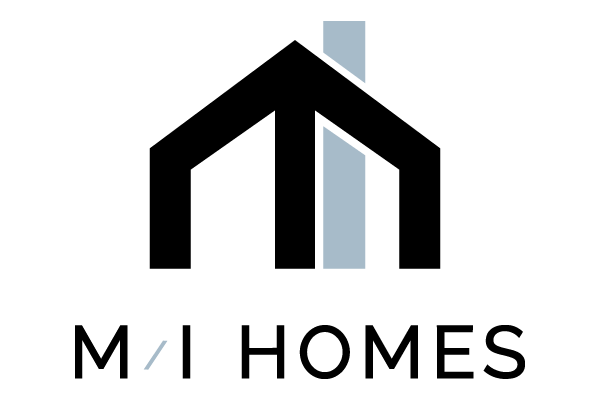
Consumer Discretionary Analyst Report: Daniel Carpenter, Nikiel Kim, Lee Nero

Michael F. Price Student Investment Fund

November 10, 2020



Date: November 18, 2020 Forward P/E: 6.52

Company Ticker: MHO Sector Forward P/E: 9.70

Sector: Consumer Discretionary Market Price: $44.54

Industry: Household Durables Forecasted Price: $35.83

**Recommendation: Sell**

**Company Summary**M/I Homes is a single-family homebuilder who also offers mortgage-banking services to home buyers and title services. Their homebuilding operations are designing, marketing, and construction, and sales of single-family homes and attached townhomes. M/I Homes operates across three major business segments: Northern Homebuilding, Southern Homebuilding, and Financial Services. The Financials Services segment provides mortgages, title insurance, and closing services through its subsidiary, M/I financial.

**Industry Outlook**  
Per IBISWorld, revenue for the US homebuilder industry is expected to grow at a yearly rate of 2.6% over the next five years. A short-term burst in activity is likely for homebuilders, as near-zero interest rates will lead to an increase in the construction of homes. However, we believe that a return to moderate interest rate levels in the short-to-mid-term will ease growth in the housing market – resulting in increased inventory levels and a decline in new contracts. Following economic recovery from COVID-19, the industry faces uncertainty in consumer creditworthiness, a continuing increase in the price of raw materials needed for home construction, and an unlikely increase in millennial demand for homeownership. MHO is uniquely exposed to these factors because of its homebuilding operations.

**Earnings Forecast**



Our earnings forecast for M/I Homes is based on numerous drivers such as revenue growth year over year, mortgage loans held for sale as a percentage of sales, etc. (see our earnings forecast to review all drivers used). Some of these drivers are basic but some are industry specific. Our earnings forecast uses data from as far back as Q1 2016 and forecasts all the way out to Q3 2021. Almost all line entries are based on the drivers mentioned above, which are based on historical averages and regression analysis.

**Valuation**





A standard long-term growth rate of 3.50% is used, while the short-term growth rate comes from historical trends (averages) year over year. The short-term growth rate we calculated was 15.28%. The cost of equity we calculated was 13.81%. The Cost of equity is dependent on the long-term growth rate and the firm forward P/E ratio. Additionally, the Q3 Earnings Call revealed that management did not plan to aggressively service existing debt. Although the cost of equity may seem relatively high, we believe these factors and forward P/E ratios among comparable firms justifies this decision. The sector forward P/E ratio was pulled from Yardeni Research’s November 11th, 2020 report.

**Sensitivity Analysis**

While we have an idea of what the most likely equity value, and subsequently, the equity value per share is, we have also sketched out other equity value, and the probabilities of these values. The equity value per share that we believe is the most likely is $34.02.



**Conclusion**

Based on the analysis provided above, we recommend selling our position in M/I Homes. Based on our analysis and calculations, we believe that M/I Homes shares are overvalued by around 23%, with a value of $34.02.





Date: November 10, 2020 Forward P/E: 11.19

Company Ticker: AAN Sector Forward P/E: 9.70

Sector: Consumer Discretionary Market Price: $60.60

Industry: Household Durables Forecasted Price: $29.77

**Recommendation: Sell**

**Company Summary**

Aaron’s is a lease-to-own service provider of furniture, consumer electronics, computers, home appliances, and accessories. They operate in three core business segments: Aaron’s business, Progressive Leasing, and Vive. Aaron’s business refers to their brick and mortar stores and e-commerce. Progressive Leasing is a virtual lease-to-own company that provides lease-purchase solutions. Vive offers customized programs along with services including revolving loans through private label cards.

**Industry Outlook**

Aaron’s operates primarily in-home furniture rental, consumer electronics, and household appliance rental. The home furniture rental industry is in decline, while the consumer electronics and appliances rental industry is growing. This can be attributed to a favorable shift in buyer preference towards lease-to-own transactions, the gradual reopening of franchise stores nationwide, and technological advancements in the portfolio of products Aaron’s carries. One thing to observe for Aaron’s and similar companies is the creditworthiness of consumers. If an increasing number of consumers have subprime credit, businesses like Aaron’s will likely see increased sales. However, the previous yearly and projected declines in non-retail sales significantly hurt Aaron’s growth potential. We believe the market in which Aaron’s e-commerce platform operates is saturated, with larger players possessing greater economies of scale, access to distribution networks, and marketing.

**Earnings Forecast**

The earnings forecast for Aaron’s is based on various drivers, such as current assets as a percentage of sales, debt trends, etc. (see our earnings forecast to view and interact with all drivers and assumptions). Again, while some of these drivers are standard, some are firm/industry specific. An example of a firm specific driver for Aaron’s depreciation of lease merchandise as a percent of Revenue QoQ (quarter over quarter). Almost all line entries are based on the drivers mentioned above, which are based on historical averages and regression analysis.



**Valuation**

A standard long term FCFE growth rate of 3.50% is used, while the short-term growth rate comes from historical trends (averages) year over year. The short-term growth rate we calculated was 8.46%. The Cost of equity is dependent on the long-term growth rate and the firm forward P/E ratio. The cost of equity we calculated was 12.81%. The sector forward P/E ratio was pulled from Yardini Research on November 11th, 2020.





**Sensitivity Analysis**

While we have an idea of what the most likely equity value, and subsequently, the equity value per share is, we have also sketched out other equity values, and the probabilities of these values. The equity value per share that we believe to be most likely is $29.77.



**Conclusion**

Based on the above analysis and calculations, we are recommending that the fund sell its positions in Aaron’s. We believe that the shares are currently overvalued by around 50%, with an equity value per share of $29.77, compared to the price of $60.60.





Date: November 18, 2020 Forward P/E: 6.56

Company Ticker: GPI Sector Forward P/E: 9.70

Sector: Consumer Discretionary Market Price: $121.40

Industry: Automotive Retail Forecasted Price: $141.35

**Recommendation: Buy**

**Company Summary**

Group 1 Automotive is an automotive retailer that offers new and used cars and light trucks, arranges related vehicle financing, and service and insurance contracts. It also provides automotive maintenance and repair services and sells vehicle parts. They operate out of three main geographical segments: Brazil, the United Kingdom, and the United States. Group 1 owns and operates 238 franchises offering 30 brands of automobiles at 186 dealership locations and 49 collision centers worldwide.

**Industry Outlook**

Group 1 operates in the industry known as “New Car Dealers in the US”, as they sell new and used vehicles. Industry revenue will likely increase over time, due to an increase in consumer confidence and the current low interest rate levels due to the coronavirus pandemic. IBISWorld predicts that revenues in the industry will rise at an annualized rate of 5.1% to $1.0 trillion over the five years. These predictions obviously hinge on how the economy and the greater World recovers from the recent coronavirus pandemic. Higher (or lower) consumer confidence levels will lead to higher (or lower) revenues for the industry. The same statement can be said for disposable income.

**Earnings Forecast**



Our earnings forecast for Group 1 Automotive, Inc. is based on numerous drivers such as itemized revenue growth year over year, and other costs as a percentage of their relative dependencies, etc. (see our earnings forecast to review all drivers used). Some of these drivers are based on empirical data, but some are industry-specific. Our earnings forecast uses data from as far back as Q1 2016 and forecasts all the way out to Q3 2021. Almost all line entries are based on the drivers mentioned above, which are based on historical averages or regression analysis.

**Valuation**





A standard long-term growth rate of 3.50% is used, while the short-term growth rate comes from historical trends (averages) year over year. The short-term growth rate we calculated was 1.28%. The cost of equity we calculated was 13.81%. The Cost of equity is dependent on the long-term growth rate and the sector forward P/E ratio. Additionally, the Q3 Earnings Call revealed that management did not plan to aggressively service existing debt. Although the cost of equity may seem relatively high, we believe these factors and forward P/E ratios among comparable firms justifies this decision. The sector forward P/E ratio was pulled from Yardeni Research’s November 11th, 2020 report.

**Sensitivity Analysis**

While we have an idea of what the most likely equity value, and subsequently, the equity value per share is, we have also modeled other equity values and the probabilities of these values. The model predicts that the most probabilistic equity value per share is $141.35.



**Conclusion**

Based on the analysis provided above, we recommend buying equity in Group 1 Automotive, Inc. Based on our modeling, it appears that Group 1 Automotive, Inc. is undervalued by 16.4%, with a target price of $141.35.

