

Investment Club Meeting

February 16th, 2018



Market Update



By: Mac Erb

Market Overview

Dow Jones: Closed at 25,200.37

Increased by 5.03% over the last 5 days

Dow Jones: 5 Day Index



S&P 500: Closed at 2,731.20

Increased by 0.65% over the last 5 days

S&P 500: 5 Day Index



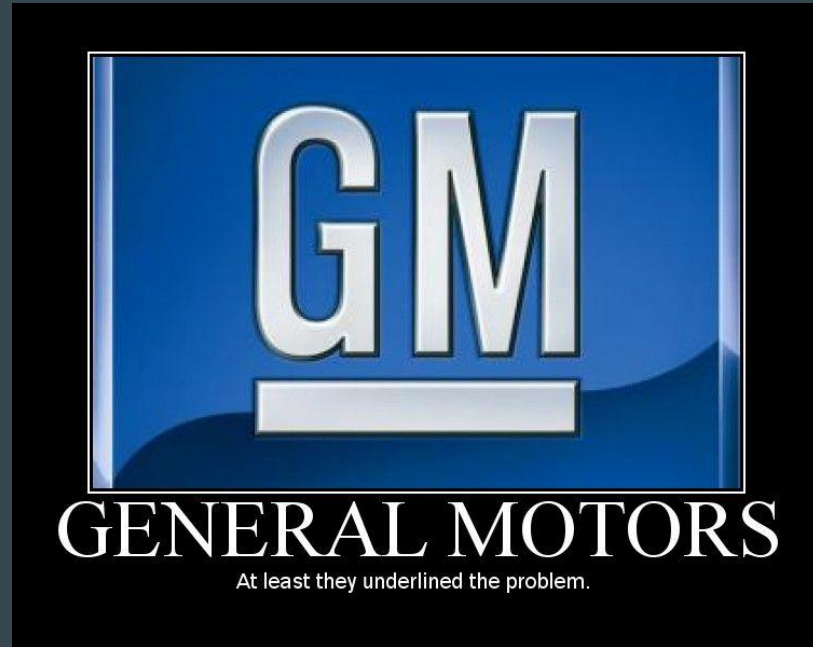
General Dynamics Deal

- General Dynamics Corp. has agreed to buy CSRA Inc. for \$6.8 billion.
 - Offer is for \$40.75/share, a 32% premium.
- Major player in IT Services for government and intelligence agencies.
 - Pentagon, CIA, Department of Health and Human Services
- CSRA brings strong sales...\$5 billion
- Investor Concern

The logo for General Dynamics, consisting of the words "GENERAL DYNAMICS" in a bold, blue, sans-serif font, centered within a white rectangular box.

General Motors to Close South Korean

- Gunsan plant to close in May 2018
- Part of the global downsizing effort under CEO Mary Barra
 - Closure will cut: unused factory space, 2,000+ jobs
- GM has slipped in recent years down to 4th in international auto sales
 - Behind Volkswagen AG, Toyota Motor Corp, and Nissan Motor Corp.
- Will continue operations at its three other Korean units.



Chipotle Names Next CEO

- Chipotle Mexican Grill Inc. named Brian Niccol as the next CEO
 - Niccol has served as the CEO for Taco Bell for the past three years.
 - His success at Taco Bell is highlighted by its transformation into a lifestyle brand and the introduction of breakfast, both of which have been instrumental in the chain's turnaround.
- Niccol will take over the position from Steve Ells in March.
 - Ells the founder and soon to be ex-CEO will serve as an executive chairman
- Chipotle has been struggling since food safety scares began to pop up in 2015.
- Shares have dropped nearly 40% in the past year.
 - Up roughly 15% since the announcement
 - Trading at \$296.65/share



Amgen Tender Offer



By: Adam Rosen and Dave Perron

What is a tender offer?

- A tender offer is an offer to purchase some or all of shareholders' shares in a corporation
- As a result of 2017 Tax Act, AMGN has immediate access to its \$41.7 billion balance of cash, cash equivalents and marketable securities
- Based on its confidence in the long-term outlook for business, enhanced by the 2017 Tax Act, and consistent with AMGNs ongoing objective to return capital to stockholders, it has determined to use up to \$10 billion of cash to repurchase Shares
- We have offer to tender our shares

Amgen Tender Offer

- Current stock price of \$185
- \$175-200 per share range
- \$10B total purchased
- At \$200 per Share, AMGN could purchase 50,000,000 if fully subscribed, at \$175 per Share could purchase 57,142,857 Shares if the Offer is fully subscribed
- Often many stockholders want to participate, and they offer WAY more than the company has offered to buy. In this case, to resolve the dilemma, the company buys stock on a pro rata basis from everyone who offered it. While you may have wanted to sell 100 shares, XYZ may only end up buying 50, if the offer is twice oversubscribed
- We could only have a certain percentage of shares purchased if this is oversubscribed and then pro rated

Amgen Valuation Analysis

(\$ in millions)	2017	2018	2019	2020	2021	2022	Terminal
Revenue	\$22,991	\$22,849	\$23,077	\$23,308	\$23,541	\$23,777	\$24,015
% Growth	-0.6%	1.0%	1.0%	1.0%	1.0%	1.0%	
EBITDA	\$ 9,973	\$10,154	\$10,489	\$10,594	\$10,700	\$10,807	\$10,807
% Margin	43.6%	44.0%	45.0%	45.0%	45.0%	45.0%	45.0%
NOPAT		\$ 4,846	\$ 5,128	\$ 5,179	\$ 5,231	\$ 5,283	\$ 5,283
(+) D&A		1,846	1,865	1,883	1,902	1,921	1,921
(+) Δ in NWC		(114)	(115)	(117)	(118)	(119)	(119)
(-) Capex		(692)	(699)	(706)	(713)	(720)	(720)
FCF		\$ 5,886	\$ 6,178	\$ 6,240	\$ 6,302	\$ 6,365	\$ 6,365
Discount Factor		0.96	0.89	0.82	0.76	0.71	0.71
PV FCF		\$ 5,664	\$ 5,504	\$ 5,148	\$ 4,814	\$ 4,502	

Multiples Method	
PV of Free Cash Flow	\$25,631
Terminal Year EBITDA	10,807
Terminal Value	86,452
PV of Terminal Value	\$61,146
% of Enterprise Value	70.5%
Enterprise Value	\$86,778
Implied Price Per Share	\$128.20

Perpetuity Method	
PV of Free Cash Flow	\$25,631
Terminal Year FCF	6,365
Terminal Value	91,838
PV of Terminal Value	\$64,956
% of Enterprise Value	71.7%
Enterprise Value	\$90,587
Implied Price Per Share	\$133.44

Assumptions	
Tax Rate	15.0%
Perpetuity Growth Rate	1.0%
WACC	8.0%
EBITDA Multiple	8.0x

WACC

EBITDA Multiple					
	6.0x	7.0x	8.0x	9.0x	10.0x
6.0%	\$114.31	\$125.76	\$137.20	\$148.65	\$160.10
7.0%	110.64	121.62	132.59	143.56	154.53
8.0%	107.15	117.67	128.20	138.72	149.24
9.0%	103.82	113.92	124.01	134.11	144.20
10.0%	100.65	110.34	120.03	129.72	139.40

WACC

Perpetuity Growth Rate					
	0.0%	0.5%	1.0%	1.5%	2.0%
6.0%	\$158.00	\$168.83	\$181.82	\$197.70	\$217.55
7.0%	137.13	144.73	153.60	164.08	176.65
8.0%	121.49	127.07	133.44	140.80	149.38
9.0%	109.32	113.55	118.32	123.72	129.89
10.0%	99.58	102.89	106.56	110.66	115.28

Mechanics of Trading



By: Sidney Michelini

Why this matters?

- The market is designed for all of this to be behind the scenes
- It is important to understand where “transactions costs” come from
- How markets are actually trades has a lot of impacts on financial industry

It starts with an order

- You place an order to buy or sell with your broker
- Note: This is an order that must be executed
- Types of Orders:
 - Limit Order: Buy/sell at a certain price
 - Market Order: Buy at the current bid/ask price
- Bid/Ask
 - Bid-price you can sell at
 - Ask-Price you can buy at



On the exchange

- Market makers will have offers on the exchange
- Your broker will net orders and place an order
- Exchange matches buyers and sellers and records the transactions
- This is all electronic these days



Settlement

- We now settle two days after trading
 - Used to be 3 days
- Essentially all securities are instantaneously swapped
- Combined with exchanges, this has reduced counterparty risk by a lot

