

NYSE: PDCO

Current Price: \$44

Intrinsic Value: \$62

Implied Return: 38%

March 29, 2016

Recommendation

BUY

Key Statistics

Sector: Health Care

Industry: Health Care Supply-Chain

Market Cap: \$4.4b

Dividend Yield: 2.10%

52 Week High: \$53.07

52 Week Low: \$38.51

Trailing P/E: 20.9x

Forward P/E: 16.8x

P/S: 0.88x

EV/EBITDA: 11.4x

P/B: 3.2x

Beta: 0.82

ROA: 7.8%

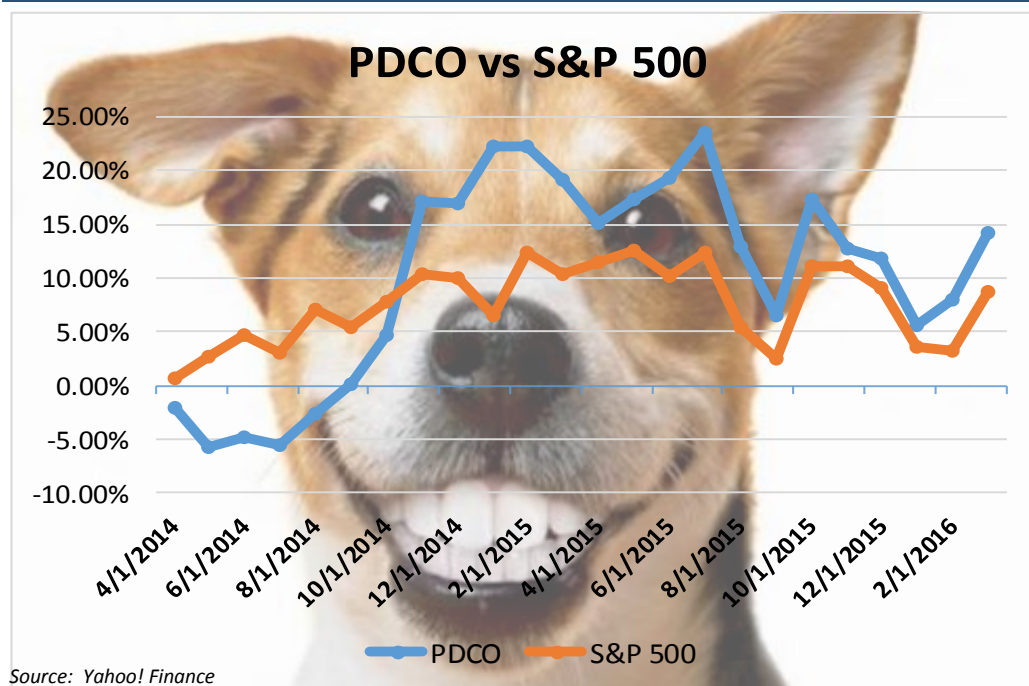
ROE: 15.3%

Source: Morningstar

Investment Thesis

- Market leader with a large competitive moat trading at a discount to its competitors
- Low risk business structure given the dynamics of the Dental and Animal Health segments
- Growing demand in Patterson Companies' (PDCO) two business segments (Dental and Animal Health)

Price Performance



Company Overview

PDCO distributes dental and veterinary supplies. The company serves North American dental, U.S. veterinarian, and U.K. veterinarian markets. Patterson's Animal Health segment is divided into two sub-segments, which are supply distribution for companion animals and distribution for production animals. PDCO began as a dental distribution company in 1877 and expanded its business into Animal Health distribution in 2001.

Catalysts

- Synergies from acquisitions
- Digitization of the dental industry
- Growing pet ownership and affection
- Herd expansion

Risks

- Acquisitions failing to create synergies and value
- FDA regulation in Animal Health segment
- Consolidation of manufacturers and customers

Investment Thesis

Market leader with a large competitive moat trading at a discount to its competitors

PDCO's vast distribution network requires a high amount of capital and economies of scale to operate an efficient network across the United States. It has an exclusive distribution agreement with Sirona, the market leader in digital dental equipment. PDCO has a low customer churn due to its comprehensive line of products and services.

In the U.S dental supply distribution industry, PDCO and Henry Schein, Inc. (HSIC) operate in a duopoly market and hold a 68% market share. PDCO is currently trading at a cheaper forward P/E multiple of 16.8x while HSIC is trading at a forward P/E multiple of 24.9x.

In the U.S veterinary supply distribution industry, PDCO is the leader in North America after its recent acquisition of Animal Health International. Patterson's competitors in this oligopoly industry include HSIC and AmerisourceBergen (ABC). PDCO is the only supplier allowed by its production animal customers to deliver their products because the customers have quality control measures to prevent disease. PDCO's companion animal customers have similar loyalty to Patterson's dental customers due to PDCO's comprehensive line of products and services.

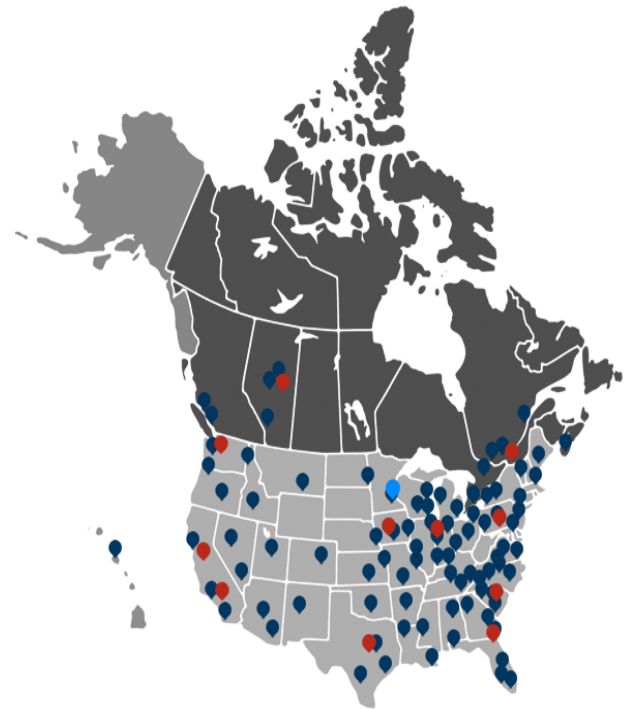
Low risk business structure given the dynamics of the Dental and Animal segments

The dental industry and animal health industry are very attractive. During a recession, customers will not significantly change their spending habits on pets, meat consumption, and dental care. PDCO gives us a safe investment during the uncertain times we are in currently, with 80% of revenues coming from within the United States.

Growing demand in its two business segments (Dental and Animal Health)

The number of people that own pets is increasing and these pet owners are willing to spend more on their pets than before. Also, throughout the world there is a growing demand for high protein diets. This provides a strong tailwind for herd expansion, veterinary spending, and PDCO's Animal Health segment sales.

Dental practices are investing in productivity enhancing technology because demand for dental services is increasing while the number of dentists are decreasing. This will increase the number of patients per practice and encourages dental practices to become more productive by investing in more efficient equipment.



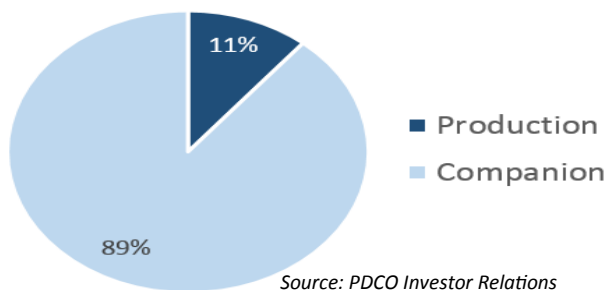
Map Key

- Branch Locations
- Corporate Headquarters
- Distribution Centers

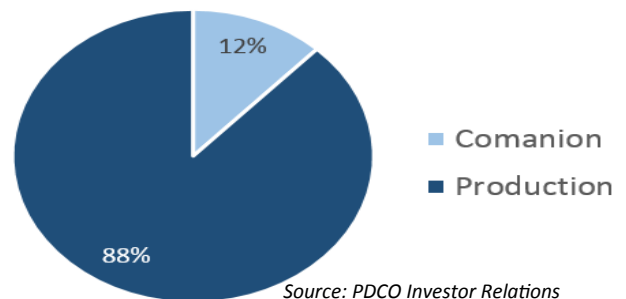
Company Overview

PDCO is a healthcare distribution company focused on dental and animal healthcare supply and equipment. Founded in 1877, PDCO has a long history of serving the dental industry. Beginning in the early 2000's, PDCO began expanding through acquisitions to take advantage of fragmented medical rehabilitation and animal healthcare supply distribution markets in the U.S.. PDCO refocused its business by recently selling its medical rehabilitation supply business. In addition, PDCO recently made one of the largest acquisitions in the animal healthcare distribution industry by purchasing Animal Health International and passed HSIC as the leading U.S animal healthcare supply distributor. Given PDCO's history of acquisitions, we do not expect PDCO to actively search for potential acquisitions in the near-future, but focus on its existing businesses that are well-positioned to capitalize on the growing dental, veterinary, and animal production markets.

Patterson Veterinary



Animal Health International



Growth Catalysts

Synergies from acquisitions

Since 2008, PDCO has made seven acquisitions; four that have strengthened its Dental segment and three that have strengthened its Animal Health segment. The recent acquisition of Animal Health International in mid-2015 was of great importance because PDCO doubled the size of its veterinary business. The acquisition of Animal Health International will realize \$20 million to \$30 million in synergies over a three year period.

Digitization of the dental industry

The aging U.S population and the consolidation of dental industry are going to encourage dental practices to digitize and have a positive impact on demand for the Dental segment.

Growing pet ownership and affection

Since 2012, the percentage of U.S. households with pets has increased from 56% to 64%. According to the Humane Society, 63% of pet parents consider their pets as family and are willing to spending more on their pet's health than before. These two trends should also have a positive impact for the Animal Health segment for PDCO

Herd Expansion

Overall red meat consumption has continued to rise in the U.S. and rest of the world. Red meat consumption represents the largest proportion of meat consumed in the U.S at 58%. Last year, protein consumption increased by 3.8% and this trend will benefit herd expansion and PDCO's Production Animal segment.

Products

PDCO's Dental and Animal Healthcare Segments are divided in three categories: Consumable and Printed Products, Equipment and Software, and Value Added Services

Consumable and Printed Products

Dental

Dental supplies consist of powered hand tools, x-ray supplies, impression materials, restorative materials, sterilization products, anesthetics, infection control products, disposable products, and dental accessories.

Printed office products consist of sales allocated to the Dental segment through Patterson Office Supplies. These products range from office filing supplies to stamps and envelopes.

Animal Healthcare

Animal Health supplies consist of pharmaceuticals, vaccines, parasitoids, diagnostics, nutritional products, and consumables supplies.

Equipment and Software

Dental

Dental equipment consists of radiography equipment, dental chairs, dental hand piece control units, diagnostic equipment, sterilizers, dental lights and compressors. As dental practices seek to digitize, they are desiring the CEREC family of products manufactured by Sirona and exclusively distributed by PDCO in North America. These products include CEREC chair-side systems, CAD/CAM technology, digital imaging systems (panoramic, 3-D, and cone beam x-rays), and intraoral cameras.



Software consists of proprietary software products EagleSoft and Dolphin as well as third-party developed products SIDEXIS by Sirona and Dimax2 by Planmeca. PDCO's Dental segment develops and markets its proprietary technologies internally for practice and clinical management. Products in this category are used by dental practices to improve productivity. Hardware consists of the information technology solutions required to integrate an entire dental practice. Patient Education services include the CAESY education systems line of products used to educate patients in an efficient and cost effective manner.

Animal Healthcare

Veterinary equipment includes anesthesia machines, surgical monitors, diagnostic equipment, ultrasound, dental power units, cages, lights, digital x-ray systems, and x-ray machines.

Software consists of Patterson Veterinary proprietary practice management software called INTRAVET, proprietary client education software called DIA, and a client communication platform called ePetHealth.

Value Added Services

Dentistry/Animal Healthcare

Value Added Services represent Dental Office Design, Equipment Financing, and Equipment Installation, Repair, and Maintenance.

Industry

Companion Animal Industry

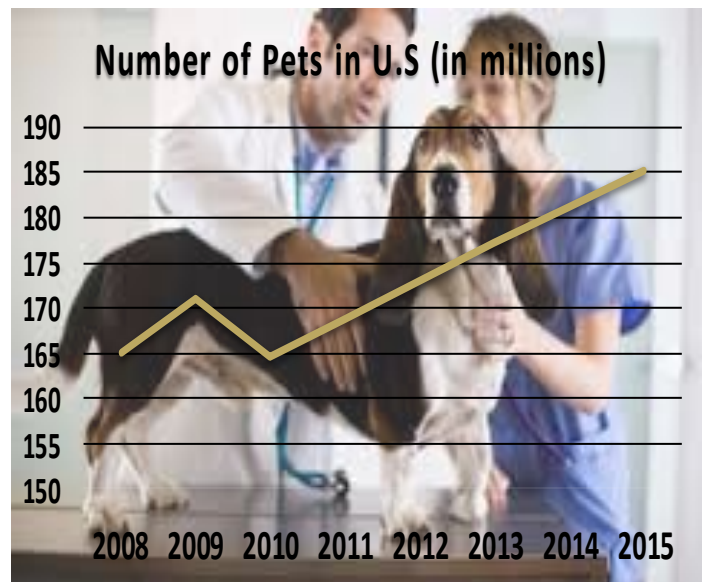
U.S. pet parents spent \$35 billion on their pets for veterinary expenditures last year. Two trends that will help the U.S. pet health supply distribution industry are increasing pet ownership and higher willingness among pet parents to spend more on their pets. 65% of American households care after almost 185 million pets, including 164 million dogs and cats. According to our research, the dog and cat population will increase by 2.4% annually to 180 million by 2019. The primary drivers behind increasing pet ownership are increasing single-person households and the aging population, which are two demographics that seek the companionship of pets the most. Pet parents are willing to spend more today since pets are seen as family.

Production Animal Industry

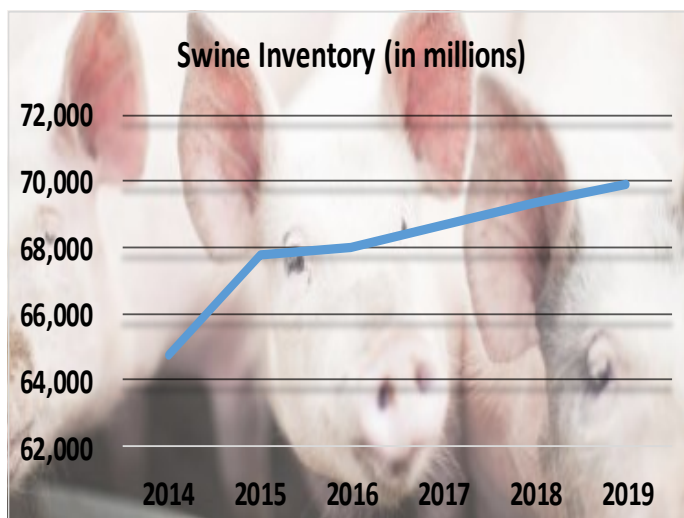
PDCO will be distributing more veterinary supplies during our investment horizon because American producers will be expanding their cattle herds and swine count to generate attractive returns. The primary drivers behind expanding cattle herds and swine count include:

- Strong domestic demand for red meat and dairy products
- Higher per-capita consumption of meat
- Historically low livestock feed prices

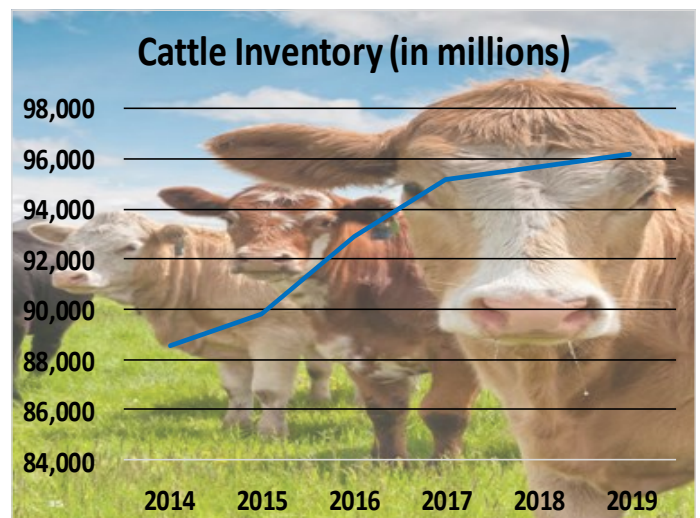
Based on our research, 54% of consumers are deliberately increasing protein in their diets. Last year, U.S. protein consumption growth increased by 3.8% while U.S. total food consumption increased by 2.9%. As consumers prefer the taste of meat in their diets, U.S. per capita meat consumption will increase by 2.6% to 216.7 pounds by 2019. According to our research, the number of U.S. cattle will increase by 7.1% to 96.2 million by 2019 while the number of swine is expected to increase by 3.1% to 69.9 million over the same time period.



Source: IBIS World



Source: USDA

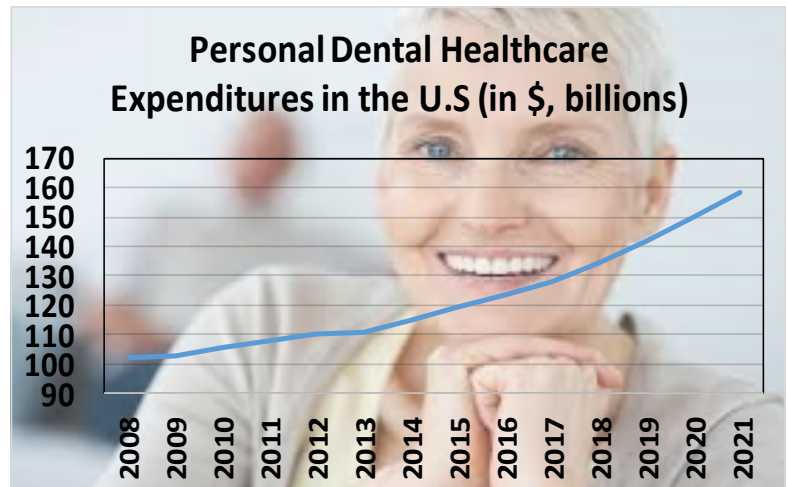


Source: USDA

Industry (continued)

Dental Industry

Dental supply distribution is a \$7.2 billion market in the United States. Two trends that will help the U.S. dental supply distribution market grow are increasing U.S. personal dental healthcare expenditures and dental practices emphasizing the digital aspect of dentistry. Based on our research, U.S. personal dental expenditures is projected to increase by 4.5% annually to \$142 billion by 2019. As patients spend more money on dental services and products, dentists, dental laboratories, and other similar parties must purchase additional consumables and equipment to replace supplies that are out of stock, worn down, and less productive. Technology penetration among dental practices is low and more practices are understanding that digital dentistry will help them provide a desirable experience to patients while improving the efficiency, workflow, and productivity of their practices.



Source: United States Department of Health and Human Services: Centers for Medicare and Medicaid Services

Risks

Acquisitions failing to create synergies and value

PDCO doubled its Animal Health segment after acquiring Animal Health International, a leading production animal supply distributor in the U.S. for \$1.1 billion in June 2015. If the acquisition isn't properly integrated, it could adversely affect PDCO's shareholder value. PDCO has been known to make acquisitions to grow in the past that have created shareholder value. In the future, it could continue to acquire other smaller distributors to keep up with a consolidating industry. PDCO's CEO said during the firm's 2016 Q2 conference call that "we believe from a financial perspective, we have the dry powder to execute on any opportunities in front of us. That being said, we've done a lot in the last year and our number one goal is successful execution of the M&A strategy that we currently have on our place. But, from an opportunistic standpoint, we'll continue to survey how we could improve our business by adding different potential companies or products to our portfolio." They are not actively looking for acquisitions, but they are not opposed to further acquisitions if they present themselves.



Risks (continued)

FDA regulation in the animal health segment

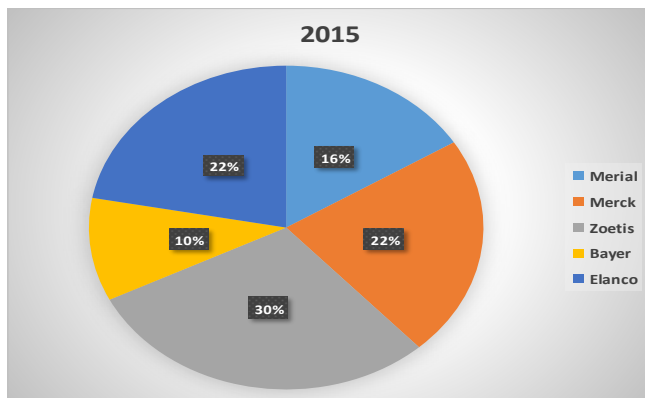
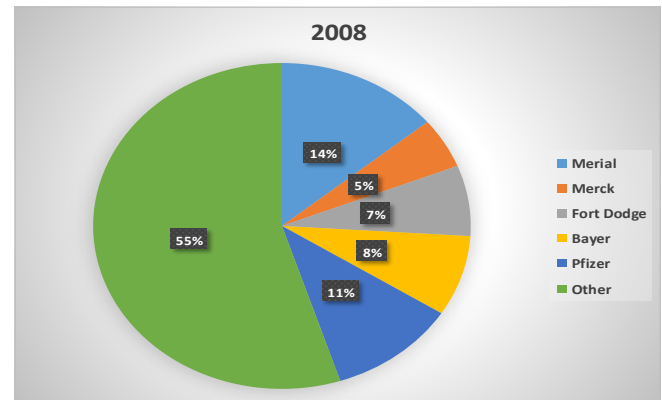
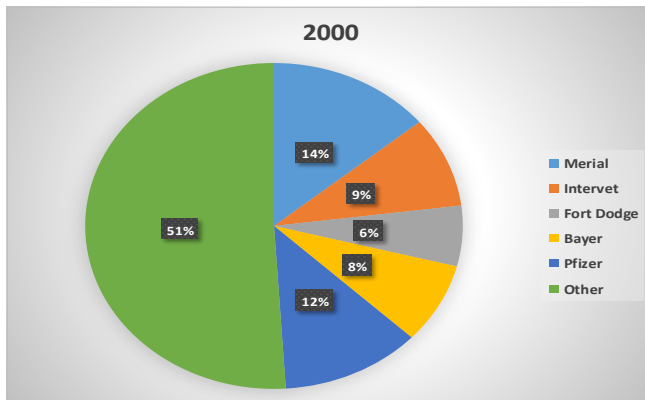
PDCO is subject to regulation by the Federal Food and Drug Administration along with many other agencies. Due to the nature of its business, PDCO is subject to many laws involving regulation of the prescriptions and equipment it sells to its customers. The lack of ability to comply with regulations could result in a large penalty. PDCO could have a large inventory balance of products if they are labeled as unsafe, which could adversely affect its top-line and inventory management. In the Animal Health segment, management sees a small percentage of antibiotics being at risk of FDA regulation. However, antibiotics are necessary components within the animal production industry because producers must keep their animals healthy. If one product gets banned, another would need to be created in its place to make sure animals are healthy for consumption.

Consolidation among manufacturers and customers

Manufacturers that supply PDCO with its products within the Animal Health segment are consolidating, implying that manufacturers are gaining more pricing power. PDCO does not see this as a risk because PDCO is in an even more consolidated industry, which its suppliers rely mostly on. In addition, there are still an adequate number of suppliers where manufacturers will have diluted pricing power during our investment horizon. Therefore, if one of PDCO’s suppliers tries to raise the price of their products, PDCO has the option to go elsewhere because the products are relatively commoditized.

Animal Health Manufacturer Market Share

Source: PDCO Analyst & Investor Day Presentation

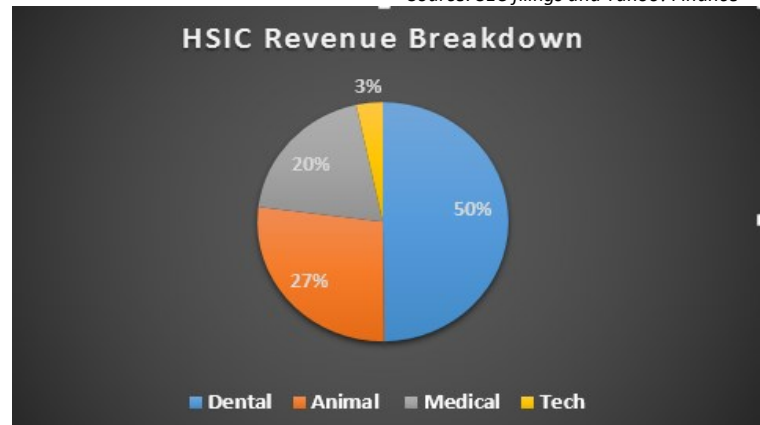


Competition

HSIC is PDCO's primary competitor since HSIC company has a presence in both the U.S. dental supplies and U.S. animal health supplies distribution industry. Here is a comparison of PDCO and HSCI:

FACTOR	PDCO	HSIC
Market Cap	\$4.4b	\$13.8b
Revenue	\$5.4b	\$10.6b
Gross Margin	26%	28%
Operating Margin	7%	7%
Trailing P/E	20.9x	28.3x
P/S	0.9x	1.3x
YTD return	1.53%	6.6%
1 year return	-5.5%	19.8%

Source: SEC filings and Yahoo! Finance



What attracted us to PDCO is that it does not have much exposure to foreign markets, while HSIC has a presence in 33 countries with 36% of their revenue coming from overseas. Unlike PDCO, HSIC has a medical distribution segment which accounts for 20% of their revenue. This segment may be negatively affected in the near-future by cost pressures emerging from lower reimbursements rates in the healthcare industry.

Competitive Moat

There are three factors that give PDCO a wide economic moat:

1. Exclusive contract with Sirona

PDCO has an exclusive agreement to distribute and fully service Sirona products in the United States. Sirona is the market leader in digital dental equipment in the world. Sirona products include: CEREC chair-side systems, CAD/CAM, imaging systems, treatment centers, instruments, and cabinetry. Having the exclusive ability to distribute these products in North America gives PDCO the opportunity to benefit from increasing technology penetration in dental practices since Sirona's line of equipment are the most innovative and desirable dental equipment available.

2. Dense distribution network in the U.S

PDCO has sales branch locations in 47 states, 10 distribution centers for its Dental segment, and 11 distribution centers for its Animal Health segment. PDCO's distribution network is very difficult to replicate due to the high capital required to operate at the speed and efficiency it does.

3. Strong relationship with customers

PDCO has very loyal customers that tend to be sole-sourced with low churn and concentration. 97% of PDCO's consumable good orders are on time, which are generally before 24 hours and very frequent given that dental and veterinary practices hold little inventory on a daily basis. In addition, PDCO's customers rely on the firm for maintenance and customer service for equipment.

Scenario Analysis

Bear Case:

In our bear case scenario considering the Dental segment, we assume a greater-than-expected consolidation of dental practices putting downward pressure on consumable products due to more buying power. Contributing to the consolidation, we also assume that weaker-than-expected economic growth slows the investment cycle of dentist practices and reduces dentist visits for routine maintenance, check-ups, and aesthetic procedures. Concerning PDCO's animal healthcare segment, we assume the Companion Animal segment does is weaker-than-expected and the Production Animal segment does not grow as expected due to herd reduction caused by faster-than-expected slaughter. While all of these scenarios may not simultaneously happen, our intrinsic value would reflect a price of **\$43.96**, representing a downside of -2% return. Return on Equity declines to 13.51%, 14.16%, and 13.77% for 2017, 2018, 2019, respectively. Sales growth is adjusted to 5.4%, 3.8%, and 4.1% in years 2017, 2018, and 2019, respectively. Profit margins are adjusted to 4.05%, 4.46%, and 4.54% in years 2017, 2018, and 2019, respectively.

Bull Case:

In our bull case scenario considering the Dental segment, we assume that the investment cycle of dentist practices is greater-than-expected due to faster adoption of newer technologies such as products made by Sirona. Considering PDCO's Animal Health segment we forecasted better-than-expected cost synergies from its recent acquisition of Animal Healthcare international. Better than expected herd expansion from worldwide middle class demand of red meat products is considered. Also, faster-than-expected pet ownership and growth in family treatment of pets affecting the companion animal sales. Our intrinsic value comes to **\$83.01**, representing an upside of 86% return. Return on Equity increases to 18.72%, 20.59%, and 21.39% for 2017, 2018, 2019., respectively Sales growth is adjusted to 10.16%, 10.78%, 11.02% in years 2017, 2018, and 2019, respectively. Profit margins are adjusted to 5.31%, 5.80%, and 6.01% in years 2017,

Valuation

Enterprise Value/EBITDA Model

All figures in millions, except per share data

Fiscal Year	2016e			2017e			2018e			2019e		
	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull
Operating Income	408	410	453	435	460	504	482	529	592	506	593	675
Depreciation & Amortization	60	59	61	76	75	77	76	75	78	76	75	78
EBITDA	468	469	513	468	469	513	558	604	670	582	668	753
EV/EBITDA Multiple	11.2x	14.1x	17.0x	10.2x	12.6x	15.2x	9.5x	11.7x	14.0x	9.5x	10.9x	14.0x
Enterprise Value	5,257	6,632	8,708	5,257	6,632	8,708	5,302	7,075	9,386	5,506	7,278	10,507
Less: Debt	(1,245)	(1,245)	(1,245)	(1,030)	(1,030)	(1,030)	(1,030)	(1,030)	(1,030)	(880)	(880)	(880)
Plus: Cash	372	403	342	267	269	185	436	387	285	465	376	261
Market Capitalization	4,385	5,791	7,805	4,494	5,871	7,863	4,707	6,431	8,641	5,090	6,774	9,888
Diluted Shares Outstanding	100	100	100	100	100	99	100	99	99	100	99	98
Intrinsic Value of Share Price	\$ 43.73	\$ 57.94	\$ 78.19	\$ 44.91	\$ 58.95	\$ 79.10	\$ 47.19	\$ 64.90	\$ 87.44	\$ 51.14	\$ 68.62	\$ 100.46
Dividends Per Share	\$ 0.88	\$ 0.96	\$ 1.15	\$ 0.98	\$ 1.12	\$ 1.34	\$ 1.17	\$ 1.40	\$ 1.70	\$ 1.30	\$ 1.66	\$ 2.05

Source: Team Estimates

Valuation (continued)

Free Cash Flows to Equity

Fiscal Year	2016e	2017e	2018e	2019e	Terminal Value	Discount Rate	
Basic EPS	\$ 0.19	\$ 2.72	\$ 3.25	\$ 3.70	\$ 68.62	Beta	0.82
D&A	\$ 0.05	\$ 0.75	\$ 0.76	\$ 0.76		Market Risk Premium	4.92%
CapEx	\$ (0.05)	\$ (0.70)	\$ (0.40)	\$ (0.30)		Risk-Free Rate	1.90%
Changes in Working Capital	\$ (0.21)	\$ (0.73)	\$ (0.93)	\$ (1.03)		CAPM	5.95%
Net Debt	\$ 0.41	\$ (2.15)	\$ -	\$ (1.52)			
FCFE	\$ 0.39	\$ (0.12)	\$ 2.67	\$ 1.61			
PV of FCFE	\$ 0.39	\$ (0.11)	\$ 2.44	\$ 58.82			
Intrinsic Value of Share Price	\$ 61.53						
Market Price	\$44.66						
% to Fair Value	38%						

FCFE Model Intrinsic Value Sensitivity Analysis

		Discount Rate				
		3.95%	4.95%	5.95%	10.948%	15.95%
Terminal Value	\$ 74.62	\$ 70.37	\$ 68.41	\$ 66.52	\$ 58.07	\$ 51.04
	\$ 71.62	\$ 67.71	\$ 65.82	\$ 64.00	\$ 55.89	\$ 49.14
	\$ 68.62	\$ 65.05	\$ 63.24	\$ 61.49	\$ 53.71	\$ 47.24
	\$ 65.62	\$ 62.38	\$ 60.65	\$ 58.98	\$ 51.53	\$ 45.34
	\$ 62.62	\$ 59.72	\$ 58.06	\$ 56.47	\$ 49.36	\$ 43.44

2019 FCFE Terminal Value/ Target Price

		EV/EBITDA				
		8.9	9.9	10.9x	11.9	12.9
EBITDA	768	64.11	71.88	79.66	87.43	95.21
	718	59.60	66.87	74.14	81.41	88.67
	668	55.09	61.85	68.62	75.38	82.14
	618	50.58	56.84	63.09	69.35	75.61
	568	46.07	51.82	57.57	63.32	69.07

Source: Team Estimates

According to our analysis, the intrinsic value of PDCO's share price is \$61.53 and our 2019 target price for PDCO is \$68.62. This implies a compound annualized return of 17.6% after including the dividends we forecasted to receive from PDCO. We arrived at our intrinsic valuation by analyzing PDCO's future free cash flows on a risk-adjusted basis and EV/EBITDA multiple. Along with the implied capital gains and dividends we'll receive from investing in PDCO, a reward-risk ratio of 1.39 reflects the low risk dynamics of the markets PDCO serves and makes PDCO a very attractive investment.

The primary drivers behind PDCO's valuation is increasing earnings per share and decreasing capital expenditures. PDCO's earnings per share will increase due to strong sales growth as it capitalizes on increased spending by dental practices seeking to digitize their practices, pet parents seeking to preserve the health of their pets, and animal producers seeking to keep their expanding herds healthy. Margin improvement will also improve PDCO's earnings per share as PDCO preserves its pricing power in the fragmented markets it serves while realizing cost synergies from its recent acquisition, becoming more efficient after implementing its Next Generation enterprise resource planning system, and annually increasing the price on its products and services. By 2018, PDCO's capital expenditures will decrease back to historical levels after it has fully implemented its enterprise resource planning system.

STUDENT-MANAGED
 INVESTMENT FUND

Valuation Based on Fair Value Multiple

Multiples				
Fiscal Year	2016e	2017e	2018e	2019e
P/E	23.58x	21.88x	19.93x	18.61x
P/B	3.59x	3.44x	3.41x	3.28x
P/S	1.04x	1.00x	1.00x	0.97x
Fiscal Year	2016e	2017e	2018e	2019e
Implied Value Based on P/E	\$ 57.38	\$ 59.59	\$ 64.84	\$ 68.80
Implied Value Based on P/B	\$ 56.44	\$ 58.72	\$ 64.04	\$ 68.05
Implied Value Based on P/S	\$ 57.38	\$ 59.59	\$ 64.84	\$ 68.80

2016 P/E Sensitivity Analysis						
P/E						
		17.58x	20.58x	23.58x	26.58x	29.58x
EPS	\$ 2.63	46.29	54.19	62.09	70.00	77.90
	\$ 2.53	44.54	52.14	59.74	67.34	74.94
	\$ 2.43	42.78	50.08	57.38	64.68	71.98
	\$ 2.33	41.02	48.02	55.02	62.02	69.02
	\$ 2.23	39.26	45.96	52.66	59.36	66.07

Consolidated and Common Sized Income Statements

Consolidated Income Statement								Consolidated Income Statement (% of Consolidated Net Sales)							
<i>All figures in millions, except per share data</i>								<i>All figures in millions, except per share data</i>							
Fiscal Year	2013	2014	2015	2016e	2017e	2018e	2019e	Fiscal Year	2013	2014	2015	2016e	2017e	2018e	2019e
Consolidated Net Sales:	3,637	4,064	4,375	5,518	5,931	6,433	6,991	Consolidated Net Sales:	100%	100%	100%	100%	100%	100%	100%
Dental Segment Sales	2,380	2,382	2,454	2,632	2,830	3,061	3,316	Dental Segment Sales	65%	59%	56%	48%	48%	48%	47%
Animal Health Segment Sales	755	1,203	1,457	2,831	3,043	3,308	3,606	Animal Health Segment Sales	21%	30%	33%	51%	51%	51%	52%
Cost of Sales	2,446	2,865	3,137	3,882	4,167	4,546	4,959	Cost of Sales	67%	71%	72%	70%	70%	71%	71%
Operating Expenses	836	853	865	1,226	1,305	1,358	1,440	Operating Expenses	23%	21%	20%	22%	22%	21%	21%
Operating Profit	354	346	373	410	460	529	593	Operating Profit	10%	9%	9%	7%	8%	8%	8%
Other Income	3	3	3	3	3	3	3	Other Income	0%	0%	0%	0%	0%	0%	0%
Interest Expense	36	36	34	39	45	36	34	Interest Expense	1%	1%	1%	1%	1%	1%	0%
Provision for Income Taxes	111	112	119	131	146	174	197	Provision for Income Taxes	3%	3%	3%	2%	2%	3%	3%
Net income	210	201	223	243	271	322	365	Net income	6%	5%	5%	4%	5%	5%	5%
Earnings Per Share															
Basic	2.04	1.99	2.26	2.46	2.74	3.26	3.69								
Diluted	2.03	1.97	2.37	2.43	2.72	3.25	3.70								
Shares Outstanding															
Basic	103	101	99	99	99	99	99								
Diluted	104	102	100	100	100	99	99								
Dividends															
Dividends Paid	44	86	82	95	111	139	164								
Dividends per Share	0.42	0.85	0.83	0.96	1.12	1.40	1.66								

Note 1: 2013 to 2014 sales for Dental and Animal Health segments do not add up to 100% of consolidated net sales due to past results from PDCO's divested Medical segment.

Note 2: 2014 and after sales for Dental and Animal Health segments add up to 99% of consolidated net sales due to 1% of sales derived from customer financing.

Source: Team Estimates

STUDENT-MANAGED
INVESTMENT FUND

Consolidated and Common Sized Balance Sheets

Balance Sheet												
<i>All figures in millions, except per share data</i>												
Fiscal Year	2014	2015	2016e	2017e	2018e	2019e	2014	2015	2016e	2017e	2018e	2019e
Cash and Cash Equivalents	265	347	403	269	387	376	9%	12%	11%	7%	10%	9%
Short-term Investments	41	53	-	-	-	-	1%	2%	0%	0%	0%	0%
Receivables, Net Of Allowance For Doubtful Accounts	608	644	699	751	815	886	21%	22%	18%	20%	20%	21%
Inventory	436	457	814	874	954	1,040	15%	15%	21%	23%	24%	25%
Prepaid Expenses and Other Current Assets	66	72	100	106	111	117	2%	2%	3%	3%	3%	3%
Property and Equipment, Net	205	227	278	330	351	360	7%	8%	7%	9%	9%	9%
Long-Term Receivables, Net	91	72	146	146	146	146	3%	2%	4%	4%	4%	4%
Goodwill	844	837	815	815	815	815	29%	28%	21%	21%	20%	20%
Identifiable Intangibles, Net	223	200	480	424	368	313	8%	7%	13%	11%	9%	8%
Other Assets, Long-Term	86	39	83	83	83	83	3%	1%	2%	2%	2%	2%
Total Assets	2,865	2,948	3,819	3,799	4,029	4,137	100%	100%	100%	100%	100%	100%
Accounts Payable	342	350	504	540	590	643	12%	12%	13%	14%	15%	16%
Accrued Payroll Expense	67	80	61	61	61	61	2%	3%	2%	2%	2%	1%
Other Accrued Liabilities	135	148	137	145	151	160	5%	5%	4%	4%	4%	4%
Current Maturities of Long-Term Debt	-	-	17	-	150	60	0%	0%	0%	0%	4%	1%
Borrowings on Revolving Credit	-	-	198	-	-	-	0%	0%	5%	0%	0%	0%
Long-Term Debt	725	725	1,030	1,030	880	820	25%	25%	27%	27%	22%	20%
Deferred Income Taxes	94	88	-	-	-	-	3%	3%	0%	0%	0%	0%
Other Liabilities, Long-Term	31	43	247	247	247	247	1%	1%	6%	7%	6%	6%
Total Liabilities	1,393	1,434	2,193	2,024	2,080	1,992	49%	49%	57%	53%	52%	48%
Common Stock	1	22	82	145	212	282	0%	1%	2%	4%	5%	7%
Treasury Stock	-	-	(75)	(150)	(225)	(300)	0%	0%	-2%	-4%	-6%	-7%
Retained Earnings	1,531	1,630	1,779	1,939	2,122	2,323	53%	55%	47%	51%	53%	56%
Accumulated Other Comprehensive Income (Loss)	25	(60)	(82)	(82)	(82)	(82)	1%	-2%	-2%	-2%	-2%	-2%
Unearned ESOP Shares	(86)	(78)	(78)	(78)	(78)	(78)	-3%	-3%	-2%	-2%	-2%	-2%
Total Stockholders' Equity	1,472	1,514	1,626	1,774	1,949	2,145	51%	51%	43%	47%	48%	52%
Total Liabilities and Stockholders' Equity	2,865	2,948	3,819	3,799	4,029	4,137	100%	100%	100%	100%	100%	100%

Source: Team Estimates

STUDENT-MANAGED
INVESTMENT FUND

Statement of Cash Flows

Statement of Cash Flows				
<i>All figures in millions, except per share data</i>				
Fiscal Year	2016e	2017e	2018e	2019e
Net Income	243	271	322	365
Non-Cash Employee Compensation	30	32	33	35
Depreciation and Amortization	59	75	75	75
Goodwill	22	-	-	-
Changes in Working Capital	-	-	-	-
Short-term Investments	53	-	-	-
Receivables, Net Of Allowance For Doubtful Accounts	(55)	(52)	(64)	(71)
Inventory	(358)	(60)	(80)	(87)
Prepaid Expenses and Other Current Assets	(28)	(6)	(4)	(7)
Accounts Payable	154	37	49	54
Accrued Payroll Expense	(19)	-	-	-
Other Accrued Liabilities	(12)	9	6	9
Long-Term Receivables, Net	(74)	-	-	-
Other Assets, Long-Term	(44)	-	-	-
Deferred Income Taxes	(88)	-	-	-
Other Liabilities, Long-Term	205	-	-	-
Cash from Operations	88	305	338	374
Capital Expenditures	(68)	(70)	(40)	(30)
Intangible Assets Sold (Acquired)	(322)	-	-	-
Cash from Investing	(390)	(70)	(40)	(30)
Changes in Debt	520	(215)	-	(150)
Common Stock	30	32	33	35
Dividends	(95)	(111)	(139)	(164)
Accumulated Other Comprehensive (Loss) Income	(22)	-	-	-
Treasury Stock	(75)	(75)	(75)	(75)
Cash from Financing	358	(369)	(181)	(354)
Cash Inflow (Outflow)	56	(134)	118	(10)

Source: Team Estimates

STUDENT-MANAGED
INVESTMENT FUND

Segment Breakdown

Animal Health Segment

All figures in millions, except per share data

Fiscal Year	2013	2014	2015	2016e	2017e	2018e	2019e
Animal Health Segment Net Sales:	755	1,203	1,457	2,831	3,043	3,308	3,606
<i>Sales by Market:</i>							
Production	83	132	160	1,444	1,545	1,661	1,793
Companion	672	1,071	1,296	1,387	1,498	1,648	1,813
<i>Sales by Product Type:</i>							
Consumable and Printed Products	709	1,135	1,380	2,661	2,860	3,110	3,390
Equipment and Software	35	44	47	113	121	132	143
Other Product Sales	11	24	29	57	62	67	73
Operating Expense	714	1,153	1,400	2,744	2,906	3,156	3,422
Operating Income	42	50	57	87	137	152	184

Dental Segment

All figures in millions, except per share data

Fiscal Year	2013	2014	2015	2016e	2017e	2018e	2019e
Dental Segment Net Sales	2,380	2,382	2,454	2,632	2,830	3,061	3,316
<i>Sales by Market:</i>							
Consumable and Printed Products	1,307	1,323	1,356	1,424	1,495	1,585	1,680
Equipment and Software	810	795	818	900	995	1,102	1,223
Other Product Sales	263	264	280	309	340	375	413
Operating Expense	2,132	2,133	2,205	2,364	2,541	2,748	2,976
Operating Income	248	249	250	269	289	313	340

Animal Health Segment (% of Net Sales)

All figures in millions, except per share data

Fiscal Year	2013	2014	2015	2016e	2017e	2018e	2019e
Animal Health Segment Net Sales:	100%	100%	100%	100%	100%	100%	100%
<i>Sales by Market:</i>							
Production	11%	11%	11%	51%	51%	50%	50%
Companion	89%	89%	89%	49%	49%	50%	50%
<i>Sales by Product Type:</i>							
Consumable and Printed Products	94%	94%	95%	94%	94%	94%	94%
Equipment and Software	5%	4%	3%	4%	4%	4%	4%
Other	1%	2%	2%	2%	2%	2%	2%
Operating Expense	94%	96%	96%	97%	96%	95%	95%
Operating Income	6%	4%	4%	3%	5%	5%	5%

Dental Segment (% of Net Sales)

All figures in millions, except per share data

Fiscal Year	2013	2014	2015	2016e	2017e	2018e	2019e
Dental Segment Net Sales	100%	100%	100%	100%	100%	100%	100%
<i>Sales by Product Type:</i>							
Consumable and Printed Products	55%	56%	55%	54%	53%	52%	51%
Equipment and Software	34%	33%	33%	34%	35%	36%	37%
Other	11%	11%	11%	12%	12%	12%	12%
Operating Expense	90%	90%	90%	90%	90%	90%	90%
Operating Income	10%	10%	10%	10%	10%	10%	10%

Source: Team Estimates

STUDENT-MANAGED
INVESTMENT FUND

Ratio Analysis						
<i>All figures in millions, except per share data</i>						
Fiscal Year	2014	2015	2016e	2017e	2018e	2019e
Capital Structure						
Market Debt/Equity	18.35%	16.86%	21.49%	17.25%	16.02%	12.99%
Financial Risk						
Interest Coverage	9.68x	11.68x	10.50x	10.19x	14.67x	17.40x
EBITDA/Total Interest	11.08x	13.20x	12.00x	11.84x	16.75x	19.60x
(EBITDA - Capital Expenditures)/Total Interest	9.93x	12.13x	10.27x	10.29x	15.64x	18.72x
Liquidity						
Current Ratio	2.60x	2.67x	2.40x	2.42x	2.51x	2.50x
Quick Ratio	1.80x	1.87x	1.55x	1.40x	1.44x	1.43x
Cash ratio	0.49x	0.27x	0.25x	0.20x	0.19x	0.20x
Operating Efficiency						
Return on Capital	11.47%	6.21%	5.63%	5.60%	6.30%	6.85%
Average Collection Period	54.57x	52.21x	44.42x	44.62x	44.43x	44.39x
Days in Inventory	55.60x	51.96x	59.76x	73.96x	73.38x	73.39x
Payables Payment Period	43.57x	40.24x	40.11x	45.73x	45.37x	45.38x
DuPont Analysis						
Operating Profit Margin	8.51%	8.99%	7.44%	7.75%	8.22%	8.48%
Asset Turnover	1.42x	1.51x	1.63x	1.56x	1.64x	1.71x
Interest Expense Rate	0.01x	0.01x	0.01x	0.01x	0.01x	0.01x
Equity Multiplier	1.95x	1.95x	2.16x	2.24x	2.10x	1.99x
Tax retention rate	63.44%	64.58%	64.44%	64.50%	64.58%	64.63%
Return on Equity	13.37%	15.56%	15.24%	15.72%	17.10%	17.63%
Valuation						
P/E ratio	19.52x	19.12x	23.58x	21.88x	19.94x	18.61x
EV/EBITDA	11.28x	10.62x	14.14x	12.60x	11.71x	10.90x

Source: Team Estimates