

# EL NIÑO INVESTMENTS

Our mission is to hedge our client's financial situations strategically away from the course of El Niño related weather patterns

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# AIR METHODS



Air Methods

## OVERVIEW

- Air Methods (AIRM)
- Air Services Industry
- Headquarters: Colorado, USA
- Market Cap: \$1.5 Billion
- Enterprise Value: \$2 Billion
- P/E: 13.8x earnings
- PEG: 0.70
- Return on Equity: 21.65%
- Gross Profit Margin: 40%
- Net Profit Margin: 10%



## **BUSINESS**

- **Largest provider of air medical systems and services in the nation**
- **Serves 48 states (Alaska & Hawaii)**
- **3 key business segments:**
  - **Medical Services**
  - **Tourism**
  - **Manufacturing & Design flight interiors**
- **Only company to offer all key-core competencies in house:**
  - **Aviation Operations**
  - **Communications**
  - **Billing & Collections**
  - **Maintenance**
  - **Medical Staffing**
  - **Medical Interior Installations**



## HISTORY

- 1980 - Air Methods is established as a rotor-wing Hospital Program
- 1983 - Established as both a rotor-wing and a fixed-wing Program
- 1991 - Air Methods goes public (AIRM)
- 1993 - The "Black Hawk" is Air Method's first military equipment contract
- 1997 - Begins community based operations
- 2005 - Hurricane Katrina rescue missions
- 2007 - Establishes "OCC"



## **HISTORY**

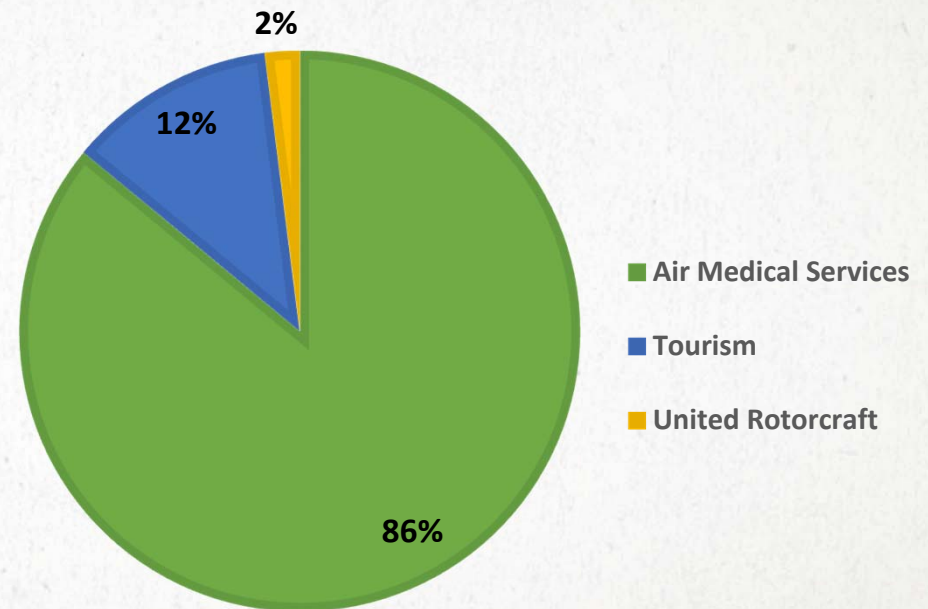
- **2009 - Passes the DoD's CARB certification**
- **2011 - Selected as the Preferred Provider of air medical transport for CHSHA\***
- **2012 - Builds National Training Center for all new hires**
- **2013 - Begins remodeling the cockpits of existing aircraft**
- **2014 - Awarded contract to provide services to Haiti Air Ambulance**

## **ACQUISITIONS**

- **1997 – Mercy Air – Community Based Operations**
- **2000 – ARCH Air Services**
- **2002 – Rocky Mountain Holdings**
- **2007 – CJ Systems - “Operations Control Center”**
- **2009 – Portion of Omniflight**
- **2011 – Bought Omniflight**
- **2012 – Sundance Helicopters – Begins Tourism segment**
- **2013 – Blue Hawaiian Helicopters**
- **2014 – Baptist LIFEflight**
- **2015 – San Antonio AirLIFE**
- **2016 – Tri-State Care Flight**

## SERVICES PROVIDED

- **Air Medical Services (AMS) – 86% of Revenue**
  - Patient Transport – 70%
  - AMS Contract – 15%
  - Dispatch % Billing Services – 1%
- **Tourism – 12%**
- **United Rotorcraft – 2%**





# AIR MEDICAL SERVICES DIVISION

## Services Provided:

- Medical care
- Aircraft operations and maintenance
- 24-hour communications and dispatch
- Medical billing and collections

## Locations:

- Fire Stations
- Airports
- Hospitals

Top 5 HEMS Providers by Size		
Company	Fleet Size	# of States
Air Methods	448	48
Metro Aviation	130	18
Air EVAC	130	18
PHI, Inc.	90	16
MED-Trans	70	21

# AIR MEDICAL SERVICES DIVISION

## *Patient Transport Revenue (70%)*

- No contract service
- Provides all services for patients
- 100% variable revenue stream
- 200 Bases
- Growth from new hospital outsourcing

## *Air Medical Contract Services (15%)*

- Long Term Contract with Hospital
  - Aviation Services only
  - 80% fixed revenue stream
  - 100 Bases
  - Growth from satellite expansions and new contracts
-

## **TOURISM**

- Began in 2012
- Sundance Helicopters & Blue Hawaiian Helicopters
- Grand Canyon & Hawaiian Island Tours
- AIRM markets the Tourism division online
- Low working capital requirements due to payments in advance
- Provides strong talent pipeline into AMS as Tourism pilots fly up to 4 times the flight hours per year

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### **Sundance Helicopters**

- Grand Canyon, the Strip and Hoover Dam
- 30 aircraft
- Headquarters in Las Vegas

### **Blue Hawaiian Helicopters**

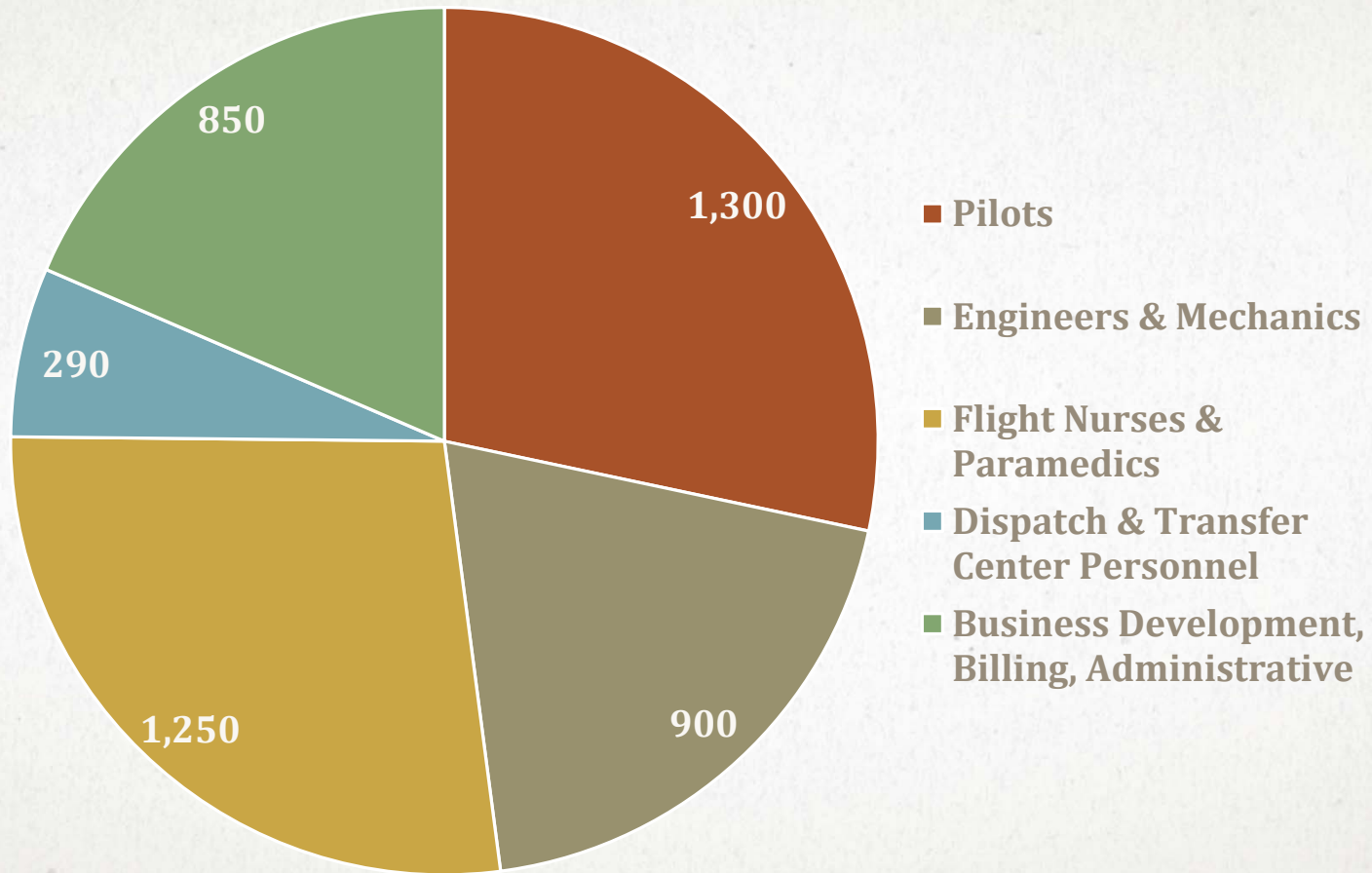
- Flights to tourist attractions
  - 31 aircraft
  - Headquarters in Maui
-

## UNITED ROTORCRAFT

- Designs, manufactures, and certifies interiors for domestic and international clients
- Multi-interior capabilities:
  - Air Medical
  - Military – Largest Customer
  - Law Enforcement
  - Corporate



# EMPLOYEES



## **RISK FACTORS**

- **Weather Patterns**
  - **Uncollectible Payments**
  - **Unable to find acquisitions**
  - **Government Regulations**
-

## COMPETITIVE ADVANTAGE

- **High Barriers to Entry**
  - **Size and Scope**
  - **Network Effect**
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# COMPETITIVE ADVANTAGE – PARTNERS





# COMPETITIVE ADVANTAGE – SCALE



## **GROWTH & VALUE OPPORTUNITIES**

- **Size allows for price adjustments and increases**
- **Declining fuel prices**
- **Healthcare reform**
- **Talent pipeline from tourism pilots to medical pilots**
- **Buying out aircraft leases**

# QUALITATIVE REVIEW

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<b>Qualitative Review</b>	
What type of business is this: commodity or sustained competitive advantage?	Competitive Advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	No
Does it require heavy capital infusion?	Yes
Does it require lots of research and development?	No
Can inventory become obsolete?	No
Are there chronic "one time" write offs?	No
Is the company able to raise its prices to offset inflation?	Yes
Will the company be able to sell more in the future?	Yes
If I gave you \$1 billion could you develop a competitor? If the answer is "no" your business has a sustained competitive advantage.	No

# QUANTITATIVE ANALYSIS

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# IOFS

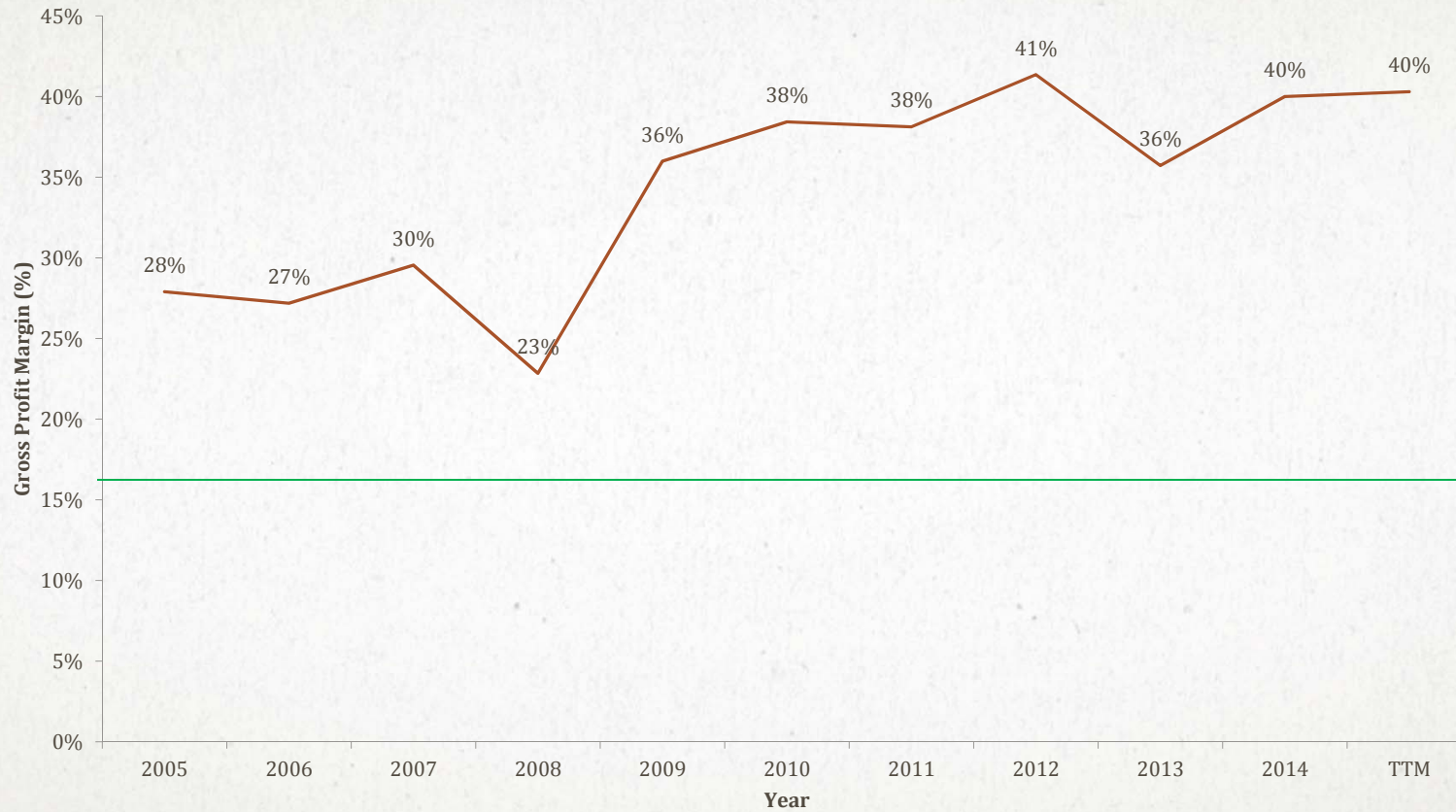


<u>TTM</u>	Value	Low Threshold	Pass?
Gross Profit Margin	40.30%	≥ 20%	Yes
% SGA	33.41%	≤ 80%	Yes
% R&D	0.00%	≤ 10%	Yes
% Depreciation	19.16%	≤ 10%	No
Interest % of OP	10.00%	≤ 15%	Yes
Net Profit Margin	10.17%	≥ 10%	Yes
Current Ratio	2.39	≥ 1	Yes
Obligation Ratio	0.83	< 5 years	Yes
Adj. Debt to Shareholder Equity	1.68	< 0.8	No
Return on Equity	19.18%	≥ 15%	Yes
Return on Capital	9.31%	≥ 15%	No
Dividend Payout Ratio	0.00%	≤ 60%	Yes
Preferred Stock	None	None	Yes
Capital Expenditures	137.04%	≤ 25%	No
Net Earning Trend	Up	Up	Yes
Retained Earnings Trend	Up	Up	Yes

# REVENUES



# GROSS PROFIT MARGIN

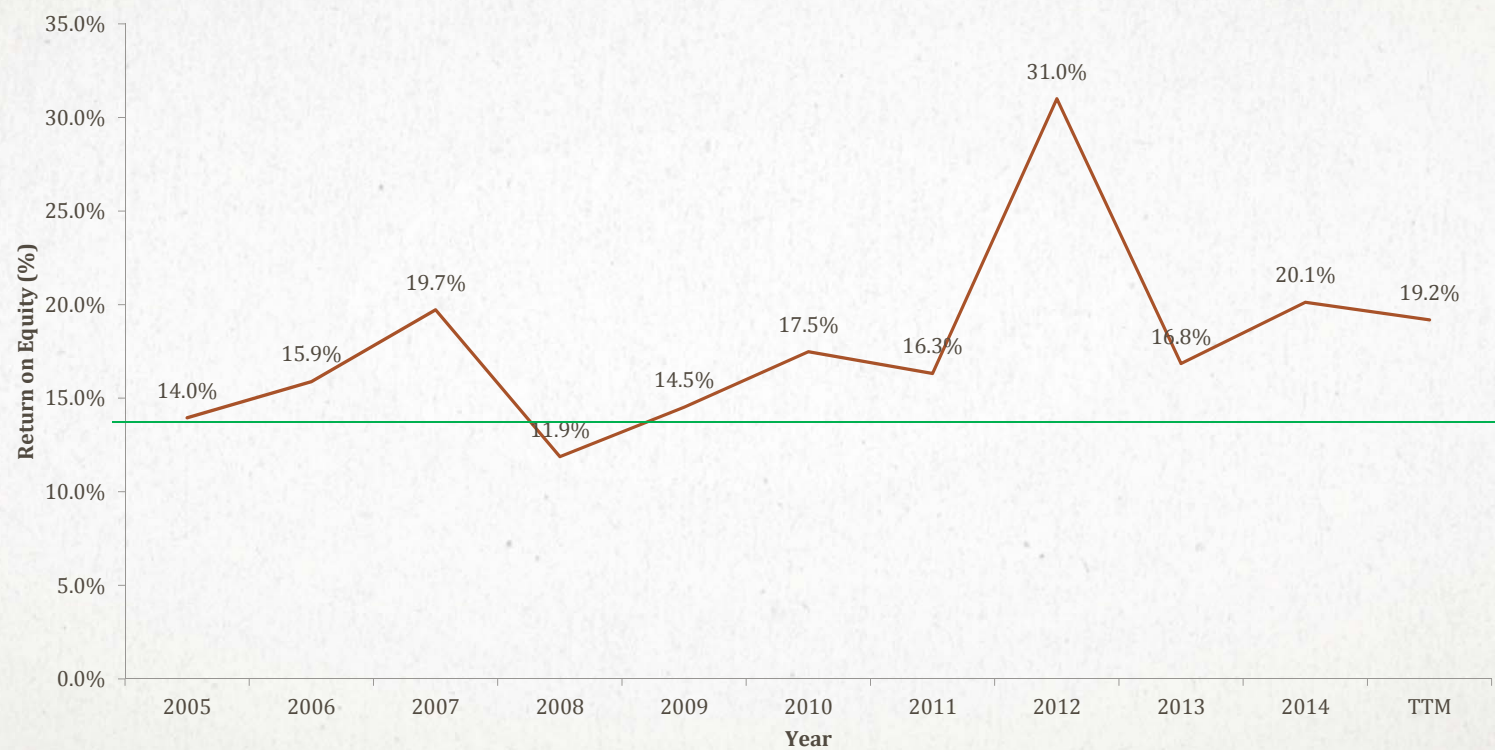




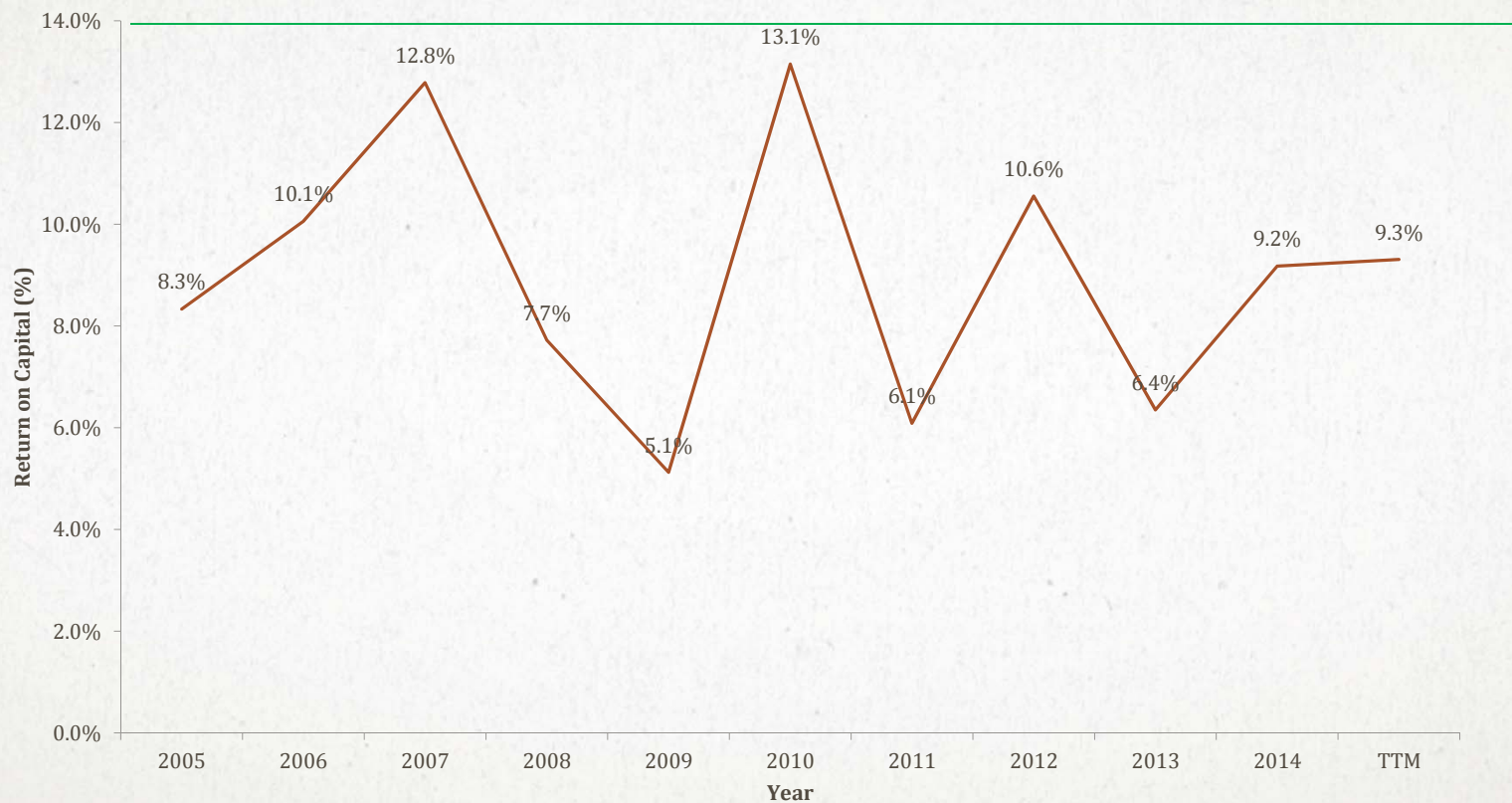
# NET PROFIT MARGIN



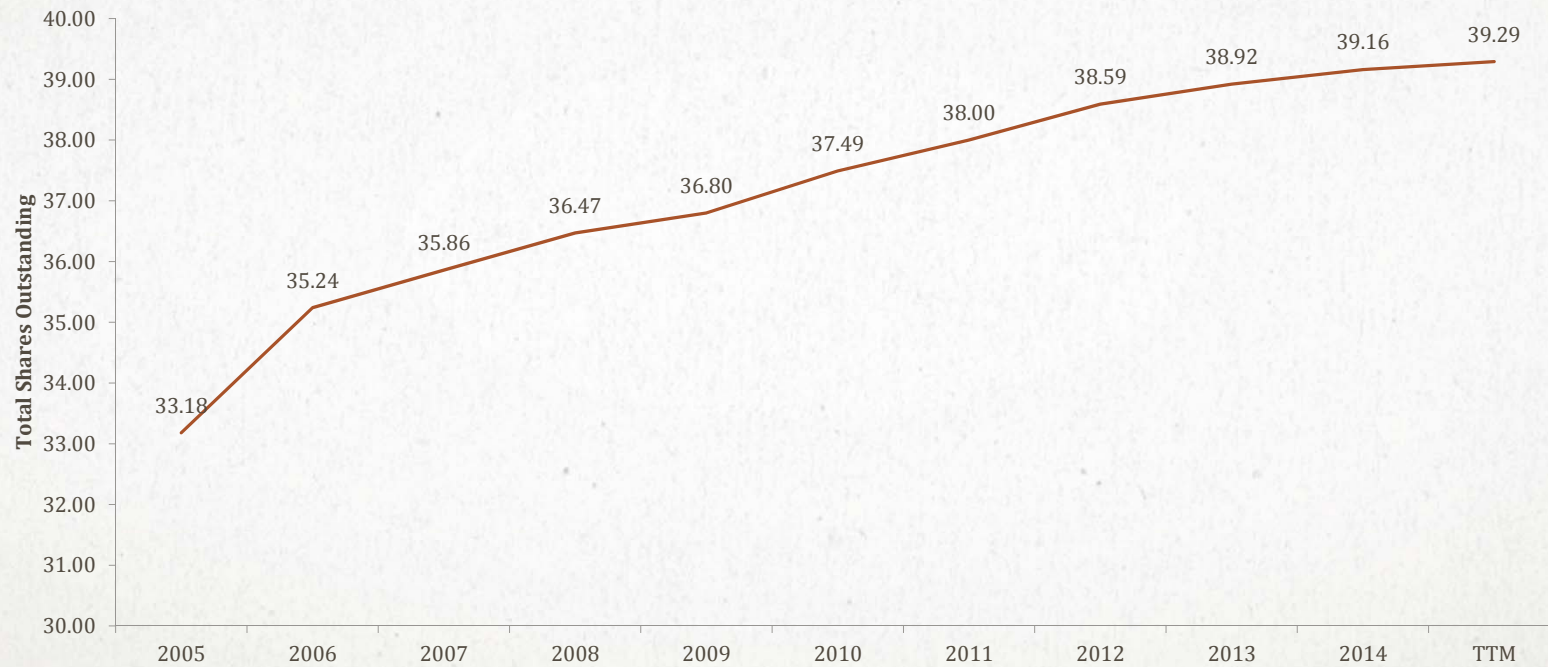
# RETURN ON EQUITY



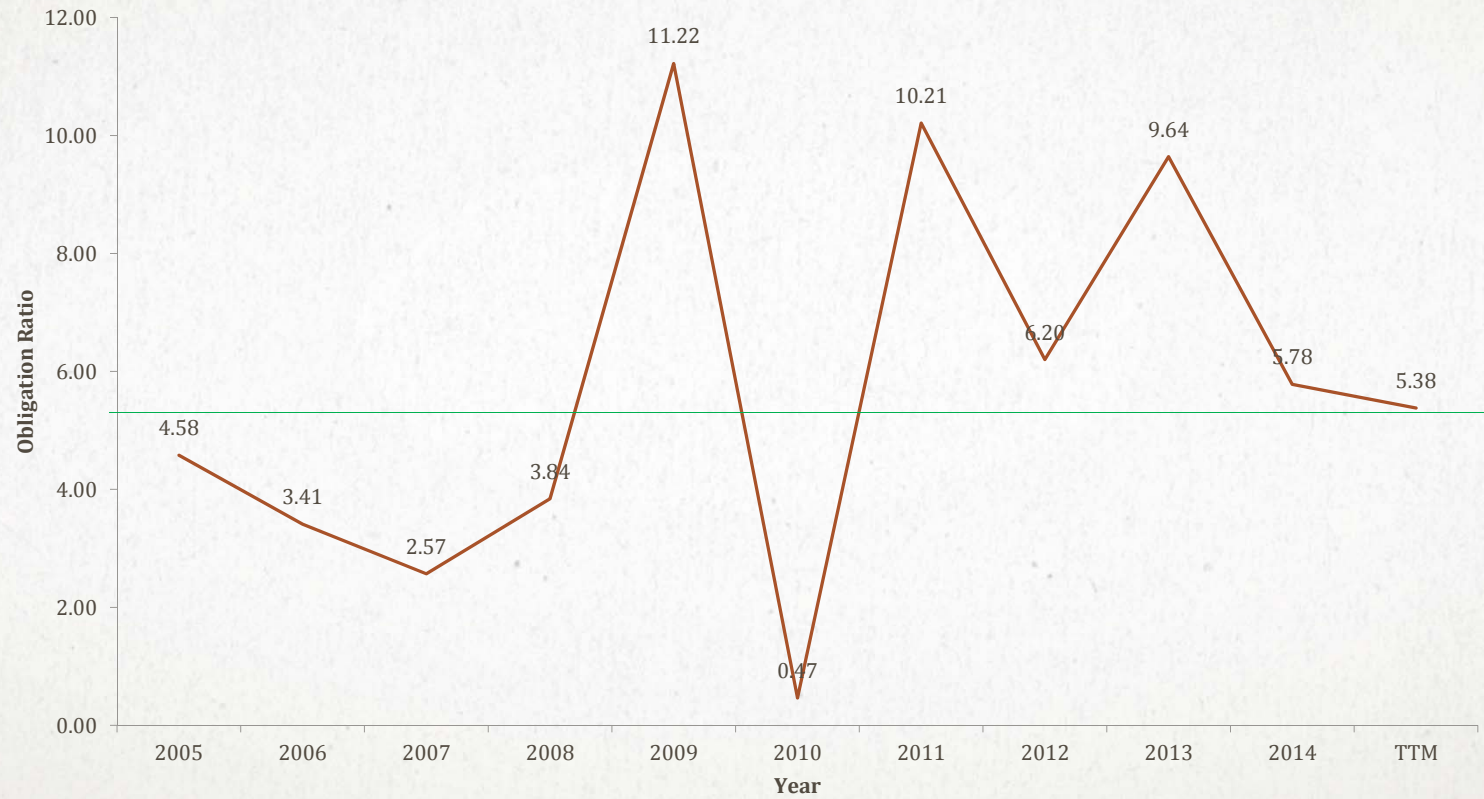
# RETURN ON CAPITAL



# TOTAL SHARES OUTSTANDING



# OBLIGATION RATIO



## FINANCIAL SUMMARY ANALYSIS

### *Increasing trends?*

Sales per Share	Increasing
Cashflows per Share	Increasing
Earnings per Share	Increasing
Dividends Declared per Share	None
Capital Spending per Share	Variable
Book Value per Share	Increasing
Revenues (Sales)	Increasing
Gross Profit Margin	Increasing
Operating Profit Margin	Increasing
Net Profit	Increasing
Net Profit Margin	Variable
Working Capital	Increasing
Shareholder's Equity	Increasing
Return on Total Capital	Variable
Return on Shareholder's Equity	Variable
Common Shares Outstanding	Increasing
Long-Term Debt	Increasing

## 5 YGROWTH

2010		2014	
<u>Revenue</u>		<u>Revenue</u>	
\$562M	79%	\$1.004B	
<u>Net Income</u>		<u>Net Income</u>	
\$42.76M	123%	\$95.47M	<u>Acquisitions</u>
<u>Patient Transport</u>		<u>Patient Transport</u>	7
40.05M	44%	57.94M	
<u>Fleet Size</u>		<u>Fleet Size</u>	
326	37%	448	
81 owned		280 owned	
190 leased		111 leased	
55 3 <sup>rd</sup> party owned		57 3 <sup>rd</sup> party owned	

## 10 YGROWTH

2005		2014	
<u>Revenue</u>		<u>Revenue</u>	
\$273.1M	267%	\$1.004B	
<u>Net Income</u>		<u>Net Income</u>	
\$11.84M	706%	\$95.47M	
<u>Patient Transport</u>		<u>Patient Transport</u>	<u>Acquisitions</u>
30.16M	92%	57.94M	9
<u>Fleet Size</u>		<u>Fleet Size</u>	
185	142%	448	
65 owned		280 owned	
89 leased		111 leased	
31 3 <sup>rd</sup> party owned		57 3 <sup>rd</sup> party owned	



# DISCOUNTED CASH-FLOW

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# DCF: DEFAULT

Earnings Per Share : \$  ?

Growth Rate In the Next:  Years :  % ?

Business Predictability  ?

Terminal Growth Rate:  % ?

Years of Terminal Growth:  ?

Discount Rate:  % ?

➔

DCF Reverse DCF NEW ↵

Tangible Book Value: \$   Add to Fair Value ?

Growth Value: \$  ?

Terminal Value: \$  ?

**= Fair Value: \$**  ?

Price:

Margin Of Safety: 53%

## Financial Data of Air Methods Corp

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	14.30	13.90	8.40
EBITDA Growth (%)	25.70	14.40	13.70
EBIT Growth (%)	25.50	21.90	19.00
EPS without NRI Growth (%)	30.30	25.50	21.00
Free Cash Flow Growth (%)		-19.40	80.40
Book Value Growth (%)	18.10	17.20	25.10

# DCF: SAFETY

Earnings Per Share : \$  ?

Growth Rate In the Next:  Years :  % ?

Business Predictability  ?

Terminal Growth Rate:  % ?

Years of Terminal Growth:  ?

Discount Rate:  % ?

➔

DCF Reverse DCF NEW

Tangible Book Value: \$   Add to Fair Value ?

Growth Value: \$ 28.32 ?

Terminal Value: \$ 19.62 ?

**= Fair Value: \$ 47.94** ?

Price:

Margin Of Safety: **19%**

## Financial Data of Air Methods Corp

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	14.30	13.90	8.40
EBITDA Growth (%)	25.70	14.40	13.70
EBIT Growth (%)	25.50	21.90	19.00
EPS without NRI Growth (%)	30.30	25.50	21.00
Free Cash Flow Growth (%)		-19.40	80.40
Book Value Growth (%)	18.10	17.20	25.10

# REVERSE DCF

Earnings Per Share : \$

Growth Rate In the Next:  Years

Business Predictability ★★★★★

Terminal Growth Rate:  %

Years of Terminal Growth:

Discount Rate:  %

DCF Reverse DCF <sup>NEW</sup>

**= Growth Rate: 9.12%**

Revenue Growth Rate: **14.30%**(10y) **13.90%**(5y) **8.40%**(1y)

EBITDA Growth Rate: **25.70%**(10y) **14.40%**(5y) **13.70%**(1y)

Earnings Growth Rate: **30.30%**(10y) **25.50%**(5y) **21.00%**(1y)

Free Cash Flow Growth Rate: **0.00%**(10y) **-19.40%**(5y) **80.40%**(1y)

Book Value Growth Rate: **18.10%**(10y) **17.20%**(5y) **25.10%**(1y)

## Financial Data of Air Methods Corp

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	14.30	13.90	8.40
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Free Cash Flow Growth (%)		-19.40	80.40
Book Value Growth (%)	18.10	17.20	25.10

# CONSCIOUS INVESTOR

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# CONSCIOUS INVESTOR – 3 YEAR

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	EPSttm	Years	HGROWTH	STAEGR®
EPS (\$)	0.340	0.467	0.734	0.513	0.776	1.167	1.210	2.386	1.590	2.460	\$2.730	3	1.54%	80.85%
SPS (\$)	9.678	8.969	10.886	13.699	13.660	14.867	17.283	21.950	22.568	25.613		3	8.02%	98.39%

# 3 YEAR



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET <sup>®</sup>	Req Return	TARG <sup>®</sup>
Default	37.96	\$2.730	21.43	1.54%	0.0%	8.89%	-10.00%	129.38
Safety	37.96	\$2.730	12.17	0.89%	0.0%	-1.40%	-10.00%	71.15



# CONSCIOUS INVESTOR – 6 YEAR

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	EPSttm	Years	HGROWTH	STAEGR®
EPS (\$)	0.340	0.467	0.734	0.513	0.776	1.167	1.210	2.386	1.590	2.460	\$2.730	10	23.64%	79.18%
SPS (\$)	9.678	8.969	10.886	13.699	13.660	14.867	17.283	21.950	22.568	25.613		10	12.51%	93.22%



# 6 YEAR



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET <sup>®</sup>	Req Return	TARG <sup>®</sup>
Default	37.96	\$2.730	21.43	23.64%	0.0%	30.34%	-10.00%	346.31
Safety	37.96	\$2.730	12.17	10.22%	0.0%	6.01%	-10.00%	110.72



# CONSCIOUS INVESTOR – 10 YEAR

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	EPSttm	Years	HGROWTH	STAAGR®
EPS (\$)	0.340	0.467	0.734	0.513	0.776	1.167	1.210	2.386	1.590	2.460	\$2.730	10	23.64%	79.18%
SPS (\$)	9.678	8.969	10.886	13.699	13.660	14.867	17.283	21.950	22.568	25.613		10	12.51%	93.22%

# 10 YEAR



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET <sup>®</sup>	Req Return	TARG <sup>®</sup>
Default	37.96	\$2.730	21.43	23.56%	0.0%	30.26%	-10.00%	345.19
Safety	37.96	\$2.730	12.17	10.94%	0.0%	6.60%	-10.00%	114.39

# KILL IT



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET <sup>®</sup>	Req Return	TARG <sup>®</sup>
Default	37.96	\$2.730	21.43	23.64%	0.0%	26.50%	-10.00%	\$2.62K
Safety	37.96	\$2.730	12.17	10.22%	0.0%	7.46%	-10.00%	473.04
🔄 Saved	37.96	\$2.730	10.72	16.55%	0.0%	11.81%	10.00%	45.24

Cut P/E by 50%  
Cut growth rate by 30%

# KILL IT AGAIN

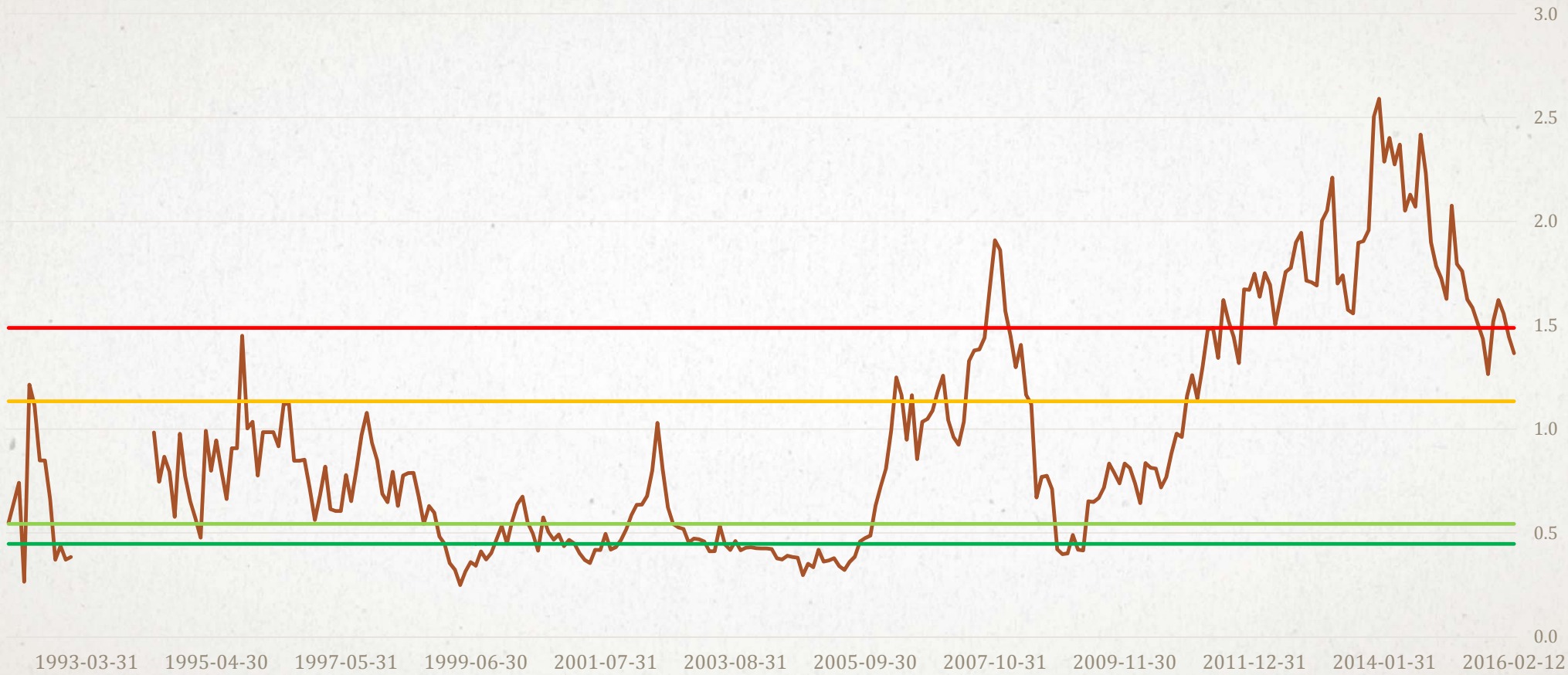
	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET <sup>®</sup>	Req Return	TARG <sup>®</sup>
Default	37.96	\$2.730	21.43	23.64%	0.0%	26.50%	-10.00%	\$2.62K
Safety	37.96	\$2.730	12.17	10.22%	0.0%	7.46%	-10.00%	473.04
 Saved	37.96	\$2.730	6.43	8.27%	0.0%	0.19%	10.00%	12.99

Cut P/E by 70%  
Cut growth rate by 65%

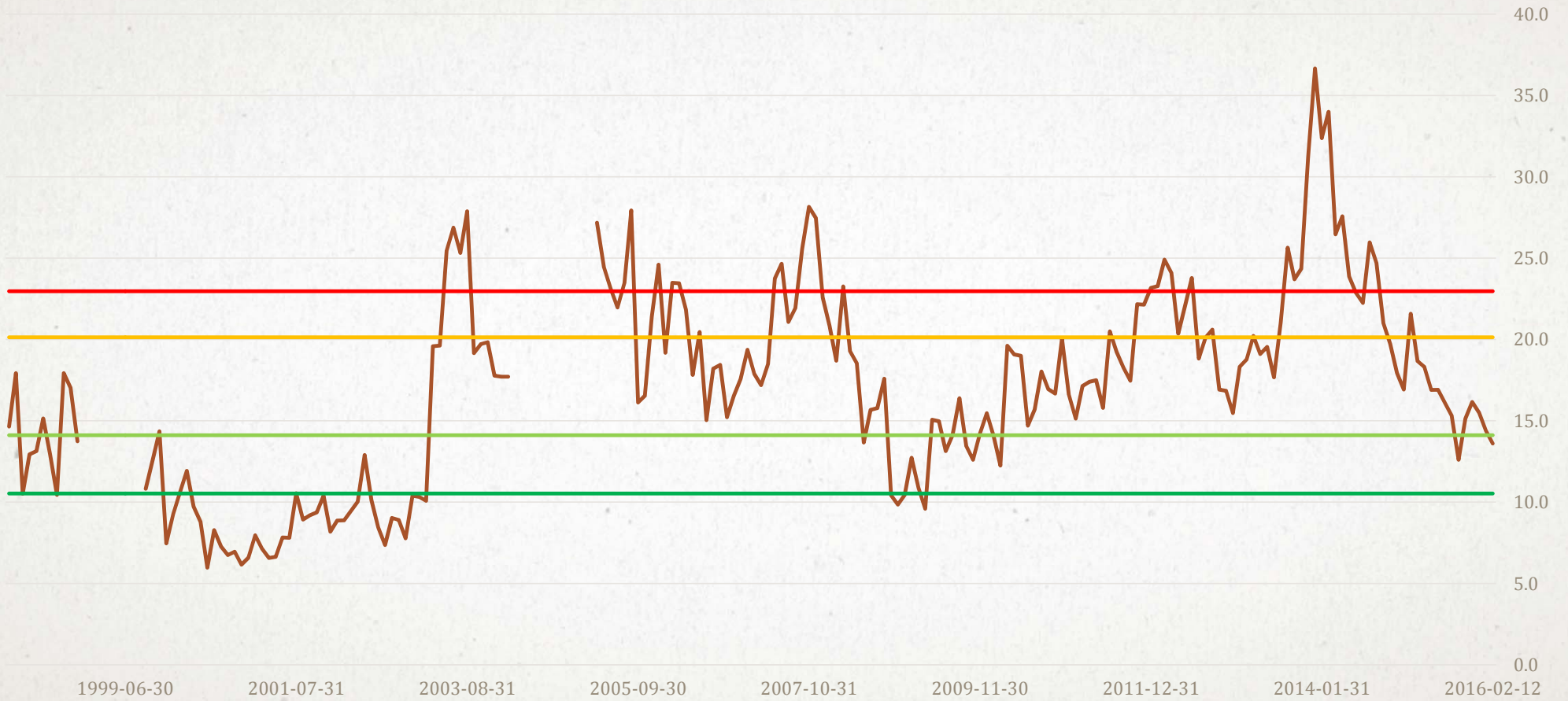
# VALUE BAND ANALYSIS

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# PRICE/SALES

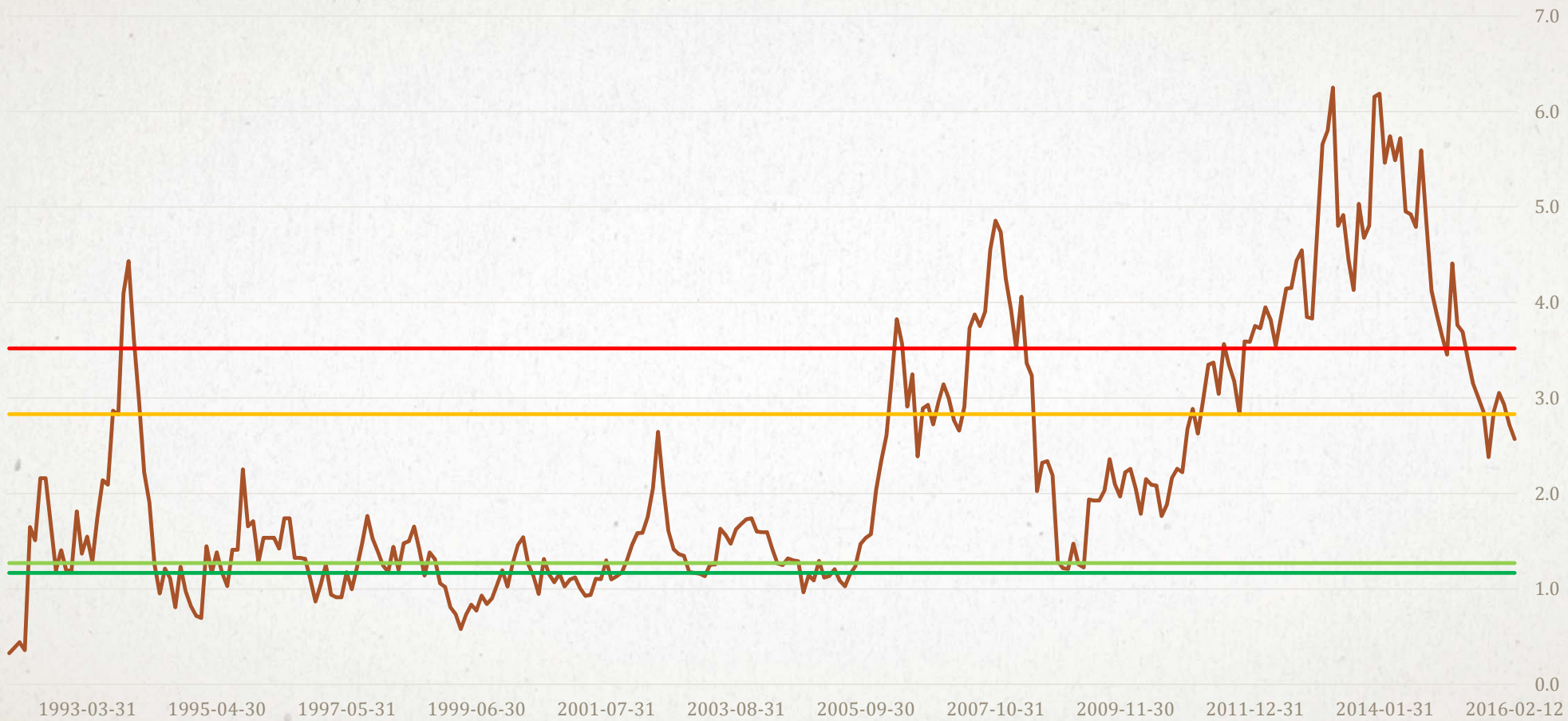


# PRICE/EARNINGS

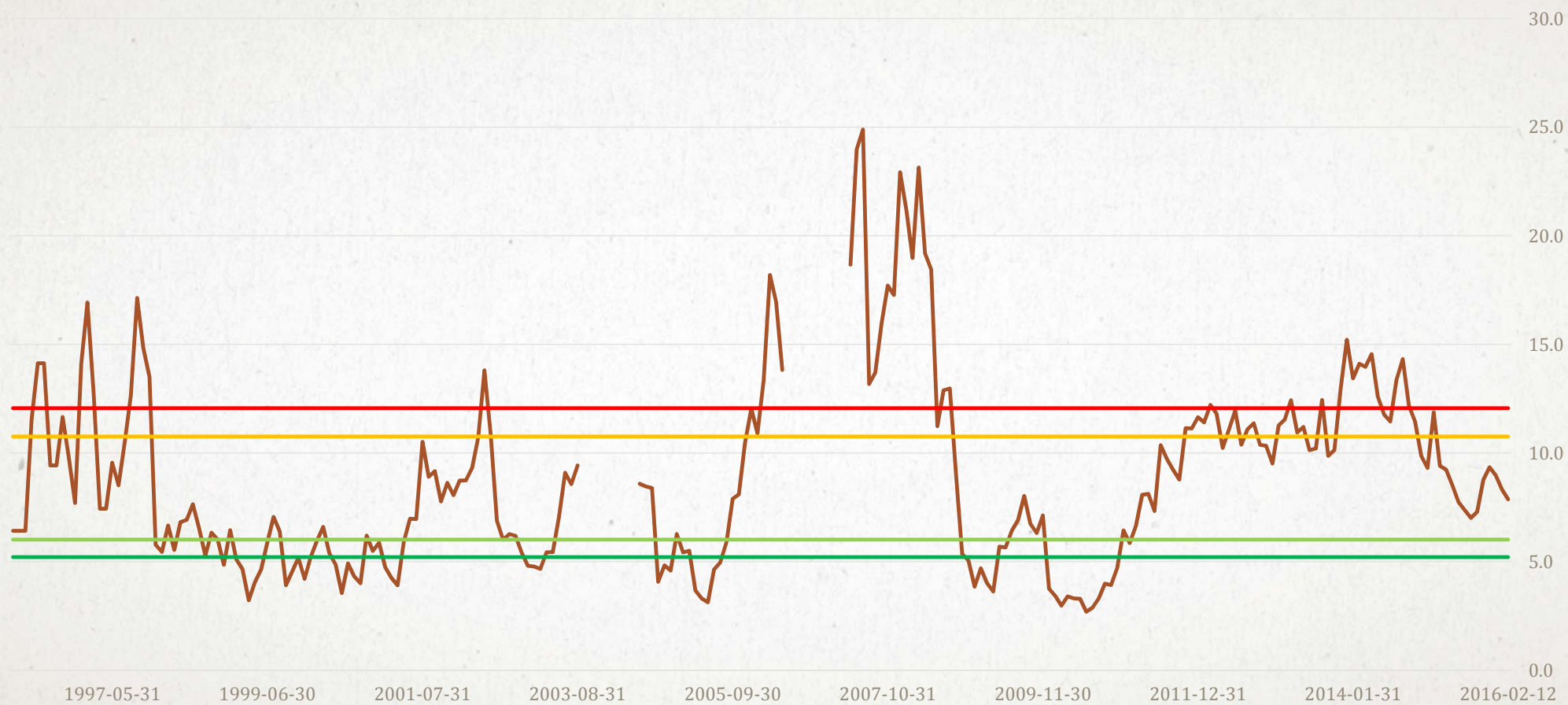




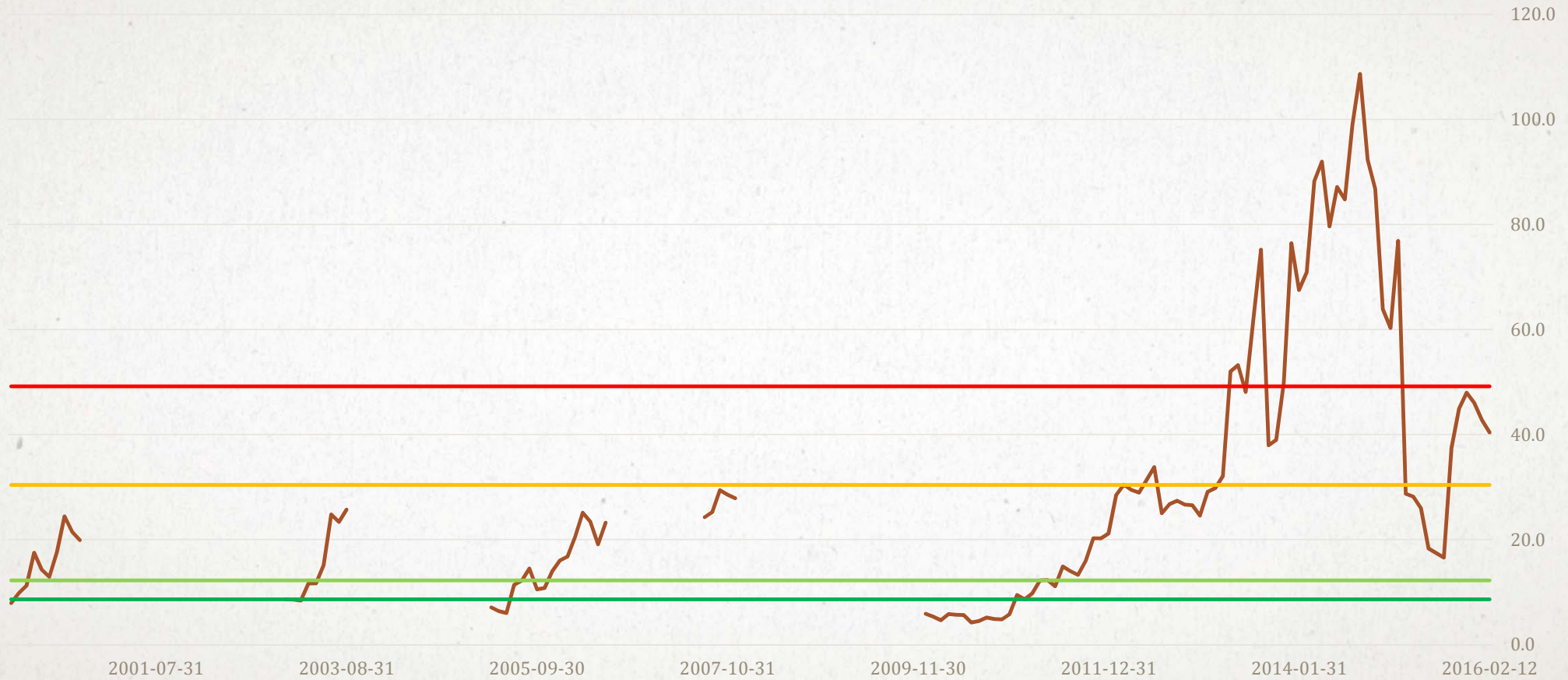
# PRICE/BOOK



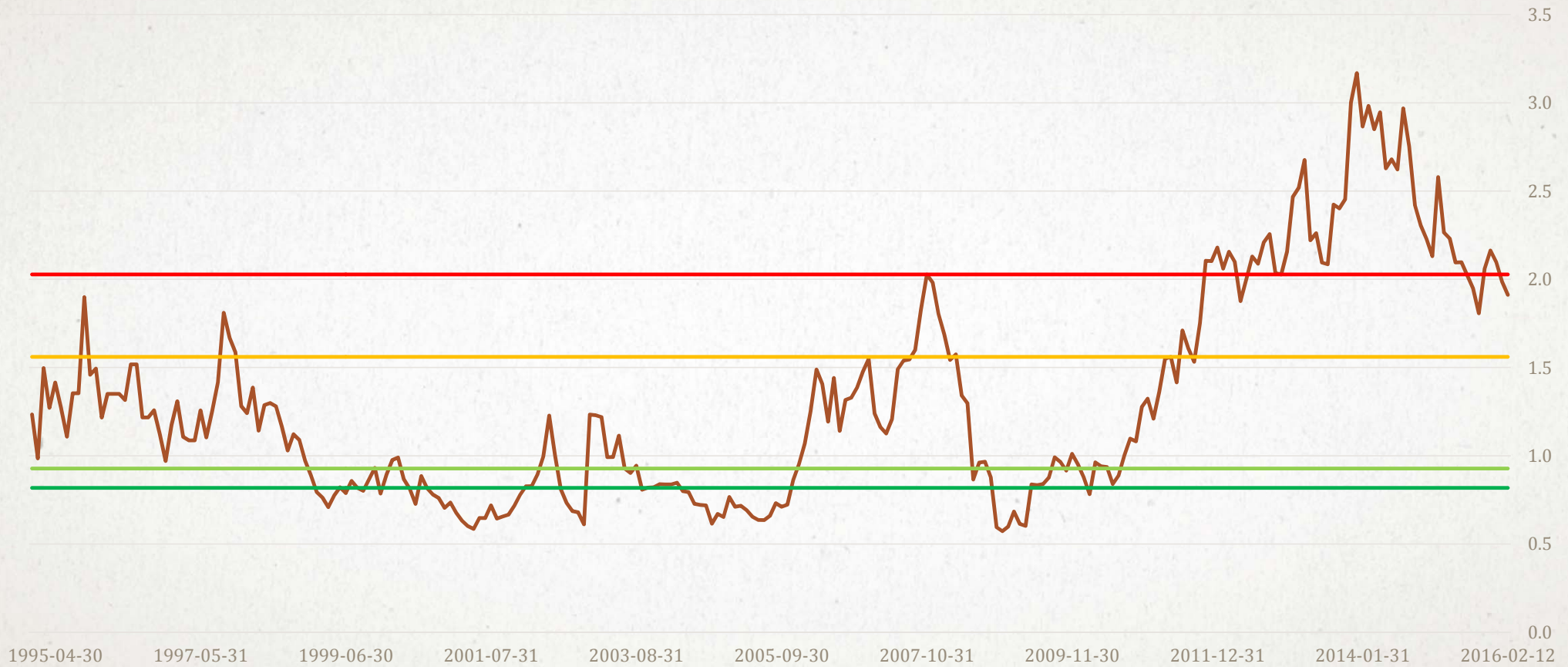
# PRICE/CASHFLOW



# PRICE/FREE-CASHFLOW



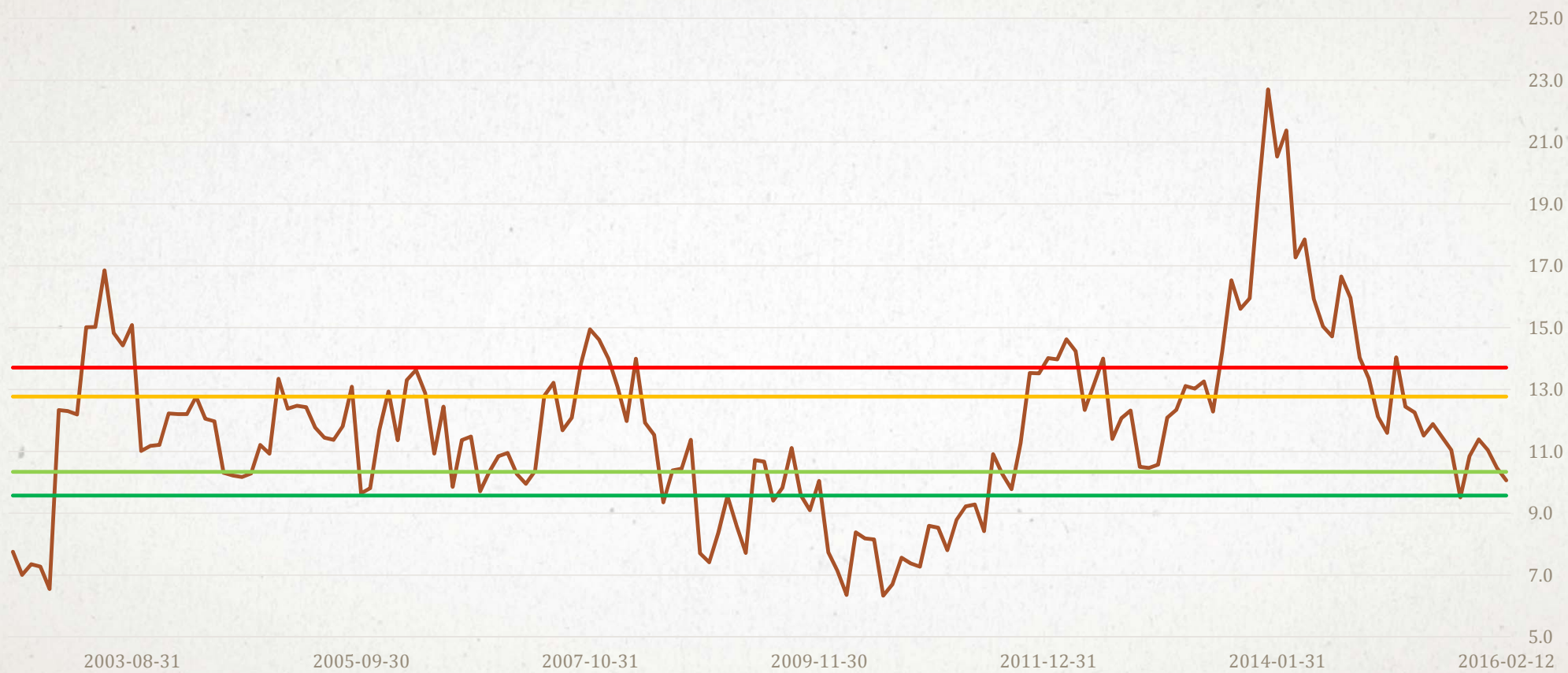
# ENTERPRISE VALUE/REVENUE



# ENTERPRISE VALUE/EBITDA



# ENTERPRISE VALUE/EBIT



# DUPONT ANALYSIS

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## DUPONT HISTORICAL

<b>AIRM</b>	<b>Net Profit Margin</b>	<b>Total Asset Turnover Ratio</b>	<b>Financial Leverage Multiplier</b>	<b>ROE</b>
<b>TTM</b>	10.1%	0.70	1.23	21.7%
<b>2014</b>	9.4%	0.74	1.37	22.6%
<b>2013</b>	18.7%	0.71	1.85	18.7%













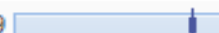
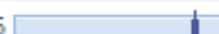
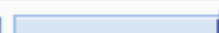
## DUPONT COMPETITORS

Company (TTM)	AIRM	PHII (Phi Inc)
Market Cap	1.45B	249.4M
Revenue	1.06B	828.2M
P/E	13.69	7.91
P/S	1.4	0.3
EV/EBIT	10.54	6.46
ROA	7.7%	2.26
ROE	21.7%	5.3%
Operating Margin	18.8%	9.81%
Net Margin	10.1%	3.9%






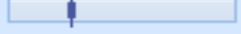



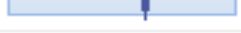
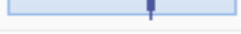
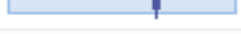
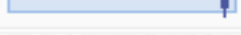
# INTRA-PORTFOLIO VALUATIONS

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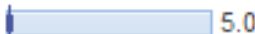

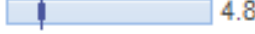
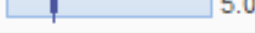
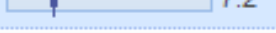
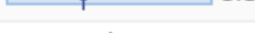

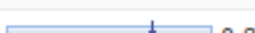
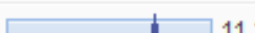



# 5 YEAR PRICE/ SALES

Ticker	▲ 5-Year Price / Sales Range	Price / Sales
▷ IBM	1.4  2.4	1.4
▷ QCOM	2.9  8.4	0.6
▷ NSRGY		0.9
▷ BBBY	0.6  1.9	1.1
▷ CMI	0.8  1.7	3.0
▷ CHRW	0.6  1.4	0.4
▷ AIRM	1.1  2.7	2.9
▷ WMT	0.4  0.6	1.4
▷ ORCL	3.6  5.4	4.2
▷ UNP	2.1  4.9	1.5
▷ BRK.B	1.1  2.0	0.7
▷ MSFT	2.9  5.1	2.2
▷ PEP	1.5  2.4	2.6
▷ AIG	0.1  1.5	4.6
		1.2

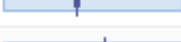
# 5 YEAR PRICE/ EARNINGS

	Ticker	▲ 5-Year Price / Earnings Range
▷	IBM	8.3  16.0
▷	NSRGY	
▷	BBBY	8.3  18.7
▷	UNP	11.9  24.0
▷	QCOM	12.4  27.4
▷	CMI	8.3  21.5
▷	AIRM	12.0  36.7
▷	ORCL	13.3  25.3
▷	WMT	11.0  19.0
▷	CHRW	13.9  33.5
▷	AIG	2.1  -
▷	PEP	15.1  30.7
▷	BRK.B	13.3  19.9
▷	MSFT	8.8  39.5


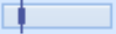



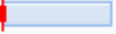
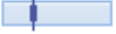


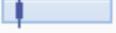
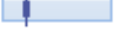
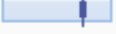
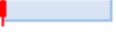
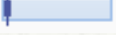
# 5 YEAR PRICE/ BOOK

Ticker	5-Year Price / Book Range
QCOM	2.2  4.3
NSRGY	
BBBY	2.7  5.0
IBM	8.0  14.5
CMI	1.9  4.8
ORCL	2.9  5.0
AIRM	2.3  7.2
WMT	2.3  3.8
BRK.B	1.0  1.6
UNP	2.1  5.1
AIG	0.4  0.8
CHRW	5.7  11.2
PEP	4.0  11.2
MSFT	3.1  5.8

# 5 YEAR PRICE /CASH FLOW

Ticker	▲ 5-Year Price / Cash Flow Range
AIRM	6.9  50.2
QCOM	11.8  34.0
NSRGY	
BBBY	6.1  15.0
IBM	6.7  12.8
CMI	7.5  24.4
CHRW	13.1  37.7
BRK.B	7.8  14.1
WMT	6.5  12.3
UNP	6.9  16.6
ORCL	9.6  19.0
PEP	11.1  16.6
MSFT	7.1  15.8
AIG	0.3  -

# PRICE

	Ticker	▲ Price	52-wk Range
▷	ORCL	\$34.84	\$33.13  \$45.24
▷	AIRM	\$36.92	\$32.81  \$54.98
▷	BBBY	\$42.19	\$41.26  \$78.76
▷	QCOM	\$43.00	\$42.83  \$74.09
▷	MSFT	\$49.69	\$39.72  \$56.85
▷	AIG	\$50.58	\$51.15  \$64.93
▷	WMT	\$65.32	\$56.30  \$87.41
▷	CHRW	\$68.83	\$59.71  \$76.18
▷	NSRGY	\$73.23	\$68.80  \$79.99
▷	UNP	\$75.54	\$67.06  \$124.52
▷	CMI	\$95.25	\$79.88  \$146.13
▷	PEP	\$96.90	\$76.48  \$103.44
▷	IBM	\$117.85	\$118.00  \$176.30
▷	BRK.B	\$124.92	\$123.55  \$150.51

# PEG



Ticker	Company	▲ PEG Forward
BRK.B	Berkshire Hathaway	-
AIRM	Air Methods	0.7
QCOM	Qualcomm	0.9
IBM	IBM	1.3
UNP	Union Pacific	1.5
BBBY	Bed Bath & Beyond	1.7
ORCL	Oracle	1.7
MSFT	Microsoft	1.9
CHRW	CH Robinson Worldwide	2.2
AIG	American International	2.5
PEP	PepsiCo	3.8
NSRGY	Nestle	5.0
CMI	Cummins	9.8
WMT	Wal-Mart Stores	16.4



# CONCLUSION

## CONCLUSION

- Largest provider of air medical services in the US
- Value is present in this company
- Only competitor in the business with all competencies
- Enjoys competitive advantage through size and scale
- Trading at a fair price but would be willing to wait for a more attractive price

## RECOMMENDATION

- Limit Order @ \$33.50

**Q/A**

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