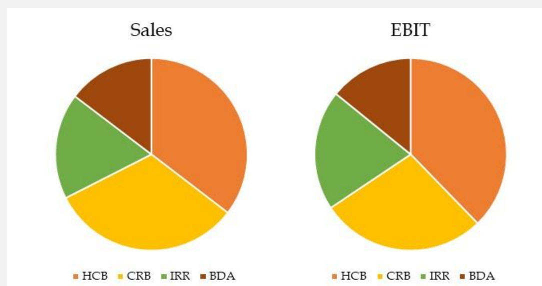
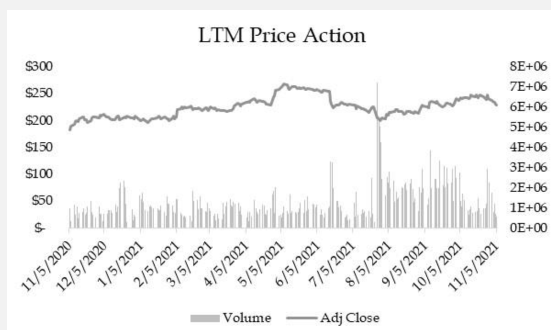


Figure 2 – Share Price and Volume



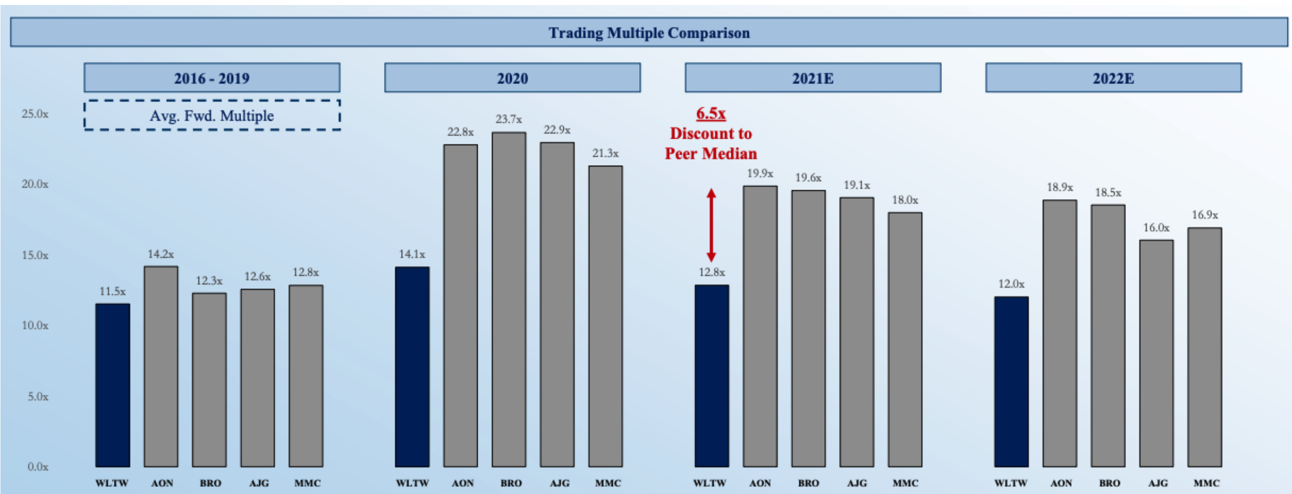
History of Investment Recommendation and Next Steps

We started looking at Willis Towers Watson this summer after its failed merger with Aon and subsequent forced selling from merger arb funds. At the time, WLTW presented an incredible risk-reward trade, but much of the downward pressure from the forced selling is gone, as the stock trades only slightly below where it was before the DOJ blocked the merger. Nonetheless, we still looked into WLTW and found it was incredibly cheap compared to its comps in the insurance brokerage oligopoly. This was largely due to very poor capital allocation, a history of failed promises, and lack of relative organic growth. WLTW recently fired its old CEO, hired Carl Hess as its new CEO, and introduced a significant transformation plan that includes cost cutting initiatives and a heavy share buyback program with EPS, margin, and organic growth goals that should allow it to trade at levels more comparable to comps. We believe the market isn't giving WLTW credit for its relatively straightforward transformation plan due to its inherent structural flaws.

WLTW certainly has some inherent issues and although it operates in a great industry and would be favorable exposure to our portfolio, we question if owning a better business in the same industry would be better. **Brown & Brown (NYSE:BRO)** is an insurance brokerage business that dominates the SME advising and lower-middle market brokerage space, with the same structural benefits of WLTW and without the inherent risks. We would welcome feedback from the Board of Advisors on next steps for these proposals and are happy to continue researching BRO should there be any follow-up questions from the Board.

Conclusion – We would recommend a long on WLTW despite these issues, as we find the underlying risk-reward still relatively compelling. However, we would welcome feedback from the Board regarding whether this is a strong enough standalone idea or if we should pursue Brown & Brown further.

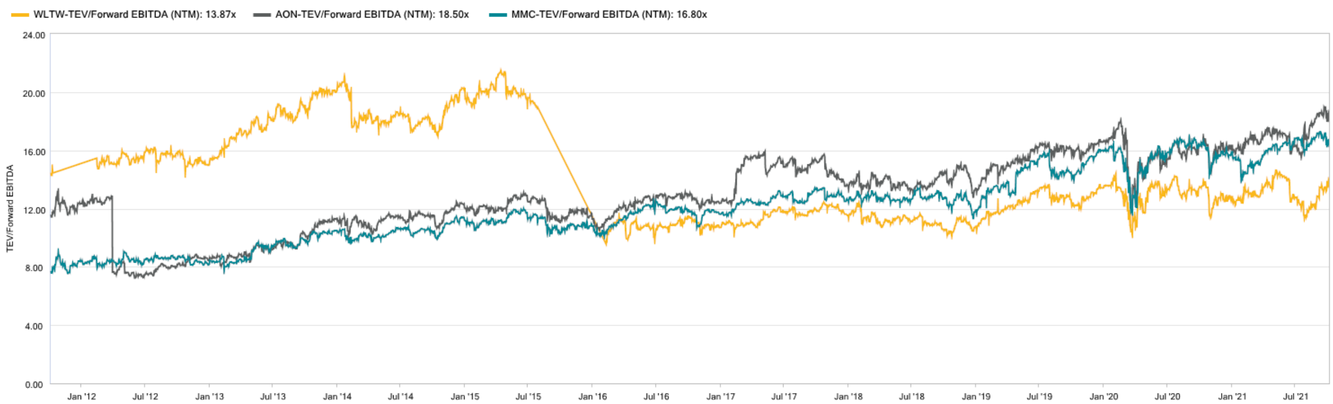
Appendix A: WLTW vs Comps (source: Starboard Value)



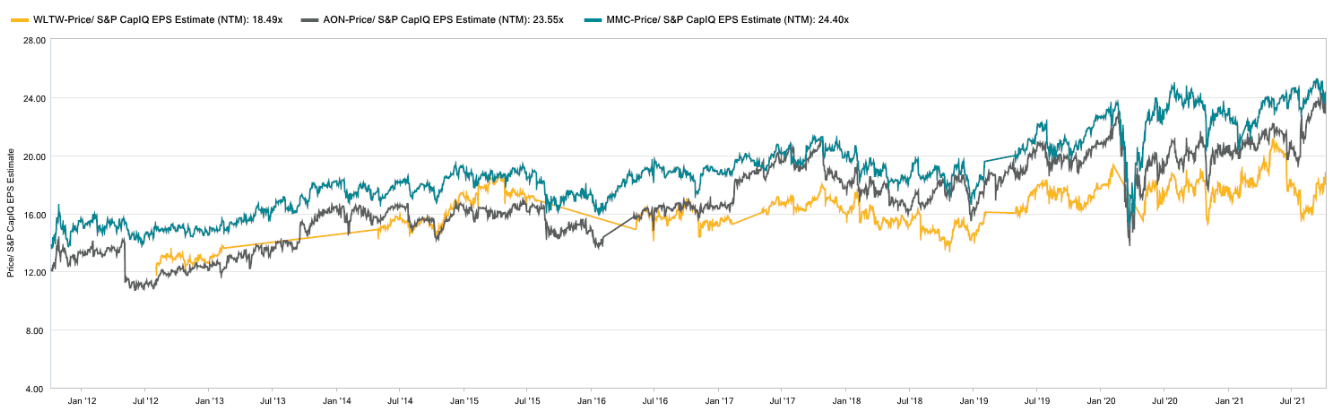
Appendix B:

<u>EBITDA Multiple Gap (WLTW in Yellow)</u>

Focus on after Jul 2015 as that is when WLTW was formed



<u>P/E Multiple Gap</u>



FY	**2016**	**2017**	**2018**	**2019**	**2020**
AON ROIC (D+E)	13%	11%	16%	17%	21%
MMC ROIC (D+E)	17%	13%	17%	12%	12%
WLTW ROIC (D+E)	9%	9%	7%	8%	8%

Appendix C: TEGUS transcript highlighting M&A integration issues from the perspective of an employee

"Well, it's all opinion-based here. From my perspective, I went through the Towers Watson merger. Their new CEO is from the Towers Watson side of the house. They don't understand risk and brokering, period. They have no idea what we do. This is all public information. When that Towers Watson Willis merger occurred, there was a commitment to TheStreet that they would grow $300 million and basically cross-selling clients and doing property and casualty, where they didn't do it, and doing some of the benefits and pension stuff where maybe Willis was on it, didn't do it. So it looked like a good merger and good fit. None of that happened. And the reason that didn't happen is the Willis producers that are successful are making seven-figure money. <u>So your top 10% are all making over $1 million</u>. Nobody at Towers Watson made that money. So Towers Watson was a Fortune 1000-type client driving business. Willis was growing in the Fortune 1000, but a lot of middle market business. So our clients from a size scale didn't match up. So they had more clients in the Fortune 500 space than we did. So there was more opportunity for Willis brokers to go and infiltrate that business. And that did not happen. And our compensation structure within a few months was changed to where it was discretionary. If a guy like me was to go procure a large account at Fortune 500 that happened to be a Towers Watson client, and I think they had 80% market share of some line of coverage in their product offerings in that Fortune 500 space. So do I want to go and spend my time and go sell an enterprise rental car, a large, huge Fortune 300 client and not know how I'm going to get compensated? Or I want to go sell a deal on a Fortune 1000 client and probably make the same amount of money?"

Appendix D: WLTW will generate 1/3 of its market cap in cash with a substantial amount being retuned to shareholders

WLTW is a Cash Printer	
Balance Sheet Cash	2.2
AON Breakup Fee	1.0
Willis Re Sale	3.3
Debt Issuance (lever 2.5x)	1.4
NTM FCF	1.7
Total (USD bn)	**9.6**
Mcap	31.1
% Mcap	*31%*

USD mm	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Earnings Model								
Segment Breakdown								
HCB								
Sales	3,176	3,233	3,298	3,278	3,360	3,478	3,617	3,779
EBITA	774	789	848	853	874	1,043	1,121	1,209
CRB								
Sales	2,709	2,852	2,946	2,977	3,126	3,282	3,446	3,619
EBITA	483	528	578	630	625	689	758	832
IRR								
Sales	1,474	1,556	1,637	1,651	295	316	347	399
EBITA	329	384	420	457	77	92	108	132
BDA								
Sales	734	758	1,035	1,359	1,454	1,600	1,791	1,971
EBITA	153	144	244	320	349	432	520	611
Corporate								
Other Sales	109	114	123	87	136	212	222	234
Unallocated Expenses	(230)	(300)	(259)	(416)	(268)	(310)	(338)	(391)
Total Revenue	**8,093**	**8,399**	**8,916**	**9,265**	**8,235**	**8,675**	**9,202**	**9,768**
Total EBITA	**1,509**	**1,545**	**1,831**	**1,844**	**1,657**	**1,946**	**2,169**	**2,393**
Drivers								
HCB								
Sales		1.79%	2.01%	(0.61)%	2.50%	3.50%	4.00%	4.50%
EBITA	24.37%	24.40%	25.71%	26.02%	26.00%	30.00%	31.00%	32.00%
CRB								
Sales		5.28%	3.30%	1.05%	5.00%	5.00%	5.00%	5.00%
EBITA	17.83%	18.51%	19.62%	21.16%	20.00%	21.00%	22.00%	23.00%
IRR								
Sales		5.56%	5.21%	0.86%	(37.00)%	7.00%	10.00%	15.00%
EBITA	22.32%	24.68%	25.66%	27.68%	26.00%	29.00%	31.00%	33.00%
BDA								
Sales		3.27%	36.54%	31.30%	7.00%	10.00%	12.00%	10.00%
EBITA	20.84%	19.00%	23.57%	23.55%	24.00%	27.00%	29.00%	31.00%
Corporate								
Other Sales	1.48%	1.49%	1.56%	1.10%	2.00%	3.00%	3.00%	3.00%
Unallocated Expenses	(14.50)%	(17.64)%	(14.03)%	(21.44)%	(17.00)%	(17.00)%	(17.00)%	(18.00)%
Total Revenue		3.78%	6.16%	3.91%	(11.12)%	5.34%	11.74%	6.15%
Total EBITA	18.65%	18.40%	20.54%	19.90%	20.12%	22.43%	23.57%	24.50%

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Income Statement

Revenue	8,093	8,399	8,916	9,265	8,235	8,675	9,202	9,768
EBITA	**1,509**	**1,545**	**1,831**	**1,844**	**1,657**	**1,946**	**2,169**	**2,393**
Amortization	581	534	489	462	412	434	460	488
Other Adj.	190	202	13	199	200	200	200	200
GAAP EBIT	**738**	**809**	**1,329**	**1,183**	**1,045**	**1,312**	**1,509**	**1,705**
Interest	188	208	234	244	242	199	132	66
Other (income)	61	(250)	(227)	(399)	(247)	(260)	(276)	(293)
EBT	**489**	**851**	**1,322**	**1,338**	**1,050**	**1,373**	**1,652**	**1,931**
Tax	(100)	136	249	318	220	288	347	406
Minority Interest	24	20	29	24	20	20	20	20
NI	**565**	**695**	**1,044**	**996**	**809**	**1,065**	**1,285**	**1,506**
EPS, basic	4.19	5.31	8.03	7.66	6.66	9.23	11.50	13.88
EPS, diluted	4.12	5.25	7.98	7.62	6.62	9.18	11.44	13.80

Cash Flow

NI	565	695	1,044	996	809	1,065	1,285	1,506
D	252	213	240	308	247	260	276	293
A	581	534	489	462	412	434	460	488
SBC	67	50	74	90	74	78	83	88
Delta WC	(334)	(137)	(929)	(114)	(1,357)	1,717	1,015	961
NOL Cash	-	-	-	-	132	63	-	-
Other	(269)	(67)	163	32	-	-	-	-
CFFO	**862**	**1,288**	**1,081**	**1,774**	**317**	**3,617**	**3,120**	**3,336**
Capex	(300)	(268)	(246)	(223)	(247)	(260)	(276)	(293)
FCF	**562**	**1,020**	**835**	**1,551**	**70**	**3,357**	**2,844**	**3,043**
Acquisitions	(13)	(36)	(1,329)	(69)	-	-	-	-
Divestitures	57	4	17	212	3,250	-	-	750
Dividends	(277)	(306)	(329)	(346)	(300)	(300)	(300)	(300)
NCI Dividends	(51)	(26)	(55)	(28)	(30)	(30)	(30)	(30)
Share Issuance	61	45	45	16	20	20	20	20
Share Repurchase	(532)	(602)	(150)	-	(2,000)	(1,500)	(1,000)	(1,000)
Free Cash	**(193)**	**99**	**(966)**	**1,336**	**1,010**	**1,547**	**1,534**	**2,483**

Balance Sheet

Market Cap	18,541	19,208	23,130	25,117	27,631	26,230	27,947	29,845
Cash	(1,030)	(1,033)	(887)	(2,089)	(2,089)	(2,089)	(2,089)	(2,089)
Total Debt	4,535	4,575	5,617	5,635	4,625	3,078	1,545	(938)
OPEB	1,259	1,170	1,324	1,405	1,405	1,405	1,405	1,405
WC @ 3% of Sales	243	252	267	278	247	260	276	293
Total Capitalization	**23,548**	**24,172**	**29,452**	**30,346**	**31,820**	**28,884**	**29,084**	**28,516**
EBITA	1,509	1,545	1,831	1,844	1,657	1,946	2,169	2,393
EBITDA	1,761	1,758	2,071	2,152	1,904	2,206	2,445	2,686

Valuation		Return Stream	11/5/2021	12/31/2021	12/31/2022	12/31/2023	12/31/2024
Multiple (2024)	14.96x	Dividend/share		0.82	2.59	2.67	2.75
EBITA	2,393	Cap Gain	(229.86)	-	-	-	340.33
EV	35,796	Cash Flow	(229.86)	0.82	2.59	2.67	343.08
(-) Net Debt - Assets	(1,329)	IRR	14.33%				
Equity Value	37,125						
Per Share	340.33						
Price Today	229.86						

EV Today	35,263.51	EV Out-Year	35,796	% Change	1.51%
Sales	9,265	Sales	9,768	% Change	5.43%
Margin	19.90%	Margin	24.5%	Expansion	4.60%
EBITA	1,844	EBITA	2,393.17	% Change	29.78%
Multiple	19.12x	Multiple	14.96x	Expansion	-4.17x
Net Debt - Assets	5,229	Net Debt - Assets	(1,329)	De-levering	(6,558)
Shares Outstanding	131	Shares Outstanding	109	Share Delta	(22)
Price	230	Price	340	% Change	48.06%
Dividends	8.83				