STERN IAG

Board of Advisors Meeting

October 6th, 2022

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Letter from Portfolio Managers

Dear Board of Advisors,

We are very excited to be kicking off the new IAG year, especially now that school is fully back in-person! Over the summer break, and the past four weeks we have worked to fully implement and incorporate several of our investment process improvements from last year, including the role of a "devil's advocate" on ideas approaching oversight.

Operationally, we are proud to introduce our new P-team hires. After two rounds of interviews culminating in a stock pitch, IAG accepted 7 freshmen into their portfolio team this semester. Our new hires are Nihir Addla, Jash Bhatia, Katherine Chen, Liam Cho, Sherry Hu, Pravar Jain, and Zachary Zinn. They will begin our 10-week training process and hopefully be an official part of our P-team next semester.

Since our last meeting in May 2022 , the market has seen a general sell-off across its indices, with thoughts of a recessionary economic environment catalyzing a market drawdown. While the S&P 500 return over this summer has been ~-20%, there is still a lot of room for uncertainty regarding the trajectory in the market. Investors have been acutely focused over the past several weeks on the consecutively concerning inflation reports, ongoing Russia/ Ukraine tension, as well as the development of the pandemic. Underlying all these other concerns are the ongoing issues of supply chain backlogs and commodity prices.

Bearing these macro risks in mind, we will be both watching our legacy positions more closely while also looking for new ideas in more defensive industries over the upcoming semesters. As a result, we are today asking to add to our portfolio more defensive new ideas (Camtek Ltd and Embecta Corp.).

Overall, we are happy with how our portfolio is holding up under this environment. IAG's fund has returned -10.9% on an LTM basis, beating the S&P500 benchmark return of -13.1% by 2.2%. We attribute most of this to our industrial bias.

We would also like to take a moment to thank Prof Brad Hintz for his very generous $10,000 donation to the Fund, which has brought our AUM to ~$84,300. We are incredibly grateful for his confidence in our process, as well as providing us the unique challenge of deciding how to best allocate fresh capital in a portfolio. We have taken much time discussing this question internally these past several weeks and have ultimately decided that rather than double down on several of our previous positions – which we may well still do should an opportunity arise – we would instead like to pursue fresh and new ideas and be comfortable with holding onto cash.

Today, we are pleased to present the following businesses that exemplify our investment philosophy:

1. Camtek LTD. (NASDAQ: CAMT) — Misunderstood semi-cap equipment manufacturer with overstated geopolitical risks
2. Embecta Corp.. (NASDAQ: EMBC) — Undervalued low-risk legacy pharmaceutical spin-off with high margins and new execution capabilities

We look forward to the remainder of the semester and are more than happy to continue being a source of information to the Board and encourage you all to reach out with feedback or clarifications at any time.

Best,

Niranjan Narasimhan & Rahul Parikh

Portfolio Managers

II. Performance Analysis

Holdings Summary *(as of October 4thth, 2022)*

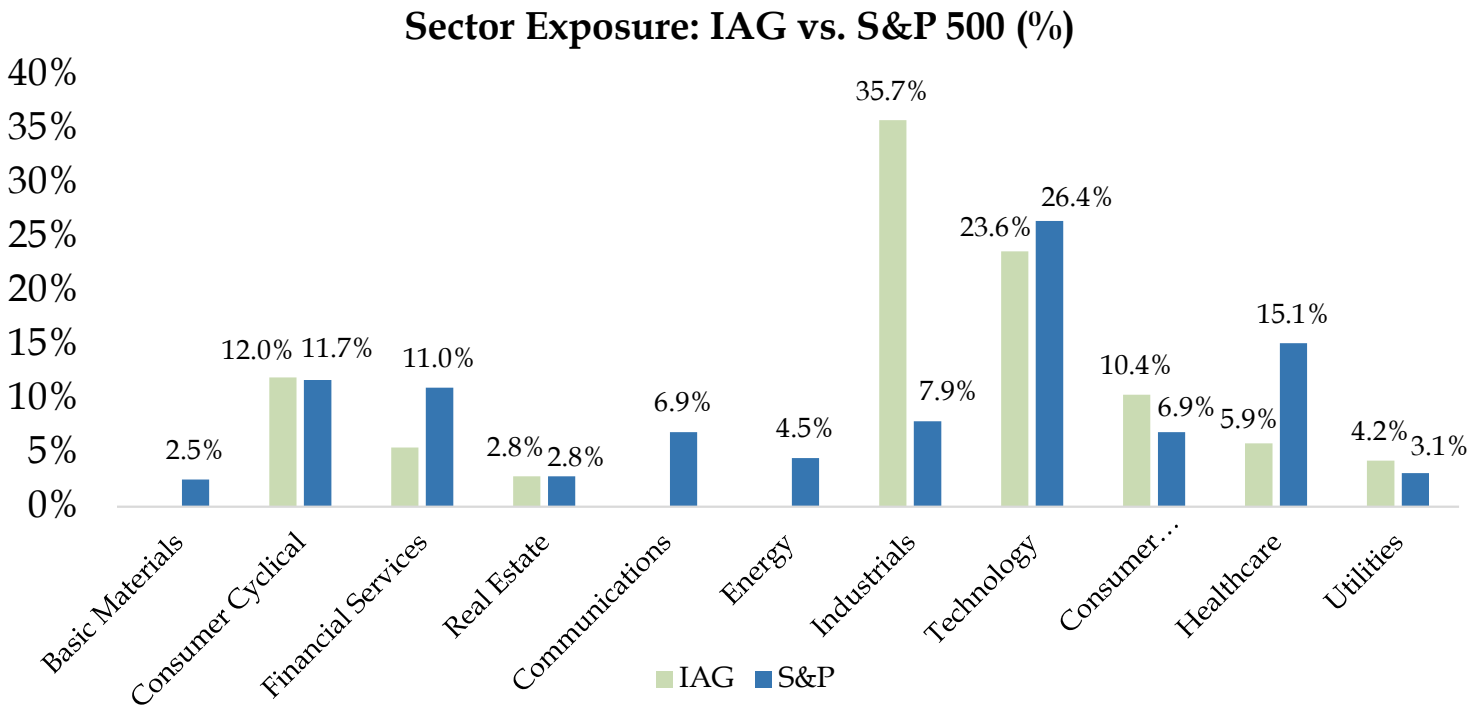
Current Holdings										
Company Name	Ticker	Coverage	Date of Purchase	% of Portfolio	Share Count	Price At Purchase	Share Price	Current Return	Industry	Holding Type
APi Group Corp	NYSE: APG	Pravar Jain	9/24/2020	2.82%	160	14.29	14.89	4.20%	Industrials	Core
Berry Global Group Inc	NYSE: BERY	Sophie Pan	12/2/2020	2.91%	50	54.60	49.09	-10.09%	Industrials	Core
Builders FirstSource Inc	NYSE: BLDR	Rahul Parikh	10/5/2021	6.02%	80	52.20	63.45	21.55%	Industrials	Core
Catapult Group International Ltd	ASX: CAT	Rahul Parikh	12/7/2021	2.17%	2100	1.07	0.87	-18.69%	Technology	Oppt.
Concrete Pumping Holdings Inc	NASDAQ: BBCP	Alex Isaac	3/26/2021	2.36%	300	7.07	6.63	-6.22%	Industrials	Core
Exelon Corp	NASDAQ: EXC	Rhys Berezny	4/30/2021	3.32%	70	44.83	40.01	-10.75%	Utilities	Oppt.
Flex Ltd	NASDAQ: FLEX	Rhys Berezny	10/5/2021	4.95%	230	17.88	18.17	1.62%	Technology	Core
HCA Healthcare Inc	NYSE: HCA	Karen Phua	9/26/2019	4.59%	19	119.99	203.9	69.93%	Healthcare	Core
JD.com Inc ADR	NASDAQ: JD	Nithin Mantena	4/30/2021	2.47%	40	77.55	52.04	-32.89%	Consumer Cyclical	Oppt.
Krispy Kreme Inc	NASDAQ: DNUT	Robert Eisenman	12/7/2021	3.66%	260	16.50	11.87	-28.06%	Consumer Defensive	Oppt.
Methode Electronics Inc	NYSE: MEI	Carol Sun	2/19/2021	3.61%	80	38.56	38.09	-1.22%	Technology	Core
Monster Beverage Corp	NASDAQ: MNST	Alice Yu	11/9/2021	4.45%	41	91.00	91.65	0.71%	Consumer Defensive	Core
Office Properties Income Trust	NASDAQ: OPI	Mikhail Talib	10/28/2020	2.20%	130	17.85	14.3	-19.89%	Real Estate	Core
Palo Alto Networks Inc	NASDAQ: PANW	Alex Isaac	9/24/2020	6.18%	30	80.17	173.84	116.85%	Technology	Core
Restoration Hardware	NYSE: RH	Rahul Parikh	3/30/2022	3.15%	10	323.66	265.71	-17.90%	Consumer Cyclical	Core
Sea Ltd ADR	NYSE: SE	Niranjan Narasimhan	2/18/2022	1.73%	24	133.00	60.67	-54.38%	Technology	Oppt.
Sonic Automotive Inc Class A	NYSE: SAH	Vinny Ye	5/5/2022	3.76%	70	48.00	45.31	-5.60%	Consumer Cyclical	Core
TransDigm Group Inc	NYSE: TDG	Raunakk Jalan	4/9/2020	6.01%	9	527.65	563.52	6.80%	Industrials	Core
United Rentals Inc	NYSE: URI	Carol Sun	3/14/2019	4.88%	14	114.85	294.26	156.21%	Industrials	Core
Willis Towers Watson PLC	NASDAQ: WTW	Mikhail Talib	11/9/2021	4.29%	17	231.70	213.11	-8.02%	FInancial Services	Core
ZTO Express (Cayman) Inc ADR	NYSE: ZTO	Niranjan Narasimhan	3/14/2019	3.00%	100	19.43	25.29	30.16%	Industrials	Core
Total Equity Holdings				78.54%	$66,257.72					
Cash				21.46%	$18,100.00					
Total Portfolio Holdings				100.00%	$84,357.72					

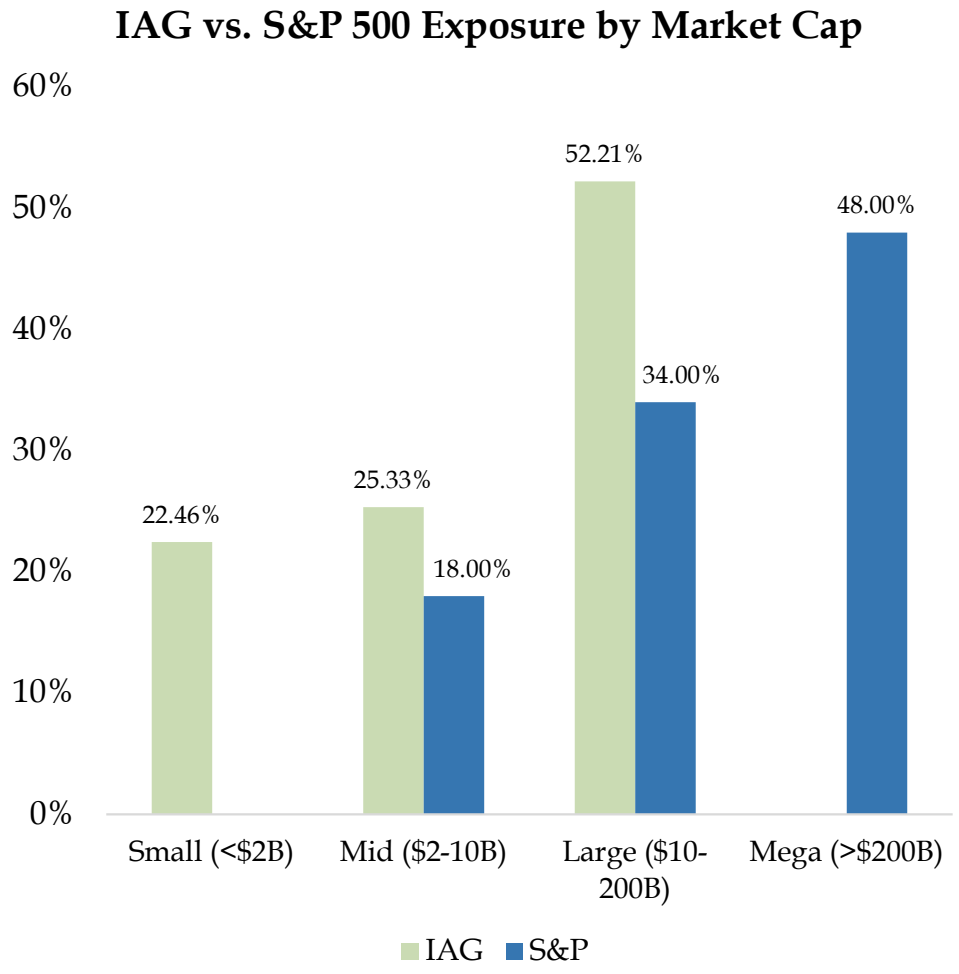
IAG vs S&P 500 LTM Returns

On a last twelve-month basis, **IAG's portfolio has returned -10.90%** while the S&P 500 returned -13.05%. Since the last oversight meeting, **the spread between IAG's portfolio and the S&P 500 improved from -0.77% (5/2/22) to 2.15% (10/4/22).**

Our opportunistic positions now represent ~14.2% 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 and large-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 May 2022 Meeting

Internal Pitches Since May 2022 Meeting				
	Comapny	Stage	Date	Analysts
1	Rimini Street	Initial Screen	9/8/2022	Winston Yin
2	Camtek Ltd.	Initial Screen	9/8/2022	Nithin Mantena
3	Griffon Corporation	Initial Screen	9/8/2022	Sean Chen
4	Olo Inc.	Initial Screen	9/8/2022	Vinny Ye
5	Coty Inc.	Initial Screen	9/13/2022	Carol Sun
6	Franchise Group	Initial Screen	9/13/2022	Mikhail Talib
7	ADT Inc	Initial Screen	9/13/2022	Robert Eisenman
8	Farfetch Ltd	Initial Screen	9/13/2022	Amy Chen, Sophie Pan
9	Waste Management	Initial Screen	9/13/2022	Dov Levy
10	Consol. Comm Holding	Initial Screen	9/19/2022	Pravar Jain
11	AXT Inc	Initial Screen	9/19/2022	Alex Isaac
12	Embecta Corp	Initial Screen	9/19/2022	Rhys Berezny
13	Harley Davidson Inc	Initial Screen	9/19/2022	Alice Yu
14	Farfetch Ltd	First Update	9/19/2022	Amy Chen, Sophie Pan
15	Camtek Ltd.	First Update	9/19/2022	Nithin Mantena
16	Build-a-Bear Workshop	Initial Screen	9/19/2022	Winston Yin, Christina Monev
17	Embecta Corp	Devil's Advocate	9/28/2022	Vinny Ye
18	Camtek Ltd.	Devil's Advocate	9/28/2022	Raunakk Jalan
19	Harley Davidson Inc	First Update	9/28/2022	Alice Yu
20	Farfetch Ltd	Devil's Advocate	9/28/2022	Sean Chen, Karen Phua

Active Pipeline				
	Comapny	Stage	Date	Analysts
1	Rimini Street	Initial Screen	9/8/2022	Winston Yin
2	Build-a-Bear Workshop	Initial Screen	9/19/2022	Winston Yin, Christina Monev
3	Consol. Comm. Holding	Initial Screen	9/19/2022	Pravar Jain
4	Harley Davidson Inc	First Update	9/28/2022	Alice Yu
5	Farfetch Ltd	Devil's Advocate	9/28/2022	Amy Chen, Sophie Pan

Oversight Meeting				
	Comapny	Stage	Date	Analysts
1	Camtek Ltd	Devil's Advocate	9/28/2022	Nithin Mantena
2	Embecta Corp	Devil's Advocate	9/28/2022	Rhys Berezny

III. Key Holdings Update

Portfolio Updates Since May 2022 Meeting

Company	Ticker	Update
APi Group	**APG**	We propose a hold on APG. Since our last oversight meeting, the company reported Q1 and Q2 earnings results for 2022. In Q1, the company recorded 15.9% of organic revenue growth and a 302 bps increase in gross margins to 25.6%. Q2 earnings were in line with analysts' expectations, as the company reported a 12.3% increase in organic revenue with gross margins continuing to improve to 26.4%. The Chubb acquisition has continued to provide strong results but has been hindered by its exposure to European markets which have been impacted by the Russia-Ukraine conflict as well as soaring inflation. Its integration costs have been somewhat dampening FCF generation recently, but we expect those yields to rise again. The company continues to trade cheaply at 9-10x EBITDA. We are also monitoring the company's debt profile, as leverage has gone up about 30% due to floating rate debt agreements. Despite these headwinds, we are confident that organic revenue growth will remain strong and that our theses will continue to play out.
Berry Global	**BERY**	We propose a hold in our stake in Berry Global. Since the last oversight meeting last spring, the company reported Q3 earnings in August. The stock is down ~35% YTD, which is largely in line with performance of comps with this inflationary backdrop. Some earnings highlights are that Berry reported $3.7bn in revenues (6% growth YoY), $550mm operating EBITDA (2% growth YoY), and $2.03 adjusted EPS (10% growth YoY, slight consensus beat). Growth includes price increases of ~10% related to inflation passthrough. Overall, organic volumes are sustained and underlying free cash flow generation remains very strong with FY22 guidance at $750mm with a one-time $150mm working capital use due to inflation and higher inventory to mitigate supply chain risk and expectation to return to $900mm free cash flow profile once rails normalize. Another point to note is the capital allocation strategy. Management has continued with their share buyback program announced in Q1 - repurchased $285mm shares (~4% of shares outstanding) this quarter for $637mm of capital returned to shareholders YTD (~8% of shares outstanding) and anticipate repurchasing at least $700mm of shares total in FY22, with the remaining cash directed toward net leverage reduction.
Builders FirstSource	**BLDR**	We propose a hold on our stake in Builders Firstsource. Since our last update, the stock price has remained relatively steady around ~$61 per share, representing about 18% upside since we opened the position. Since the meeting in May, the major news from the company has been the closing of the Trussway acquisition, which is a specialty roof and floor truss pre-fabrication provider, in line with our thesis of rolling up prefab businesses. The other major news has been the record Q2 earnings beat, nearly doubling the EPS projections and seeing the stock rise to nearly $73. However, there has been a slight sell-off since then as BLDR is generally exposed to commodity prices and interest rates, and the market has generally drawn downwards. However, the manufactured products have been able to weather the storm, as well as the scale generated from a successful merger with BMC holdings, which has led to outperformance. We look forward to Q3 results, which will be presented November 3rd.
Catapult Sports	**CAT**	We propose a hold on Catapult Sports. Since our last meeting, the stock price has drawn down ~12-15%, generally due to the higher beta nature of the early-stage tech business combined with the broader market sell-off, as there have not been any structural changes to the business / earnings / news releases. The only noteworthy piece of information is that Catapult expanded their deal with the NBA to connect its video solution to its partners, in line with our thesis of cross-selling these tools. Additionally, there was a recent agreement within the company to expand its video analysis tool to Ice Hockey, a technology highly anticipated by professional teams, to make it encompass the entire league.. We look forward to Catapult's earnings results, and a hopeful up listing to the NASDAQ which is scheduled to release about 1-2 weeks from today's meeting.

Portfolio Updates Since May 2022 Meeting

Company	Ticker	Update
Concrete Pumping Holdings	**BBCP**	We propose a hold on our position in Concrete Pumping Holdings. Our position is currently down 6.78% since our purchase at $7.08 per share. The company posted strong results in its Q3'22 earnings. Revenue in the US pumping business increased 33%, driven by recent strategic acquisitions, growth in the commercial end market, and increased capacity to meet post-recovery demand. UK revenue saw similar strong growth, increasing 14% year over year in the quarter, driven primarily by demand bounce back. Eco-pan concrete waste management saw significant organic growth of 26% in the quarter, driven by a revamp of the sales pipeline, with an increased focus on in-person conversions. The company has successfully been executing its East Coast expansion strategy, with an accretive acquisition of Coastal Carolina Pumping. The expansion has brought in an additional 89 units of operating equipment. BBCP expects its East Coast strategy to bring in an additional $25m in revenue for fiscal year 2023, primarily through greenfield expansion in DC, the aforementioned acquisition, and Eco-Pan synergies. As inflation headwinds pass, we look forward to continuing to see management execute effective M&A, increase margins, and grow revenue.
Exelon Corp	**EXC**	We propose holding our position in Exelon. Since the last update, Exelon is down almost 20% which is slightly worse than the S&P 500 over this time period. One major update is the Inflation Reduction Act which although benefits clean energy, it also imposes a minimum corporate tax that greatly undermines the benefits of the clean energy incentives. As a result, Exelon will now face an increase in taxes of $300 million annually. This event alone tanked Exelon's and other utilities stocks by roughly 15%. Rate base growth and EPS guidance remain constant compared to last quarter. These tax implications and earlier-than-expected equity raise announcement of $500 million have made an otherwise operationally solid quarter quite a rollercoaster.
Flex Ltd.	**FLEX**	We propose a hold on Flex. Over the last two quarters, the acquisition of Anord Mardix has meaningfully added to top line for the Reliability segment of the business especially within the industrial space. The macro environment remains difficult regarding the supply chain, especially concerning the shortage of semiconductors which are inputs for many of Flex's product contracts. However, these short-term supply chain difficulties do not alter our long-term theses. Flex will continue to meaningfully restructure its contracts in key segments, i.e. moving away from Agility and to Reliability. Specifically, Flex continues to operate on its plan of rebalancing its portfolio and has pivoted away from short term volatile contracts as Consumer device revenue has decreased from 17% in 2018 to 10% today but has been more than offset by revenue growth in other segments, especially Industrials with the acquisition of Anord Mardix which has integrated well within the segment. EBIT and revenue guidance has also been raised for the firm and we are expecting continued margin expansion.
HCA Healthcare	**HCA**	We propose a hold on HCA. The largest contract operator of hospitals in the United States, HCA continues to weather rising labor costs and a temporary volume drop. The pressure on labor costs is not permanent. HCA has been lagging peers in the reduction of contract labor, but hours and bill rates have begun to fall. Labor impacts on margin should slowly ease as managed care organizations and government pricing increases over the upcoming years. In terms of volume drop, August is typically one of the slowest revenue months for hospital operators, but due to the bump from post-pandemic demand, any reasonable negative revenue growth is not alarming. Of the three original thesis — consolidation of core cities, superior mix of geographic locations, and acquisitions of surgical and physician operations — all are still intact. HCA's acquisition strategy continues to come into play in every quarter. HCA opened three Galen nursing colleges in the quarter and two more are scheduled to open later this year. With Galen Nursing School, new graduates after 12 weeks, should continue to bring down labor costs.

Portfolio Updates Since May 2022 Meeting

Company	Ticker	Update
JD.com	**JD**	"We propose a hold in our position of JD.com. The stock still remains down from our original purchase price of $77.55 at $51.98. Our original thesis was that JD.com, unlike Alibaba and Tencent who capture large amounts of user data, would fly under the radar of the Chinese government. Over our holding period there have been multiple developments on this front. First, the Chinese government has signaled an end to their tech crackdown. While the market is unlikely to fully believe that future regulation will not take place, a positive sign is that the regulation that did take place was reasonable and often fair in order to protect privacy. This means that if future regulation would take place, it would likely only be if companies abused user data. Additionally, in the last month, China and the US have signaled that they would be willing to work together to share audits of US listed firms, such as JD. The combination of these developments along with strong Q2 earnings in-line with IAG's JD.com projections have allowed JD to outperform the market in the last few months. Our belief is that the market is still pricing in these fears along with others, many of which do not pose as big of a risk to JD as believed. In our valuation, we updated JD's effective tax rate (15% -> 20%), stub period, net debt levels, risk free interest rates, and WACC calculation (8.8% discount rate). In addition, we updated the forecasted income statement to account for changes in the Chinese economy and in JD's business model. After making updates there still remains an upside of approx 28% in our base case."
Krispy Kreme	**DNUT**	We propose a hold on our position in Krispy Kreme. The stock price stands at $11.87, down 28% from our cost-basis of $16.50. DNUT reported Q2 2022 earnings on August 17th, reducing 2022 US/CAN EBITDA and revenue guidance on slower than expected openings of spokes, hubs with spokes, and hubs without spokes in the quarter. Management pointed to economic slowdown, inflation, and FX effects as headwinds to the quarterly and full-year results. We do not have reason to believe that this quarter exhibits a fundamental issue with the hub and spoke model. Instead, the company has identified 10 underperforming hubs without spokes to close during the quarter. Hubs without spokes accounted for ½ of the EBITDA decline but make up less than ⅓ of revenue in the US/CAN region. Additionally, DNUT has locked in lower prices for 80% of cost inputs in 1H 2023. 2022 organic growth guidance of 10% to 12% still beats the company's long-term targets.
Methode Electronics Inc.	**MEI**	We propose to hold Methode Electronics. EBITDA and net profit margins have suffered a bit in FY22 (16.9% and 9% respectively). Although the impact to revenue and gross margin will probably subside over time, the company will continue seeing supply chain related headwinds to pressure results into 2023, particularly the semiconductor shortages. The company is also facing a roll off of its pick-up truck center console program, which will have an impact in FY'23 of approximately $90-100 million. Despite this, there is an indication that MEI will be just fine. The company has continued to deleverage its balance sheet, resulting in an overall 84% decrease in net debt from FY19 Q2 to FY22, with Net Debt/TTM EBITDA being a mere 0.2 at the end of FY22. This indicates a balance sheet that is well-positioned for more potential M&A, with 30% of the capital allocation strategy going to debt reduction and 59% into investing in growth. The company still plays heavily into the growing EV market. MEI continues to reduce its reliance on GM, with it being only 23% of its customer sales, while it was 50% in 2016. MEI's annual sales are also becoming less reliant on its automotive segment, representing 67% of total sales in 2022 while it was >70% when we invested back in 2020. MEI continues to see a significantly fast growing industrial segment, which grew at 19% in FY '22 compared to the automotive segment which grew at 3%. Margins for the industrial segment did take a hit in 2021 (which was not anticipated in the original thesis) but have seemed to recover in '22.

Portfolio Updates Since May 2022 Meeting

Company	Ticker	Update
Monster Beverage Corp	**MSNT**	We propose to hold Monster Beverage. Our core thesis focused on MNST's ability to prove resilient amid short-term macro headwinds, execute on its international strategy, and launch innovative products that will seize market share. In its most recent earnings calls in August, we saw net sales rise 13.2% YoY, with MNST's core segment seeing 16% growth. International sales saw 19% growth, comprising almost 40% of MNST's net sales. However, MNST is still suffering from industry-wide headwinds from high aluminum prices, rising interest rates / fuel costs, and supply chain issues. To offset margin contraction, MNST plans on increasing their price points in the second half of 2022. MNST is also launching its alcoholic brand, "The Beast Unleashed," post-acquisition of CANarchy. In October, MNST also won a $293M false-advertising suit against Bang. We expect supply chain issues that have plagued the past few quarters to persist, with their partnership with Coca-Cola providing a hedge against a downside case. Given that current supply chain headwinds that Monster is facing are industry-wide, we believe that the long-term growth potential outweighs short-term macro headwinds. We believe our core thesis still holds and are confident in the fundamentals of the business.
Office Property Income Trust	**OPI**	We propose a hold on OPI. The stock has sold off alongside REIT peers on the back of a heavy lease expiration schedule and disrupted capital markets, alongside continued weakness in the commercial real estate market. OPI delivered strong 2Q22 results driven by a $0.05/share lease termination fee. The company is slowing down its capital recycling initiatives due to the disrupted capital markets. The portfolio's leased percentage sits at 89.4%. If the company can backfill available space, it could drive better than expected organic growth results. Occupancy will likely be stable in 2H22 due to planned asset sales. Management reiterated its year-end occupancy guidance at 89.0-90.0% compared to 89.4% today. The company has 4.2% of rents expiring in 2H22 with 2.0% renewed after quarter-end, 0.8% expected vacancy, and the remaining 0.6% is included in planned 2H22 asset sales. The lease expiration schedule is heavy over the next few years with expiring leases reflecting 13.5% of rents in 2023 and 14.1% in 2024. Management noted it already has a tenant representing 2.0% of rents that is expected to move out in 2H23. Sales activity could slow down given dislocated market. OPI completed $87.5 million of dispositions YTD. However, given the macro uncertainty, management reduced its full-year disposition guidance to $100-200 million from $400-500 million. Management highlighted capital recycling and asset selling initiatives to maintain leverage and improve its portfolio quality. The net debt/EBITDA ratio (company-defined) was 7.3x in 2Q22, well within the long-term target range of 7.0-8.0x. Despite the tailwinds, key headwinds make us cautious. OPI has 4.2%/13.5% of leases expiring (by rent) in 2022/2023 which may serve as an occupancy headwind. We see moveouts, higher capex needs and work from home trends resulting in higher structural vacancy, which could drag on rent growth.
Palo Alto Networks	**PANW**	We propose a hold on PANW. Our position is up 117.27% since our purchase at $80.17 per share. PANW posted excellent results in its 4Q release. Quarterly revenue grew 27% year over year to $1.6 billion, with fiscal year 2022 revenue growing 29% year over year to $5.5 billion. In tandem, fourth quarter billings grew 44% year over year to $2.7 billion, with fiscal year 2022 billings growing 37%. Additionally, the board of directors authorized an additional $915 million for share repurchases, increasing the remaining authorization for future share repurchases to $1 billion. Customer acquisition has been robust, with the company increasing its number of active millionaire customers by 25.7% yoy to 1,240. Management has continued to execute successfully, delivering strong growth at 2.1x TAM CAGR while improving margins and free cash flow. We remain confident in our initial thesis and look forward to seeing the company's strong performance reflected in valuation.
Restoration Hardware	**RH**	We propose to hold RH, with our position down about 10% from our last meeting in May. Since the last meeting, there hasn't been any tangible changes to the business, however the main catalyst for the drawdown was management slashing guidance in Q2 2022 earnings, delaying the international opening due to supply chain disruptions. While demand is slowly coming back domestically, on the back of an economic recovery, the outlook for international growth is causing uncertainty amongst investors. We believe in our conviction on management and their ability to execute, as they are in process of opening in England and Paris. The next earnings call will be crucial in providing color on demand side business updates, as well as international progress and the luxury market.

Portfolio Updates Since May 2022 Meeting

Company	Ticker	Update
Sea Ltd.	**SE**	We propose a hold on Sea Limited. Since our last oversight meeting, the share price has continued to decline, and it now sits at around $60.67, representing another 30% decline since our last oversight meeting and a 54% decline since our purchase. Coming out of our impromptu meeting on March 10th and our last oversight meeting on May 4th, we evaluated that the improvements in Shopee and SeaMoney that were seen in their Q4 Earnings report gave us confidence in the company even in the midst of a severe downgrade in guidance from Garena bookings. Since then, the company continued to have a mixed Q1 2022 report that impacted the share price little. However, during Q2 earnings in mid August, SEA decided to suspend guidance on Shopee revenue due to an unclear macro-economic environment, causing another severe drop in share price. Overall company management has decided to aggressively shift towards profitability and away from growth by pulling out of newer e-commerce markets and re-focusing on the core markets in SE Asia and Brazil. This organization shift has resulted in significant layoffs and some unrest within the company. However, our theses on the quality of Shopee's platform continue to stay strong. The company reported a near break-even EBITDA loss per order in SE Asia, furthering our belief that the company's sticky platform will allow it to decrease S&M spend while increasing take rates. Moving onto Garena, we believe that much of the bad news is behind us, as the company is back to early 2020 active user levels (290mm) suggesting that most of the re-opening-induced churn that would happen, has happened. SeaMoney has also continued to preform well, with management guiding revenue significantly above our assumptions. Given the clear operational headwinds the company faces as well as a continued cash burn problem, we will monitor this position incredibly carefully. We still believe in the Shopee platform as being exceptionally strong and have modeled incredibly conservatively going forward and continue to see some upside, so we are comfortable holding.
Sonic Automotive	**SAH**	As we know, Manheim released has fallen to 205.9 (Mid-September) from a high of 236.3 at the beginning of the year. This has played extremely negatively for used car dealers, and we remain cautious given an additional negative datapoint in the recent KMX earnings, which revealed that despite pricing coming down, consumer demand continues to fall. A few mitigants remain to hold this position through this downturn: first, the new dealership business is not overearning as much as the used car business, and SAH's dramatically higher exposure to new dealerships should help "soften" the landing. A few key reasons play into this. Dealers have not been selling very many new vehicles due to manufacturing constraints and have not been selling enough to overcome the "replacement" demand hurdle. Since the imbalance should continue for at least another year (due to supply constraints), we do not see that demand is as much of an issue here (versus used dealerships, which should see massive GPU contraction). I do think that this pushes back the EchoPark thesis quite a bit, and the business is likely to be breakeven or potentially loss generating but holding a stake in the new dealership at a cheap price remains attractive. Thus, we are recommending a hold until the next oversight meeting.
TransDigm Group	**TDG**	We propose a hold on TDG. TransDigm continues to execute well as Commericall Aftermarket strength more than offsets Defense pressures afflicting the whole industry. We think the market expects TransDigm's solid operational performance, with key questions for the stock being around capital deployment. The market favors M&A but there is potential for anti-trust pushback, something management is aware of. TDG has focused more on capital return YTD, with a dividend and repo totaling ~$2b. A leverage cap limits action on this front now, but it will recede with EBITDA growth and cash generation. The $422m TDG has spent on M&A YTD includes $360m for DART plus ~$60m that Extant spent buying product lines. $27m of this was for the Electromechanical Indicator product line from Astronautics (announced May 19), with the remainder funding a handful of deals that did not reach the individual disclosure threshold. TDG expects margins to tick higher before accounting for mix given cost reduction activity undertaken during COVID. TDG does not anticipate all the cost returning as production rates ramp and expects the company to be better positioned as a result. During COVID, TDG took actions to right-size operations that were operating inefficiently and has been disciplined about hiring during the recovery. The company plans to provide next year's guidance at the upcoming November earnings. The company is expected to end the year with 54% Cash/Sales (~46% historically), indicating further potential for incremental share buybacks to drive value.

Portfolio Updates Since May 2022 Meeting

Company	Ticker	Update
United Rentals	**URI**	We would like to propose holding our stake in United Rentals (URI) at $281.61, down 7.57% since our last update. Since taking General Finance under its belt in 2021 (cash transaction for $1.0 B), URI has aimed to differentiate itself from other companies by becoming a one-stop shop, an acquisition that targeted $17M cost savings and $65M of revenue synergies, as well as launched the company's presence in Australia and New Zealand. CEO Matthew Glannery continues to lower the company's leverage ratio, which dropped to 2.0x in the most recent quarters. In Q2 2022, URI beat EPS market expectations by 21.70% (7.86 reported, 6.46 expected) and revenue expectations by 2.40% (2.77B reported, 2.71B expected). Fleet productivity increased 11.3 % year-over-year and net income is $439 million at a 17.8% margin (a Q2 record), indicating continual reduction in SG&A and non-rental D&A as a percentage of revenue and lower net interest expense. The CAT thesis point may have been realized, as there was a noticeable separation between the stock prices since 2020, but we believe the equipment rental business is still the superior business given the considerable pricing power URI exercises and the consolidation efforts. The company has been affected by greater macro concerns such as high fuel costs, the volatile energy market, and increased operating expenses. However, the new U.S. infrastructure bill will be a strong tailwind for URI and fuel new project growth in 2023 and 2024, while the company is also seeing improvements from an increasing mix of specialty (which includes higher-margin trench, power, and fluid solutions).
Willis Towers Watson PLC	**WTW**	We propose to hold our position on Willis Towers Watson. We originally bought the stock last year and our original thesis focused on a management turnaround and improved capital allocation initiatives led by activists which we thought should lead the stock to trade at a multiple comparable to its peers in the insurance oligopoly. While the high-level thesis is still intact, WTW has taken certain initiatives which put it closer to realizing its upside. WTW has been progressing in its cost cutting initiatives with $35M of incremental run-rate savings in Q2-22 and $71M of cumulative run-rate savings. They've also achieved organic growth of 3% in the quarter and 9% Adj. EPS growth over the prior year. Importantly, WTW also continues to return excess capital to shareholders with $471mm in share repurchases in Q2 of 2022. The three main transformation objectives right now are to grow by expanding client solutions, simplify by re-segmenting operating verticals, and transform through cost cutting and capital return to shareholders. WTW has taken steps in all of the above, and for that reason we propose to hold the stock.
ZTO Express	**ZTO**	We propose a hold on our position in ZTO. Since our last meeting, the company's share price has been fairly volatile and has contracted by 10%. Much of this can be connected with China's worrying macro-economic situation. The country had continued to implement severe Zero-Covid lockdown policies which has provided irregular mass disruptions to the economy. Further, a worrying property-debt situation has potential to spread and negatively impact the economy at large. Despite this, ZTO has continued to improve its position post-price war in a more stable and regulated logistics industry. In Quarter 1, the company posted 16.8% growth in parcel volume while ASPs increased by 8.5%. In Quarter 2, the company posted 7.5% growth in parcel volume while ASP increased by 11%. In total, ZTO expanded its market share by 1.2% and 2.0% in Q1 and Q2 respectively, increasing its market share to 23%, an all time high. To us, this further supports our theses that ZTO will continue be strong in the new, post-price war, logistics space due to its best-in-class network scale.

V. New Position Proposal

Camtek Ltd. (NASDAQ: CAMT)

Under the Radar $1 billion Semi-Cap Equipment Manufacturer

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Price Target: $30.50

September 30th, 2022

Company Summary:

Camtek is an Israeli-based semi-cap equipment company. Camtek operates within the process control industry, responsible for supplying semiconductor manufacturers and packagers with equipment to measure and inspect semis for issues. Within this industry, Camtek develops metrology and inspection equipment for wafers for the front and mid-end of the manufacturing process. Camtek manufacturers its products within Israel but sells most outside Israel (China, Taiwan, US, Korea, etc.). Their main process-control business segments are advanced packaging (~55%), CMOS image sensors (CIS) (10%), and front end (20%).

Importance of Metrology:

Metrology is the science of measuring. Because of the size of the transistors in semis (as small as 4nm), advanced metrology equipment, such as electron microscopes, is used to ensure the semi-manufacturing process is working properly. Metrology further ensures that every step in the process is repeatable and creates a high yield. A basic example of a metrology function would be using a microscope to look for dust on the wafer. Metrology is vital to the field of semiconductor manufacturing, and without it, semi's power and speed efficiency would not have been able to progress as fast as it has.

Industry Dynamics:

While the semiconductor industry's growth is driven by cyclical demand, the metrology industry's growth is driven by the creation of new fabs. Because of increased end-uses of semis (AI, cars, industrial equipment, servers), semi companies are increasing fab capacity or building new fabs ($20 billion new Intel fab in Arizona). Therefore, Camtek sees strong secular growth at both the peak and trough of the semi-cycle because as new fabs are built, manufacturing equipment demand increases (figure 3).

The semi-manufacturing process is highly complex, involving 8 larger steps that can each be broken down into dozens of additional steps. Because of this, the metrology industry is highly fragmented, with each competitor in the space trying to find their niche within the overall manufacturing process. Still, many steps in the manufacturing process have either no or limited metrology equipment. This creates strong incentives for innovation, as once a company finds a niche, it becomes very hard for competitors to penetrate (due to patent protection). Additionally, innovating and finding a new niche can allow for high growth.

Figure 4 – Camtek's Golden Eagle Metrology

Key Ratios and Statistics ($M):

Price Target	**$30.50**
Upside	**23.74%**
Share Price (10/3)	$23.17
Market Cap	$1070
Enterprise Value	$926
52-Week Low	$22.89
52-Week High	$49.60

($M)	2020a	2021a	2022e	2023e
Revenue	138	225	266	288
Gross Profit	73	137	164	177
EBIT	23	71	85	94

Figure 1 - Camtek's Revenue by Geography

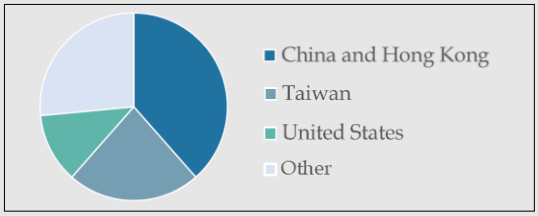


Figure 2 - Camtek's Segments and Competitors

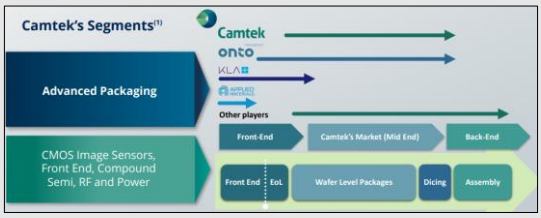
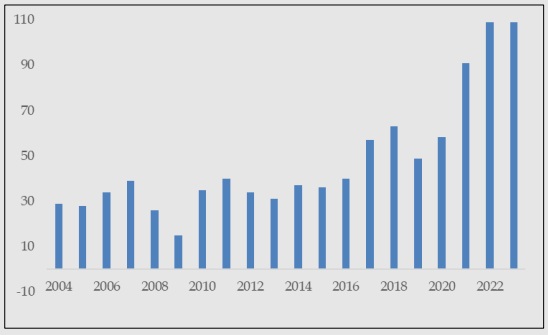


Figure 3 – Semi Equipment Spending 2004 to 2020



Investment Theses:

Camtek is operationally better than the market believes and should be valued at least in line with ONTO and NVMI.

a) Camtek's focus on mid-end, CMOS, and RF metrology comes with less competition and, therefore, greater returns than comparables

Camtek's only direct competitor in their main line of business of wafer level mid-end packaging for memory is ONTO, a small $2 billion US company. Camtek has technological dominance in this category and a 60% market share. They are further insulated from entrants because of the high customer stickiness (high switching costs and importance of relationships). In addition, Camtek can maintain pricing power because of low levels of competition.

NVMI and ONTO, two competitors to Camtek of similar size, operate in the front-end metrology space. Front-end metrology requires that companies improve measuring capabilities in line with size of transistors (4nm currently). This leads to higher capital intensity and more competition. Companies such as KLA and AMAT (market caps of above $40 billion each) that have higher availability of capital can maintain product dominance and market share, suppressing ROIC for ONTO and NVMI.

Figure 5 shows the level of competition among KLA, AMAT, NVMI, and ONTO in which NVMI and ONTO earn less ROIC due to their disadvantages against KLA and AMAT. Figure 6 shows that Camtek continues to return better than ONTO and NVMI.

In summary, Camtek appears to return more than competitors due to operating within a better niche in the industry yet is valued at a discount of about 20% to 25% compared to NVMI and ONTO.

b) Camtek's strategic decision to target smaller and newer semi-manufacturers in China allows for greater growth at reduced risk

Growth: Metrology companies have a hard time penetrating new markets and customers because of the high customer stickiness of the industry. However, Camtek avoids these issues by going after smaller and newer companies in China. As these companies expand their fabs and gain more trust in Camtek, Camtek will be able to scale sales through a combination of selling new equipment as the fabs expand production and by cross-selling equipment for new product lines.

Risk: The reduced risk of this strategy comes from the greater amount of customer diversification that going after the Chinese market allows. Camtek has over 150 customers (none of which make up more than 10% of revenue), which would not be possible in markets such as Europe, the US, or Taiwan which have already consolidated their semi-industries. ONTO and NVMI, on the other hand, have 50% of their revenues from two customers. While customer stickiness is high, the risk of concentration is still very high for smaller metrology companies as they often do not have the technological/product advantage over larger players.

c) Decreased future relevance of less profitable business segments will improve DSO, DPO, DIO, and margins

13% to 15% of Camtek's business still involves FIT, SEM, TEM, and MOI operations. As these operations become less relevant to Camtek from 2022 to 2026, we expect further increases in gross margins, EBIT, DSO, DIO, and DPO. Projecting gross margins at 51.3% in 2024e and 51.5% in 2026e (end of forecasting period). EBIT margins projected to increase to 27.4% in 2024e and 28.1% in 2026e. DSO of 72 days in 2026e, DIO of 156 days in 2026e, and DPO of 55 days projected in 2026e.

Figure 5 – Competitors ROC% from 2018 to 2021

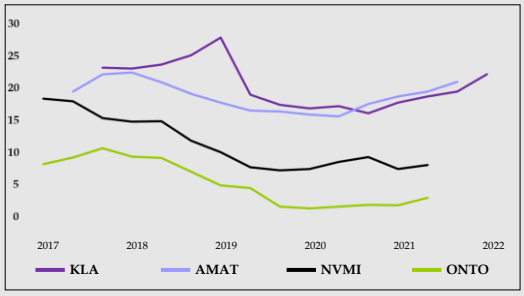
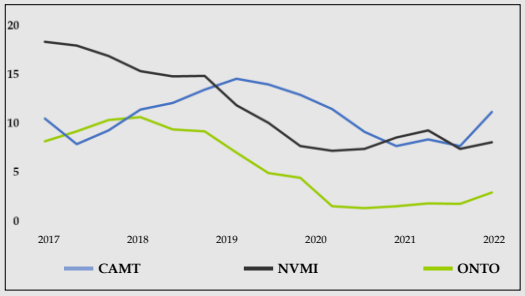


Figure 6 - Camtek's Comps ROC% from 2018 to 2021



Camtek is operationally better than the market believes and should be valued at least in line with ONTO and NVMI. (cont.)

d) The "non-leading-edge" nature of mid-end metrology means greater certainty on future R&D expenses

Camtek's Eagle-I and Eagle-AP products are primarily used within the mid-end of the manufacturing process and have a sensitivity of approximately 200nm. This compares to the sensitivity of KLA, ONTO, and NVMI of less than 10nm. This difference comes down to the differences in manufacturing processes in the front-end versus the mid-end. From a business standpoint, though, front-end metrology manufacturers constantly compete to achieve these sub-10nm sensitivities. This makes the R&D innovation cost much higher and more unpredictable in the front end. Management for mid-end companies have much more control over R&D, though, and get to decide what aspect of the product they want to improve (efficiency, speed, or cost).

We believe that this additional certainty and stability over the R&D of Camtek makes it more valuable than ONTO and NVMI which operate almost entirely in the front-end.

Geopolitical risk premia associated with potential trade regulation between US and China is being overstated

Overview: After due diligence, we believe that Camtek is exposed to potential export regulations between US and China regarding semiconductor. Many of these risks overshadow the semiconductor industry, making investing in semiconductor companies exposed to China riskier according to the market. We decided to create four different scenarios and then weight them accordingly. Overall, we took a bearish view to add margin of safety.

Scenario 1: The US Department of Commerce bans leading-edge equipment from being exported from the US to China without a license.

Rationale: The Trump and Biden administrations are trying to limit the Chinese military's ability to manufacture and obtain top-tier or leading-edge semiconductor technology. To do this, the DOC secondary sanctions firms in China that sell to the Chinese government, therefore, stopping US metrology firms from exporting certain equipment.

Valuation Impact: Since Camtek is an Israeli manufacturing company, these bans would not negatively impact them. Instead, any Chinese customers that the US metrology firms sold to before the bans could be taken by Camtek. We calculated the potential benefit to Camtek by looking at the revenue that competitors could lose if these bans took place. We then forecasted Camtek taking a share of these revenues over the forecasting period.

This scenario yields a 62% upside, and we ascribed a realistic 30% chance of it occurring.

Scenario 2: The US does not regulate the metrology industry to the extent that Camtek would benefit or be hurt within the foreseeable future.

Rationale: Currently, the US has only regulated two types of companies in the semi space: those that supply China with leading-edge semiconductors and those that provide China with the tech necessary to manufacture leading-edge semis. These companies include AMD, Nvidia, ASML, and TSMC, each of which satisfies one or both of the above conditions. The metrology companies do not produce tech essential to manufacture leading-edge semis, so the US may have a reason not to focus on regulating them to a large extent.

This scenario yields a 55% upside, and we ascribed a realistic 20% chance of it occurring.

Figure 7 – Comparable Analysis Valuation

	Enterprise Value	LTM EV/EBIT	LTM EV/REV	NTM EV/EBIT	NTM EV/REV
Nova	2798.6	19.92x	5.49x	16.57x	4.90x
Onto	3463	16.55x	3.75x	11.50x	3.36x
Mean	**3130.8**	**18.23x**	**4.62x**	**14.03x**	**4.13x**
Camtek	**1124.1**	**14.07x**	**3.73x**	**13.20x**	**3.50x**

Figure 8 – Comparable Analysis B

	Quick Ratio	Current Ratio	Net Debt to Equity	Coverage Ratio
Nova	3.95x	4.98x	-46%	24.43x
Onto	5.43x	6.15x	-34%	infinite
Mean	4.69x	5.56x	-40%	24.43x
Camtek	5.43x	6.28x	-58%	30.81x

Figure 9 – Revenue at Risk for Competitors

	2021	2022e	2023e	2024e	2025e	2026e
ONTO	18.43M	19.90M	21.09M	22.36M	23.70M	25.12M
KLA	30.15M	32.56M	34.51M	36.58M	38.78M	41.10M
NVMI	11.50M	12.42M	13.17M	13.96M	14.79M	15.68M
	60.07M	64.88M	68.77M	72.90M	77.27M	81.91M

Total Rev*% US Manufacturing*% Rev China* % Advanced Packaging

Geopolitical risk premia associated with potential trade regulation between US and China is being overstated

Scenario 3: Camtek and the rest of the US, Israeli, and European countries stop selling advanced nodes to China due to either secondary sanctions or pressure from the US.

Rationale: The US could leverage the economic benefits they provide their allies to pressure them to stop selling advanced equipment to China. The other route that this scenario allows for is if the US secondary sanctions one of Camtek's customers. This would mean that Camtek themselves would be secondary sanctioned. Camtek's management would then be faced with the business decision to either stop selling to US customers or Chinese customers. While Camtek would likely choose Chinese customers, to be bearish, we forecasted Camtek losing all their advanced sales to China (56% of Chinese sales) by the start of 2023e.

This scenario yields -5.6% downside, and we ascribed a highly conservative 40% chance of it occurring.

Scenario 4: The US & allies break significant tech trade ties with China causing a total loss of Camtek's Chinese revenues over 3 years. This scenario was included to show one of the worst-case scenarios.

This scenario yields -34% downside, and we ascribed a highly conservative 10% chance of it occurring.

Valuation:

Scenario 1 Operating Build

	2021a	2022e	2023e	2024e	2025e	2026e
Revenue						
Asia Pacific Base Revenue	$ 224,931.00	$ 266,222.50	$ 287,520.30	$ 304,771.52	$ 323,057.81	$ 342,441.28
% base growth			*8%*	*6%*	*6%*	*6%*
Asia Pacific Additional Revenue			$ 9,011.00	$ 12,014.66	$ 15,018.33	$ 18,022.00
% of Revenue Taken from US Competitors			*15%*	*20%*	*25%*	*30%*
Asia Pacific Total Revenue	$ 224,931.00	$ 266,222.50	$ 296,531.30	$ 316,786.18	$ 338,076.14	$ 360,463.27
Non-Asia Revenues	$ 44,728	$ 54,528	$ 58,409	$ 61,408	$ 64,572	$ 67,910
Total Revenue	$ 269,659	$ 320,750	$ 354,940	$ 378,194	$ 402,648	$ 428,374
% growth		*18.9%*	*10.7%*	*6.6%*	*6.5%*	*6.4%*
EBIT	70898.4	85146.2	97081.2	105070.0	113555.9	122571.8
EBIT Margin %	*26.3%*	*26.5%*	*27.4%*	*27.8%*	*28.2%*	*28.6%*

Equity Value per Share	**$ 37.43**
Upside	**62%**

Scenario 2 Operating Build

	2021a	2022e	2023e	2024e	2025e	2026e
Revenue						
Asia Pacific Base Revenue	224931.0	$ 266,222.50	$ 287,520.30	$ 304,771.52	$ 323,057.81	$342,441.28
% base growth			*8%*	*6%*	*6%*	*6%*
Asia Pacific Additional Revenue			$ -	$ -	$ -	$ -
% of Chinese Revenue			*0%*	*0%*	*0%*	*0%*
Asia Pacific Total Revenue	$ 224,931.00	$ 266,222.50	$ 287,520.30	$ 304,771.52	$ 323,057.81	$342,441.28
Non-Asia Revenues	$ 44,728	$ 54,528	$ 58,409	$ 61,408	$ 64,572	$ 67,910
Total Revenue	$ 269,659	$ 320,750	$ 345,929	$ 366,179	$ 387,630	$ 410,352
% growth		*18.9%*	*7.9%*	*5.9%*	*5.9%*	*5.9%*
EBIT	70898.4	85146.2	93606.6	100399.6	107670.8	115453.1
EBIT Margin %	*26.3%*	*26.5%*	*27.1%*	*27.4%*	*27.8%*	*28.1%*

Equity Value per Share	**$ 35.81**
Upside	**55%**

Scenario 3 Operating Build

	2021a	2022e	2023e	2024e	2025e	2026e
Revenue						
Asia Pacific Base Revenue	224931.0	$ 266,222.50	$ 270,215.84	$ 274,269.08	$ 278,383.11	$ 282,558.86
% base growth			*1.5%*	*1.5%*	*1.5%*	*1.5%*
Asia Pacific Additional Revenue			$ (70,191.01)	$ (71,243.87)	$ (72,312.53)	$ (73,397.22)
% of Chinese Revenue			*-56%*	*-56%*	*-56%*	*-56%*
Asia Pacific Total Revenue	$ 224,931.00	$ 266,222.50	$ 200,024.83	$ 203,025.20	$ 206,070.58	$ 209,161.64
Non-Asia Revenues	$ 44,728	$ 54,528	$ 56,388	$ 57,834	$ 59,320	$ 60,847
Total Revenue	$ 269,659	$ 320,750	$ 256,413	$ 260,859	$ 265,391	$ 270,009
% growth		*18.9%*	*-20.1%*	*1.7%*	*1.7%*	*1.7%*
EBIT	70898.4	85146.2	59089.6	59458.5	59769.5	60017.6
EBIT Margin %	*26.3%*	*26.5%*	*23.0%*	*22.8%*	*22.5%*	*22.2%*

Equity Value per Share	**$ 21.86**
Upside	**-6%**

Valuation:

Scenario 4 Operating Build

	2021a	2022e	2023e	2024e	2025e	2026e
Revenue						
Asia Pacific Base Revenue	224931.0	$ 266,222.50	$ 266,222.50	$ 266,222.50	$ 266,222.50	$ 266,222.50
% base growth			*0.0%*	*0.0%*	*0.0%*	*0.0%*
Asia Pacific Additional Revenue			$ (69,153.70)	$ (96,321.23)	$(123,488.75)	$(123,488.75)
% of Chinese Revenue			*-56%*	*-78%*	*-100%*	*-100%*
Asia Pacific Total Revenue	$ 224,931.00	$ 266,222.50	$ 197,068.80	$ 169,901.28	$ 142,733.75	$ 142,733.75
Non-Asia Revenues	$ 44,728	$ 54,528	$ 55,458	$ 56,405	$ 57,369	$ 58,352
Total Revenue	$ 269,659	$ 320,750	$ 252,526	$ 226,306	$ 200,103	$ 201,085
% growth		*18.9%*	*-21.3%*	*-10.4%*	*-11.6%*	*0.5%*
EBIT	70898.4	85146.2	57591.1	46026.6	34185.6	32792.9
EBIT Margin %	*26.3%*	*26.5%*	*22.8%*	*20.3%*	*17.1%*	*16.3%*

Equity Value per Share	**$ 15.33**
Upside	**-34%**

Weighted Analysis			
Scenario	Probability	Upside	Weighted Upside
1	30%	62%	18.46%
2	20%	55%	10.91%
3	40%	-5.6%	-2.26%
4	10%	-34%	-3.38%
	100%		23.73%

Scenario 2 Expanded Operating Build

Income Statement	2016A	2017A	2018A	2019A	2020A	2021A	2022e	2023e	2024e	2025e	2026e
Revenue											
Asia Pacific	$ 66,275.00	$ 79,105.00	$ 98,468.00	$ 115,925.00	$ 137,555.00	$ 224,931.00	$ 266,222.50	287,520.30	304,771.52	323,057.81	342,441.28
% growth		*19.4%*	*24.5%*	*17.7%*	*18.7%*	*63.5%*	*18.4%*	*8.0%*	*6.0%*	*6.0%*	*6.0%*
US	$ 8,151.00	$ 9,484.00	$ 13,227.00	$ 10,388.00	$ 9,847.00	$ 28,641.00	$ 38,490.00	41,569.20	44,063.35	46,707.15	49,509.58
% growth		*16.4%*	*39.5%*	*-21.5%*	*-5.2%*	*190.9%*	*34.4%*	*8.0%*	*6.0%*	*6.0%*	*6.0%*
Europe	$ 4,802.00	$ 4,896.00	$ 11,479.00	$ 7,706.00	$ 8,457.00	$ 16,087.00	$ 16,037.50	16,839.38	17,344.56	17,864.89	18,400.84
% growth		*2.0%*	*134.5%*	*-32.9%*	*9.7%*	*90.2%*	*-0.3%*	*5.0%*	*3.0%*	*3.0%*	*3.0%*
Total Revenue	$ 79,228.00	$ 93,485.00	$ 123,174.00	$ 134,019.00	$ 155,859.00	$ 269,659.00	$ 320,750.00	$ 345,928.88	$ 366,179.43	$ 387,629.86	$ 410,351.70
% growth		*18.0%*	*31.8%*	*8.8%*	*16.3%*	*73.0%*	*18.9%*	*7.9%*	*5.9%*	*5.9%*	*5.9%*
Barclays							*19.2%*	*5.6%*			
BofA							*19.10%*	*3.20%*	*6.70%*		
Northland Capital							*19.69%*	*6.89%*			
(less) COGS	$ (41,807.00)	$ (47,966.00)	$ (62,378.00)	$ (69,235.00)	$ (82,628.00)	$ (132,315.00)	(157,020.02)	(168,953.45)	(178,428.29)	(188,440.46)	(199,020.57)
% of Rev	*-52.8%*	*-51.3%*	*-50.6%*	*-51.7%*	*-53.0%*	*-49.1%*	*-49.0%*	*-48.8%*	*-48.7%*	*-48.6%*	*-48.5%*
Gross Profit	$ 37,421.00	$ 45,519.00	$ 60,796.00	$ 64,784.00	$ 73,231.00	$ 137,344.00	$ 163,729.98	$ 176,975.43	$ 187,751.14	$ 199,189.40	$ 211,331.13
Gross Margin %	*47.2%*	*48.7%*	*49.4%*	*48.3%*	*47.0%*	*50.9%*	*51.0%*	*51.2%*	*51.3%*	*51.4%*	*51.5%*
Barclays							*51.2%*	*51.0%*			
BofA							*51.1%*	*51.4%*	*51.7%*		
Northland Capital							*50.8%*	*51.0%*			
Operating Expenses											
Selling, General and Administrative	$ (21,900.00)	$ (22,022.00)	$ (26,182.00)	$ (26,481.00)	$ (31,032.00)	$ (42,973.00)	(41,697.50)	(43,587.04)	(45,406.25)	(47,290.84)	(49,242.20)
% Growth		*0.6%*	*18.9%*	*1.1%*	*17.2%*	*38.5%*	*-3.0%*	*4.5%*	*4.2%*	*4.2%*	*4.1%*
Research and Development	$ (12,630.00)	$ (13,534.00)	$ (14,581.00)	$ (16,331.00)	$ (19,575.00)	$ (23,473.00)	(36,886.25)	(39,781.82)	(41,945.31)	(44,227.77)	(46,635.80)
% of Rev	*-15.9%*	*-14.5%*	*-11.8%*	*-12.2%*	*-12.6%*	*-8.7%*	*-11.5%*	*-11.5%*	*-11.5%*	*-11.4%*	*-11.4%*
(less) Total Operating Expenses	$ (34,530.00)	$ (35,555.99)	$ (40,762.81)	$ (42,811.99)	$ (50,606.83)	$ (66,445.62)	$ (78,583.78)	$ (83,368.81)	$ (87,351.52)	$ (91,518.57)	$ (95,877.96)
EBIT	$ 2,891.00	$ 9,963.01	$ 20,033.19	$ 21,972.01	$ 22,624.17	$ 70,898.38	$ 85,146.20	$ 93,606.62	$ 100,399.62	$ 107,670.82	$ 115,453.17
EBIT Margin %	*3.6%*	*10.7%*	*16.3%*	*16.4%*	*14.5%*	*26.3%*	*26.5%*	*27.1%*	*27.4%*	*27.8%*	*28.1%*
Barclays (adj. to GAAP)							*28.0%*	*27.2%*			
BofA (adj. to GAAP)							*29.4%*	*28.4%*			
Northland Capital							*25.8%*	*26.0%*			

Scenario 2 DCF

Camtek DCF					
As of 10/2/2022					
Year	2022e	2023e	2024e	2025e	2026e
Period	0.25	1.25	2.25	3.25	4.25
EBIT	85,146	93,607	100,400	107,671	115,453
Corporate Tax Rate	16.00%	16.00%	16.00%	16.00%	16.00%
EBIAT	71,523	78,630	84,336	90,443	96,981
D&A	3,095	3,134	3,175	3,216	3,257
Change in Net Working Capital	(11,281)	(3,925)	(2,071)	(1,983)	(1,878)
Capex	(3,438)	(3,483)	(3,528)	(3,573)	(3,619)
Unlevered Free Cash Flows	59,898	74,356	81,912	88,103	94,741
WACC (Discount Rate)	8.75%	8.75%	8.75%	8.75%	8.75%
PV of FCF	58,655	66,954	67,823	67,080	66,330
Sum of PV of FCFs (stage 1)	**326,843**				

Camtek Value	
Perp. Rate	3.11%
Implied EV/FCF	16.25x
Discount Rate Used	8.75%
Free Cash Flow in 1+t	97,687.25
Terminal Value	1,732,043.45
PV of Terminal Value	**1,212,647.02**
Enterprise Value	1,539,490.28
less Debt	(200,443.00)
plus Cash and Cash Equiv	397,943.00
Equity Value	1,736,990.28
Diluted Shares Outstandi	48,510
Equity Value per Share	**$ 35.81**
Upside	**55%**

Sensitivity Tables:

Scenario 1

	Perpetutity Growth Rate					
	61.54%	2.11%	2.36%	2.61%	2.86%	**3.11%**
	10.75%	15%	17%	19%	22%	24%
	10.25%	20%	23%	26%	28%	32%
	9.75%	27%	30%	33%	36%	40%
WACC	9.25%	35%	38%	42%	46%	50%
	8.8%	43%	47%	52%	56%	**62%**
	8.3%	54%	58%	64%	69%	75%
	7.8%	66%	71%	78%	85%	92%

Scenario 2

	Perpetutity Growth Rate					
	54.54%	2.11%	2.36%	2.61%	2.86%	**3.11%**
	10.75%	10%	12%	14%	17%	19%
	10.25%	16%	18%	21%	23%	26%
	9.75%	22%	25%	28%	31%	34%
WACC	9.25%	29%	32%	36%	40%	44%
	8.8%	37%	41%	45%	50%	**55%**
	8.3%	47%	52%	56%	62%	68%
	7.8%	58%	64%	70%	76%	84%

Scenario 3

	Perpetutity Growth Rate					
	-5.65%	1.80%	2.05%	2.30%	2.55%	**2.80%**
	10.75%	-28%	-27%	-26%	-25%	-23%
	10.25%	-25%	-24%	-23%	-21%	-20%
	9.75%	-22%	-21%	-19%	-17%	-16%
WACC	9.25%	-18%	-17%	-15%	-13%	-11%
	8.8%	-14%	-12%	-10%	-8%	**-6%**
	8.3%	-9%	-7%	-5%	-2%	1%
	7.8%	-4%	-1%	2%	5%	9%

Scenario 4

	Perpetutity Growth Rate					
	-33.83%	1.55%	1.80%	2.05%	2.30%	**2.55%**
	10.75%	-46%	-45%	-45%	-44%	-43%
	10.25%	-44%	-44%	-43%	-42%	-41%
	9.75%	-42%	-42%	-41%	-40%	-39%
WACC	9.25%	-40%	-40%	-39%	-38%	-37%
	8.8%	-38%	-37%	-36%	-35%	**-34%**
	8.3%	-36%	-35%	-33%	-32%	-30%
	7.8%	-33%	-31%	-30%	-28%	-26%

We decided to sensitize the discount rate and perpetuity growth rate in the DCF to display the impact on the percent upside. The results indicate that Camtek has low sensitivity to the perpetuity growth rate. However, Camtek displays moderate sensitivity to the discount rate. In scenario 2, which most likely reflects the base case scenario, we have upside in all cases.

STERN IAG

Embecta Corp. (NASDAQ: EMBC)

Undervalued high-margin legacy diabetes spin-off with new execution capabilities and low downside risk

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Price Target: $40 October 3rd, 2022

Idea/Spin-Off Overview:

Embecta Corp. ("Embecta") is a pure-play legacy diabetes spin-off from Becton Dickinson ("BD"), one of the largest global MedTech companies. BD divested the business in April as it did not align with its high-growth strategy and had not directed sufficient resources to the business over the last 10+ years. Since its separation, Embecta has experienced expected margin contraction from close to 50% EBITDA to the high 30s as it takes hold of its own operations and increases investment in R&D. While not a fast-growing or overly exciting business, Embecta has a strong cash flow generation profile and healthy margins. Right now, investors are overly concerned with near-term margin shrinkage and lack of immediate growth catalyst, pricing it at a very steep discount compared to peers. While some discount is justified, we believe the extent is unwarranted given Embecta's high-quality business with minimal downside risk and a substantial moat. Additionally, we believe Embecta, as a standalone entity, can greatly benefit from a nimble team and superior capital allocation potential. Sell-side currently lacks a view of the company and will likely wait until significant developments (related to the patch pump) before forming a stronger view. Weak coverage and a current lack of specialist investors in Embecta present a solid early buy-in opportunity.

Industry Background:

Diabetes is a chronic disease affecting 7% or 537mm people globally and contributes to 10% of global health expenditures. Diabetes prevalence is growing globally at almost 2% annually and is on pace to increase by almost 50% over the next 20 years; it is exacerbated by poor diets and is increasing much faster rate in developing economies. There are two types of diabetes. Type 1 diabetes (T1D) is a genetic condition that requires multiple doses of insulin per day and affects 5-10% of those affected by diabetes, while T2D is lifestyle-caused and affects the remaining, with ~20% requiring insulin. Diabetics are given insulin via injections (what Embecta does) or via a pump. While injections account for ~95% of global patients or 70%+ of those in the U.S., they represent a fraction of total spending. The insulin delivery market is sized at $16bn in 2021 and is expected to grow at a CAGR of 8% to $30bn in 2030.

Business Description:

Embecta is a medical device company that provides solutions to people living with diabetes worldwide (52% U.S., 48% international). Embecta is the market leader in single-use needles used for injecting insulin with roughly 67% global market share or 7.6bn needles a year to 30mm customers (around 250 needles per customer at a wholesale price of around $0.11 per needle). Embecta (as part of BD) has been around for over 100 years in the injections space and the pen needle space for 30 years. The company is characterized by high margins (~65% gross margin, ~35% EBITDA margin), high FCF, and an extremely stable business. Embecta's product portfolio can be split into three main segments: pen needles (~70% and growing), syringes (~20% and shrinking), and safety (~10% and flat) and it is the global leader in each of its segments. Embecta's pen needles are sterile, single-use medical devices designed to be utilized in conjunction with insulin pens. Its syringes are cheaper than pens and more popular in developing markets but are less convenient and single-use. Its safety segment includes pen needles and syringes; the segment targets hospitals and professional healthcare workers to facilitate even safer and more seamless insulin injections. Embecta's products are used

Key Ratios and Statistics:

Price Target	**$40.00**
Upside	**41.8%**
Share Price (10/03/2022)	$28.20
Market Cap ($mm)	$1,630
Average Daily Volume (mm)	566,362
Dividend Yield	2.13%
52-Week High	$49.00
52-Week Low	$23.62
Market Cap ($mm)	$1,830
Cash ($mm)	$292
Total Debt ($mm)	$1,632
Forward EV/EBITDA	7.5x
Forward P/E	8.0x

FY ($mm)	2021A	2022E	2023E	2024E
Revenues	$1,165	$1,186	$1,207	$1,229
EBIT	$495	$385	$344	$332
FCF	$369	$418	$234	$283

Figure 1 – Stock Performance – Since Inception

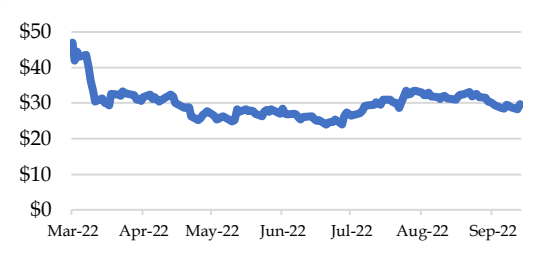

Figure 2 – Revenue Breakdown

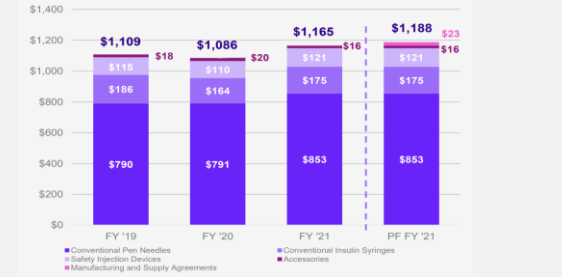

Figure 3 – Pen Needle Image

across the healthcare space, in retail, acute care hospitals, clinics and other institutional channels, physicians, the pharmaceutical industry, and the public. Embecta possesses a stable, consistent core business within one of the fastest growth segments (diabetes) across the global healthcare system.

Competitive Overview:
Embecta has almost 70% of the market share in the pen needle space and 100% in certain countries, including Taiwan. Other competitors still pose a low-moderate threat to the business. Novo produces around 20% of the global supply and is a leader in other parts of diabetes care; Artsana/HTL Strefa (owned under PE) control about 5%, with Terumo and Ypsomed having most of the remainder. Novo and Embecta both do not play as much on price while the smaller players do. Large customers, including CVS and Walgreens (in U.S.) rely greatly on brand name (for pen needles) and especially existing partnerships; generally, the market is highly capacity-driven and extremely sticky. As a note, Embecta sells through both direct channels as well as wholesalers such as Cardinal and Medline. Primary competitors in the pump space include Insulet, Medtronic, and Tandem.

Investment Theses:
Embecta's Post-Spinoff Capital Allocation Potential is Unappreciated Given Historical Execution Issues: As mentioned previously, Embecta was an ignored BD segment that had just served as a cash engine over the last 10+ years. As such, BD insufficiently and improperly allocated capital, including broader company resources and funding toward Embecta over the last ten years, causing it to fall behind in terms of technology. During that time, there were numerous R&D failures, including multi-year delays, most notably the T2D patch pump. This development program was initially launched in 2016 with commercial launch targeted for late 2018 but was withdrawn in 2019 given extensive feedback from the FDA; this follows a couple of other similar instances with product delays and launches (CGM, FlowSmart). The market views Embecta's current capabilities as if it has the poor allocation and operational aspects of BD, in addition, to rapidly declining margins and lackluster revenue potential. However, it is essential to note that this string of product delays and failures is not inherent to Embecta's business but rather the unfocused and jumbled approach of BD. As a standalone entity, Embecta can use FCF generated to reinvest in growth opportunities and have new capabilities that challenge the existing sentiment. First off, Embecta has a much nimbler team that can get underneath the incredibly high focus on results and have an agile decision-making process. The new management team and Board will now be directly focused on the company itself instead of adhering to BD's strict requirements and highly bureaucratic process with numerous signatures for each purchase order. Embecta can now increase its focus and funding on new diabetes technologies like other diabetes care companies (e.g. Novo, Insulet, Ypsomed) and make real, focused progress on its T2D closed-loop patch pump that had most recently been on the backburner. **This project provides the most significant long-term growth opportunity for Embecta** with an estimated launch date of 2025 and an FDA Breakthrough Device designation. There are ~2mm people in the U.S. on intensive insulin therapy with existing pump penetration in the low-mid single digits for this patient group and substantial unmet need. Embecta is looking to introduce a low-cost, easy-to-use patch pump that fits the needs of T2 diabetics, which does not exist in the market; the current patch pump market is very attractive with EV/Revenue multiples of 5-10x. If the patch pump is launched, Embecta is also positioned to have a much more efficient rollout compared to its predecessors, given its extensive large-scale manufacturing and distribution expertise, none of which is priced in. Another benefit-post spin-off is the potential for **partnerships and M&A to drive revenue growth**. A major need in the diabetes space is connectivity, integrated devices, and diabetes management. Forging strategic external partnerships with more tech-driven diabetes care companies such as Dexcom (CGM) would help support pump development by outsourcing software development and would lower required R&D spend and boost revenues. It would be a mutually beneficial relationship as Embecta would provide the long-standing relationships, distribution network, and reimbursement pathways with Dexcom offering the more cutting-edge R&D product and integration. Another growth pathway that could boost revenue and change investors' outlook is M&A; according to the company's credit agreements, Embecta can increase its net leverage from 3x to 4.75x given Embecta's extremely high FCF (5x P/FCF or $250-300mm FCF). Strategic tuck-in M&A for smaller companies ($25-100mm) could help drive long-term revenue growth. Clearly, there are multiple actionable pathways for superior capital allocation and adaptability. Forging a more all-encompassing and well-rounded company through patch pump development, partnerships, or M&A is highly valued in the space; it would not raise any regulatory concern as it would have had with BD (or a larger competitor).

Greatly Undervalued Fundamentals Provide Asymmetric Risk/Reward Outcomes: Embecta trades at a massive discount to its peers in MedTech Supplies comps, Diabetes Pump comps, and Diversified Diabetes comps. While a discount is justified given its 2% revenue CAGR versus an industry average of 8-10% over the next two years, the extent is unjustified for a business returning among the highest gross margins (60%+) and EBITDA margins (low 30s %+) even after margin contraction. It is being valued at 7.5x 2023 EV/EBITDA compared to 13x for MedTech Supplies Comps and 20x for Diabetes Care Comps. Ypsomed, the closest comp with around 50% of the business pursuing injectables trades at 4x EV/sales or 13x EV/EBITDA and has half of the gross margin of Embecta and a multiple twice as high. Right now, margin deterioration that exceeds management's conservative expectations, shrinking revenues, and failed pipeline execution are being priced in. I believe this is unjustified for a $1.7bn company churning out $250-300mm in FCF annually while other supplies comps have marginally better revenue growth profiles and are 50-100% more expensive. According to my model (based on an 8% discount rate and a 0.5% perpetuity growth rate), reducing revenues by 5% annually over the next 4 years or shrinking the margins by an additional 5% leads to 0% upside, a case I believe is unlikely for a strong, stable company, and a market leader in its field. Based on how the market is valuing diabetes companies, any success in terms patch pump development or anything that increases the revenue potential of the business, should lead an immediate multiple rerate for Embecta; growing medical device companies targeting diabetes trade at dramatically higher EV/sales and EV/EBITDA multiples. As an additional point, long-term margin contraction is also likely overemphasized as there are many transitory costs associated with the spin-off, including transition services agreements which can cost

up to $140mm over two years. Several costs, including cannula (an input) could also reduce substantially once Embecta finds more favorable terms through either in-house development or new suppliers.

Investors Underestimate Embecta's Qualitative Advantages and Underlying Market Dynamics: The market is currently pricing Embecta as a melting ice cube compared to its faster-growing comps. Some of this discount is understandable given the slow, secular decline of the injection markets. However, investors are overlooking some of Embecta's key advantages which mitigate most downside risk. For one, the rapidly growing diabetes patient population in the U.S. and, even more so internationally will more than offset any market share shifts toward pumps for the foreseeable future. In addition, Embecta will retain its existing customers as a standalone entity as they have an established brand, strong distribution channels, and long-standing relationships with healthcare providers, pharmacies, payors, and others (even outside of the U.S.). Even though Embecta is no longer part of BD, and the labeled product will change (in 1-2 years), this will hardly affect sales. Consumer brand preference in this industry is a very small force; Embecta is the only pen needles company with extensive retail sales teams and strong relationships with pharmacy sales reps who recommend Embecta's products to the consumer. Additionally, having excess capacity is a make or break in this industry. For instance, if Walmart wants to increase its purchase volume from 1 billion to 1.2 billion pen needles, the only supplier with 200 million in excess capacity that can take immediate action is Embecta. Other supplies either a) do not have sufficient capacity or b) would take much too long to ramp up manufacturing. This adaptability and low-capacity constraints make Embecta extremely sticky and provide them with substantial pricing power that is likely to persist in non-tender markets. There is substantial unjust core-business execution risk priced into the market. The primary execution risk is the patch pump, and given Embecta's current valuation, it is more of a call option. Lastly, Embecta's business will likely remain resilient during recessionary periods given the life-saving nature of insulin delivery products and the potential switch from pump to injections if health care coverage losses occur.

Catalysts:

1. **Approval or progress for patch or other R&D developments (to a lesser extent)**
2. **Better than expected earnings, i.e. reduction in margin compression**
3. **Successful geographic expansion especially in emerging markets (International > U.S. sales)**
4. **Embecta is purchased by sponsor or strategic acquirer**

Risks:

R&D Efforts Go Nowhere: If there are issues with product approval or other failures in product development, this would mean effectively no substantial company or revenue growth in the long-term as pen needles are only ever a mid-upper single digit growth segment in the best of times. R&D represents 7-8% of total revenues making it incredibly impactful to company margins.

Large Customers Sign with Others: In each of its markets, Embecta's major customers represent the majority of company revenues. For example, in the United States, while highly improbable, if a contract to Walmart or Walgreens is lost, this is very detrimental for the company's top line. The top two customers represent 30% of total revenues.

Pump Penetration Increases Faster than Expected: Pump penetration has only increased from 33/35% to 38% between 2008 and now; however, Insulet has been quickly growing revenues in the patch pump space. If this growth rate keeps up for several years and if Embecta is unsuccessful in entering the patch pump space, this could potentially reduce the top-line.

Steel Prices Rise: Currently, Embecta is purchasing cannula from BD which is Embecta's only manufacturing facility that is not owned or controlled by the company. This represents a few percentage points of margin compression compared to pre-spin. If steel prices rise in the future, this could further eat into Embecta's margins.

New Diabetes Products: Outside of the pen needles for insulin injection, medications that increase insulin levels such as GLP-1 (targeted toward type 2 patients) could pose a substantial threat in reducing the need for needles. This was a very concerning risk 5-10 years ago, but as the uptick has been slow, the risk is significantly lowered.

Valuation:

Income Statement - Embecta	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
(in millions, except for share figures)								
Total Revenues	**1,109**	**1,085**	**1,165**	**1,186**	**1,207**	**1,229**	**1,251**	**1,274**
Cost of Goods Sold	(323)	(323)	(365)	(415)	(434)	(455)	(463)	(459)
Gross Profit	**786**	**762**	**800**	**771**	**772**	**774**	**788**	**816**
Selling and Administrative	(222)	(215)	(240)	(261)	(290)	(295)	(294)	(293)
Research and Development	(62)	(61)	(63)	(77)	(91)	(98)	(100)	(102)
Other Operating Expenses	-	-	(5)	(47)	(48)	(49)	(50)	(51)
Other Income (Expense)	(2)	(1)	3	-	-	-	-	-
EBIT	**500**	**485**	**495**	**385**	**344**	**332**	**344**	**370**
Interest Expense	-	-	-	(90)	(68)	(61)	(63)	(64)
EBT	**500**	**485**	**495**	**296**	**276**	**270**	**282**	**306**
Income Tax Provision	(68)	(58)	(80)	(62)	(58)	(57)	(59)	(64)
Net Income	**432**	**427**	**415**	**234**	**218**	**214**	**222**	**242**
Revenue Build								
Pen Needles	790	791	853	874	896	919	942	966
Volume of Needles			7,600	7,676	7,753	7,830	7,909	7,988
% change				1.0%	1.0%	1.0%	1.0%	1.0%
Price per Needle (in dollars)			$ 0.11	$ 0.11	$ 0.12	$ 0.12	$ 0.12	$ 0.12
% change				1.5%	1.5%	1.5%	1.5%	1.5%
Syringes	186	164	175	172	168	165	161	158
% growth		-11.8%	6.7%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
Safety Pen Needles	115	110	121	123	126	128	131	134
% growth		-4.3%	10.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other Revenue	18	20	16	16	16	16	17	17
% growth		11.1%	-20.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Expense Build								
Cost of Goods Sold	(323)	(323)	(365)	(415)	(434)	(455)	(463)	(459)
as a % of revenue	29%	30%	31%	35.0%	36.0%	37.0%	37.0%	36.0%
Selling and Administrative	(222)	(215)	(240)	(261)	(290)	(295)	(294)	(293)
as a % of revenue	20%	20%	21%	22.0%	24.0%	24.0%	23.5%	23.0%
Research and Development	(62)	(61)	(63)	(77)	(91)	(98)	(100)	(102)
as a % of revenue	6%	6%	5%	6.5%	7.5%	8.0%	8.0%	8.0%
Other Operating Expenses	-	-	(5)	(47)	(48)	(49)	(50)	(51)
as a % of revenue		0.0%	-0.4%	4.0%	4.0%	4.0%	4.0%	4.0%
Interest Expense	-	-	-	(90)	(68)	(61)	(63)	(64)
as a % of debt		0.0%	0.0%	5.6%	5.6%	5.0%	5.0%	5.0%
Income Tax Provision	(68)	(58)	(80)	(62)	(58)	(57)	(59)	(64)
as a % of EBT		12.0%	16.2%	21.0%	21.0%	21.0%	21.0%	21.0%

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Gordon Growth

Valuation		
Target Enterprise Value		3,710
(-) Total Debt		1,632
(+) Cash and Short-Term Investments		292
(=) Implied Market Cap		2,370
Shares Outstanding		58
Implied Share Price	**$**	**40.65**
Implied Upside		**44.2%**

Exit Multiple

Valuation		
Target Enterprise Value		3,625
(-) Total Debt		1,632
(+) Cash and Short-Term Investments		292
(=) Implied Market Cap		2,285
Shares Outstanding		58
Implied Share Price	**$**	**39.19**
Implied Upside		**39.0%**

Discounted Cash Flow

	2022	2023	2024	2025	2026	TV
Revenues	$ 1,186	$ 1,207	$ 1,229	$ 1,251	$ 1,274	
EBIT	385	344	332	344	370	
% of revenue	32.5%	28.5%	27.0%	27.5%	29.0%	
EBITDA	423	383	372	384	410	
% of revenue	35.7%	31.7%	30.3%	30.7%	32.1%	
NOPAT	304	272	262	272	292	
(+) D&A	38	39	40	40	40	
(-) Capex	(40)	(42)	(44)	(46)	(48)	
(-) Increase in NWC	(127)	35	(24)	2	(0)	
Free Cash Flow	$ 107	$ 234	$ 283	$ 264	$ 285	$ 3,814
PV of FCF	$ 105	$ 213	$ 238	$ 206	$ 205	$ 2,750
	Q4 only					

Terminal Value Methods

Method (1 or 2)	**1**
Gordon Growth	
Gordon Growth	0.50%
Exit Multiple	
Selected	9.0

WACC Table

Market Value of Equity	$	1,830
Cost of Equity		**6.37%**
Risk-Free Rate (10-Y)		3.67%
Beta		0.53
ERP (Damodaran)		5.10%
Book Value of Debt	$	1,632
Cost of Debt		**4.40%**
Tax Rate		21%
Average Senior Note Interest Rate		5.6%
% Equity		10.81%
% Debt		89.19%
WACC		**4.61%**
Utilized Discount Rate		**8.00%**

Gordon Growth

WACC	44.6%	-1.50%	-1.00%	-0.50%	0.00%	0.50%	1.00%	1.50%	2.00%	2.50%
	10.50%	-33%	-28%	-23%	-18%	-12%	-5%	2%	10%	19%
	10.00%	-26%	-21%	-16%	-10%	-3%	4%	13%	22%	33%
	9.50%	-19%	-14%	-7%	-1%	7%	15%	25%	35%	48%
	9.00%	-11%	-5%	2%	9%	18%	28%	38%	51%	65%
	8.50%	-3%	4%	12%	21%	30%	41%	54%	69%	86%
	8.00%	7%	15%	23%	33%	45%	57%	72%	90%	110%
	7.50%	17%	26%	36%	48%	61%	76%	93%	114%	139%
	7.00%	29%	39%	51%	64%	79%	97%	118%	144%	174%
	6.50%	42%	54%	68%	83%	101%	123%	148%	180%	219%
	6.00%	58%	71%	87%	105%	127%	153%	185%	225%	276%
	5.50%	75%	91%	109%	132%	158%	190%	231%	283%	352%