Industry Review

Winter 2015

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DESAUTELS Capital Management
Gestion de capitaux

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Pangaea Logistics Solutions Ltd. (PANL)

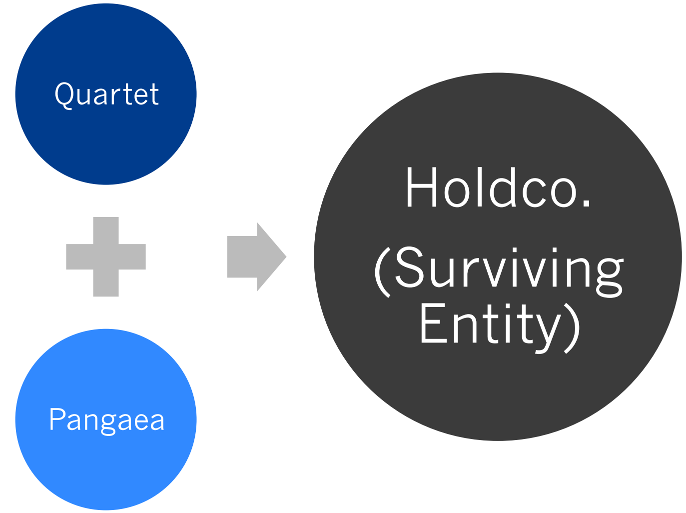
Investment Thesis

Industry Leader in Artic Shipping	• Leader in niche market, owning 20% of the world's 1-A Ice-Class tonnage ▪ Ordered 4 additional vessels to be delivered in 2015 and 2016 • Capturing profit from limited supply and lower costs ▪ Very profitable route, enables saving of 20-45% on voyage expenses and premium pricing • Growing opportunity to ship via the North Sea Route ▪ More freight transits through Baltic ports and the passage the amount of shipping days increase YoY
Strong Business Model Driving Profitability	• Value-added backhaul specialization increases revenue without requiring huge capital expenditures ▪ Strategy: Sign long term contracts for backhaul, then match these trips with "common" fronthauls • Operational Leverage vs. Financial Leverage: "Asset-light" strategy provides greater financial flexibility throughout the cycle ▪ 20 vessels owned and ~35-45 vessels chartered-in ▪ Maintain upside potential by "chartering-in" additional vessels if needed • Embedded in the supply chain of customers vs commoditized shipping companies, creating a loyal customer base ▪ Backhaul : Offer transportation services on less travelled routes ▪ Effort in always selecting the most appropriate vessel for the task, customize vessels ▪ Introduce potential buyers and sellers
Strong & Profitable Growth	• Consistent, acyclical growth: ▪ EBITDA margin standard deviation of 2.1%, the lowest of its shipping pears ▪ 45% CAGR in adjusted EBITDA from 2009-2013 ▪ 3 year average Return on Equity of 19.5% ▪ Tax-efficient structure results in minimal income taxes

Quartet-Pangaea Merger – Ownership

Management & Founders' Options

- Over the next 3 years, management may receive up to an additional $75M in common stock (value at $10.20 per share = 7.35M shares) if the following net income targets are met
- Quartet founders and Pangaea Shareholders are subject to 12 months lockup provisions, with potentially 50% available for early release
- A portion of Quartet founder shares are subject to transfer to Pangaea shareholders based on shareholder redemptions in excess of 15%



Contingent Payment Schedule

	Net Income Target	Contingent Value[1]	Contingent Shares[1]	Pangaea's Ownership[2]
Fiscal Year Ending December 31, 2014	$27,300,000	$35,000,000	3,431,373	70.5%
Fiscal Year Ending December 31, 2015	$34,000,000	$20,000,000	1,960,784	71.7%
Fiscal Year Ending December 31, 2016	$41,000,000	$20,000,000	1,960,784	72.8%
Cumulative Net Income Target[3]	$102,300,000	$75,000,000	7,352,941	72.8%

Note: [1] *Contingent payment will be made in shares of Holdco Common Stock (valued at $10.20 per share).*
[2] *Hypothetical ownership assuming that no Quartet shareholder redeems and each contingent payment is earned.*
[3] *If the cumulative net income target is met by the end of fiscal 2015, all three contingent payments will be deemed earned.*

Third Quarter 2014 Highlights & Recent Developments

Highlights:

- 25% increase in voyage days, demonstrating increasing demand for services
- On October 3, 2014, the Company's common shares commenced trading on NASDAQ under the ticker symbol PANL.
- Took delivery of *m/v Nordic Oshima*, a 76,180 dwt ice-class 1A panamax dry bulk carrier
- Signed two new long-term contracts of affreightment ("COAs") to support its ice-class fleet
- On October 28, 2014, the Company announced the delivery of the *m/v Nordic Oshima*, a 76,180 dwt ice-class 1A panamax dry bulk carrier

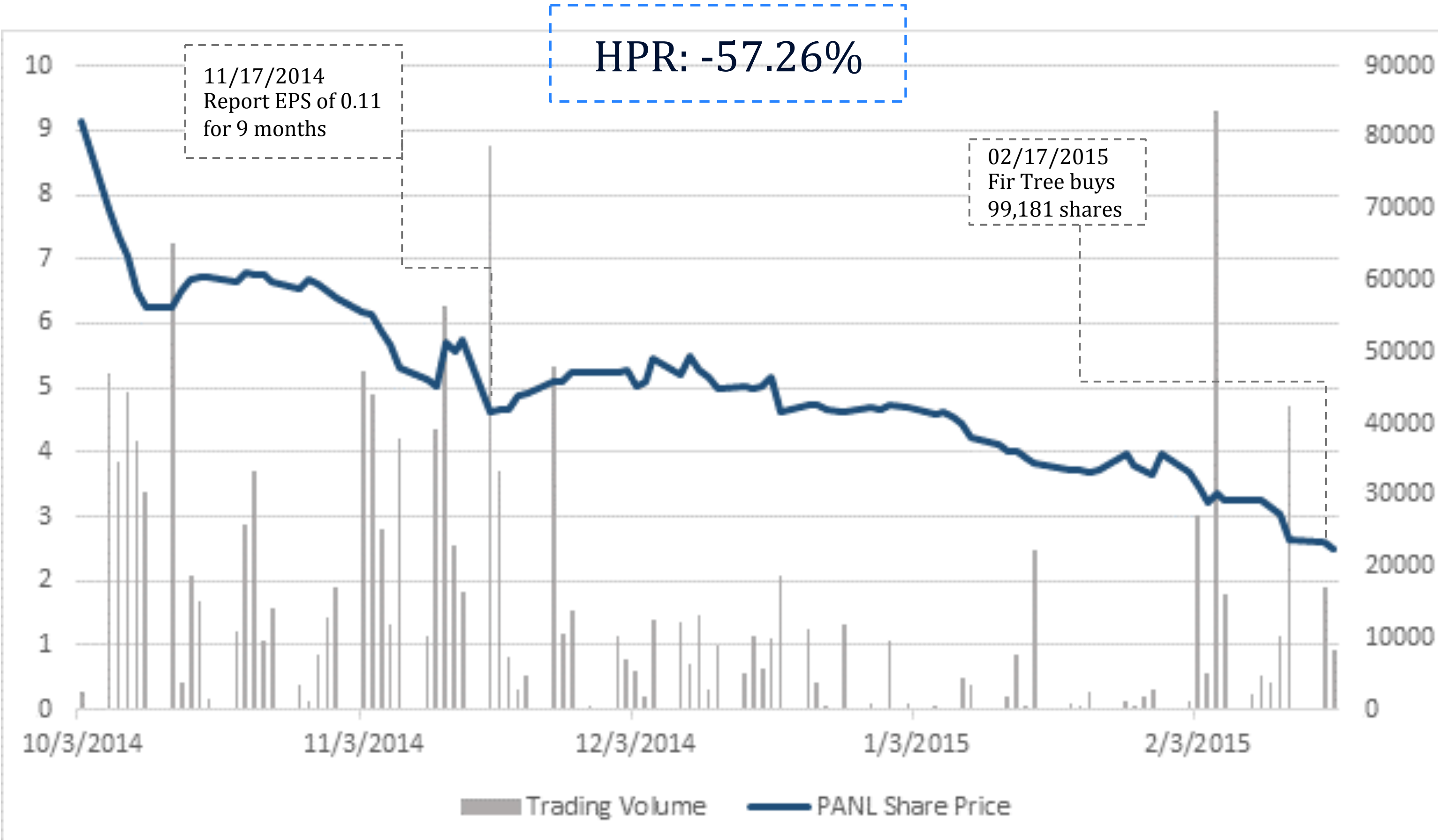
Income Statement

- Revenue of $91.2 million for the 3rd quarter and $295.2 million for the 9 months of 2014
- Loss of $2.9 million for the 3rd quarter and net income of 11.5 million for 9 months of 2014

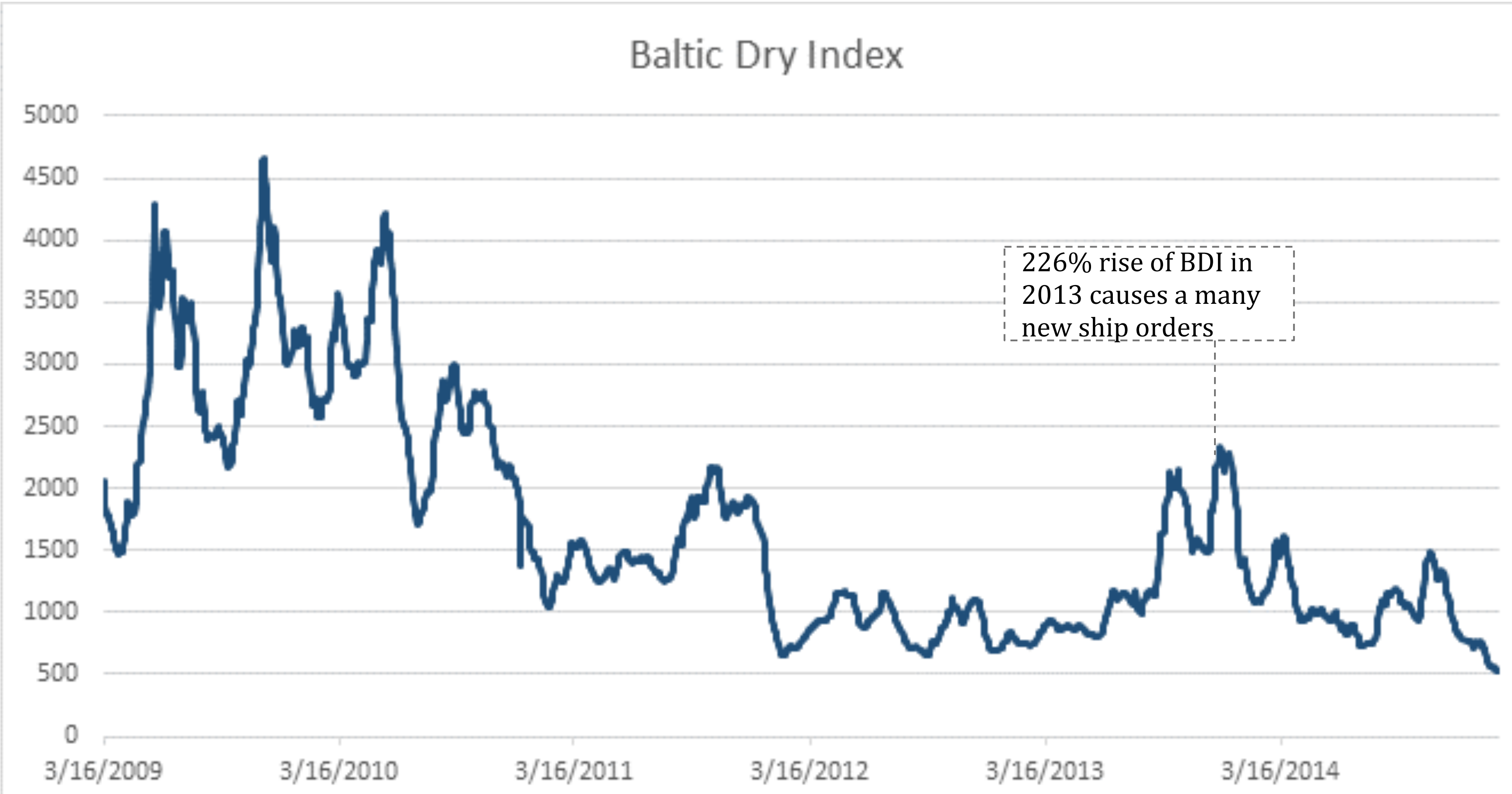
Cash Flows

- Net cash from operating $16.4 million for 9 months of 2014 and $18.9 million for 9 months of 2013
- Net cash used in investing was

PANL Share Price Performance



Baltic Dry Index at all time low of 516



Baltic Dry Index: Reasons for record lows

Oversupply of vessels

- In 2103 BDI rose 226% from 698 to 2277
- Shipping companies rushed to place orders for new vessels: 966 new ships will enter the market in 2015.
- New fuel-efficient Eco-ships failed to displace older vessels due to decrease in oil prices: lower ship demolition rates
- Dozens of vessels are sitting idle

Pressure on earnings

- For Capesize ships (150,000 tons) earnings to transport coal/iron ore have fallen to $6,707 a day
- Operating expenses of 6,000-10,000 a day
- Pangaea operates a fleet of smaller vessels (panamax/ ultramax, handysize)

Pangaea Expansion

Vessel	Vessel Type	DWT	Year Built	Country Built	Ice Class	Delivery Date	Price ($M)
Newbuild 1	Panamax	75,000	2014	Japan	1A	Q4/14	$32.70
Newbuild 2	Panamax	75,000	2015	Japan	1A	Q1/15	$32.70
Newbuild 3	Panamax	75,000	2015	Japan	1A	Q1/15	$32.60
Newbuild 4	Panamax	75,000	2016	Japan	1A	Q1/16	$32.60
Newbuild 5	Ultramax	60,000	2016	Japan	1C	Q4/16	$29.00
Newbuild 6	Ultramax	60,000	2016	Japan	1C	Q4/16	$29.00
Average/Total		**420,000**	**2015**				**$188.4**

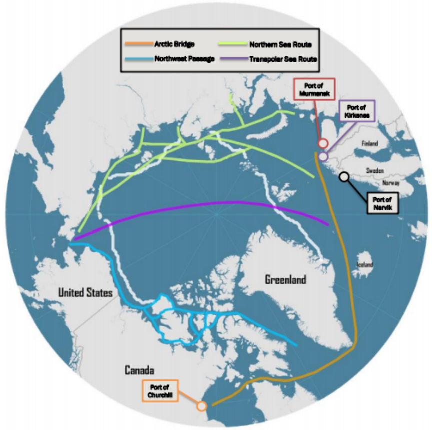
China Demand for Coal and Iron Ore slowing

- Iron Ore: China is the world's biggest producer of steel and the biggest consumer of seaborne iron ore
  - Lower Demand (PMI 49.8 in Jan - contraction)
  - Supply glut
- Coal
  - Imports of thermal coal down 15% in 2014
  - Imports of coking coal down 17% in 2014

Baltic Dry Index: Reasons for record lows

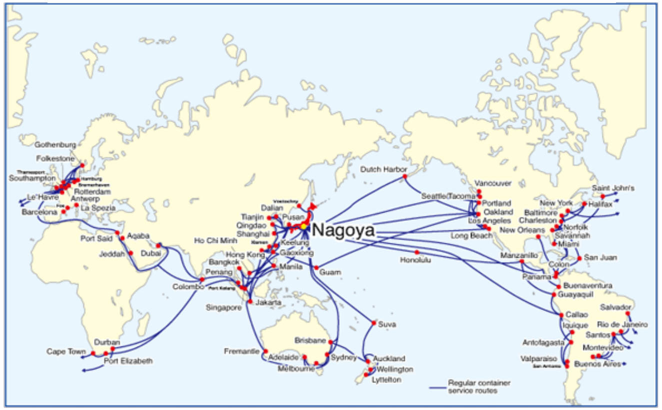
Northern Route

- Leader in Ice-Class Dry Bulk Shipping
  - Northern route will continue to become more attractive over time
- Temporary unfavorable developments:
  - Protracted economic weakness in Europe
  - Geopolitical tensions with Russia



Pressure from Anglo-Australian Miners

- Anglo-Australian miners (BHP Billiton, Rio Tinto) are increasing exports to gain market share
- Atlantic producers (both North and South American) are reducing shipping volumes, which further depresses the rates
- Other bulk carriers have dropped 67-85% in the last 12 months: 5



Comparable analysis

Company	Ticker	Mkt Cap	EV	Net Income	ROE	NPM	P/E 2014	P/E 2015E	EV/EBITDA 2014	EV/EBITDA 2015E
Logistics Firms		**$M**	**$M**	**$M**						
Expeditors Washington	EXPD	$8,801	$7,773	$361	17.7%	6.0%	25.1x	21.7x	12.2x	11.2x
Hub Group	HUBG	$1,437	$1,437	$52	8.9%	1.8%	21.8x	17.4x	11.5x	10.2x
C.H. Robinson Wolrdwide	CHRW	$10,442	$11,418	$450	45.3%	3.4%	23.4x	18.9x	12.8x	11.8x
UTI Worldwide	UTIW	$1,307	$1,810	-$145	-20.6%	-3.2%	91.6x	49.2x	21.5x	10.0x
XPO Logistics	XPO	$3,235	$3,567	-$63	-8.1%	-1.8%	NA	49.5x	16.0x	9.5x
Echo Global Logistics	ECHO	$641	$609	$17	9.8%	1.6%	33.2x	22.3x	11.1x	9.2x
Forward Air Corp	FWRD	$1,627	$1,587	$61	13.6%	8.0%	27.1x	19.0x	10.1x	8.8x
Navios Maritime	NMM	$1,201	$1,685	$75	10.0%	22.7%	41.1x	14.9x	9.1x	9.0x
Diana Shipping	DSX	$599	$865	-$14	-1.3%	17.1%	NA	NA	16.0x	12.9x
Pangaea Logistics	PANL	$87	$87	$2	0.0%	1.2%	5.6x	-62.8x	2.8x	4.3x
Comp Average					**7.5%**	**5.7%**	**33.6x**	**16.7x**	**12.3x**	**9.7x**

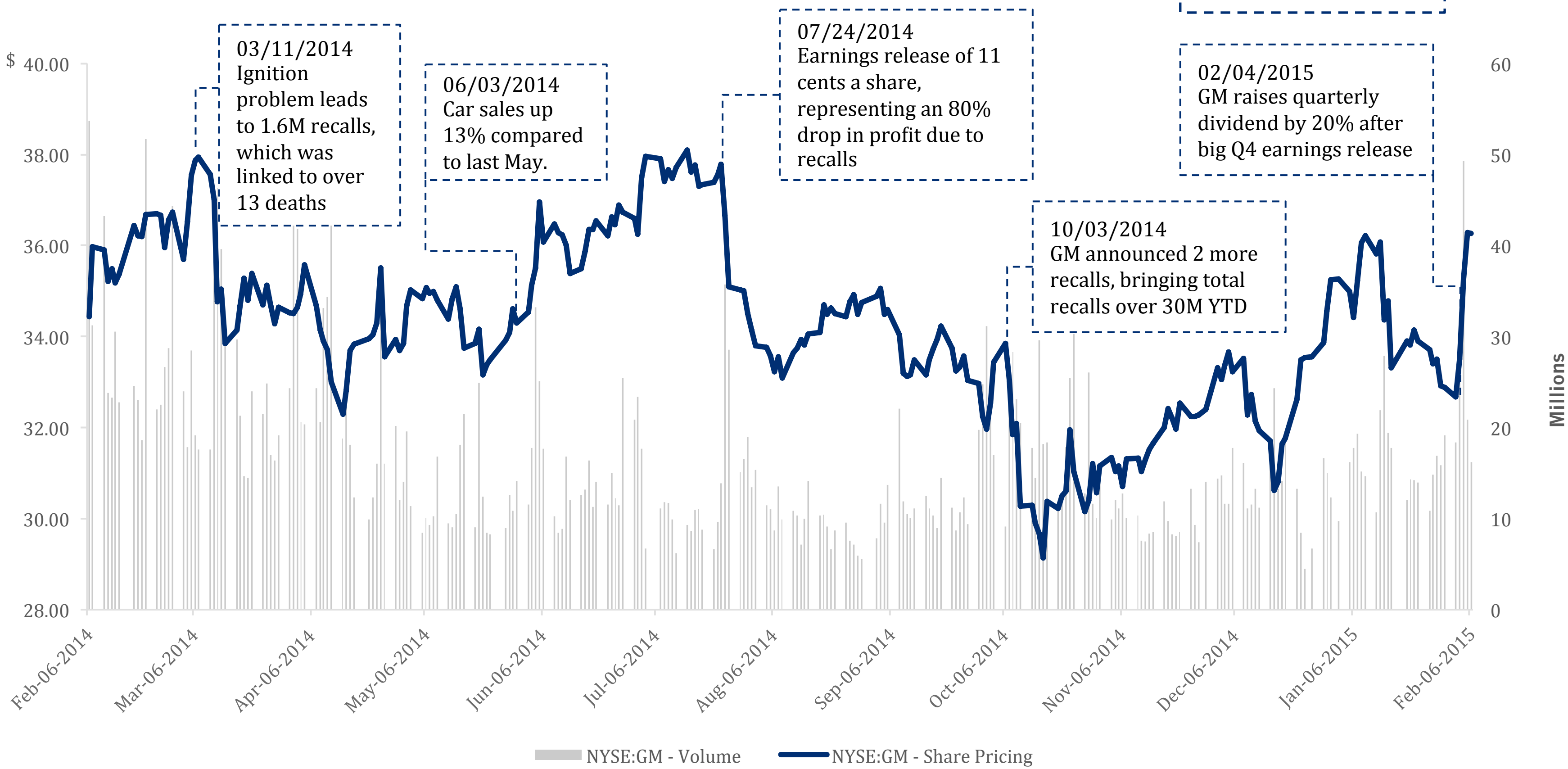
Recommendation

We recommend a HOLD with a target price of $8.00 based on the base case of our DCF, implying 40% of potential upside.

General Motors (GM:NYSE)

Share Price Performance

HPR: 41.8%



Investment Thesis

International Operations

- GM's dominance in China positions the firm to harness organic growth; now 40% of sales
  - 2014 sales are up 11.1% YoY and expected to continue to grow in the future
  - Plans to invest a total of $12Bn in the next 4 years to open 5 new plants
- Restructuring in Europe; expected to be profitable this year
  - Opel's market share reached highest level since 2011 of 5.74% and growth reached 3% in 2014

Pent-Up Demand in the U.S.

- Average age of cars, currently at 11 years, remains above 8 year historical average and will continue to fall driven by low interest rates and cheap oil
  - U.S. light-vehicle SAAR is on a strong upward trend and August's numbers were at a 5-year high
- Expected improving in EBIT margins to 10% in all automotive segments in 2015 due to anticipated trends
  - 3% increase in global industry vehicle sales
  - Improving product mix, shifting more towards trucks
  - Lower overall restructuring costs

Valuation

- On an EV / EBITDAP basis, GM historically traded at a discount to Ford, but multiples have converged, where GM trades at 4.28x compared to Ford at 4.43x
  - GM should trade at a multiple closer to 5.5x-6.5x EV / EBITDAP, yielding a price per share between $45-$53
- Analyzing the valuation summary suggests there still remains upside
- Negative impact of recalls in 2014 has been priced in and with a successful Q4 with no major recalls, the stock price will start to realize its value going forward

International Operations

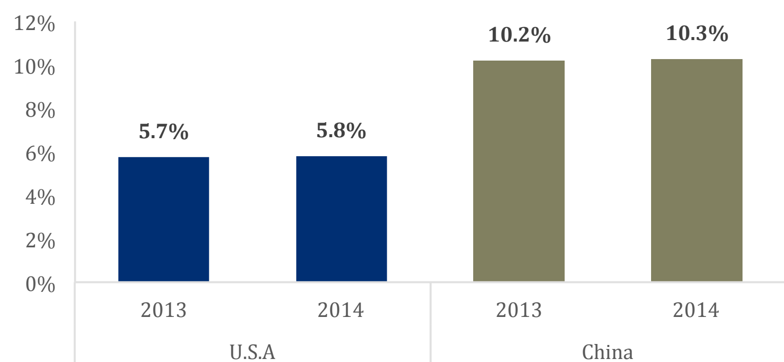
China

- Chinese margins, stronger than ever, driven by luxury vehicles
  - Matt Tsien, head of GM China, introduced Cadillac's luxury brand last year
  - It is expected to grow by 40% in 2015
- Total growth in China's vehicle market will amount to 12% compounded over the next 5 years
  - Predictions have been made stating China's luxury vehicle market will surpass the U.S. by 2020 selling around 3 million vehicles compared to 2.3 million

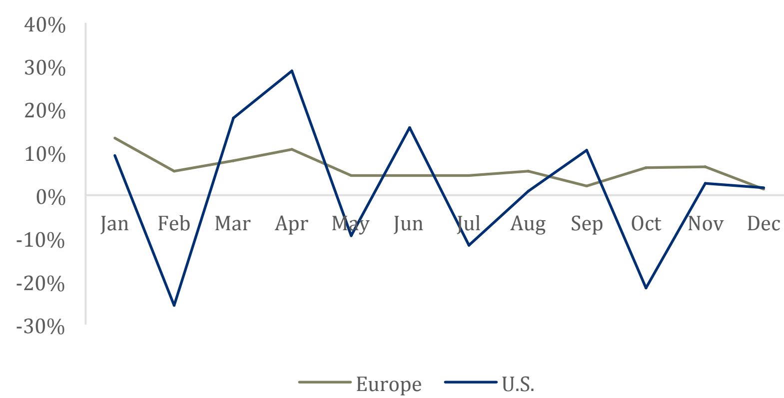
Europe

- Opel is GM's largest brand in Europe
  - 3% growth in the past year allowing Opel to reach 5.74% market share, which is the highest level since 2011
  - Management expects the market share to grow to 8% by 2022
- European restructuring, profitable by the end of 2015
  - Restructuring costs in 2014 amounted at $1bn
  - Russia will serve as a headwind moving forward, where a weaker ruble made it more difficult for consumers to afford new vehicles

Net Profit Margin



Demand Growth Rate 2014

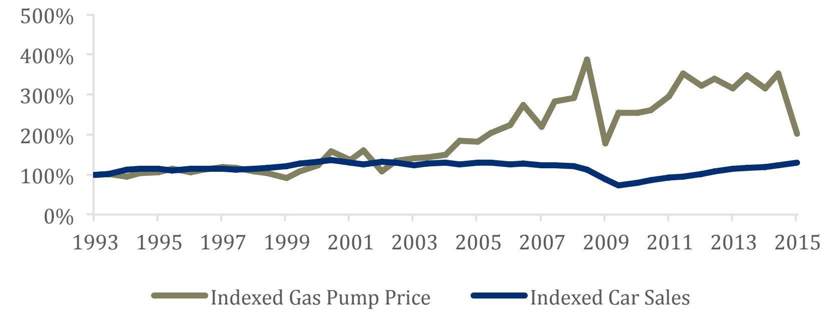


Pent up Demand in the U.S.

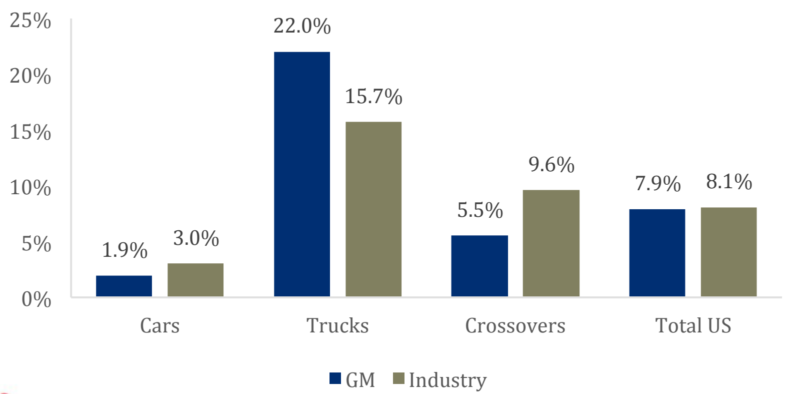
US Demand

- GM beat fourth quarter estimates, driven by cheap oil and low interest rates
  - Overall, GM did not beat the market in overall volume growth, however the firm outperformed in pretax profit growth, which surged 17% to $2.21 billion in Q4
  - GM boosted its U.S. market share in trucks during the quarter to 24.9% from 23.1% in 2013
- U.S. SAAR hit a peak of approximately 17M in 2014
  - Analysts expect these numbers to continue to rise in 2015

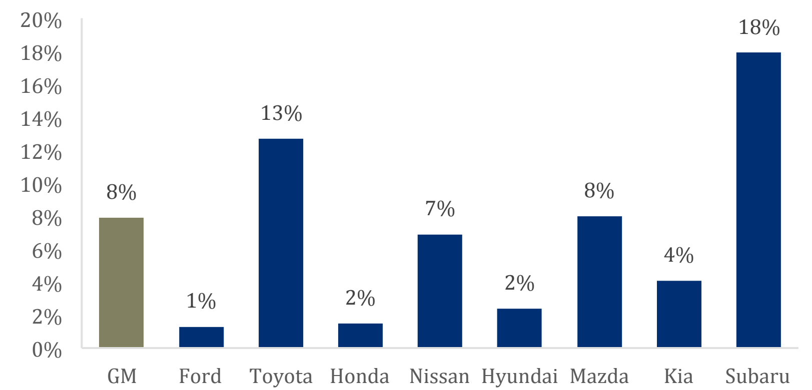
Correlation Between Car Sales and Oil Price



Volume Growth 2014



Competitor Volume Growth 2014



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Valuation

Valuation Summary

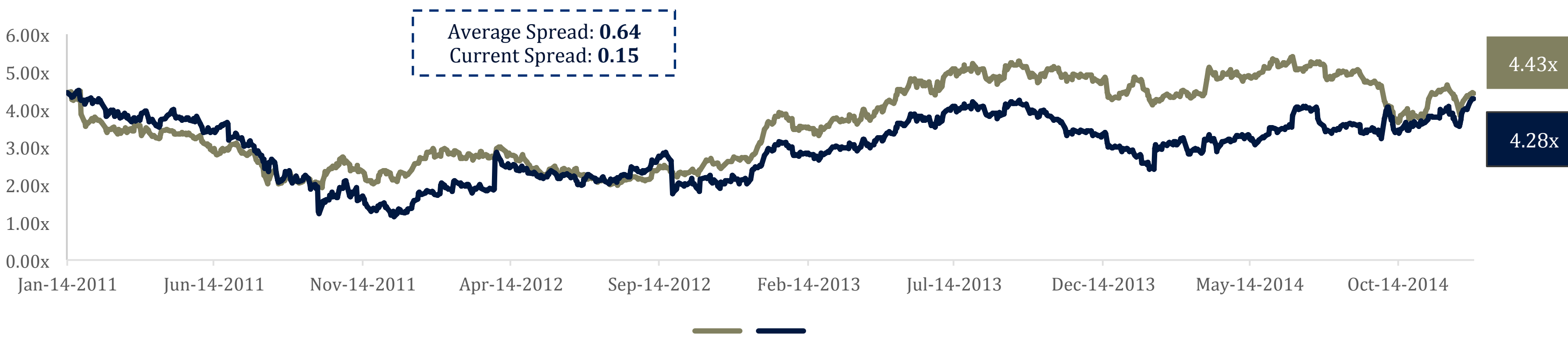
Method	Metric	Illustrative Value Range (Low)	Illustrative Value Range (High)
	52-Week Trading Range	32.0	42.9
Comps	2016E Sales: 2x - 3x	32.8	46.3
	2015E EBITDA: 6x - 7x	35.0	45.9
Precedents	2016E Sales: 2.75x - 3.5x	42.9	53.0
	2015E EBITDAP: 5.5x - 6.5x	45.9	53.1
DCF	Terminal Growth Rate: 0.75% - 2.25%	45.8	51.8
	Terminal Multiple: 7x - 9x	43.9	51.0
	Discount Rate: 8.5% - 10.5%	46.4	48.6

Current: $32.61

Target: $45.00

Valuation

EV/EBITDAP Evolution



Company	Ticker	Mkt Cap	Beta	Net Debt/ EBITDAP	ROA	ROE	LTM Rev. Growth	Margins Operating	Margins Net	P/E 2014	EV/Sales 2014	EV/Sales 2015E	EV/EBITDAP 2014	EV/EBITDAP 2015E	P/ OCF
Automakers		**$Bn**													
Daimler	DAI	$99.08	0.99	5.2x	4.2%	17.6%	11.4%	8.5%	3.1%	12.5x	1.2x	1.2x	9.7x	8.9x	25.7x
Toyota	TM	$218.64	1.00	3.8x	4.6%	13.3%	8.9%	10.6%	8.4%	11.9x	1.5x	1.5x	11.2x	9.7x	7.4x
Volkswagen	VLKAY	$113.70	0.93	3.5x	3.2%	12.3%	4.1%	6.6%	6.0%	9.5x	1.0x	1.0x	8.2x	7.5x	11.0x
Honda	HMC	$57.52	0.96	3.5x	3.6%	9.5%	8.9%	5.4%	4.2%	11.5x	1.0x	0.9x	9.5x	8.3x	5.3x
Ford	F	$61.02	1.08	NMF	3.0%	26.5%	-3.1%	0.0%	0.1%	12.9x	0.3x	0.3x	3.9x	3.3x	5.1x
GM	GM	$101.33	1.06	2.1x	2.3%	7.5%	-2.1%	3.3%	5.0%	15.7x	0.4x	0.4x	4.3x	3.9x	5.7x
Select Comp Average			**1.00**	**3.6x**	**3.5%**	**14.4%**	**4.7%**	**5.7%**	**4.5%**	**12.3x**	**0.9x**	**0.9x**	**7.8x**	**6.9x**	**10.1x**
Select Comp Median			**1.00**	**3.5x**	**3.4%**	**12.8%**	**6.5%**	**6.0%**	**4.6%**	**12.2x**	**1.0x**	**0.9x**	**8.9x**	**7.9x**	**6.6x**

Recommendation

- Valuation remains cheap despite rich sector valuations of this current bull market
- While the US recovery continues and the US SAAR trends upward, we expected material earnings growth
- We believe GM is well positioned in the long run in both the US and China, the world's two biggest automobile markets
- Overall GM has suffered from over $6 billion in charges caused from massive recalls during the year, but seems to have the situation under control going forward, which will drive bottom line growth
- Still waiting for Europe to get back in the black, upside potential coming from stronger sales and market share gains

We recommend a **HOLD** on GM with a price target of $45 based on a 5.5x EV / 2015 EBITDAP multiple, implying ~22% upside

Global Aviation Industry

Aviation 101

Department of Transportation Categories

- Cargo
- **Passenger Aircrafts**
  - International
  - National
  - Regional

+130 seat planes, which have the ability to travel anywhere in the world

100-150 seat planes, and firms have revenues between $100M-$1Bn

Focused on Short-haul and firms have less than $100M revenues

Key Terms and Ratios

<u>Available Seat Miles (ASM)</u>

- Total # seats available multiplied by # miles flown during a period
- It measures essentially the total capacity of an airline company

<u>Revenue Passenger Mile (RPM)</u>

- # of revenue-paying passengers multiplied by # of miles flown
- It measures the total # miles traveled by paying passengers

<u>Revenue Per Available Seat Mile (RASM)</u>

- Total Revenue divided by # of available seat miles (ASM)
- It is a unit that allows investors to compare the efficiency of airlines

<u>Cost Per Available Seat Mile (CASM)</u>

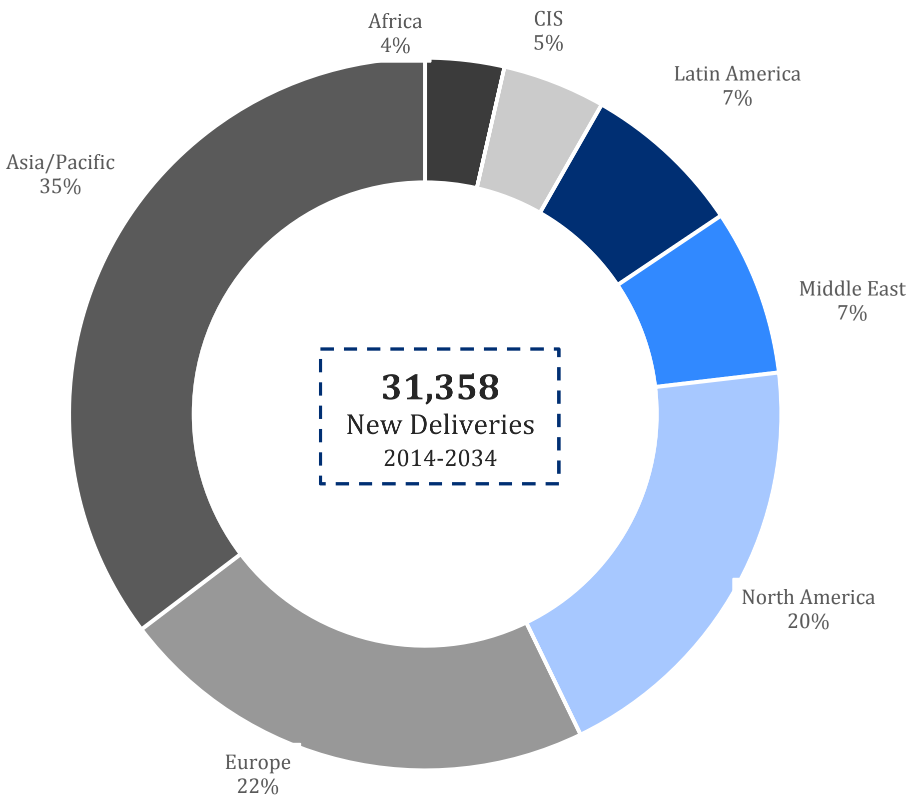
- The total costs an airline company has per ASM
- The gap between RASM and CASM is the main driver for profitability

<u>Load Factor</u>

- It measurers the percentage of available seating capacity that is filled with passengers
- It is widely used as the indicator for utilization in the industry

Aviation Sector – Global Demand Landscape

New Aircraft Demand by Country 2014-2034



Traffic

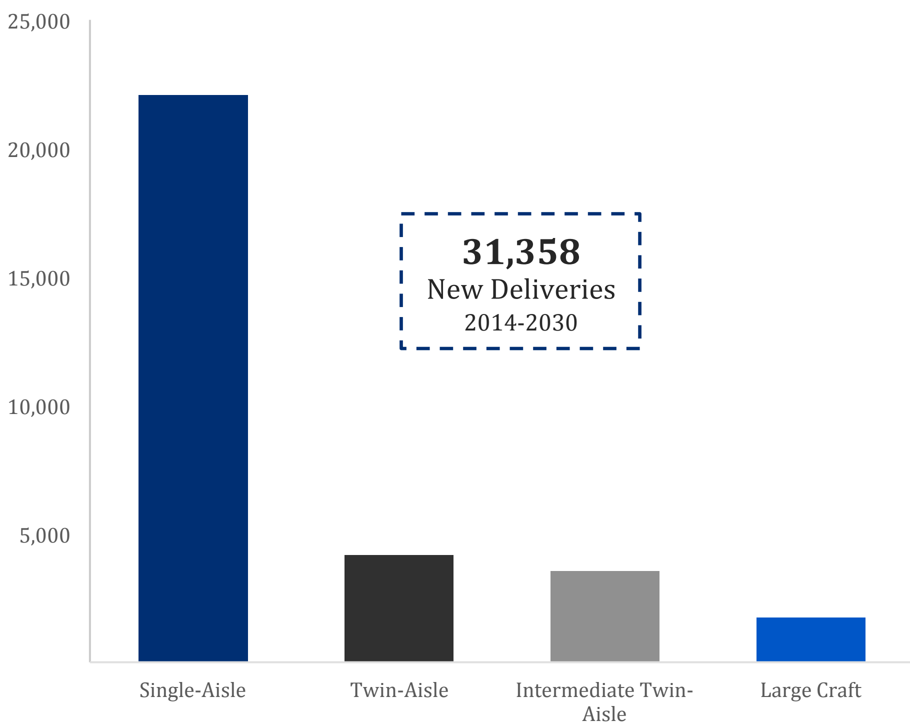
- The emerging market as a whole with a growing economy, large population and growing middle class, continues to be the main driver for future growth
  - The single isle aircraft market still remains dominant in terms of volume and value
- Today, air passenger traffic is ten times greater than it was 40 years ago, however growth has slowed only doubling in size since 1998
  - Revenue Passenger Kilometers (RPK's) has increased by 5.7% in 2014, which is above the 4.7% long term trend
  - Distribution of global traffic is expected to shift towards emerging markets, however Asia/Pacific is expected to grow to 40% of global traffic by 2030
  - Traffic is expected to triple over the next twenty years in EM

Fleet Deliveries

- In 2034, the fleet of passenger aircrafts (100-210 seats) and freighter aircrafts (10 tons or greater) will reach 37,000 aircrafts, more than doubling the fleet today
  - 38% of the new deliveries in passenger aircrafts will reside within North America and Europe

New Deliveries Expected

Deliveries of Passenger and Freight Aircraft 2034



% units	**70%**	**16%**	**9%**	**5%**
% value	**45%**	**26%**	**18%**	**11%**

Single-Aisle Aircrafts

- The Single-Aisle aircraft (100-210 seats) represents about 75% of the total aircrafts in service and represent about 60% of total distance flown
  - Over the next 20 years, there will be more than 20,000 new deliveries in the Single-Aisle segment
  - The new crafts on the market are expected to generate 15% lower fuel burn
- A trend in the last two decades is the densification of the cabins, which have seen a 38% increase in total number of seats since 1980

Twin-Aisle (Wide Body)

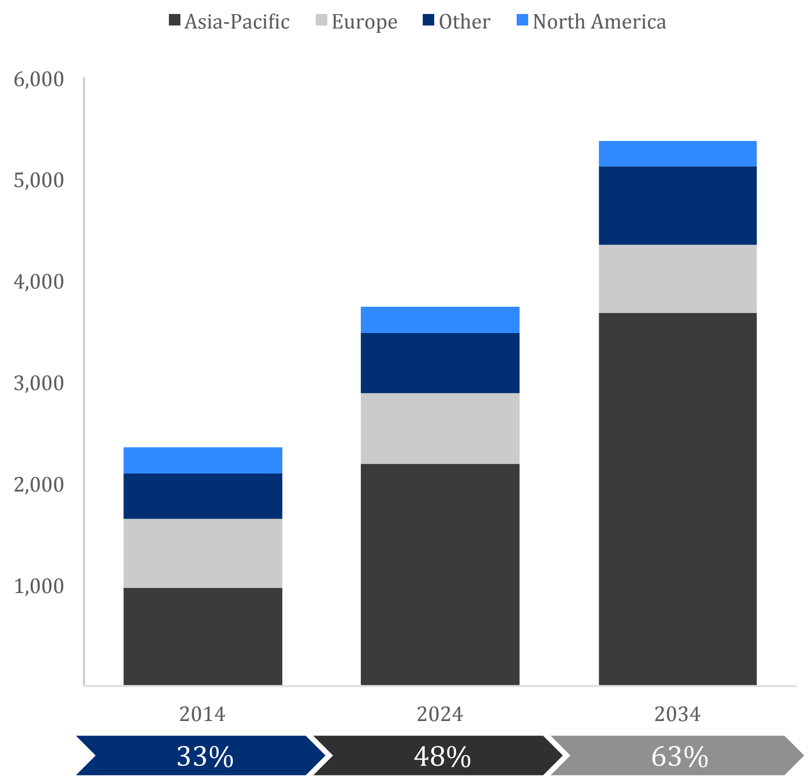
- 95% of Wide-Body flights are between mega-cities
- Demand is skewed towards the smaller twin-aisle aircrafts (250-300 seats), representing 70% of the demand
  - The remainder of the demand is generated by the large twin-aisle aircrafts (greater than 300 seats)

Efficiency and Twin Crafts

- Airline companies have tried to optimize twin-aisle aircrafts for three key reasons, which lead to greater efficiency
  - Reduce the number of total aircraft movements
  - Secure growth during peak demand periods
  - Free up time for other growth opportunities

Growth in Middle Class

Middle Class Evolution

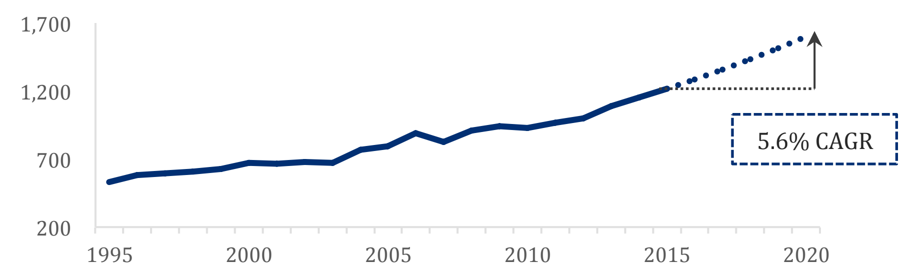


Middle class as % of world pop.

Outlook

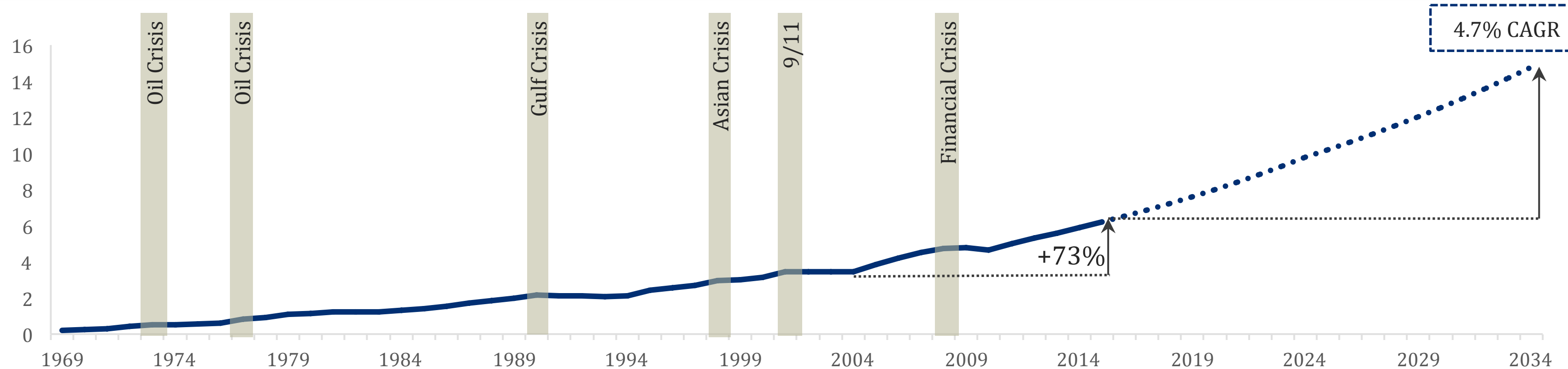
- The middle class is defined as a household with daily expenditures between $10-$100 per person
- The global middle class is expected to double in the next twenty years mainly driven by Asia-Pacific
- Demand is mainly driven by the middle class, and growth will be fueled by an emerging middle-class in the Asia-Pacific region
  - Over the next 20 years, Asia-Pacific's middle class is expected to almost quadruple, annualized as a 7% CAGR
- China is currently the second biggest economy in the world and is expected to surpass the U.S. by 2023

Tourism Arrivals (Mm)



Traffic Forecast

Global Annual Traffic (RPKs – Trillions)



Industry Growth

- 2014 was again a positive year for air transport, as passenger traffic measured in Revenue Passenger Kilometres (RPKs) increased by 5.7%, above the 4.7% long term average
- Over the past 10 years, RPKs have increased by 73%, despite the different crisis the world has faced during that period
- The resilience of the air passenger industry is one of the most important features of the industry

Stock Price Sensitivity

- Passenger traffic was severely impacted by the financial crisis in 2008, representing a 3% decline
- During that time, the NA airline index dropped by 66%, while industry wide revenues fell by approximately 10% and EBITDA fell by approximately 50%
- The magnitude of the fluctuations is caused by the significant fixed costs and low margins

Productivity Improvement

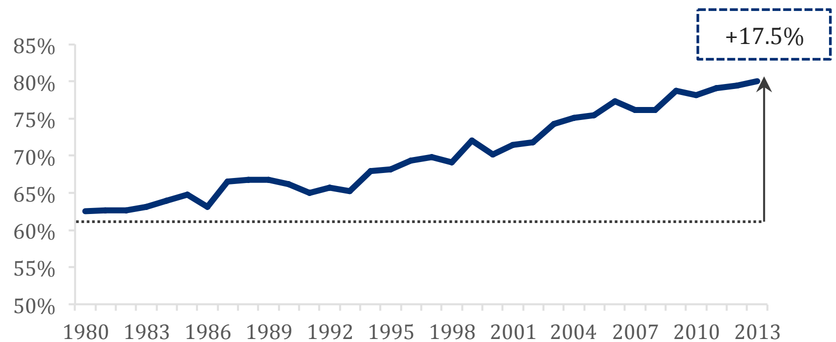
World Passenger Load Factor (ASM/RPM)

- The load factor is a measurement used in the airline business for total utilization
  - It is calculated by taking the Available Seat Mile (ASM) divided by the Revenue Passenger Mile (RPM)
  - The ASM is the total capacity of the firm compared to the RPM, which is the miles they actually earn revenue
- Average passenger load factor reached 80% in 2014
  - This was made possible by aircrafts flying over longer routes and Lower Cost Carriers (LCCs)
- Aircraft movement, defined as a landing or takeoff of an aircraft, has more than doubled since 1990

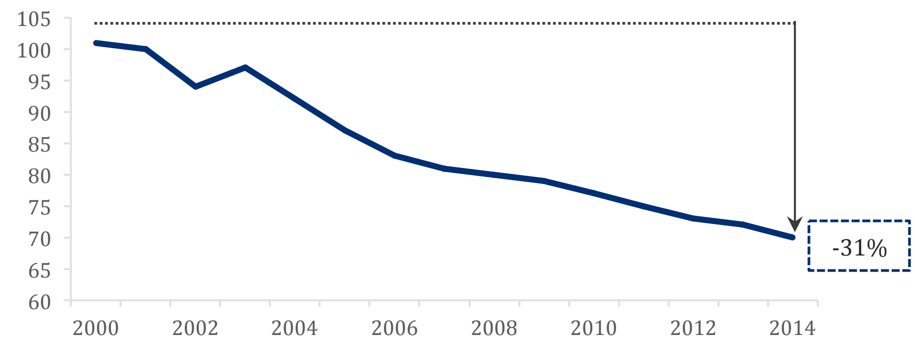
Fuel Consumption

- Dramatically reduced fuel consumption over the past 15 years
- Fuel cost as a percent of total operating cost increased from 14% to 30% between 2003 and 2013
  - This is attributable to the rise in crude oil prices from $28.8 to $108 during the same time period
  - Larger airlines are less affected by the price of oil compared to smaller airlines, Southwest Airlines fuel consumption as a percent of total operating costs is 37%

Industry Load Factor

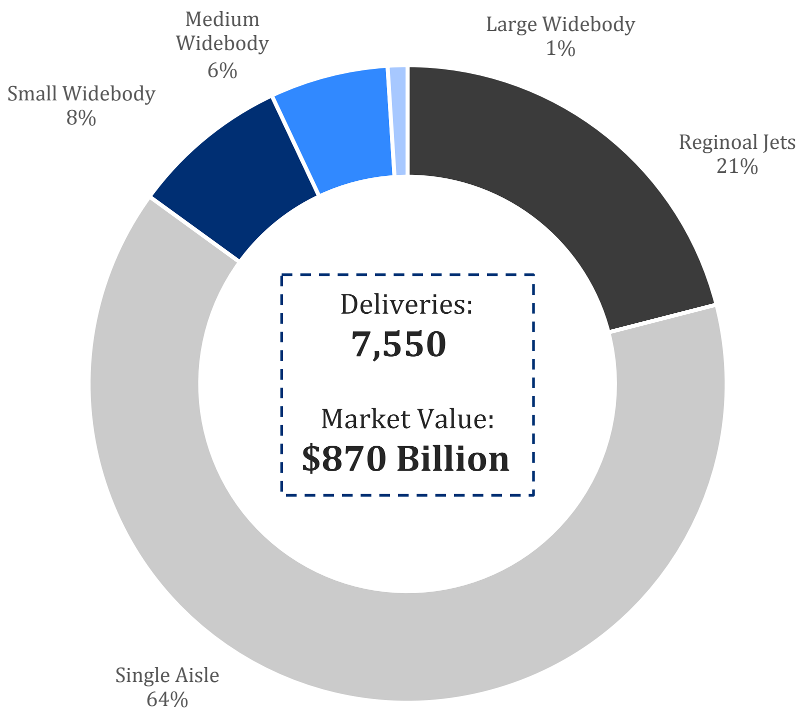


Fuel Consumption (Kgs per Passenger per Trip)



Industry Trends North America

North American Delivery Units 2014-2034



Key Indicators

- The North American airline industry drives the global industry's profits
  - During 2014, global profit growth was at 40.5% compared to 60.4% in North America
- The airline industry is highly cyclical in nature and demand for air travel depends on economic growth
  - The U.S. and Canadian economies are expected to grow by 2.2% and 2.3% respectively in 2015

Crude Oil on the Industry

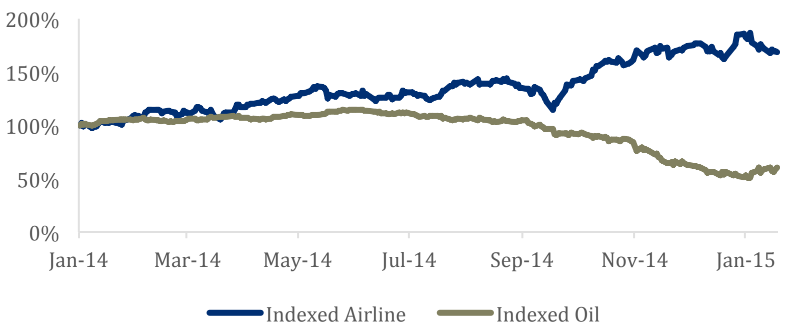
- Fuel consumption represents a significant part of airlines total operating expenses, which amounts to around 30%
  - The price of crude oil is currently around $52, which represents approximately a 30% drop in the past 4 months

Industry Wide ROIC

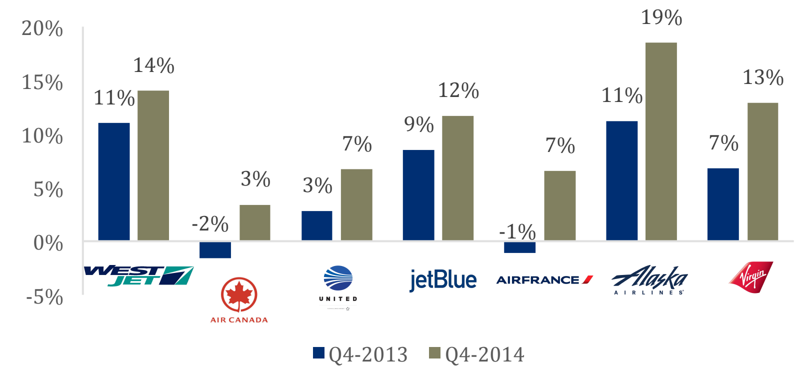
- The industry's ROIC suffered a serious drop in 2008 from a peak of around 6% to 1%
- Returns have rebounded, reaching around 7%, surpassing the peak level seen in 2008

Industry Trends North America

Industry Share Price Appreciation



Oil Price Impact on Operating Margin



Reasons for Share Price Rally

- The U.S. economy grew faster in 2014 than it did in 2013, which rapidly increased the demand for air travel
  - Share prices accelerated towards the final quarter of 2014, caused from the significant fall in crude oil prices
- TSI index is studied as a leading index for the industry and has risen for the 8th consecutive month in December, which represents an all time high for the index

Transportation Service Index

Comparable Analysis

Company	Ticker	Mkt Cap	P/E 2014	P/E 2015E	P/B	ROA	ROE	EV/EBITDA 2014	EV/EBITDA 2015e	GM	NPM	Rev. Growth YoY	Net Debt/ EBITDA	Load Factor
Airlines		**$Bn**												
Lufthansa	LHA	$7.14	11.4x	6.6x	1.3x	1.8%	10.8%	3.5x	2.8x	NA	6.6%	1.9%	1.0x	81.2%
Air China	753 HK	$13.88	25.0x	10.4x	1.3x	1.3%	5.0%	8.7x	6.7x	22.6%	1.1%	6.8%	5.4x	80.6%
Singapore Airlines	SIA	$10.48	40.1x	18.8x	1.2x	1.5%	2.8%	5.5x	4.4x	NA	4.9%	5.8%	-1.9x	78.3%
Thai Airways	THAI	$0.96	NA	91.7x	.7x	-4.7%	-27.3%	20.0x	7.2x	46.5%	2.4%	-9.6%	9.2x	71.1%
Jet Airways India	JETIN	$0.78	NA	9.0x	NA	-23.3%	NA	11.4x	8.8x	NA	-21.7%	NA	NA	78.2%
Virgin America	VA	$1.49	NA	7.7x	NA	NA	NA	16.1x	8.4x	NA	10.3%	4.7%	NA	84.8%
Air Canada	AC	$2.92	43.1x	3.9x	NA	1.0%	NA	3.0x	3.0x	66.6%	-3.2%	7.3%	1.8x	86.9%
Westjet Airlines	WJA	$3.14	12.4x	8.9x	2.2x	6.5%	16.9%	3.9x	3.7x	45.9%	9.1%	7.3%	-0.2x	83.1%
Selected Comp Average			**29.9x**	**21.2x**	**1.1x**	**-3.7%**	**-2.2%**	**9.8x**	**5.9x**	**45.2%**	**0.1%**	**2.8%**	**2.5x**	**80.5%**
Aircraft Producers		**$Bn**												
Boeing	BA	$105.47	20.2x	16.3x	12.2x	5.7%	46.3%	9.4x	9.1x	15.4%	6.0%	2.9%	-0.4x	-
Bombardier	BBD	$3.67	NA	6.8x	NA	-4.4%	NA	6.3x	6.0x	10.8%	-26.7%	11.9%	4.2x	-
Airbus	AIR	$44.54	23.3x	16.6x	4.6x	1.8%	17.9%	6.8x	6.4x	14.7%	2.0%	0.2%	-0.1x	-
Selected Comp Average			**21.7x**	**13.2x**	**8.4x**	**1.0%**	**32.1%**	**7.5x**	**7.2x**	**13.6%**	**-6.2%**	**5.0%**	**1.2x**	**-**

WestJet Airlines Ltd. (WJA:TSE)

Investment Thesis

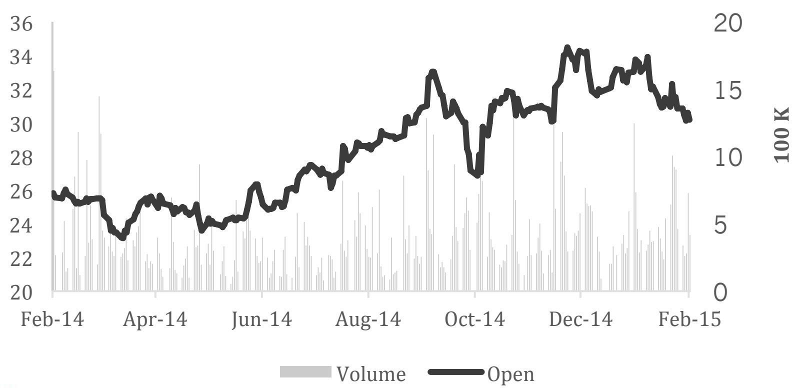
Macro Tailwinds	• Falling price of oil will result in massive cost reductions since fuel represents around 30% of expenses ▪ Typically airlines participate in hedging strategies to fix the price of oil and WJA has remained unhedged during Q4 • WJA serves the emerging middle class and has seen segment guests increase by an average of 6.3% over the past 3 years
Track Record of Strong & Profitable Growth	• WestJet has the potential for material EPS improvement in the next few years as it rolls out a number of initiatives, including premium economy, first bag fees, Encore and expanding its fleet ▪ The premium economy initiative is expected to generate $80M of annual profit, first bag gees could add $100M and Encore is expected to generate $130M in the next few years • Heavily focused on increasing fleet size, which will drive approximately 50% of EBIT growth between 2015 and 2017
Flexibility, an important component	• Management will look to leverage its full network to maximize returns on capital, regardless of the underlying demand environment ▪ A focus on low cost operations, strong brand value, fleet and network flexibility provides WJA enough room to continue to deliver sustainable returns on invested capital, north of management's 12% target ▪ Flexibility: a fleet size between 171 and 219 aircrafts, to adjust depending on future demand levels
Valuation	• The comparable analysis suggest WJA is undervalued relative to peers ▪ WJA trades at an EV/EBITDAR multiple of 5.7x compared to industry average of 4.5x, ▪ WJA trades at a LTM P/E ratio of 12.5x compared to the industry average of 21.3x • Room for material multiple expansion as the firm grows and beneficiates from a multiple rerate

Company Overview

Company Description

- Founded in 1996, WJA is currently the second-largest Canadian air carrier, behind Air Canada
- WestJet Airlines Ltd. is a low-fare airline that provides airline service and travel packages with scheduled service to more than 95 destinations in North America, Central America and the Caribbean
  - WJA operates a fleet of more than 100 Next-Gen aircrafts from Bombardier and Boeing

Stock Price Performance



Public Market Overview

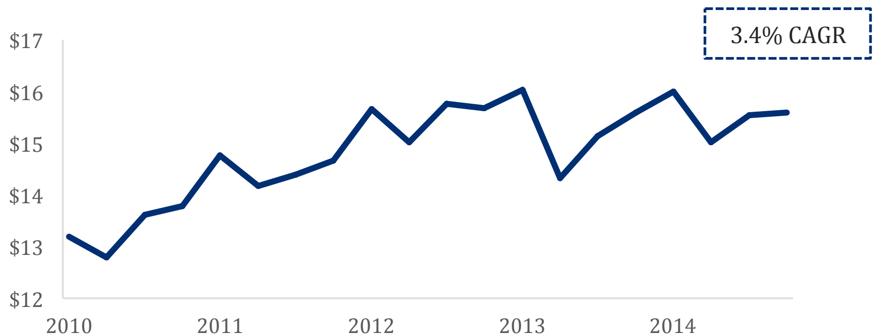
(values in $M, as of Feb. 16th, 2015)

Share Price	$30.57
S/O (mm)	108.0
Market Cap	$3,910.0
+ Total Debt	$1,188.7
+ Minority Interest	$0
+ Preferred Shares	$0
- Cash	$1,358.1
Enterprise Value	$3,740.6
Beta	0.65
Dividend Yield	1.83%
Return on Common Equity	16.87%
52-Week High	$34.95
52-Week Low	$22.95

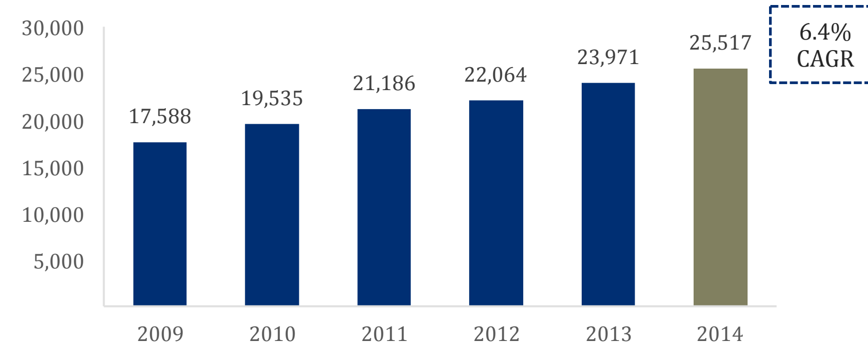
Finacials & Multiples	**LTM**	**FY2015E**	**FY2016E**
(values in $M)			
Revenue	$3,976.6	$4,152.0	$4,453.1
%Growth		*4%*	*7%*
Operating Income	$475.5	$659.8	$646.7
%Margin		*16%*	*15%*
Adjusted EPS	$2.45	$3.42	$3.44
% Growth		*40%*	*1%*
P/E	*12.4x*	*8.94x*	*8.89x*
P/B	*2.2x*	*1.83x*	*1.59x*

Company Fundamentals

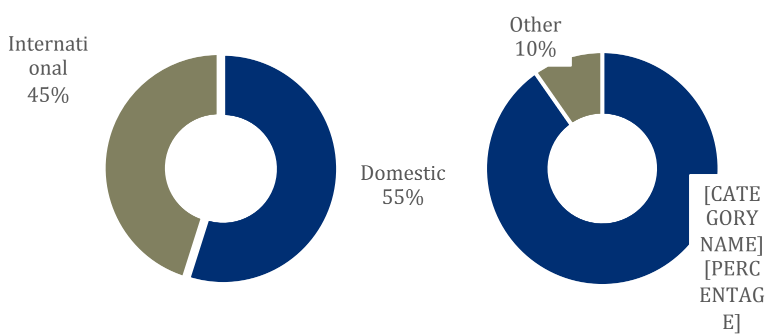
RASM Growth



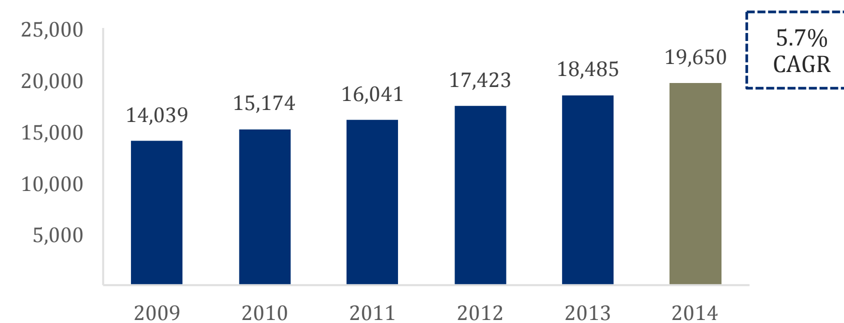
Improving Available Seat Miles



Revenue Distribution



Segment Guests Served



WestJet New Deliveries

Fleet Overview

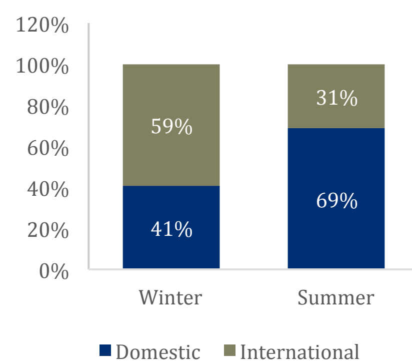
- In 2014, WestJet took delivery of two Boeing 737 aircrafts and one Bombardier Q400
- The firm had registered 123 aircrafts in 2014 with an average age of 7 years
- WJA currently has 44 Boeing 737 aircrafts under operating leases

New Deliveries 2015-2027

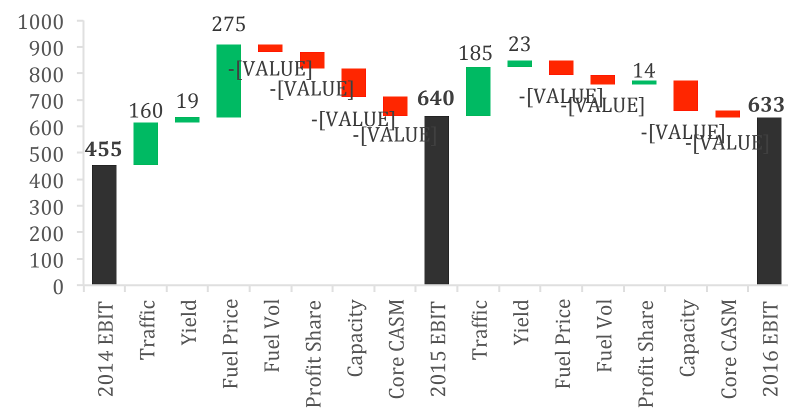
	Future Deliveries							
	2014	**2015**	**2016**	**2017**	**2018-20**	**2021-23**	**2024-27**	**Total**
Boeing								
737-600 NG	13	-	-	-	-	-	-	-
737-700 NG	69	-	-	-	-	-	-	-
737-800 NG	27	10	7	1	-	-	-	**18**
737 Max 7	-	-	-	-	6	4	15	**25**
737 Max 8	-	-	-	4	19	11	6	**40**
Bombardier								
Q400 NextGen	14	9	5	-	-	-	-	**14**
Total Deliveries	123	19	12	5	25	15	21	**97**
Disposals	-	5	-	-	-	-	-	
Total fleet with lease renewals	123	14	12	5	25	15	21	**92**
Lease expires	-	11	7	6	13	7	0	**44**
Total fleet without lease renewals	123	3	5	-1	12	8	21	**48**

Fleet Flexibility

- WestJet's fleet optimization strategy allows the firm to allocate resources efficiently during peak demand periods



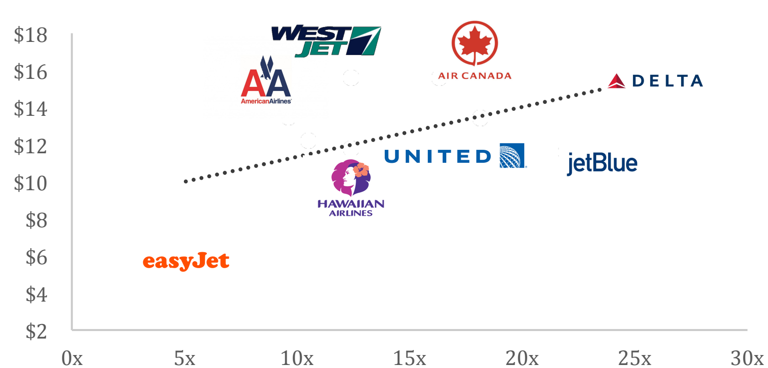
Long Term Growth Driven by Fleet Size



Valuation

Company	Ticker	Mkt Cap	Beta	P/E 2014	P/E 2015E	EV/EBITDAR 2014	EV/EBITDAR 2015E	ROA	ROE	ROIC	NPM	Rev. Growth YoY	Load Factor	Rev./ ASM
Low Cost Carrier		**$Bn**												
Lufthansa	LHA	$9.0	1.13	11.5x	6.6x	3.6x	2.8x	1.8%	10.8%	6.6%	6.6%	1.9%	85.0%	$12.8
Air Canada	AC	$3.6	0.49	42.7x	3.9x	4.7x	2.9x	1.0%	NA	NA	-3.2%	7.3%	81.0%	$15.6
Virgin America	VA	$1.8	1.91	NA	7.7x	1.8x	7.8x	NA	NA	NA	10.3%	4.7%	83.5%	$12.3
JetBlue Airways	JBLU	$6.5	1.75	21.9x	9.4x	7.8x	4.7x	5.3%	17.2%	6.0%	6.1%	5.9%	82.1%	$13.2
Allegiant Travel	ALGT	$3.8	0.99	19.2x	14.9x	13.6x	7.2x	9.4%	26.6%	14.2%	1.7%	17.0%	85.1%	$14.6
EasyJet	EZJ	$13.3	1.32	15.3x	11.6x	8.7x	7.7x	10.1%	21.5%	15.7%	17.4%	3.8%	89.7%	$9.1
Spirit Airlines	SAVE	$7.1	1.75	25.6x	13.5x	10.6x	7.3x	16.2%	25.4%	23.1%	11.8%	13.0%	84.8%	$7.1
WestJet Airlines	WJA	$3.9	0.48	12.5x	9.0x	5.7x	4.5x	6.5%	16.9%	12.5%	9.1%	7.3%	83.1%	$15.6
Selected Comp Average			**1.23**	**21.3x**	**9.6x**	**7.1x**	**5.6x**	**7.2%**	**19.7%**	**13.0%**	**7.5%**	**7.6%**	**83.8%**	**$12.5**

RASM vs. P/E Regression

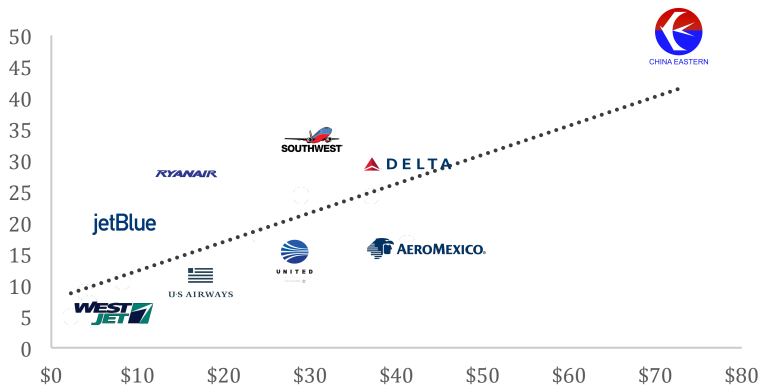


Analysis

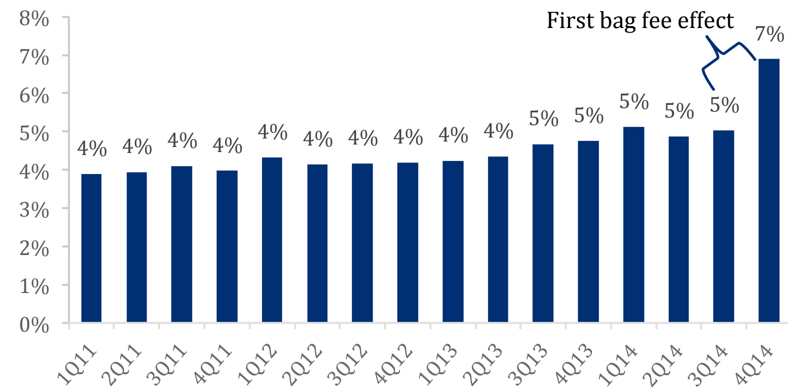
- WestJet is well positioned on a valuation standpoint
  - RASM represents the airlines average revenue per available seat mile, which is an important indicator of efficiency
- Based on a regression analysis of RASM vs. P/E, a suggested P/E multiple of **18x** implies a **~44%** upside from WJA's current P/E ratio

Why The Excessive Discount?

Market Cap vs. P/E Regression



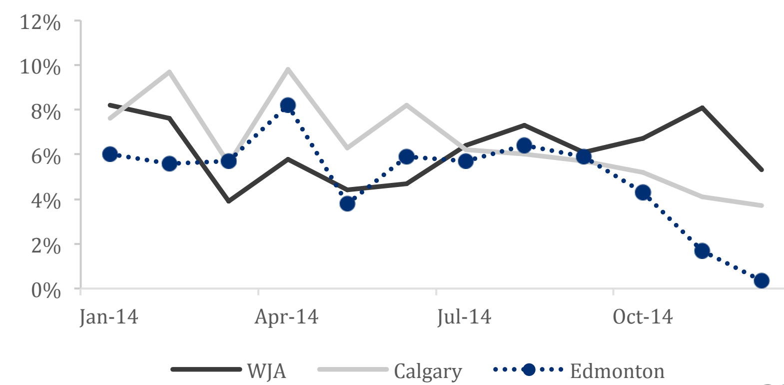
Ancillary Revenues as % Total Revenues



Investors Discounting

- Alberta accounts for ~20% of WJA's originating ASM's
- Albertan air traffic is slowing down, however the discount placed on the stock price is overblown given WJA is growing diversification through its Encore program
- WJA's traffic growth was consistent throughout 2014, while traffic at Calgary and Edmonton decelerated

Air Traffic in Growth



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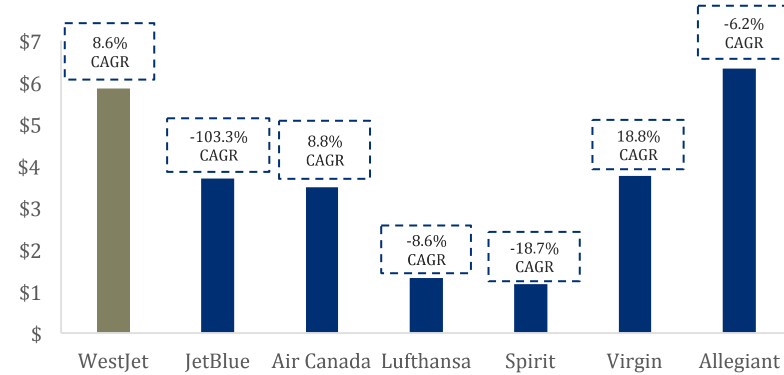
WestJet Compared to Other Low Cost Carriers

RASM minus CASM - 5 Year Average

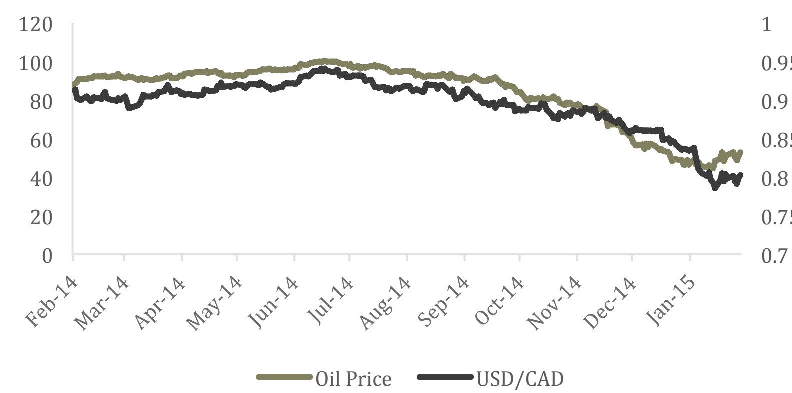
- WJA has illustrated in the past their outperformance against competitors
  - The average 5 year spread between RASM and CASM is one of the highest in the industry with a strong 8.6% CAGR
  - Analyzing the data today, WJA is the industry leader with Air Canada in second
  - WJA is less risky than AC because of the historic fluctuations in AC's RASM – CASM metric



Foreign Exchange Natural Hedge

- Oil prices may increase in the future and if they do, WJA will be best positioned to outperform the market dominated by American airlines
- The Canadian economy is highly dependent on the performance of the energy sector, if oil prices rise, the Canadian economy will improve, serving as a positive tailwind on WJA's earnings

USD/CAD vs. Oil Price



Recommendation

- Valuation has remained cheap compared to the rich sector valuation in this bull market
- The North American airline industry remains strong and the Transportation Service Index reached record levels
- We believe WJA is well positioned in the long run due to the fact that WJA is an industry leader in a high volume segment
- Overall WJA has underperformed its U.S. competitors, which will likely reverse as oil prices rebound from all time lows

We recommend a **BUY** a 12-month price target of $41.6 based on a 5.0x EV/ 2015 EBITDAR.

Emerson Electric Co. (EMR:NYSE)

Emerson Electric Company

Company Description

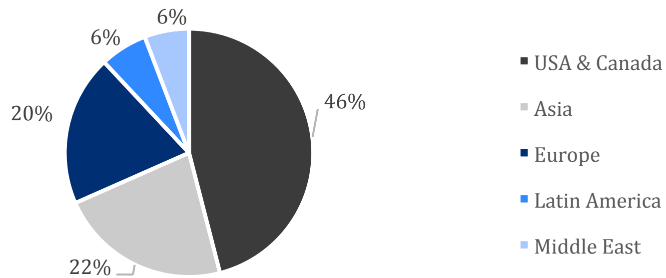
- Emerson was incorporated in Missouri in 1890
  - They offer a wide range of innovative solutions for industrial, commercial and consumer markets around the world
- EMR evolved through acquisitions and internal growth under their five segments
  - Process management, climate technology, network power, automation technology, automation

Financial Summary

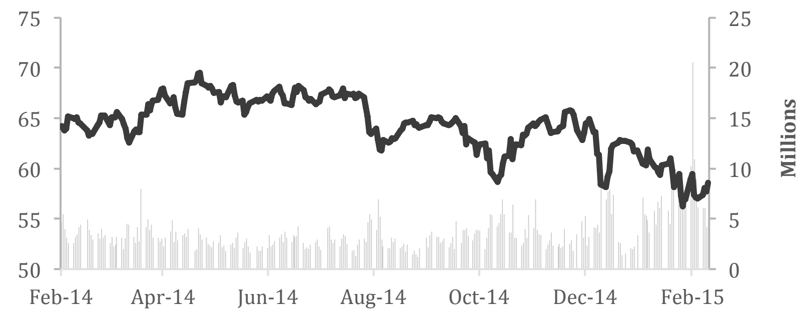
Data as of February 13th, 2014

Share Price	$58.6
Dividend per share	$1.88
Dividend yield	3.20%
52 week high	$69.94
52 week low	$55.81
Share outstanding (mm)	687.5
Market cap (bn)	$40.33

Revenue Distribution by Geography



Stock Price Performance



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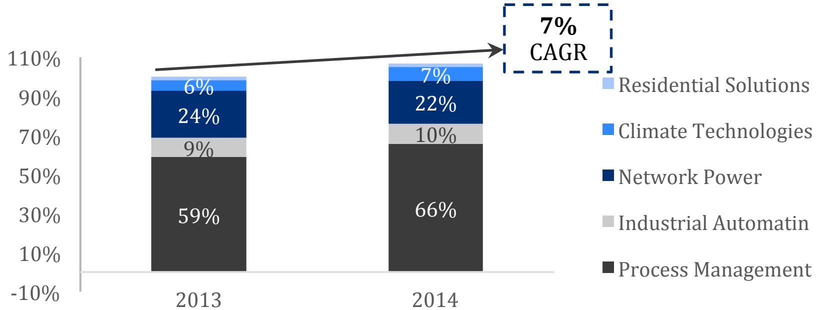
Investment Thesis

Strong Backlog	• EMR’s backlog grew from $6.29 billion to $6.71 billion between 2013 and 2014, which represents approximately a 7% growth
European Economy	• Growth in Europe has been hampered due to the weak European economy ▪ Euro zone grew in Q4 2014 by 0.3% and the European Commission is forecasting growth of 1.3% in 2015 ▪ GDP growth has rebounded from 2012 and is now seeing positive growth ▪ Expectations are very low, leaving little room for disappointment
Over-Penalized Stock Price	• Emerson typically trades at a premium against competitors and has been devalued according to perceived risk in Europe, oil volatility and exchange rate pressure ▪ Investors believe that Emerson’s bottom line is affected when oil price drops, however there is no historical evidence ▪ The strengthening U.S. dollar took a 3% bite out of total revenues, and the stock has the future risk of exchange rate volatility priced in ▪ Total sales in Europe rose by 4%, driven by the Network Power segment. Investors believe that the firm will have falling revenues in Europe in 2015 because the increase in 2014 was driven by a one time deal in Sweden • Emerson’s stock price has fallen in the past year due to investors unsure of the firms potential, however it is an over-reaction
Valuation	• On an EV / EBITDA basis, Emerson has historically traded at a premium to Parker-Hannifin, its best competitor, but recently multiples have converged • A comparable analysis suggests the firm is trading below average, however this does not justify the extraordinary results the company generates • Based on research, the consensus price target is $68, with a dividend of 3.2%, generates an expected return of 19%

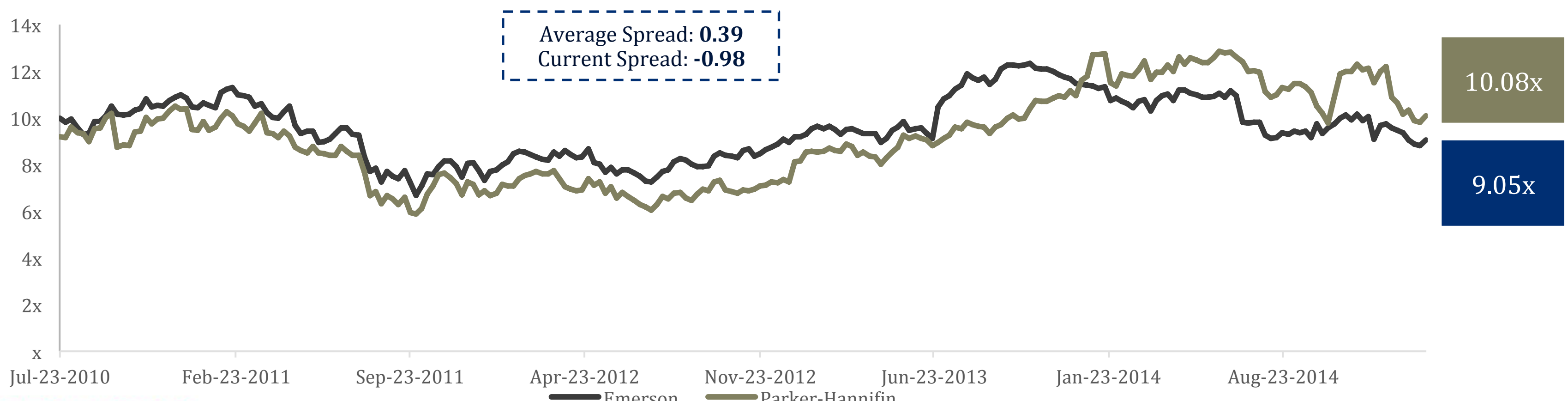
Backlog & EV / EBITDA

Backlog



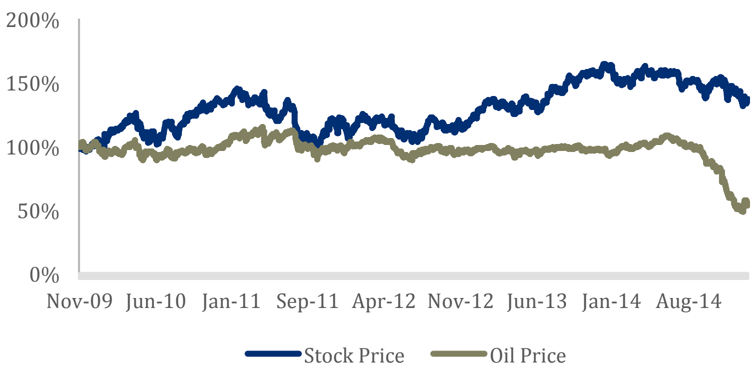
- Backlogs lend stability and growth to Emerson’s bottom line and backlogs increased in spite of the drop in oil prices
  - The firms process management division increased due to a strong order backlog

EV / EBITDA Evolution



Oil Reaction Analysis on Price

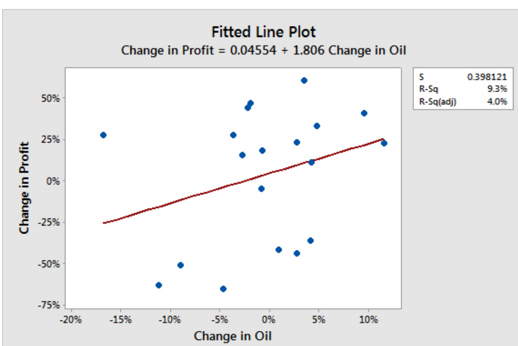
Relationship Between Oil and Stock Price



Statistical Data on Stock Price

Adjusted Beta	0.537
R^2 (Correlation)	0.148
R (Stdv)	0.384
T-Value	16.31
Significance	0.000

Relationship Between Oil and Net Income



Statistical Data on Stock Price

R^2 (Correlation)	0.0932
R (Stdv)	0.3052
P-Value	0.204
T-Value	1.75

Comparable Valuation

Company	Ticker	Mkt Cap	Beta	ROA	ROE	Gross Margin	NPM	EV/Sales 2014	EV/Sales 2015	EV/EBITDA 2014	EV/EBITDA 2015	P/E 2014	P/E 2015
Electric Component Firm		**$Bn**											
Commscope Holding Co.	COMM	$5.71	-0.54	3.7%	18.5%	36.2%	9.6%	2.0x	2.1x	9.0x	9.5x	23.0x	14.9x
Honeywell International Inc.	HON	$81.34	0.89	9.3%	24.1%	26.3%	9.3%	2.0x	1.9x	10.1x	9.3x	18.6x	15.4x
Hewlett-Packard Co.	HPQ	$70.25	1.38	4.8%	18.6%	24.6%	4.7%	0.7x	0.7x	5.3x	5.3x	12.1x	9.3x
Johnson Controls Inc.	JCI	$31.73	1.21	4.0%	11.2%	15.8%	4.8%	0.9x	1.0x	9.6x	9.0x	14.5x	11.7x
Rockwell Automation Inc.	ROK	$15.9	0.80	13.9%	32.0%	43.7%	13.6%	2.3x	2.3x	10.8x	10.2x	19.3x	16.4x
ABB Lld	ABBN	$46.02	0.81	5.6%	14.8%	27.5%	6.6%	1.3x	1.3x	9.0x	8.4x	18.9x	14.9x
Parker Hannifin Co.	PH	$17.62	1.15	8.6%	18.1%	23.4%	8.5%	1.4x	1.4x	9.1x	8.7x	17.2x	14.0x
Emerson Electric Co.	EMR	$40.2	1.05	9.2%	21.8%	40.8%	9.4%	1.8x	1.8x	9.0x	8.8x	15.9x	14.6x
Select Comp Average			0.84	7.4%	19.9%	29.8%	8.3%	1.6x	1.5x	9.0x	8.7x	17.4x	13.9x
Select Comp Median			0.97	7.1%	18.5%	26.9%	8.9%	1.6x	1.6x	9.0x	8.9x	17.9x	14.7x