THE INSTITUTE FOR STUDENT BUSINESS EDUCATION
FINANCIAL SERVICES GROUP

March 2007

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INVESTMENT RESEARCH DIVISION
WINTER 2007 PORTFOLIO

Introduction

The Financial Services Group (FSG) is part of The Institute for Student Business Education (ISBE), Northwestern's most prominent on-campus, business organization. FSG operates in three areas: Education, Investment Research, and Principal Investments.

The Investment Research division comprises members selectively chosen from a pool of well-qualified students seeking practical finance education and a commitment to extracurricular development within ISBE. Analyst responsibilities are rigorous and demanding; members must:

- write weekly research reports using the proprietary one-page template;
- prepare stock pitches using supplementary presentation materials;
- be well-versed in finance and in the sectors they cover.

This portfolio includes a sample of the research (sorted by coverage areas) that members have produced over the course of winter quarter 2007. Also provided is a list of this quarter's members and their respective coverage universes.

This is the first and pilot version of the quarterly compilation of reports produced by our Investment Research analysts. It is part of our mission to showcase the professional and analytical development of our members.

The FSG Directors,
Matt Dabrowski, *Class of 2009*
Chad Frontz, *Class of 2009*
Jonathan Liu, *Class of 2008*

Investment Research Division

Analysts, by Coverage Areas

Consumer Products, Consumer Services, Healthcare

Megan Adolph	2009	Industrial Engineering	madolph@northwestern.edu
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Energy, Utilities, Industrial Materials

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Media, Business Services, Financial Services

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Telecommunication, Hardware, Software

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Consumer Products, Consumer Services, Healthcare

JCP	James Smallwood Megan Adolph Maansi Johri
VFC	James Smallwood Megan Adolph Maansi Johri

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February 25, 2007

JC Penney (JCP)

RATING	**Buy**
TARGET PRICE	**93.26**
Last Price	84.05
52 Week Range	56.66 - 87.18
Market Cap. (MM)	18,910.0
Sector	Department Stores

Key Statistics	
EBITDA	2.18B
P/E	16.0x
PEG	1.0x
EPS	5.26
Div & Yield	0.72 (0.90%)

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Investment Thesis

JC Penney is a company with a solid history and an ambitious future. Aimed at attracting new customers, JC Penney has made a number of announcements recently. Among these are plans to reopen a cosmetics bar with products through Sephora and launching a new brand called American Living, by Global Brand Concepts, a fledgling of Polo Ralph Lauren, to debut in 2008. With excellent plans for growth, we expect this company to trade at a much higher price in the near future. Our estimate of 93.26 was calculated using a DCF valuation model.

Company Profile

JC Penney provides merchandise and services to consumers through its department stores and catalog/internet. It markets family apparel, jewelry, shoes, accessories, and home furnishings. The company also offers apparel and home furnishings through the internet. In addition, its department stores provide various services, such as a salon, optical, portrait photography, and custom decorating to consumers. Currently, JC Penney has stores in 49 states and in Puerto Rico.

Industry Overview

JC Penney Corporation is in the department stores industry, which relies heavily on consumer loyalty. The market is mature and has numerous competitors. Although it is not novel, the department stores industry has had solid growth over the past few years. A risk to investing in any company in this industry is that the consumer will desire products of competing stores. Advertising, spotting trends, price, service, and store locations are all keys to success.

Historical Performance

JC Penney has consistently met earnings expectations and has often exceeded expectations by margins of roughly 3-5% in the past year. Private-label brands continued to outperform the company average, growing to approximately 45% of stores sales during 2006. Gross margins have also improved as the company is still reaping the benefits of private-label brands and better inventory management. Historically, JC Penney has had earnings per share that rank among the top of its industry and recently has had one of the highest operating margins of its industry.

Competitive Analysis

Main competitors of JC Penney include companies such as Target and Wal-Mart, with market caps of 52.47B and 198.55B, respectively. Target has recently had success in trying to emphasize their new image as an upscale discount-store. JC Penney is adopting a similar strategy, having new product lines and ideas of their own in the pipeline. JCP has a P/E ratio of 15.98x, well on the lower end of the industry average of 24.74x. Wal-Mart is valued at 18.31x and TGT is valued at 21.15x. With a high EPS, very solid historical growth, and a low P/E, we view JCP as undervalued and a worthy investment.

Financial Stability

JC Penney Corporation can sustain itself and fully meet current liability obligations with a quick ratio of 1.937. It has a long-term debt/equity ratio of 0.78, placing it fourth in its industry in top performers by financial strength.

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February 2, 2007

VF Corporation (VFC)

RATING	**Buy**
TARGET PRICE	**84.00**
Last Price	76.12
52 Week Range	53.28 - 83.29
Market Cap. (MM)	8,510.0
Sector	Apparel Makers

Key Statistics	
EBITDA	986.8M
P/E (ttm)	15.6x
EPS	4.89
Div & Yield	2.20 (2.90%)

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Investment Thesis

As we move into a period of anticipated slower economic growth, large-cap, high-quality industry giants with growing dividends and attractive yields are of particular interest to us. We recommend investing in companies, such as VF Corporation, with stable earnings growth compared to those that would typically perform better early in economic recovery. We feel that VFC, possessing the second largest market cap in its industry, will continue to lead its industry and give it a target price of 84 based on a projected P/E ratio next year (2007) of 16x and analysts' EPS estimate of 5.24.

Company Profile

VF Corp. generates its revenues through the designing, manufacturing, and marketing of apparel and related products both in the United States and internationally through its subsidiaries. Brand names bearing VF Corp.'s product lines include Lee, Wrangler, Nautica, and The North Face, among others. VF's revenue growth sustainable due to immense diversification in clothing and the range of products they offer. This past year its earnings were 4.09B, more than 10% above last year's earnings and making it the leader in its industry.

Industry Overview

VF belongs to consumer goods sector of the market in the textile-apparel clothing industry. This industry is certainly not a frontier but has been experiencing growth of around 5% annually for the past decade. 1995 was the first year discount stores surpassed department stores in market share, and in 1999, they had 7% revenue growth, making them the fastest growing retail channel for apparel. VF owns subsidiaries whose clothing is sold in discount, specialty, and department stores, an advantage they have over many of their competitors.

Historical Performance

VF's stock has grew 37.25% last year, consistently meeting earnings estimates. Led by CEO Mackey McDonald, the company recently sold off its underperforming lines in its most profitable subsidiaries. They recently acquired both Eagle Creek Inc. and Majestic Athletic to add on to their outdoor products. The stock dropped about 10 points as a result of the acquisitions, but we believe the market did not correctly value the new business lines and we believe the stock to be undervalued. McDonald has also given guidance for 10% revenue growth next year.

Competitive Analysis

In comparison with other large cap companies in the industry, VF has a diversified appeal derived from multiple subsidiaries. VF serves a niche demographic and is not as susceptible to stratification and changing consumer tastes as other competitors, such as Ralph Lauren, who are exposed to these risks despite strong brand recognition. Compared to Ralph Lauren, VF has a high EBITDA at 986.8 million. The industry average P/E(TTM) is 18.52, and VFC is lower with a P/E of 15.58. Also, VF's operating margin is 13.29%, compared to the industry average of around 7.64%.

Financial Stability

The company is in good financial health with over $300 million in cash on its balance sheet in 2006. Additionally, it generates ample free cash flows, which were $450 million in 2005.

Energy, Utilities, Industrial Materials

XOM	Chris Salamasick
CMP	Ron Chin
ESV	Ian Booth
AH	Douglas Groat

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March 3, 2007

Exxon-Mobil (XOM)

RATING	**Buy**
TARGET PRICE	**78.59**
Last Price	70.01
52 Week Range	56.64 - 79.00
Market Cap. (MM)	401,090.0
Sector	Integrated Oil/Gas

Key Statistics	
Forward P/E	11.4x
Operating Margin	17.85%
Forward PEG	1.7x
Debt/Equity	0.1x
Oil Reserve (boe)	22.0B

Investment Research Analysts

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Investment Thesis

ExxonMobil is issued a buy rating for management's commitment to share buybacks, exceptional financial stability, and targeting by institutional investors. The financial stability of the company makes it a strong position in a time of recession or crude oil price fluctuation, while management's exploration and production spending at 51% of 2006 net income makes it strong during growth. These factors all are expected to continue driving the price of XOM shares in the future, and make it a strong buy. A target price of 78.59 is being issued based on a forward P/E multiple of 11.4x earnings of $39.5B.

Company Profile

ExxonMobil produces revenue through the exploration, production, transportation, and sale of crude oil and natural gas. XOM also produces petroleum products, petrochemical products, and electric power. XOM draws most of its revenues from crude oil production and sales, with 2/3 of its profit coming from oil production outside the U.S. These areas include large stakes in Africa, Russia, and the Middle East. The company has divisions of upstream (oil exploration, extraction, shipping, and wholesale operations) accounting for 70% of revenue, and downstream (marketing, refining, and retail operations).

Industry Overview

The integrated oil and gas industry has grown since the late 1990s, when Exxon and Mobil (now the product of a merger) were formed. Crude oil demand has grown at an annualized rate of 2% in recent years, providing for steady industry growth. The industry is most affected by the demand for crude oil and gas, used in transportation, energy production, and other industrial equipment. OPEC and other governing bodies have the ability to effect the supply and price of crude oil, making the industry susceptible to forces from the government, economy, competition, and ongoing exploration projects around the world.

Historical Performance

Last quarter's earnings were $1.77 per share, beating analyst estimates of $1.53 per share. Strong earnings and share buybacks were key factors in fourth quarter earnings of 2006. XOM beat analyst estimates for the year 2006 with $6.62 per share, against estimates of $6.03 per share. Share repurchases for the year reduced shares outstanding by 6.6%, and were a large factor for the year's earnings. Oil production on an oil-equivalent basis grew 4% from a year earlier. Continued share repurchases, profit-margin improvements, and exploration spending are expected, forecasting future revenue growth at XOM.

Competitive Analysis

ExxonMobil is the largest non-government producer of oil in the world (fifth overall), with 3% of world oil reserves (22B boe). Main competitors in the industry are BP, COP, CVX, TOT, RDS, and a number of emerging small oil producers. These six hold 60% of U.S. market share, with smaller producers in the remaining 40%. XOM's commitment to risk and reward management makes its projects and exploration less risky than other producers, and cashflow and income more stable. XOM's size, geographic location, vertical integration, and ability to increase an already high operating margin of 17.85% put it in the front of competition. Industry P/E is 10.8, PEG is 1.3, and operating margin is 16.3%.

Financial Stability

Exxon-Mobil is fully capable of sustaining itself, boasting an AAA credit rating for almost a century. The company holds more cash than debt at a debt/equity of 0.07 and has a net income double that of its competitors at $39.5 Billion.

March 5, 2007

Compass Minerals (CMP)

RATING	**Buy**
TARGET PRICE	**34.25**
Last Price	31.61
52 Week Range	23.82 - 35.08
Market Cap. (MM)	1,018.0
Sector	Mining (Nonmetals)

Key Statistics	
Forward P/E	17.3x
Current Ratio	2.41
Quick Ratio	0.80
Cost of Capital	8.8%
Div & Yield	1.28 (3.90%)

Investment Research Analysts

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Investment Thesis

We rate Compass as a buy for two reasons. First, Compass has been able to increase margins by raising prices, lowering its tax bracket and improving its capital structure by refinancing debt at lower rates. Second, we feel management is confident in future performance, having raised the dividend by 7%, increasing the already high dividend yield to 3.90%. Finally, we are issuing a price target of 37.24, which is equivalent to Compass' forward P/E times expected EPS of $1.98 in 2007.

Company Profile

Compass Minerals is the second largest salt producer in North America and the largest in the United Kingdom. The company operates 10 production and packaging facilities, including the largest salt mine in the world in Goderich, Ontario. Compass also produces sulfate of potash, used in the production of specialty fertilizers. The company generates 80% of its revenues from selling salt for deicing highways; the other 20% is from sales of sulfate of potash. North American salt sales generate the most revenues, 363.2 MM out of 660.7 MM.

Industry Overview

The North American salt and specialty fertilizer markets are mature, and as such are not growing at fast rates. The key driver of the salt industry is weather, namely snow and ice, and the key drivers for the specialty fertilizer industry are weather and customer demand of produce, which influences farmer demand for fertilizer.

Historical Performance

Compass' EPS for 2006 was $1.68, versus expectations of $1.41. Compass exceeded analyst estimates by over 17.3% for the first three quarters and disappointed by -4.8% for the fourth quarter of 2006. While salt demand in the fourth quarter fell due to warm weather, Compass was able to increase earnings on lower sales by increasing the price of its salt, lowering its tax rate, and by refinancing its debt at lower rates. We think the main drivers of future growth will be Compass' expanding businesses and reduced cost of capital.

Competitive Analysis

There are four main players in the North American salt industry. Compass' main competitors are Cargill, Inc., K&S Aktiengesellschaft, and Rohm & Haas Co. (ROH). Compass' advantages are its cost savings from ore structure and transportation. The structure of the ore at its Goderich mine gives a 30-40% cost advantage over other mines. Also, Compass' Golderich mine is in close proximity to Lake Huron, and its production facilities are near railways or roads, each of these allow for sizeable reduction in transportation costs.

Financial Stability

While Compass may not have enough liquidity to meet its short term debt commitments, when we consider its inventories it can more than meet its current liabilities with a current ratio of 2.41x. In addition, Compass generated 32.88 MM in free cash flows last year. Overall, we think that Compass is financially stable and will be able to continue to generate strong cash flows.

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March 4, 2007

Ensco International (ESV)

RATING	**Buy**
TARGET PRICE	**69.27**
Last Price	49.86
52 Week Range	58.75 - 37.36
Market Cap. (MM)	7,572
Sector	Oil & Gas Exploration

Key Statistics	
EV/EBITDA	6.0x
EPS growth 5year	32.2%
Forward P/E	5.8x
Total Debt/Equity	0.14x
Beta	1.65

Investment Research Analysts

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Investment Thesis

Ensco has been investing heavily in premium, harsh-environment rigs suitable for shallow-water drilling. Although the number of large deep-water projects is growing, the shallow-water market remains viable, particularly in the Gulf of Mexico, Africa, Asia, and Australia The price target is set at $69.27 and was calculated using the industry average PEG and the S&P500 EPS five year growth rate. These factors were used because the company's EPS five year growth rate seemed unrealistic to expect 32.2% growth when the market was only predicting 12.3%.

Company Profile

The firm has become one of the largest offshore contract drillers by focusing on shallower-water jackup rigs. Ensco owns one of the industry's newest fleets, with most of its rigs purchased or rebuilt since 1992 (average age is six years). They primarily operate in the Gulf of Mexico and use 42 world-class jackup rigs designed for technically complex wells (70% of offshore wells are drilled with jackup rigs). Ensco contracts on a short-term basis or includes mark-to-market provisions in the contract, allowing the firm to capitalize on rising day rates.

Industry Overview

The industry is exposed to fluctuating gas and oil prices as well as operating risks at sea. Contract drillers compete in a competitive and cyclical industry with many competitors that bid for contracts in overlapping global regions. Though Ensco's economic moat may be limited because of the large number of competitors, it does have a distinct technological advantage. The company possesses one of the newest and most advanced shallow-water rig fleets; and the development of deep-water semi-submersible rigs. Other competitors are averaging older and less mobile rigs while waiting for new ones to be produced.

Historical Performance

Ensco has been generating returns on par with the market for the past five years, which in-line with steady industry growth steadily over the past decade. The stock also has a forward earnings yield above the industry average at about 9%, and has met analysts expectations of mean EPS which is predicted to grow in the next year. All in all this company will most likely post better than market returns in the near future as day rates rise and especially if political conflict in the Mideast forces oil and gas prices to rise.

Competitive Analysis

Ensco faces multiple, large competitors (of five major competitors, Ensco holds .82% of Industry revenue); however it possesses a competitive advantage derived from the better state of its fleet and small mobile size, which is vital to signing lucrative drilling contracts. Ensco ranks consistently among the top 25 companies in its industry in regards to performance, valuation and growth with particular advantages in EPS growth and long term growth rates.

Financial Stability

The company should easily be able to sustain itself with total cash exceeding total debt and a consistently extremely low debt to equity ratio over the years.

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March 6, 2007

Armor Holdings (AH)

RATING	**Buy**
TARGET PRICE	**70.00**
Last Price	63.08
52 Week Range	49.85 - 68.07
Market Cap. (MM)	2,240.0M
Sector	Industrial Materials

Key Statistics	
P/E	17.4x
EV/EBITDA	10.2x
PEG Ratio	0.8x
Operating Margin	10.32%
EBITDA	290.6 M

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Investment Thesis

Armor Holdings is a very secure growth stock due the sources of their contracts and the potential large upcoming contracts that Armor Holdings could win. Armor Holdings has a diverse set of clients and products which allows the company to handle most all changes in the industry. A target price of $70 is based off EPS multiples for the next two quarters.

Company Profile

Armor Holdings generates its revenue through the development and manufacture of armor systems for a wide range of uses (vehicles, aircraft, helicopters, body armor, anti-riot gear, etc.), for clients ranging from the US military to police departments and governments around the world.

Industry Overview

Armor Holdings is part of the Aerospace/Defense Products & Services industry. The industry has been very strong as of late due to multiple military conflicts around the world, and there will always be a demand for police and national defense protection gear.

Historical Performance

The company has generally hit very close to analysts' estimates, recently beating expectations during 2006 Q4 by 5.2%. Earning are expected to reach expectations, and possibly exceeding them if Armor Holdings wins some of the large contracts that are out there such as a potential $2 billion contract from the US Marine Corps to produce 4,100 Mine Resistant Ambush Protected Vehicles.

Competitive Analysis

Armor Holdings is a relatively diverse company, so its primary competitors are varied and include General Dynamics, Lockheed Martin, Textron, among other large defense contractors. Armor Holdings specializes in all types of armor, which is in demand from a wide range of clients. This gives Armor Holdings a leg up on the competition. Armor Holdings also has the ability to be the primary contractor or a subcontractor which allows the company to diversify sources of income. The industry average P/E is19.5x, PEG is 1.1x, operating margin is 8.5%.

Financial Stability

Armor Holdings can and will continue to receive a steady flow of contracts from various sources. The company has a debt/equity ratio of 0.9 and its cash flow was only $17.8 million for Q4 2007, due to heavy reinvestment into capital.

Media, Business Services, Financial Services

WU	Nik Kalmakov Suheun Ryu Jason Wang
UPS	Suheun Ryu

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THE INSTITUTE FOR STUDENT BUSINESS EDUCATION

March 5, 2007

Western Union (WU)

RATING	**Buy**
TARGET PRICE	**32.50**
Last Price	22.15
52 Week Range	18.36 - 24.14
Market Cap. (MM)	17,080.0
Sector	Business Services

Key Statistics	
EV/EBITDA	13.6x
P/E	18.6x
P/CF	16.1x
PEG	1.7x

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Investment Thesis

Our short- and long-term outlooks on WU are both positive. In the short-term, we believe that the company is grossly undervalued, caused by reservations about earnings. We believe that the strong market and continued globalization trends will keep earnings up despite increased restructuring costs. Current EPS estimates are very conservative. WU already has a commanding lead in service locations and brand. Its healthy financial state and huge cash flows should keep it from significant downward movement. If larger financial institutions enter the market, WU could become an acquisition target.

Company Profile

WU generates revenue by providing domestic and international money transfers through an extensive global network of outside agents. It has 295,000 agent locations in 200 countries. It is the largest money transfer company in the world, with 17% market share internationally. It operates in two business segments, providing consumer-to-consumer money transfer services and consumer-to-business payment services. Growth in the past year has been driven by growth in the US-Mexico market. We expect growth to continue from expanding Asia-US markets.

Industry Overview

The money transfer industry is susceptible to changes in competitors. Recently, larger banks have started offering money transfer services for little or no charge. If these banks are successful in their services, they could become formidable rivals to firms such as WU. Immigration legislation may also affect the industry. However, immigration to wealthier countries is an established trend and a change in law will only temporarily slow this flow. Regulatory burdens, price competition, and importance of brand equity drive out smaller companies and block new entrants.

Historical Performance

The company's EPS for the last two quarters were 0.34 and 0.28, beating analyst estimates by 17.2% and 7.7% respectively. Earnings for the upcoming year are projected to be negative, as WU is building up its infrastructure after splitting off from its parent company. The company will be incurring substantial stand-alone costs this year. The estimated EPS for the next two quarters are 0.25 and 0.26. Earnings are projected to grow next year as the company begins to limit its capital expenditures.

Competitive Analysis

WU's main competitors are MoneyGram, USPS, and Paypal. The company's main advantages relative its competitors are its unrivaled network of 295,000 agents which allows the company to benefit from a network effect where any additional agent makes Western Union more convenient. The brand is the most recognizable in the industry, which is very important because the company provides cash transferring services. The industry average P/E is 24.6, P/B of 5.4, P/S of 3.7, and operating margin of 9.80%. Thus the company enjoys a solid position in the industry relative to these measures.

Financial Stability

WU is able to sustain itself (current ratio of 4.877). Its d/e ratio is extremely low (0.06), indicating low risks. It is also a strong generator of FCF with a high FCF/sales multiple of 24.95, which is expected to increase further after finalizing its restructuring as an independent firm.

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March 4, 2007

United Parcel Service (UPS)

RATING	**Buy**
TARGET PRICE	**83.70**
Last Price	69.47
52 Week Range	65.50 - 83.99
Market Cap. (MM)	78,970.0
Industry	Transportation

Key Statistics	
Forward P/E	16.6x
PEG	1.4x
Operating Margin	13.90%
ROE	24.40%
FCF/Sales	5.2x

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Investment Thesis

UPS has a great competitive advantage in profitability, efficiency, and financial health, and is the most stable and promising investment in its industry. The firm's expansion abroad, including 85% coverage of Chinese exports, will outweigh any risks that may come from heightened competition in the domestic ground. Also, recent headcount reductions may add to the company's efficiency. Its recent announcement of dividend and share-repurchase increases will have a positive effect on its value. We are issuing a price target of 83.70, which is equivalent to the industry average forward P/E of 19.3x plus a premium.

Company Profile

UPS is the world's largest package delivery company, which operates through three segments: US Domestic Package, International Package, and Supply Chain and Freight. It provides ground and express air services in the US and over 200 countries internationally, and also logistics services, including comprehensive supply chain management, for major companies worldwide. The company's traditional strength has been in domestic ground, which accounts for almost half of its total revenue. Although competitors like FedEx and DHL have been widening their domestic network, UPS still has a firm grip on the market.

Industry Overview

The delivery services industry has shown strong growth dynamics in the past 10 years. However, growth is expected to meet a modest slow down at the start of this year, as growth in US industrial production, which feeds high-margin air shipments, is forecasted to slow down. Companies in search of further growth in this sector are expanding their services internationally, UPS being the leader of this global expansion. The industry's strong growth dynamics, globalization trend, high barriers to entry, and rapid consolidation all work in UPS' favor.

Historical Performance

Revenue in the fourth quarter of 2006 was up 5.6% year over year, largely fueled by a 10.1% increase in international package revenue. EPS surprise % has been considerably steady and positive for the last 4 quarters: 1.1, -3.0, 6.7 and 0, respectively. Earnings are expected to be on target for the next year, again fueled by its fast growth in the international market.

Competitive Analysis

The only significant competition comes from FedEx, which has a market cap less than half of UPS'. The industry average forward P/E and PEG are 19.3x and 1.5x respectively, indicating that the stock is currently undervalued. The company has the industry's top operating margin and high ROE, pointing to the company's unrivaled profitability and efficiency. FDX has been expanding its domestic ground network, posing a threat to UPS' traditional strength. However, UPS still has a firm grip on the market thanks to its brand value, stability, efficiency and profitability.

Financial Stability

UPS' financial health is impressive. Its current ratio of 1.30 and quick ratio of 1.04 both indicate that the company is able to meet its short-term liabilities with its short-term assets. Its free cash flow/sales ratio of 5.21 indicates that it generates the strongest free cash flow among its competitors.

Telecommunication, Hardware, Software

BEAS	David Levine
MSFT	Karan Kupur Harsh Sheth
QCOM	Veda Kilaru
SYNT	Yu Jon Hu Derek Liu

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THE INSTITUTE FOR STUDENT BUSINESS EDUCATION

March 4, 2007

BEA Systems (BEAS)

RATING	**Buy**
TARGET PRICE	**17.40**
Last Price	11.58
52 Week Range	10.81 - 16.77
Market Cap. (MM)	4,560.0
Sector	Software

Key Statistics	
Operating Margin	19.20%
Profit Margin	12.00%
EBIDTA	242.76M
Debt/Equity	0.4x

Investment Research Analysts

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This report was written by members of the Financial Services Group, part of The Institute for Student Business Education, Northwestern University's premier, student-run business organization. This is a product of the winter 2007 Investment Research division.

Investment Thesis

BEA's new addition of AquaLogic accelerates the flow of information and assures security over networks. Last quarter this application accounted for 25% of revenues. BEA isn't ready to trade at a multiple like IBM because it is young, growing, and unproven. Average earnings estimates of .60/share next year (25% increase from '06) are the result of increased sales from AquaLogic. BEA is more similar to SunMicro in its revenues compared to those of IBM (13.8B vs. 92B). Due to this, it is more likely to trade at SunW multiple of 29x earnings. With a forward P/E of 29 and an EPS of .60, we set a target price of $17.40.

Company Profile

Revenues are broken up into license fees and services (57% and 43%, respectively). Service revenues are broken up into consulting and education revenues and customer support revenues, with consulting revenues accounting for about 75% of the total 57%. Services generate more revenue, have higher costs, so licensing profits are greatest. The weakness here lies in the fact that last quarter services revenues increased 20%, while licensing revenues increased only 8%. This drives revenues, but profits won't increase equiproportionally due to high costs.

Industry Overview

The industry blossomed in the 90's tech bubble. The industry isn't a mature industry, but over the last half decade it has showed signs of slowing growth. Industry revenues currently grow at 15% quarterly clip, much less than the growth rates of 50%/quarter a decade ago. The industry moves with scientific innovations and increased globalization. The increase outsourcing done by technology companies had been the main growth contributor as of late.

Historical Performance

Last quarter the main driver in earnings was AquaLogic, which accounted for 25% of revenues. Earnings last quarter were 0.13 while estimates were 0.14. Last year's earnings were 0.48, which beat estimates by 0.03. AquaLogic will be a huge source of revenues as it has proven to be wildly popular. In general, BEA consistently meets analyst estimates. EPS may have fallen short by 0.01 due to a cutback in spending to finance the new headquarters. This one-time adjustment won't affect future earnings.

Competitive Analysis

Other big players are: IBM, Oracle, and Sun Micro. BEA's market share against the big three is the lowest with only 1% in terms of revenue. IBM, Oracle, and SunMicro have 74%, 13%, and 12% respectively. However, this includes IBM's production of PCs, which doesn't truly affect BEA's software market share, which is around 20%. Its greatest threat is SunW. However, BEA's operating and profit margins are 19% and 12% respectively, while SunW's are relatively lower. The company's small size still makes it more difficult to invest excessive amount of capital without taking on excessive debt.

Financial Stability

The company will have no problem meetings short and long-term obligations as it has more than $1 billion in cash. Its EBITDA is $242 million. More importantly, it has a low debt/equity ratio of 0.37 compared to some of its largest competitors, which makes it a more financially stable option.

March 5, 2007

Microsoft (MSFT)

RATING	**Buy**
TARGET PRICE	32.00
Last Price	27.76
52 Week Range	21.46 - 31.48
Market Cap. (MM)	27,381.0
Sector	Technology

Key Statistics	
Trailing P/E	23.7x
Cash	26.4B
Revenues	20.0B
Beta	0.71
Current Ratio	2.00

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Investment Thesis

Microsoft's financials ensure a solid backbone to support further research and expansion in new profitable fields. Microsoft has the resources needed to promote its newly introduced products in the world market. The prospects from these products as well as continued research in all its divisions ordain future profitability and investment security. Considering quarterly revenue growth exceeding previous results, strong potential growth in global markets, coupled with increased returns from new products and EPS growth to over 15% from last year, we would give Microsoft a target price of $32 within a year.

Company Profile

Microsoft provides software and hardware solutions/products to its worldwide client base. Its operations are divided into: Platforms and Services, Business, and Entertainment and Devices. Revenue has been growing at 20% each quarter with departments developing rapidly. Vista and Office 2007, which recently released, are expected to boost profits with both businesses having operating margins of over 70%. Analysts expect Vista and Office to provide 80% of Microsoft's profits based on past OS and Office Suite Performance.

Industry Overview

It operates in a relatively stable and mature market but is extremely susceptible to increased competition from new tech startups. However Microsoft has increased R&D expenditure to combat this issue. The fact that Windows is running on 9 out of 10 computers worldwide, provides potential for revenue growth from Office 2007 and Vista sales. Their entertainment division has been boosted by large sales of the XBOX 360 and their hugely popular game, Gears of War. They have been able to withstand competitors due to their large market presence and increasing brand equity.

Historical Performance

Revenues have been growing consistently at about 20%. Last quarter, revenue estimates were below analyst expectations due to increased research spending and marketing for the new line. Increased costs will payoff in the near future as these products penetrate the global market. Revenue in the entertainment and devices division grew 76% last year. The server and tools business posted its 18th consecutive quarter of double-digit growth with sales of $2.9 billion. Rejuvenating its product cycle with the new line will increase the potential for sales and profit growth, as well as efficiency leverage in the future.

Competitive Analysis

Apple is expected to release the iPhone in June 2007. However, there are rumors that Microsoft is planning on introducing its own Zune Phone. In a surprising move, Microsoft has tied up with Novell to work together for software development. Entry into new markets such as video games and telecommunication devices will help boost top line profits as well. Increased competition from Google and startup companies poses a huge risk to certain business segments of Microsoft. Microsoft is combating this by diversifying and boosting research budgets to ensure innovation in the market.

Financial Stability

Operating margins are in the high-30% range, and the firm generates more than $1 billion in cash per month. Its debt of $20 billion is well covered by free cash reserves of $26.4 billion. Profit Margins have been consistently over 25%, with return on equity almost hitting 30%. Its current ratio is optimal at 2.

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March 5, 2007

Qualcomm (QCOM)

RATING	**Buy**
TARGET PRICE	**56.38**
Last Price	39.48
52 Week Range	53.01 - 32.76
Market Cap. (MM)	65,399.0
Industry	Wireless Equipment

Key Statistics	
P/E	27.0x
Forward P/E	19.2x
ROA %	17.84%
EBITDA	3.44 B
Total Revenue	7.8 B

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Investment Thesis

We recommend Qualcomm as a buy for multiple reasons. Solid past performance with several positive catalysts will generate higher earnings and approximately 10-15% growth in the coming year. High profile marketing of its CDMA handsets with AT&T/Cingular and Sprint-Nextel's use of phones employing Qualcomm's chips will contribute to earnings in the 2008 fiscal year. The steady transition to 3G technology, which is derived from CDMA technology, will also spur chip sales/royalties. The current low level of wireless usage in China and India also provides opportunities for growth.

Company Profile

Qualcomm grants licenses to use portions of its intellectual property portfolio, which includes patent rights essential to and/or useful in the manufacture and sale of wireless products. Their business areas include the chipset and systems software, technology licensing, in addition to the Eudora email software for Windows/Macintosh, and satellite based systems. Its revenue comes from two main sources; the first and primarily through the design and manufacture of the chipsets for CDMA phones and the second through collecting royalties for use of the patents it holds on the CDMA technology.

Industry Overview

Motorola estimates the utility wireless market for equipment and related services is valued at $1 billion and growing at 15% a year. With the advent of new wireless technology (3G), the wireless equipment market is waiting to boom. There is minimal worry that the threat of substitutes will present itself. Qualcomm is in an ideal position as they hold a large portion of the bargaining power of suppliers. Perhaps the biggest problem in the industry would be inter-firm rivalry if Texas Instruments, STMicroelectronics, and Nokia are successful in their production of CDMA chips.

Historical Performance

Qualcomm's past performance is very solid, with net income, earnings per share, and sales consistently on the rise from 2002. Annual revenue growth as of January 2002 was 5.95% which jumped to 31.35% by December 2006. Earnings are projected to be on target next quarter, and the forward valuation based on past performance is positive, with high growth (at about 17% over the next five years) due to the catalysts mentioned previously.

Competitive Analysis

Qualcomm's main competitors are Texas Instruments and Nokia, who have joined forces to produce CDMA phone chips. However, the company holds a patent to CDMA technology. Qualcomm will benefit most from the transition to 3G technology as its base standards are derivations of their CDMA concept. If Nokia is successful in obtaining a lower royalty rate for the next generation of mobile phones, it could potentially cut into the 5-9% of revenue Qualcomm generates from royalty fees. Qualcomm is performing above industry averages of P/E at 20.2 and EBITDA at 6.80 M.

Financial Stability

Qualcomm can definitely sustain itself; an important point is that its business is not capital-intensive, resulting in significant free cash flow (about 2.05B). Its current total equity is at $13,406.0MM and total debt is at $6.07M (i.e. total debt/equity = 0.005). Its EBITDA is 3.4B.

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March 4, 2007

Syntel (SYNT)

RATING	**Buy**
TARGET PRICE	**48.00**
Last Price	33.60
52 Week Range	17.73 - 39.01
Market Cap. (MM)	1,380.0
Sector	Technology

Key Statistics	
P/E	27.1x
Forward P/E	20.6x
Profit Margin	18.84%
EBITDA	58.6M
PEG	1.2x

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Investment Thesis

Our target price of 48.00 is derived from a diluted EPS of 1.24 and a conservative P/E estimate of 39.0x, derived from the industry average. Syntel is heavily focused on R&D and expansion and revenue growth should catch up shortly, especially in India. Founder and CEO Bharat Desai is internationally distinguished and known for his persistence. A native of India, he boasts a knowledge of the local market, which provides a critical advantage in a booming IT market.

Company Profile

Syntel is a provider of professional information technology consulting and applications management services to companies abroad and government entities. Syntel generates its revenues from fees derived from its Applications Outsourcing (71.4%), e-Business (14.3%), TeamSourcing (6.1%), and Business Process Outsourcing (8.2%) segments. Of these segments, BPO has the highest profit margin of 59.9%, followed by TeamSourcing at 41.6%, E-Business at 31.7%, and Applications Outsourcing at 37%. The majority of the company's revenues come from the US and India, contributing 63% and 33%, respectively.

Industry Overview

This industry is heavily influenced by technology growth. Companies are forced to adopt new technologies as they become available. Over half of Syntel's revenues are generated by its top five customers, so its bargaining power is limited. Barriers to entry in this industry include initial high capital requirements and expertise. Also, new entrants are often unable to sway clients from older, more established firms. Syntel's total umber of competitors is fairly high, but its close competitors are few.

Historical Performance

Syntel has consistently outperformed analyst estimates by roughly 13%. Earnings growth for 2007 is forecasted to be 12.60%, compared with the industry's 9.80%. However, estimated growth rates for the next five years place the company at 17.5, compared the industry at 17.0. Based on past performance, the company should continue to beat estimates. The past year has seen a 127% increase in stock price. Earnings for the last year were driven mainly by its expanding focus on international operations, mainly in India. These expansions are expected to continue to drive earnings higher.

Competitive Analysis

Syntel's close competitors include Computer Sciences and Keane, as well as IBM Global Services. Of these, IBM is the most threatening because of the technology and brand recognition. Syntel has a strong presence in India and a focus on new developments for services. While its competitors are bigger, Syntel maintains the advantage of growth, having a quarterly revenue growth of 17.4% on average, as opposed to 1.7% for Computer Sciences and -6.60% for Keane. The average P/E for the industry is 39.0x.

Financial Stability

The company carries no long term debt and has about 40.0M in current liabilities. It has 37.0M in cash after a -37.0M FCF for last quarter.