



Group 5: Charles Collier, Jonathan Cooley, Alex Fitzke

RECOMMENDATION: HOLD

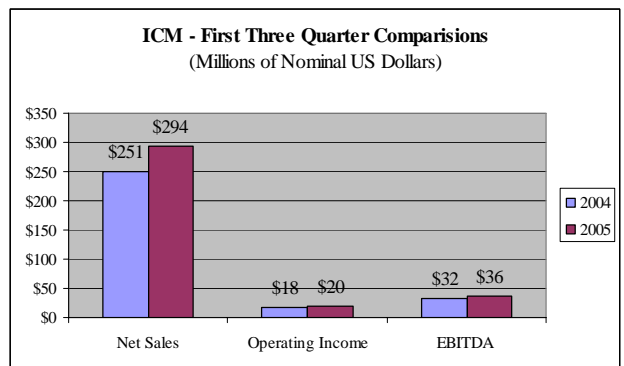
FUNDAMENTALS			
Price (11/06/05) ¹	\$1.41	Gross Margin	36%
Target Price	\$1.62	Market Cap. ¹	\$229M
Cash and Equiv.	\$7.4M	EV	\$346M
% of Portfolio ⁴	12%	Shares Outstanding	163M

Highlights:

- 2005 third quarter results show substantial growth, with EBITDA reaching a company high of \$13.9M.
- Over the past 52 weeks prices for natural gas, according to the AMEX natural gas index, have risen almost 14%. Natural gas prices and other energy costs are reason for concern.³
- Using a discount rate of 12%, we derived a target price of \$1.62. We currently feel that the APM position, 12% of its portfolio, is adequate and are recommending a hold.

Introduction

Interceramic showed impressive results in its first three quarters of 2005. Seen in the graph below, compared to 2004's first three quarters, the company had sales volume increase by 14.71%, operating income increase by 12.86% and EBITDA increase by 14.71%.



The sizeable growth seen in the chart above, we feel, is due in part to Interceramic's successful expansion into new markets, which include both Mexico and the United States, and the new tile floor factory which recently opened in Mexico and is currently running at full capacity.

Growth and Risk

The damage done by Hurricane Katrina is estimated to cost between \$70 and \$130 billion; these estimates make Hurricane Katrina the most expensive natural disaster in U.S. history. As the rebuilding begins, the flooring industry should see

increased growth, especially in New Orleans, where damage to flooring was the worst, due to the flooding. We are projecting Interceramic sales in Q4 and fiscal 2005 to growth at 7% and 20% respectfully; based on the assumption of continued successful expansions and increased demand from the recent destruction caused by the hurricanes. Concerning risks, we feel that raising natural gas prices and increasing transportation costs will hurt the company's bottom line. We have therefore increased our operating expense estimates for fiscal 2005 to 28.8% of revenue.

Valuation

ICM – DCF Derived Fair Market Value Matrix (in \$ Thousands)

FCF Growth Rate	1%	2%	3%
PV of FCF (2004)	19,990	19,990	19,990
PV of FCF ('05E-'10E)	\$179,239	\$179,239	\$179,239
PV of Terminal Value	\$157,867	\$173,654	\$192,949
Aggregate Value	\$247,508	\$263,295	\$282,589
Aggregate value per share	\$1.52	\$1.62	\$1.74

We have set our discount rate at 12% and in using an EBITDA multiple of 6.09, derived a target price of \$1.62. Furthermore, in order to place significance on our EBITDA multiples, we conducted an EBITDA valuation of Mohawk Industry's acquisition of Dal-Tile International in late November 2001. From that, we found that Mohawk had acquired Dal-Tile at an EBITDA multiple of 8.60 and are assuming the multiple of 8.60 to be the textile industry standard. With that, we currently feel that Interceramic is undervalued due to the company's low EBITDA multiple, in comparison to industry standards. In conclusion we feel that Interceramic, at its current price of \$1.41, is approximately undervalued by 14.8%. But feel that the company has enough weight on the APM Portfolio, as Interceramic currently holds a 12% position, and are recommending a hold.

For a more detailed view of our valuations, please refer to the corresponding appendices:

- A1: Interceramic - EBITDA Valuation Model
- A2: Dal-Tile International - EBITDA Takeover Valuation Model
- A3: Interceramic - Condensed DCF Valuation Model

References

1. Interceramic Website, Accessed 11/05/05 at 2:45 p.m., <http://www.interceramicusa.com/us/en/>
2. Dal-Tile International SEC 2001 10-Q Filing, Filed 11//01, <http://www.sec.gov/cgi-bin/browse-edgar?company=dal+tile&CIK=&filenum=&State=&SIC=&owner=include&action=getcompany>
3. Yahoo Finance, Accessed 10/23/05 at 5:00 p.m., <http://finance.yahoo.com>
4. KU Applied Portfolio Management Website, Accessed 11/07/05 at 3:44 p.m., <http://www2.business.ku.edu/apm/portfolio/portfoliotyped.shtml>

Internacional de Cerámica - EBITDA Valuation Model (in thousands nominal US dollars)

Income Statement Projections	Years Ended December 31,										
	2004Q1	2004Q2	2004Q3	2004Q4E	2004E	2005Q1	2005Q2	2005Q3	2005Q4E	2005E	2006E
Total Revenues	76,561	84,778	89,409	-	-	88,867	99,725	105,263	112,631	406,486	548,757
COGS	50,675	53,025	56,783	-	-	57,311	63,701	67,561	73,210	261,783	356,692
Gross Profits	25,885	31,753	32,627	-	-	31,556	36,024	37,702	39,421	144,703	192,065
Sales and Administrative	21,542	25,108	25,312	-	-	27,058	28,954	29,447	31,537	116,996	153,652
Total Operating Expenses	21,542	25,108	25,312	-	-	27,058	28,954	29,447	31,537	116,996	153,652
Operating Income	4,344	6,645	7,314	9,040	27,343	4,498	7,070	8,255	7,884	27,707	38,413
Dep.& Amortization	4,251	4,437	4,459	4,500	17,647	5,028	5,720	5,672	5,700	22,120	24,000
EBITDA	8,595	11,082	11,773	13,540	44,990	9,526	12,790	13,927	13,584	49,827	62,413

Operating Assumptions	2004Q1	2004Q2	2004Q3	2004Q4E	2004E	2005Q1	2005Q2	2005Q3	2005Q4E	2005E	2006E
Revenue Growth	-	10.7%	5.5%	-	-	-	12.2%	5.6%	7.0%	33.0%	35.0%
Gross Margins	33.8%	37.5%	36.5%	-	-	35.5%	36.1%	35.8%	35.0%	35.6%	35.0%
Operating Expenses as % of Rev.	28.1%	29.6%	28.3%	-	-	30.4%	29.0%	28.0%	28.0%	28.8%	28.0%
EBITDA Growth	-	28.9%	6.2%	15.0%	-	-29.6%	34.3%	8.9%	-2.5%	10.8%	25.3%

DCF Derived Fair Market Value	\$263,294
Plus:	
Total Debt	\$117,012
Total Value	\$380,306
EBITDA 2006E	\$62,413
EBITDA Multiple	6.09
Diluted Shares Outstanding	162,664
Fair Market Value/Share	\$1.62

Current Price	\$1.41
Undervalued by	14.8%

Actual Market Value	\$229,356
Plus:	
Total Debt	\$117,012
Total Value	\$346,368
EBITDA 2006E	\$62,413
EBITDA Multiple	5.55
Diluted Shares Outstanding	162,664
Actual Market Value/Share	\$1.41

Dal-Tile International - EBITDA Takeover Valuation Model (in thousands)

Income Statement Projections		Years Ended December 29,						
	1999	2000	2001Q1	2001Q2	2001Q3	2001Q4E	2001E	2002E
Total Revenues	850,568	952,156	245,590	263,380	269,016	269,702	1,047,688	1,173,410
COGS	440,514	497,933	128,596	138,731	143,466	142,942	553,735	621,907
Gross Profits	410,054	454,223	116,994	124,649	125,550	126,760	493,953	551,503
Total Operating Expense	295,576	317,160	83,244	87,098	86,085	86,305	342,732	375,491
Operating Income	114,478	137,063	33,750	37,551	39,465	86,305	151,221	176,012
Dep.& Amortization	16,032	16,938	3,910	4,080	4,420	4,590	17,000	17,000
EBITDA	130,510	154,001	37,660	41,631	43,885	90,895	168,221	193,012

Operating Assumptions	1999	2000	2001Q1	2001Q2	2001Q3	2001Q4E	2001E	2002E
Revenue Growth	-	11.9%	-	7.2%	2.1%	4.0%	10.0%	12.0%
Gross Margins	48.2%	47.7%	47.6%	47.3%	46.7%	47.0%	47.1%	47.0%
Operating Expenses as % of Rev.	34.8%	33.3%	33.9%	33.1%	32.0%	32.0%	32.7%	32.0%
EBITDA Growth	-	18.0%	-	10.5%	5.4%	8.0%	9.2%	14.7%

Aquired for(including Debt)	\$1,660,000
EBITDA 2002E	\$193,012
EBITDA Multiple	8.60

Internacional de Cerámica - Condensed DCF Valuation Model (in thousands nominal US dollars)

Income Statement Projections	Years Ended December 31,						
	n=	1	2	3	4	5	6
	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Total Revenues	-	406,486	495,913	619,891	805,858	1,023,440	1,023,440
COGS	-	261,783	322,343	402,929	523,808	665,236	665,236
Gross Profits	-	144,703	173,570	216,962	282,050	358,204	358,204
Sales and Administrative	-	116,996	138,856	173,570	225,640	296,798	296,798
Total Operating Expenses	-	116,996	138,856	173,570	225,640	296,798	296,798
Operating Income	27,343	27,707	34,714	43,392	56,410	61,406	61,406
Dep.& Amortization	17,647	22,120	24,000	24,000	24,000	24,000	24,000
EBITDA	44,990	49,827	58,714	67,392	80,410	85,406	85,406
Taxes	5000	4,628	5000	5000	5000	5000	5000
Interest Expense	10000	10,453	10000	10000	10000	10000	10000
Capital Expenditures	10000	10000	10000	10000	10000	10000	10000
Free Cash Flow	19,990	24,746	33,714	42,392	55,410	60,406	60,406
PV of Free Cash Flow	19,990	22,095	26,877	30,174	35,214	34,276	30,604
PV of Terminal Value							173,654

PV of FCFs	\$199,229
PV of Terminal Value	\$173,654
Total Value	\$372,883
Less:	
Total Debt	\$117,012
Plus:	
Cash	\$7,423
Total Fair Market Value	\$263,294
Diluted Shares Outstanding	162,664
Fair Market Value/Share	\$1.62

WACC	12.0%
Long Term Growth Rate	2.0%

Operating Assumptions	2005E	2006E	2007E	2008E	2009E	2010E
Revenue Growth	20.0%	22.0%	25.0%	30.0%	27.0%	0.0%
Gross Margins	35.6%	35.0%	35.0%	35.0%	35.0%	35.0%
Operating Expenses as % of Rev.	28.8%	28.0%	28.0%	28.0%	29.0%	29.0%