Macroeconomic Overview

U.S. Markets

Index	Weekly % Change	YTD % Change
S&P 500	-3.79%	-2.26%
Dow Jones Industrial	-3.26%	-3.13%
NASDAQ Composite	-4.06%	+4.17%
Russell 2000	-5.05%	-6.73%
VIX	+64.69%	+27.03%

Last week was very tough on stocks, as further declines in the price of oil sent energy stocks tumbling, triggering a broader selloff in the market and a massive spike in volatility. U.S stocks had their worst week since late August, and both the S&P 500 and Dow Jones Industrial Average turned negative for the year after logging losses of 3.79% and 3.26% respectively. Small caps, being naturally more volatile, got hit even harder, causing the Russell 2000 to plunge 2.21% on Friday alone, bringing its loss for the week to -5.05%. The NASDAQ was not spared by the selloff, and despite losing 4.06% last week the index is the only U.S benchmark that is still positive year-to-date. The selling pressure was continuous during the week, and immediately started on Monday when crude oil fell to levels not seen since the financial crisis. The commodity logged its worst week in a year, with the price of a barrel dropping more than 10% over the course of five days. The price of WTI crude, the U.S benchmark, fell 10.88% to settle at $35.62 while the international standard Brent fell 11.79% to close below $38. The selling pressure in equity markets caused a spike in volatility, as measured by the VIX which skyrocketed 64.69%, including a 26.115 jump on Friday. Despite the selloff in equities, the price of gold barely budged last week, and the precious metal lost 1.07% through Friday. Like most commodities, silver also finished the week sharply lower, and closed below $14 for the third time in three weeks after losing 4.33% last week. The stock market slowdown does not seem to be enough to put a dent in M&A activity, which hit a record last week after the value of proposed deals surpassed $4.3 trillion. Last week's biggest announcement came from Dow Chemical (DOW), which announced its plans to acquire its competitor DuPont (DD) for $65.59 billion, and to split-up the resulting entity into three separate publicly-traded companies. According to the companies, the merger should generate north of $3 billion in cost savings, and it will also bring satisfaction to activist investors who had been calling for a similar deal. Next week is supposed to leave its mark in history, with the FOMC meeting that should result in the first interest rate hike in the U.S in over a decade due to start on Tuesday. The Committee will announce its conclusions on Wednesday at 2 PM, and investors expect the Fed Funds rate to rise to 0.375%. The weekly jobless claims report will be released on Thursday, and is expected to show a decline in new claims to 270,000, after last week's unexpected spike that led in the highest figure since July.

S&P 500, DJIA, NASDAQ Composite, Russell 2000 5-day chart.

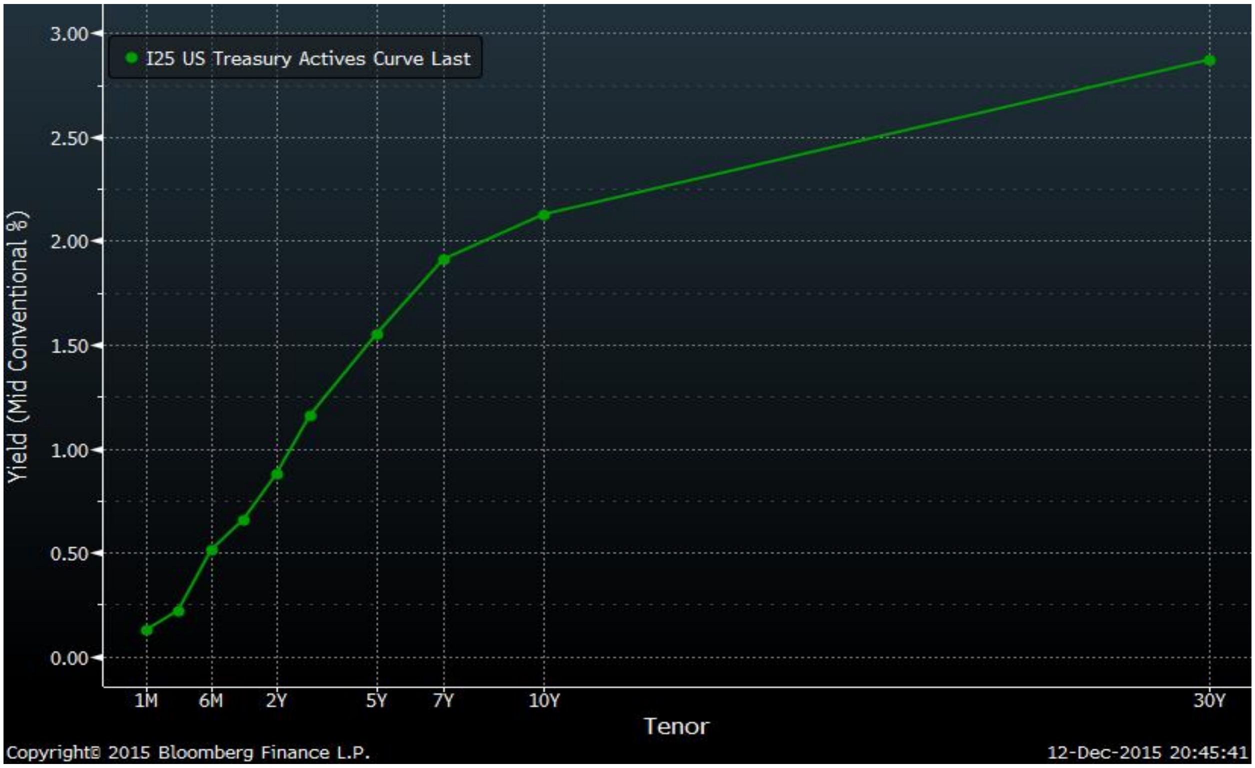
International Markets

Index	Weekly % Change	YTD % Change
BE 500	-3.96%	+2.96%
Stoxx Europe 600	-3.99%	+3.87%
DAX	-3.83%	+5.45%
FTSE 100	-4.58%	-9.34%
CAC 40	-3.5%	+6.48%
Nikkei 225	-1.4%	+10.2%
Shanghai Composite	-2.56%	+6.18%
Shenzhen Composite	-1.67%	+55.16%

International equity markets were equally hit by the slump in oil prices, which also triggered a broad selloff in Europe and Asia. France's CAC 40 lost 3.5% after the Bank of France cut fourth quarter GDP forecasts citing a decrease in tourism after the Paris attacks. Germany's DAX posted a 3.83% decrease, while the FTSE 100 fell 4.58%, dragged down by weak retail sales data for November. The broader Stoxx Europe 600 and Bloomberg European 500 fell 3.99% and 3.96% respectively, and are now only up a few percentage oints for the year. In Asia, Japanese stocks also finished the week lower, but the decline was less considerable. The Nikkei 225 lost 263 points or 1.4%, as a rally on Friday helped offset originally bigger losses. China was in the news again last week, after it let its currency devaluate to a four-year low on Tuesday. However, Chinese equity markets were still hit by the global selloff, and the Shanghai and Shenzhen Composite indices lost 2.56% and 1.67% respectively.

Bond Report

This Week, The US Treasury yields kept following last week's trends until Friday where they reached their lowest level since October because of the continuing plunging of crude-oil. There was an increase of defaults and downgrades, lastly seen in 2009, which threaten U.S. stocks leading investors toward safer assets such as government bonds. On Tuesday, treasury prices slightly increased since investors were escaping the energy sector, one again because of the collapse of oil prices, even if the hike of interest rate remain very likely. On Thursday, U.S. Treasury yields climbed to their highest level this week as investors perceive the rate hike as elevated. Economic data revealed on Thursday did not met analysts' expectations but were still considered as strong enough to see a rate hike. Analysts said that the labor market is in solid shape and that it is expected to continue this way. This day, crude-oil prices drop to $37 per barrel, its lowest level since the Great Recession. This should have pushed yields lower, however a stock market rally stopped a three day decline which led investors to sell their government bond to invest in riskier assets. On Friday, as I said, the continuing plunging of crude-oil led investors to sell their risky assets in favour or Treasury notes. The CME Group's FedWatch Tool calculated the probability of a rate hike at 79% this Friday. Overall, the 10-year Treasury yield lost 13.5 bps this week and 10 bps just on Friday to finish the week at 2.13% from 2.28% the week before. The 2-year Treasury note lost 5.2 bps and finish the week at 0.90% from 0.95% the week before. Among longer maturities, the 30-year Treasury note lost 12.9 bps over the week, 9.5 bps just on Friday to finish the week at 2.88% compare to 3.01% one week ago.



What's next and key earnings

On Tuesday December 15th, the Consumer Price Index will be released. On October, we observed an increase year-on-year rate of 1.9%. In this report, we should see things unchanged at the headline level and a small increase of 0.2% at the core level. Later this day, the Housing Market Index will be released. The housing market index has been solid for the report of November and we should see an increase of 1 point for December to a consensus of 63 from 62 in November.

On Wednesday December 16th the big event is going to be the FOMC meeting. We are expected to see the first rate hike of the recovery. It is expected to see a lift in FED funds rates to 0.375%. The FED is also going to share its forecast about the economy (GDP, PCE price index and the labor market). The FED chair Press Conference will follow the meeting and will discuss about the latest quarterly economic projections.

On Thursday, December 17th, the Jobless Claims report will be released. It is true that we saw an increase in the December 5 week, to 282,000 which was its highest level since July, however, levels are remaining very low. The analysts are expected a consensus of 270,000 for this report which is a decrease of 12,000.

Analogic Corporation

NasdaqGS:ALOG

Analyst: Coralie Cornern
Sector: Healthcare

BUY

Price Target: $88.50

Key Statistics as of 12/11/2015

Market Price:	$82.19
Industry:	Medical Laboratories & Research
Market Cap:	$1.04M
52-Week Range:	$73.55-$92.31
Beta:	0.6

Thesis Points:

- Strong financial position, 100% equity composition
- Growing revenues with operating margin expansion
- Over reaction to preliminary FQ1 results

Company Description:

Analogic Corporation designs, manufactures, and commercializes leading-edge real-time guidance, diagnostic imaging and threat detection technologies. The company operates and reports along three business segments: Ultrasound, Medical Imaging, and Security Technology. The Ultrasound business is a market leader in ultrasound guidance systems for the urology and surgery markets and is expanding into point of care areas such as anesthesia and emergency medicine. The firm sells its ultrasound products through a direct sales force in North America and Europe, as well as through a network of distributors to clinical practitioners throughout the world. The Medical Imaging segment provides critical enabling medical imaging systems and subsystems for computed tomography (CT), magnetic resonance imaging (MRI) and high-resolution digital mammography systems. Analogic Corporation's Medical Imaging products are primarily sold through longstanding relationships with multinational medical OEMs and new entrants in emerging markets. The Security Technology segment designs and manufactures automated threat detection systems for aviation baggage inspection applications utilizing advanced CT technology. Security products are sold primarily through multinational OEM partners. The company was founded in 1967 and is headquartered just north of Boston in Peabody, Massachusetts.

Thesis

Analogic Corporation is a Medical Laboratories and research company, which holds a very strong and diversified portfolio of products. They operates in three different segments, Medical Imaging, Ultrasound and Security and Detection.

The company is in a very strong financial position. They do not carry any long term debt and their strategy of margin expansion is already being successful. The company manages to grow sales year on year while expanding net operating margin and generating cash flow, therefore creating value. The preliminary FQ1 results announcement made the stock price drop on November 18th, which created a new opportunity to buy the undervalued stock. Management recently announced Analogic would repurchase $5 million worth of stocks which further show the stock undervaluation.

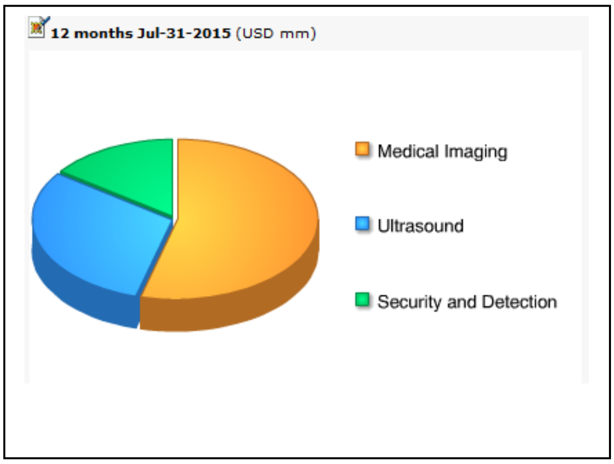
A buy of Analogic Corporation is therefore recommended with a one-year target price of $88.50. Currently trading at $82.19, it has an upside potential of 8.15%.

Products

Analogic Corporation operates in three different segments: Medical Imaging, Ultrasound and Security and detection.

Analogic Corp. is a leader in the design and manufacture of CT (computed tomography) systems and sub systems. The company also produces magnetic resonance imaging (MRI) as well as 2D and 3D mammography detectors. The CT portfolio includes X-ray converters that convert x-ray energy into CT signals, and DMS (detectors that permits to recreate the 3D images), as well as full integrated CT systems.

The firm also manufactures ultrasound used in the urology, surgery and point of care markets. The ultrasound segment also include some sub systems such as ultrasound probes. The last segment is Security and Detection. This segment manufactures airport checked baggage screening systems as well as DNA analysis systems. Those systems are sold to two main OEM customers, L-3 Communications and Smiths Detection and installed in airports across the United States and the rest of the world. Medical imaging accounts for 54% of revenue, Ultrasound for 31% and Security and Detection for 15% as per shown in the below graph.



Analog Corporation announced on November 30th the release of its newest ultrasound system, the bk5000. The system will be used by surgeons during operations, and will enable them to get anatomical details needed during the procedure without any user intervention.

Analogic Corporation is currently selling about 40% of its product in the US, while the rest of the revenues come from Japan, Germany, the Netherlands (each of them about 11%) and the remaining proportion from other locations including most of the European countries, North Africa, Latin-America, Southeast Asia and Oceania. The company is willing to further expand in China, and announced in September this year the installation of more than 50 CT platforms all over China.

Porter's Five Forces

The bargaining power of suppliers can be classified as relatively low. Most of the products are manufactured using internally designed components. Moreover, the elements that Analogic Corporation need to buy from third parties are available from more than one source, which makes it fairly easy to switch supplier.

The bargaining power of customers is medium. Analogic's customers often require special customization for their product, so it is unlikely that those customers, especially in the healthcare sector switch to different producers. A risk though exist in the security segment, especially today, where if one of the company's products is found to be malfunctioning, resulting in breach of airport security, it could lead customers to completely stop their relationship with Analogic and in a drop in stock price.

The intensity of existing rivalry is medium. There are not many existing competitors in the medical imaging segment, and Analogic Corporation's products are customized for the need of customers. The downside is that the company's products carry a higher price compared to similar products manufactured by competitors.

The threat of substitutes is low as customers cannot easily find other products that would meet their need. It impossible for customers to find similar systems or sub systems, either in security, medical imaging or ultrasound that could be used as substitutes in CT, MRI or airports baggage security systems.

The threat of new competitors is low. The barriers to entry are high. Analogic is already selling its products worldwide and own patents on its technologies. The technologies Analogic Corporation created and is now manufacturing are advanced and the learning curve and capital needed is high.

Growth strategy and initiatives

While pursuing its strategy of expanding ultrasound and medical imaging in China, Analogic Corporations is willing to change its product mix to focus on Security and Detection segment, as it is the segment that generate the best operating profit. Currently, the operating margin for this segment is 17% (up 6 percentage point from the same period last year). The operating margin could have been even higher but has been offset by two percentage points due to late shipment of some DNA testing systems in the last quarter of 2015 that were not recognized as revenue. To support its strategy and the increasing demand in this fast growing market, the company announced it will transfer some production facilities to Shanghai. By transferring a small part of the Medical imaging segment production to Shanghai, the company is expecting saving of approximately $4 million in fiscal 2016, and $9 million in fiscal 2017. These projected savings enabled Analogic to invest in Research and Development targeting the Security and Detection segment.

Concerning the strategy in the US, Analogic Corporation is expecting to generate revenue from the FBI and law enforcement side of the US government by selling Rapid DNA systems. The Opportunity for rapid DNA revenue growth is huge. Indeed, a conventional DNA analysis takes at the minimum several days, and can take up to weeks depending on the systems, and on the expertise of the people analyzing the profiles. Analogic's rapid DNA systems can create a DNA profile in about 84 minutes, without the need of highly skilled employees. The FBI would use those systems for testing and fingerprinting but the system need to be tested and approved first. Jim Green, the company CEO said he was expecting the end of the testing cycle in the next calendar year. The approval of the product should lead to state government and even foreign countries to purchase the rapid DNA system.

Analogic corporation is also aiming at growing its market share in Europe and middle East as well as in the Asia Pacific area as a whole. While the demand is steady in North America, Europe and Middle East benefit from an increasing momentum.

Financials and Valuation

FY 2015 has been profitable for Analogic Corporation. The company managed to grow revenues 4% compared to FY 2014, or 6% on a constant currency basis. This 6% increase was driven by a growth in Ultrasounds and Security and Detection segment. Those two segments yield better margin and therefore enable the firm to expand its operating margin. By improving the product mix, management is committed to expand the margin and was successful at doing it. The first quarter of fiscal 2016 was slightly weaker in terms of sales that last year first quarter, but still, Analogic managed to increase operating margin almost in each segment (Medical imaging, Security and Detection) although sales were decreasing. Analogic Corporation operating margin is currently at 8%, better than six out of seven of Analogic direct competitors.

ALOG managed to increase its cash balance to $124 million by the end of FY 2015, which results in the company having more cash than its total liabilities of $97 million the same year. Having such a great amount of cash on hand shows the company has healthy financials and that it can sustain itself in case of any unpredictable event that could harm the company. The last earnings call happened on the 8th of December and the CFO mentioned that the operating cash flow went up to $131 million, and that $5 million were allocated to stock repurchase, creating value for the shareholders but also showing that management believe in the current undervaluation of ALOG.

Analogic Corporation, as opposed to the entire competition, does not currently carry any long term debt, and therefore no financial risk. A company composed of one hundred percent equity is very attractive, especially when the company is managing its cash so well.

On November 18th, Analogic released a statement and lowered its guidance for Q1 2016. The news caused a 12% drop in stock price, which further compound the undervaluation.

The first quarter of FY 2016 has seen very slight decrease in sales, mainly due to unfavorable currency rates as the dollars has been strengthening and the euro weakening. Nevertheless the company manage to generate strong operating leverage with consistent cash generation and operating margin expansion.

The valuation of Analogic Corporation is based on a proforma that values the company with a discounted cash flow model and focus on the company's return on Equity. A summary of the outputs of the valuation is attached to this report and can be found on the last page. When valuing Analogic Corporation, a slow decay growth rate has been utilized to determine the speed of reversion toward long term stability. The intrinsic value of the firm is quite sensitive to the risk premium. A 2% premium has been added to the United States' risk premium of 5.5%. The premium has been added mainly due to the fact that the company is selling in China (the large majority of sales are generated from the US and Europe though). The operating margin has been set to decrease a slight 1%, as the firm will probably maintain its margin expansion strategy.

Following the proforma assumptions ALOG's intrinsic value is $90.6 with a one year target price of $88.50, which represent an 8.15% upside potential.

Summary

Analogic Corporation is a business focused on growth. The company has a strong balance sheet, a robust product pipeline and an experienced management team enabling revenue growth and operating margin expansion together with consistent cash flows. Analogic Corporation appears to be the 'best in class' in terms of product portfolio but also in terms of financial health and efficiency, which makes it a good investment opportunity.

Sources:

- Analogical Corporation 10-K
- Capital IQ
- Bloomberg

CENTER FOR GLOBAL FINANCIAL STUDIES

Analogic Corporation	ALOG	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	1-y Return: 8.15%	NEUTRAL
		Coralie Cornern	$82.19	$90.60	$88.50	0%		

General Info

Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	December 8, 2015
Next earnings date	March 9, 2016

Market Data

Enterprise value	$889.39
Market Capitalization	$1,019.89
Daily volume	0.08
Shares outstanding	12.41
Diluted shares outstanding	12.62
% shares held by institutions	106.42%
% shares held by insiders	1.11%
Short interest	7.48%
Days to cover short interest	9.07
52 week high	$92.31
52-week low	$75.47
5y Beta	0.93
6-month volatility	28.50%

Peers	Market Cap.
Newport Corp.	$606.43
AngioDynamics Inc.	$437.18
Greatbatch, Inc.	$1,741.75
Universal Electronics Inc.	$724.52
Key Tronic Corp.	$81.62
Sparton Corp.	$186.03
Ducommun Inc.	$172.23

Current Capital Structure

Total debt/Common Equity (LTM)	0.02
Cost of Borrowing (LTM)	0.00%
Estimated Cost of new Borrowing	2.63%
Altman's Z	9.23
Estimated Debt Rating	AAA
Current levered Beta	-0.06
LTM WACC	6.72%

Management

Professional	Title	Comp. FY2013	Comp. FY2014	Comp. FY2015
Green, James	Chief Executive Officer, President and Directo	$4,268,956	$2,604,653	$3,055,142
Ryan, James	Senior Vice President and General Manager of	$0	$0	$886,996
Fry, John	Senior Vice President, General Counsel and S	$1,095,970	$930,862	$1,115,022
Faltas, Mervat	Senior Vice President and General Manager of	$899,562	$833,115	$1,019,568
Bourque, Michael	Vice President and Corporate Controller	$0	$0	$395,979
Frost, Mark	Chief Financial Officer, Senior Vice President a	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	-0.04%	0.00%	0.00%	0.01%
Last Quarter-1	2.69%	11.38%	3.23%	2.81%
Last Quarter -2	0.57%	-3.91%	8.08%	3.50%
Last Quarter -3	-2.65%	21.16%	22.73%	8.21%
Last Quarter -4	-0.29%	30.65%	75.00%	21.85%
Standard error	0.9%	6.4%	13.9%	5.29%
Standard Error of Revenues prediction	0.9%			
Imputed Standard Error of Op. Cost prediction	6.4%			
Imputed Standard Error of Non Op. Cost predictio	12.3%			

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (75th Percentile), Bargaining Power of Customers (71th Percentile), Intensity of Existing Rivalry (67th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (83th Percentile), and Overall (90th Percentile).

Proforma Assumptions

Convergence Assumptions

All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years

General Assumptions

Money market rate (as of today)	0.49%
Risk-Free rate (long term estimate)	2.98%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	37.5%
Country Risk Premium	7.5%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$536.92
FY2016	1.9%	$547.23
FY2017	6.3%	$581.67
FY2018	5.9%	$616.14
FY2019	5.6%	$650.40
FY2020	5.2%	$684.19
FY2021	4.8%	$717.23
FY2022	4.5%	$749.24
FY2023	4.1%	$779.94
FY2024	3.7%	$809.04
FY2025	3.4%	$836.27
Continuing Period	3.0%	$861.36

Items' Forecast Assumptions

	Base year (LTM)	Convergence period (Sub-industry)	Adjustment per year
Operating Cash/Rev.	0.00%	0.00%	0.0%
NWV/Rev.	36.42%	20.67%	-1.6%
NPPE/Rev.	19.61%	19.30%	0.0%
Dpr/NPPE	13.68%	21.30%	0.8%
NET MARGIN	11.03%	7.20%	-0.4%
Op. Exp./Rev.	86.11%	85.00%	-0.1%
SBC/Rev.	2.00%	1.64%	0.0%
Rent Exp./Rev.	0.43%	0.91%	0.0%
R&D/Rev.	13.73%	8.00%	-0.6%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	20.87%	30.78%	1.0%
ROE	8%	14.06%	0.61%
P/E	18.40x	11.22x	-0.72x
P/BV	1.37x	1.58x	0.02x
Debt/Equity	2%	64%	6.2%
Unlevered beta	-0.06	0.77	0.08
Dividends/REV	1%	3%	0.2%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Money market rate
Other claims on the firm's assets	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus

DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions

Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (7.275%, 7.5%, 7.725%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value $\sigma(\varepsilon)$	$0.30
1-year target price $\sigma(\varepsilon)$	$0.30

Valuation

Forecast Year	ROE	Ke	Common Equity	Implied Equity Value	Other Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share
LTM	8.0%	2.6%	$793.41	$1,256.98	$28.83	12.41	$90.85
FY2016	8.5%	3.3%	$815.06	$1,252.69	$27.63	12.41	$88.64
FY2017	8.7%	4.0%	$852.24	$1,268.89	$26.84	12.41	$87.42
FY2018	8.7%	4.7%	$887.43	$1,289.66	$25.76	12.41	$86.58
FY2019	8.7%	5.5%	$920.80	$1,316.00	$24.24	12.41	$86.12
FY2020	8.7%	6.2%	$952.34	$1,348.81	$22.09	12.41	$86.09
FY2021	8.7%	6.9%	$981.93	$1,389.07	$15.97	12.41	$86.66
FY2022	8.7%	7.7%	$1,009.41	$1,437.95	$16.35	12.41	$87.45
FY2023	8.6%	8.4%	$1,034.61	$1,496.88	$16.66	12.41	$88.78
FY2024	8.6%	9.2%	$1,057.35	$1,567.63	$0.00	12.41	$90.75
FY2025	8.6%	9.9%	$1,077.50	$1,652.45	$0.00	12.41	$95.03
Continuing Period	14.1%	10.0%	$950.00				

Monte Carlo Simulation Results

The $3\sigma(\varepsilon)$-adjusted intrinsic value is $90.6; the $3\sigma(\varepsilon)$-adjusted target price is $88.5; and the analysts' median target price is $95.33

Sensitivity Analysis

Revenue growth variations account for 95.9% of total variance
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total variance
Continuing period growth variations account for 0.2% of total variance

BioTelemetry Inc.
NASDAQ: BEAT

Analyst: Andrew Varone
Sector: Healthcare

BUY

Price Target: $16.87

Key Statistics as of 12/9/2015

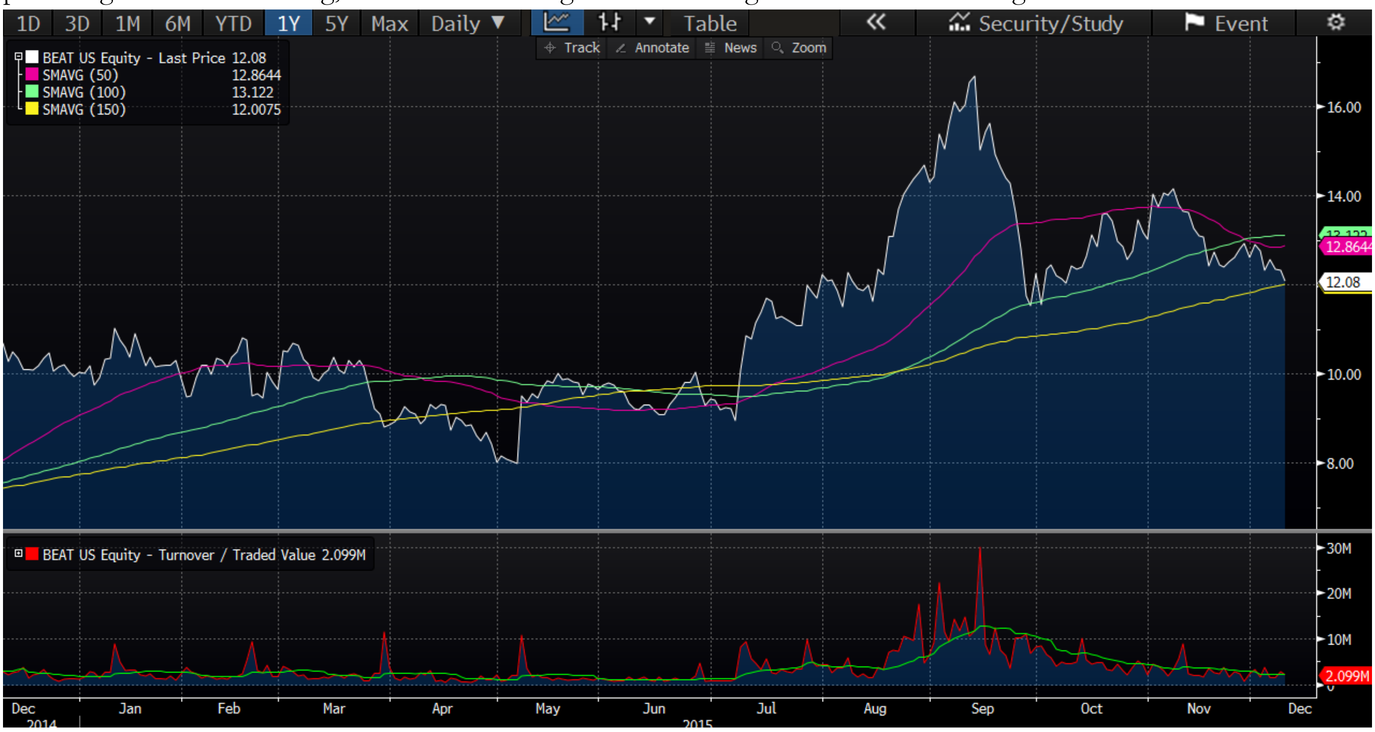
Market Price:	$12.08
Industry:	Medical Laboratories & Research
Market Cap:	$329.30M
52-Week Range:	$7.86-$16.96
Beta:	0.28

Thesis Points:

- The macro environment have created undervaluation and gives an opportunity for growth
- BioTelemetry has subsidiaries that produce heart monitors and record the data.
- Patents have left the company with no direct competition as they have won their infringement cases.

Company Description:

BioTelemetry provides cardiac monitoring services, cardiac monitoring device manufacturing, and centralized cardiac core laboratory services. Since the Company became focused on cardiac monitoring in 1999, the Company has developed a proprietary integrated patient management platform that incorporates a wireless data transmission network, Food and Drug Administration ("FDA") cleared algorithms and medical devices, and 24-hour digital monitoring service centers.
The Company operates under three segments: patient services, product and research services. The patient services segment is focused on the diagnosis and monitoring of cardiac arrhythmias, or heart rhythm disorders. The Company provides cardiologists and electrophysiologists who prefer to use a single source of cardiac monitoring services with a full spectrum of solutions, ranging from the differentiated Mobile Cardiac Outpatient TelemetryTM ("MCOT™") service to wEvent, event, Holter, Pacemaker and International normalized ratio ("INR") monitoring. INR monitoring is a measurement of blood coagulation in the circulatory system and is prescribed for patients on long term anticoagulation therapy. The product business segment focuses on the development, manufacturing, testing and marketing of medical devices to medical companies, clinics and hospitals. The research services segment is engaged in central core laboratory services providing cardiac monitoring, scientific consulting and data management services for drug and medical device trials.



Thesis

BioTelemetry is a BUY because of the upside that is presents. The company is currently undervalued of the macroeconomic factor which has made the industry worried about a decrease in the prices that they can charge. BEAT is the lead company in their industry, as they possess 29 U.S. patents which makes them have no competition. They have acquired companies which allow them to manufacture heart monitor and analyze all the data that they collect from their patients. The entire healthcare industry is moving towards innovation and the use of wireless technology. BioTelemetry is already there with their approved Mobile Cardiac Outpatient Telemetry system.
BioTelemetry is a BUY with an upside potential of 37%.

Porter's 5 Forces

Threat of New Entrants: Low
For firms to enter the market and compete with BEAT in the market of wireless heart monitors is next to impossible. The first in the large capital cost that is associated with this market. Since it is wireless, there is a large technology bill and upkeep with regards to the servers that are put in place to monitor patients hearts. BioTelemetry themselves have invested $300M alone in their technology and service platforms. The next barrier that makes entry almost impossible is their patents. They have a number of patents that have given legal troubles to those that have tried to enter the market. Currently they have 29 U.S. patents and 34 international patents that have been issued.

Threat of Substitutes: Low
Heart monitors are a key instrument to measure the heart rates of those who are at risk for heart problems. Because of this, those with heart issues will almost need to have a heart monitor as it will be an indicator of an issue when they present themselves.

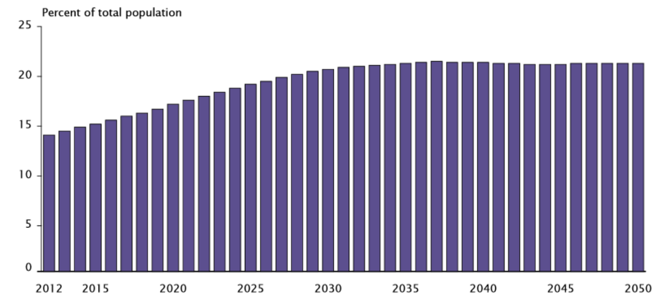
Bargaining Power of Buyers: Medium
There has been a governmental push to give the buyers of medical equipment and drugs more bargaining power by reducing the prices that the companies can charge. On the other side, the wireless heart monitor provides uniqueness to the industry that many buyers would prefer over their current heart monitors, as more freedom can be gained.

Bargaining Power of Suppliers: High
The overall suppliers for customers for these heart monitors are the insurance providers. They have all the bargaining power when it comes to negotiating rates they will pay for their services. Because of this, the company will have to take their rates or lose out on insurances companies and their clients.

Competitive Rivalry: Neutral
Being able to produce a wireless heart monitor is a sustainable competitive advantage as patients will not want to lose their freedom and would prefer to have a wireless heart monitor. On the other side though, this will not apply to all patients in the hospital as some will be unable to get out of their beds. If this is the case, the competitive advantage is nonexistent for these types of patients.

Macro Factors

There has been undervaluation due to the "Clinton Effect". Clinton, as well as other Democratic candidates, wants to limit amount charged for the healthcare sector. If such legislation was passed, the forecasted revenues would decrease because the company would have to charge less. What is important is to remember that this is speculation, if legislation fails to be put into place, no revenues would be lost for the company. Another positive for this is that this is a macroeconomic factor. Since it is not firm specific, the entire will have to adjust to new legislation rather than a specific firm. This have left a point for entry for investors as the stock has stayed around $12, down $2 since the Clinton announcement.
The next large macroeconomic factor is that the United States has an aging demographic. The percentage of the United States population that is above the age of 65 is around 15% for 2015. The number of those above the age of 65 is expected to grow faster than the age of those below the age of 65 due to the baby boom. Because of this, it is forecasted that 20% of the total population will be above the age of population by the age of 65.



Source: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections.

As people get older, they will be more susceptible to having health related issues where a heart monitor would be required. Despite being at the risk of having health risk, they could not require intensive care and be able to go on with their everyday life. This creates a market for the wireless heart monitor as people will be able to have their heart monitored all while going on with their life. This will prove to have older individuals have longer and happier lives. They will live longer as any problems can be detected right away and a specialist can be spent to give the individual medical attention.

The Product

BioTelemetry has revolutionized the Healthcare sector by introducing the first Mobile Cardiac Outpatient Telemetry system. This system has been prescribed to patients from doctors from up to 30 days of monitoring. The patients can continue their normal life activities as they are monitored 24/7. If any events occurred, the data is transmitted automatically sent to CardioNet Monitoring Center where they are analyzed and responded too if necessary. This is revolutionary as patients are no longer required to stay in the hospital for monitoring; they can do it at the comforts of their home. The entire healthcare industry is moving towards wireless innovations for their treatments and recoveries. BEAT has been one of the first to go wireless with their Mobile Cardiac Outpatient System.

The Company

BioTelemetry can be broken down into three sections which help them carry out this process. They are, CardioNet, Cariocore, and Braemar. CardioNet is provides a next-generation ambulatory cardiac monitoring service. The features included are beat-to-beat monitoring, real time analysis, automatic arrhythmia detection and wireless ECG transmission.

The next company is Cariocore, which was acquired by BioTelemetry and would be named BioTelemetry Research. BioTelemetry Research is the world's largest cardiac data network. They process over two billion hearts a day, which is done by supporting 30,000 devices monthly and by monitoring 500,000 patients a year.

The last component is Braemar, which is a subsidiary of BioTelemetry. This is where they engineer, develop, and manufacture ambulatory cardiac monitors for healthcare companies worldwide. This means that BioTelemetry has control over the construction as well as the data from their patients.

Going forward, organic growth is present in the greater demand for these heart monitors. As more people age, there will be more people that require heart monitors to check over their health. Another area of growth is by their expansion. They want to expand their clinical services into advanced imaging services and respirator testing. Being able to expand into these markets with their innovated technology would allow them to continue grow.

Competition

There is no direct competition because of the barriers of entry that exists. Currently, there are 29 U.S. patents and 34 international patents that the company has. This makes entry extremely difficult. Despite this, companies still try to enter the market but, BioTelemetry have submitted patent infringement charges and have won every time that this happened. This last time this occurred was against MedTel. There were five patents that were looked into for infringement and for all five, it was determined there was indeed infringement. As punishment, the company had to return all the patented materials. If they did not by 21 days, they would be fined \$20,000 for every day that they were not returned. This is only the latest case of infringement, there have many prior where BioTelemetry has won their cases and infringement was found.

Financial Analysis

BioTelemetry has started to turn a positive net income for the first time over the LTM. This is expected to continue and have them have a positive net income for 2015. The company has seen EBITDA growth over its past five years. It is expected for EBITDA to growth at twice the rate that it did compare to 2014. Not only EBITDA growth has been faster each year but, the LTM EBITDA growth was higher than the LTM revenue growth. This shows that the company is cutting cost and will get a bigger bottom line. For the next three years, it is forecasted that the EBITDA will continue to outgrow revenues.

Lastly, BioTelemetry is has been seen with the ROIC/WACC ratio which is around 4.3.

Summary

BioTelemetry is a BUY because of the upside that is presents. The company has positioned themselves at the head of the market and will continue to gain market share as they grow. Also, the company is looking to expand and add to their Mobile Cardiac Outpatient Telemetry system. Their competitive advantage will be sustainable as no one will be able to replicate it until their patents run out.

BioTelemetry is a BUY with an upside potential of 37%.

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BioTelemetry, Inc.	BEAT	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	1-y Return: 36.83%	BULLISH
		Andrew Varone	$12.33	$16.34	$16.87	0%		

General Info

Sector	Healthcare
Industry	Healthcare Providers and Services
Last Guidance	November 9, 2015
Next earnings date	February 19, 2016

Market Data

Enterprise value	$345.19
Market Capitalization	$4,449.48
Daily volume	0.22
Shares outstanding	27.26
Diluted shares outstanding	28.44
% shares held by institutions	26.01%
% shares held by insiders	4.36%
Short interest	4.37%
Days to cover short interest	2.92
52 week high	$16.96
52-week low	$7.86
5y Beta	1.06
6-month volatility	51.58%

Peers	Market Cap.

Current Capital Structure

Total debt/Common Equity (LTM)	0.16
Cost of Borrowing (LTM)	2.20%
Estimated Cost of new Borrowing	4.41%
Altman's Z	2.81
Estimated Debt Rating	A
Current levered Beta	0.52
LTM WACC	5.17%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Capper, Joseph	Chief Executive Officer, President and Directc	$1,856,787	$1,691,663	$2,063,976
Getz, Heather	Chief Financial Officer, Principal Accounting (	$625,707	$630,965	$763,021
Ferola, Peter	Senior Vice President of Corporate Developm	$501,945	$485,347	$591,475
Wisniewski, Daniel	Senior Vice President of Technical Operations	$549,648	$533,885	$624,432
Prystowsky, Eric	Medical Advisor	$140,002	$160,874	$104,570
Broadway, Fred	Senior Vice President of Sales & Marketing	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	-5.56%	4.19%	18.18%	6.89%
Last Quarter-1	-2.05%	4.94%	33.33%	10.82%
Last Quarter -2	-0.89%	19.40%	100.00%	30.81%
Last Quarter -3	-0.18%	-1.10%	-16.67%	5.35%
Last Quarter -4	2.91%	10.22%	200.00%	64.51%
Standard error	1.4%	3.5%	38.3%	14.36%

Standard Error of Revenues prediction	1.4%
Imputed Standard Error of Op. Cost prediction	3.2%
Imputed Standard Error of Non Op. Cost predictio	38.1%

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (100th Percentile), Intensity of Existing Rivalry (100th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (100th

Proforma Assumptions

Convergence Assumptions

All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years

General Assumptions

Money market rate (as of today)	0.37%
Risk-Free rate (long term estimate)	2.93%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	37.5%
Country Risk Premium	6.0%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$166.25
FY2015	6.8%	$177.61
FY2016	5.0%	$186.49
FY2017	5.0%	$195.81
FY2018	4.0%	$203.64
FY2019	4.0%	$211.79
FY2020	3.0%	$218.14
FY2021	3.0%	$224.69
FY2022	3.0%	$231.43
FY2023	3.0%	$238.37
FY2024	3.0%	$245.52
Continuing Period	3.0%	$252.89

Items' Forecast Assumptions

	Base year (LTM)	Convergence period (Sub-industry)	Adjustment per year
Operating Cash/Rev.	0.00%	0.26%	0.0%
NWV/Rev.	3.26%	3.26%	0.0%
NPPE/Rev.	15.04%	14.98%	0.0%
Dpr/NPPE	33.46%	29.57%	-0.4%
NOPAT MARGIN	10.97%	9.26%	-0.2%
Op. Exp./Rev.	82.30%	84.08%	0.2%
SBC/Rev.	3.07%	0.91%	-0.2%
Rent Exp./Rev.	2.24%	1.35%	-0.1%
R&D/Rev.	4.10%	2.29%	-0.2%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	42.67%	42.00%	-0.1%
ROIC	22%	46.79%	2.43%
EV/Rev.	2.05x	2.23x	0.02x
EV/EBITA	14.86x	15.08x	0.02x
Debt/Equity	16%	20%	0.4%
Unlevered beta	0.47	0.50	0.00
Dividends/REV	0%	0%	0.0%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Money market rate
Other claims on the firm's assets	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus

DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions

Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (5.82%, 6%, 6.18%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value σ(ε)	$0.09
1-year target price σ(ε)	$0.10

Valuation

Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share
LTM	22.4%	5.2%	$93.15	$513.99	$93.46	27.26	$16.25
FY2015	25.5%	5.3%	$96.71	$520.94	$85.35	27.26	$16.71
FY2016	23.4%	5.6%	$98.58	$529.34	$68.39	27.26	$17.55
FY2017	23.4%	5.8%	$100.40	$538.70	$49.26	27.26	$18.50
FY2018	23.1%	5.9%	$101.17	$548.25	$27.98	27.26	$19.55
FY2019	23.1%	6.1%	$101.83	$558.95	$5.80	27.26	$20.67
FY2020	22.9%	6.2%	$101.40	$570.09	-$17.82	27.26	$21.88
FY2021	22.9%	6.4%	$100.84	$582.69	-$74.25	27.26	$23.76
FY2022	22.9%	6.5%	$100.16	$596.89	-$97.00	27.26	$25.05
FY2023	22.9%	6.6%	$99.35	$612.81	-$115.15	27.26	$26.20
FY2024	22.9%	6.8%	$98.40	$630.58	-$130.73	27.26	$27.41
Continuing Period	46.8%	6.9%	$50.06				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $16.34; the 3σ(ε)-adjusted target price is $16.87; and the analysts' median target price is $17.67

Sensitivity Analysis

Revenue growth variations account for 95.9% of total variance
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total variance
Continuing period growth variations account for 0.2% of total variance

Express, Inc.

EXPR: NYSE

Analyst: Mark Papuzza
Sector: Consumer Discretionary

BUY

Price Target: $23.40

Key Statistics as of 12/01/2015

Market Price:	$16.97
Industry:	Apparel Retail
Market Cap:	$1.44 B
52-Week Range:	$11.90-20.72
Beta:	1.09

Thesis Points:

- Apparel Retail Industry Outlook
- Advertising Advantage due to Brand Ambassador Success
- Financials – Value Creation, zero net debt

Company Description:

Express, Inc. operates as a specialty apparel and accessories retailer. It offers apparel and accessories for women and men across various aspects of lifestyles, including work, casual, jeans wear, and going-out occasions. The company sells its products through its e-commerce Website, express.com, as well as franchisees Express locations in Latin America, the Middle East, and South Africa. As of January 31, 2015, it operated 641 stores in the United States, Canada, and Puerto Rico. The company was formerly known as Express Parent LLC and changed its name to Express, Inc. in May 2010. Express, Inc. was founded in 1980 and is based in Columbus, Ohio.

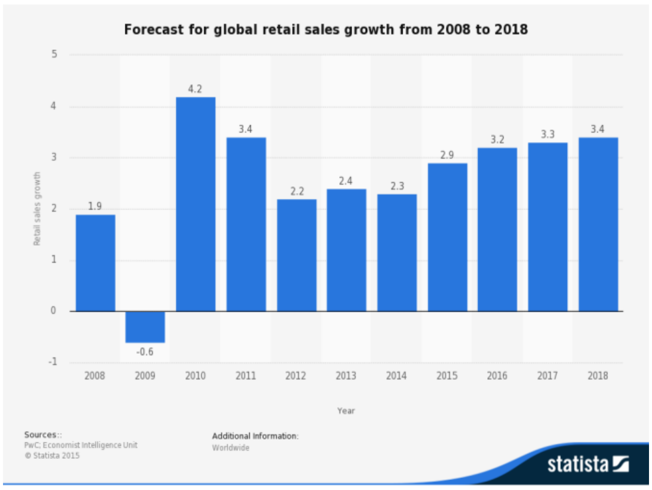
- Capital IQ

Thesis

Express, Inc. operates as a specialty retail apparel store that addresses fashion needs across numerous aspects of one's lifestyle. The company's stylish and quality clothing has made them a very recognizable name in the clothing industry. With their solid reputation, combined with their excellent advertising, value creation and zero net debt, Express will continue to grow and increase the price of their stock.

Industry Outlook

The good news for companies in the apparel industry is that there will always be a need for clothes. People constantly change in size, shrink their clothes in the dryer, stain their clothes, rip their clothes, need clothes for specific occasions, and sometimes simply change their mind on the style they want to wear. The chart below illustrates retail sales growth from 2008-present, and forecasts the growth through 2018. The industry is expected to continue its momentum from the past two years and continue trending upwards in the next three years.



The bad news for the companies in this industry, however, is that the competition only continues to grow stronger. The top priorities for companies looking to differentiate themselves from the large pack of competitors in the near future are to have exceptional marketing, be able to innovate and keep up with market trends, and to have an online/mobile presence. 58% of retailers agree that brick and mortar stores with no online presence will not be able to survive much longer. Shoppers are focused on convenience now more than ever, and continue to shift toward purchasing clothing online rather than make a trip to the store itself. In order to further asses the industry, let's take a look at Porter's Five Forces.

Porter's Five Forces

Threat of New Entrants: High

The clothing industry is a popular, profitable industry and so there is continuous interest from businesses to enter. Individuals typically have a certain style of clothing they prefer, but there are many different companies that offer the same style of clothing. For this reason, brand loyalty is rather low making it easier for a new entrant to entrant the market and succeed. However, there is a need for a significant amount of capital; not for the clothes itself, but for distribution and advertising. That is why a company such as Express has a large advantage over a newcomer, as they are already well known in the industry for being a reputable business.

Threat of Substitution: Low

There is no substitute for clothes. That is why there will always be a high demand for clothes. The only substitute for retail shopping is online shopping, and many companies are working to build an online presence to compete with this "substitute." Express, Inc.'s solid online presence will be discussed later on.

Power of Buyers: Medium

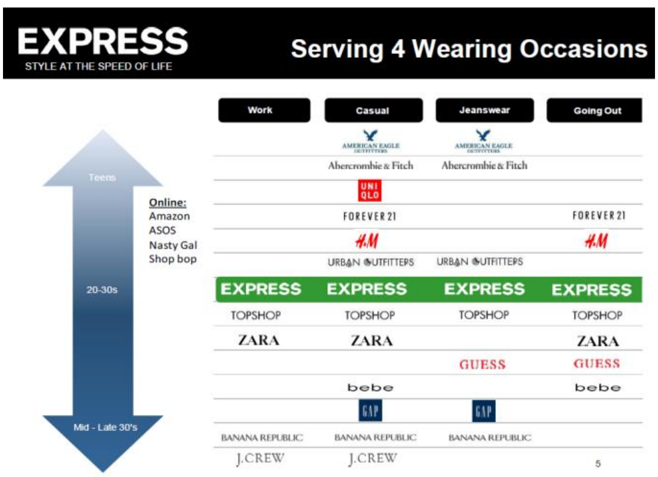
As stated before, there is not much brand loyalty in the apparel industry. Customers have the ability to shop around several stores that sell the style that they are looking for at the price they are looking to pay for it. Customers, however, will not affect how a company prices their apparel. There is such an immense amount of buyers in the market, and each individual buyer purchases only a minimal amount (in the big picture for the industry). As a result, a company can charge what they want for their apparel and expect their target market to purchase it at that price from them. As part of their business model, Express, Inc. prices their clothes relatively high compared to its peers. Due to their brand recognition and clothing that suits several different types of occasions, their higher pricing model has proven successful for their business model, and continues to bring new buyers in and old buyers returning.

Power of Suppliers: Low

There are so many suppliers of the materials needed in this industry that the suppliers have little power. The exclusivity of materials is low, making it easy for companies to switch if they are unhappy with the material or the price. There is no switching costs moving from supplier to supplier; the only cost is the time that would be sacrificed.

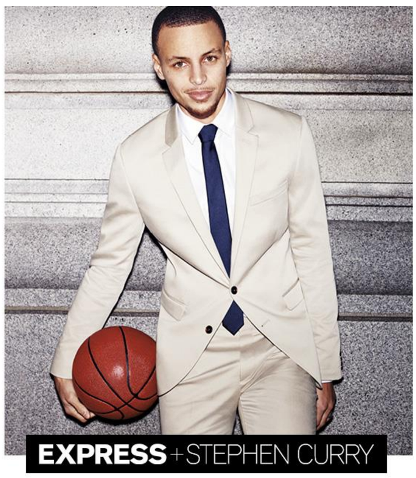
Rivalry: High

The competition in the apparel industry is very high. There are many big name players in the market, and new players are continuously entering the market looking to make a splash. That is why it is essential for companies to find a niche market, advertise heavily and differentiate themselves. The target market for Express, Inc. is men and women between the ages of 20 and 30. What differentiates Express from their competitors is the amount of occasions their apparel covers. Express provides casual clothes, work clothes, "going out" clothes, and jeans wear. The wide range that their apparel provides makes their clothing very attractive to customers.



Advertising – Brand Ambassadors

As mentioned in the industry outlook, advertising is crucial to succeeding in this industry. An advertising strategy that has proven to bring success to companies is the signing of celebrities as brand ambassadors. The ultimate goal for advertising is that the company becomes recognizable, and thought of whenever a buyer needs a product from their market. With the amount of people that follow and look up to celebrities, having a successful celebrity associated with a company is a surefire way to catch the attention of buyers in the market. Last year, in December of 2014, Express scored big in signing their first male brand ambassador in the company's history. Stephen Curry, 27 year old point guard for the NBA's Golden State Warriors, was one of the rising stars in the basketball world at the time. His loveable personality, combined with his picture perfect jump shot earned him millions of fans all around the world. Curry became the brand ambassador because Express had always been his go-to, authentic brand that he could relate to personally. Curry's marketing and advertising campaign began in March 2015, and it could not have begun at a better time.



In May 2015, Stephen Curry was named the NBA Most Valuable Player. Although this is one of the biggest accomplishments a player can achieve, Curry did not stop there. Just months after joining Express and winning the MVP award, Curry led his Golden State Warriors to win the NBA Championship. Being the best player on the world's best basketball team comes with a lot of attention, and that is what Curry brings Express. Express stores across the country have posters of Curry wearing their brand, bringing in a new market of men and women who enjoy the game of basketball, and who are fans of Curry. Aside from being one of the most recognizable players in the world, Curry has 3.22 million followers on Twitter. The ability to reach this many people with a single tweet is obviously fantastic for advertising purposes. Express, Inc. signed a rising star at the perfect time, and the brand will continue to benefit greatly from his success and promotion of the company.

Prior to signing Curry, Express teamed up with another popular celebrity for a woman brand ambassador. Kate Upton, one of the world's most popular models, signed with Express in March 2014. With 2.18 million Twitter followers, Upton has the ability to reach a large audience making her a great addition to Express's advertising campaign.

E-Commerce Sales

The need for an online presence in the retail market is necessary, as the amount of online sales in the industry continues to grow. Express launched their website in July 2008, and continues to update and enhance the site by improving analytics and customer targeting. The amount of e-commerce as a percentage of sales has increased each year since the launch of the site, and now accounts for 14% of sales. In the company's third quarter earnings call, CEO David Kornberg reported a 6% growth in e-commerce sales. The company achieved this growth through running new online promotions, and by updating the Express mobile app in September. E-commerce sales are the future in this industry, and Express has proven that they can adapt to this trend, and continue to improve their online sales presence.

Financials – Value Creation, Zero Net Debt

In viewing Express Inc.'s financials, there is clear evidence of value creation year over year. The company's EBITDA margins have consistently outgrown the revenue growth every year. This confirms that the company is eliminating operating expenses that eat into their bottom line, and are creating value.

Another indicator of value creation is a company's ROIC/WACC ratio. When this ratio is greater than 1.0, it is evidence that value is being created. Express, Inc. currently has a solid ROIC/WACC of 1.62. This is not uncommon, as the company has consistently posted an ROIC/WACC greater than 1.0 year over year.

Another notable aspect of Express's balance sheet is their net debt. The net debt is currently -$351 million. This should be encouraging to investors, as the company currently has enough cash on hand to cover all of their debt obligations.

Conclusion

In a highly competitive industry such as the specialty apparel industry, it is essential that companies are innovative and have competitive advantages in order to succeed, and Express, Inc. has just that. With their ability to provide clothing for several different occasions unlike competitors, combined with their immensely popular brand ambassadors and continued value creation, Express Inc. will continue to grow and increase the price of their stock.

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Express Inc.	expr	Analyst Mark Papuzza	Current Price $16.97	Intrinsic Value $22.78	Target Value $23.41	Divident 0%	1-y Return: 37.95%	BULLISH

General Info	
Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	August 26, 2015
Next earnings date	December 3, 2015
Market Data	
Enterprise value	$1,352.15
Market Capitalization	$4,449.48
Daily volume	0.22
Shares outstanding	84.71
Diluted shares outstanding	84.88
% shares held by institution	26.01%
% shares held by insiders	3.47%
Short interest	10.57%
Days to cover short interes	5.00
52 week high	$20.72
52-week low	$11.90
5y Beta	1.37
6-month volatility	39.37%

Peers	Market Cap.
Chico's FAS Inc.	$1,693.75
American Eagle Outfitters, Inc.	$3,081.92
Urban Outfitters Inc.	$2,731.13
Aéropostale, Inc.	$44.58
The Children's Place, Inc.	$994.35
Abercrombie & Fitch Co.	$1,729.19
Lululemon Athletica Inc.	$6,894.13
Guess? Inc.	$1,707.46
Columbia Sportswear Company	$3,382.62
The Buckle, Inc.	$1,567.58
Current Capital Structure	
Total debt/Common Equity (LTM	1.16
Cost of Borrowing (LTM)	14.90%
Estimated Cost of new Borrowing	5.91%
Altman's Z	4.84
Estimated Debt Rating	B
Current levered Beta	1.01
LTM WACC	3.16%

Management

Professional	Title	Comp. FY2013	Comp. FY2014	Comp. FY2015
Kornberg, David	Chief Executive Officer, President and	$2,360,596	$2,075,660	$0
Moellering, Matthew	Chief Operating Officer and Executive	$2,001,350	$1,955,986	$0
Person, Test	Executive Vice President of Planning a	$0	$1,303,940	$0
Campbell, Colin	Executive Vice President of Sourcing a	$1,787,631	$1,305,274	$0
Pericleous, Perry	Chief Financial Officer, Senior Vice Pr	$0	$0	$0
Jacobs, Marisa	Vice President of Investor Relations	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	6.17%	27.42%	56.25%	14.51%
Last Quarter-1	3.00%	26.28%	57.14%	15.68%
Last Quarter -2	1.79%	10.09%	6.52%	2.40%
Last Quarter -3	-0.64%	12.75%	6.25%	3.87%
Last Quarter -4	5.19%	53.74%	0.00%	17.11%
Standard error	1.2%	7.7%	12.9%	5.46%
Standard Error of Revenues prediction	1.2%			
Imputed Standard Error of Op. Cost predict	7.7%			
Imputed Standard Error of Non Op. Cost pr	10.3%			

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (75th Percentile), Bargaining Power of Customers (43th Percentile), Intensity of Existing Rivalry (33th Percentile), Threat of Substitutes (67th Percentile), Threat of New Competition (33th

Proforma Assumptions

onvergence Assumptio

All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years

General Assumptions	
Money market rate (as of today)	0.37%
Risk-Free rate (long term estimate)	2.93%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	37.5%
Country Risk Premium	6.0%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$2,261.37
FY2016	4.1%	$2,353.35
FY2017	4.4%	$2,455.83
FY2018	4.3%	$2,562.08
FY2019	4.0%	$2,664.57
FY2020	7.1%	$2,853.75
FY2021	4.0%	$2,967.90
FY2022	3.5%	$3,071.78
FY2023	3.3%	$3,171.61
FY2024	3.1%	$3,270.72
FY2025	3.1%	$3,370.89
Continuing Period	3.0%	$3,472.02

Items' Forecast Assumptions

	Base year (LTM)	onvergence period (Sub-indust	djustment per ye
Operating Cash/Rev.	0.00%	0.02%	0.0%
NWV/Rev.	1.76%	7.32%	0.6%
NPPE/Rev.	18.88%	17.08%	-0.2%
Dpr/NPPE	16.88%	20.54%	0.4%
NOPAT MARGIN	6.05%	6.67%	0.1%
Op. Exp./Rev.	87.67%	75.00%	-1.3%
SBC/Rev.	0.89%	0.55%	0.0%
Rent Exp./Rev.	9.79%	0.00%	-1.0%
R&D/Rev.	0.00%	0.42%	0.0%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	33.39%	32.45%	-0.1%
ROIC	7%	25.47%	1.85%
EV/Rev.	0.69x	0.72x	0.00x
EV/EBITA	7.52x	6.72x	-0.08x
Debt/Equity	116%	30%	-8.6%
Unlevered beta	0.58	1.20	0.06
Dividends/REV	0%	1%	0.1%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Money market rate
Other claims on the firm's asse	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus

DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions

Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (5.82%, 6%, 6.18%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value σ(ε)	$0.09
1-year target price σ(ε)	$0.10

Valuation

Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	laims on Assets and Dilution	Shares Outstandin	Price per Share
LTM	7.0%	3.2%	$2,111.39	$4,213.24	$1,782.24	84.71	$22.75
FY2016	8.3%	3.4%	$2,018.24	$4,088.22	$1,593.21	84.71	$22.84
FY2017	9.9%	5.2%	$1,927.44	$4,010.33	$1,340.37	84.71	$24.53
FY2018	11.7%	6.0%	$1,828.11	$3,923.44	$1,052.52	84.71	$26.82
FY2019	14.0%	6.7%	$1,712.44	$3,816.37	$721.10	84.71	$29.87
FY2020	17.2%	7.5%	$1,637.15	$3,731.89	$393.57	84.71	$32.95
FY2021	20.1%	8.2%	$1,493.24	$3,565.19	-$35.35	84.71	$36.81
FY2022	24.3%	8.9%	$1,328.05	$3,354.62	-$517.06	84.71	$41.12
FY2023	30.0%	9.6%	$1,146.26	$3,096.43	-$1,037.29	84.71	$45.76
FY2024	38.0%	10.3%	$949.61	$2,782.62	-$1,605.22	84.71	$50.72
FY2025	49.9%	10.9%	$739.30	$2,401.98	-$2,221.79	84.71	$56.21
Continuing Period	25.5%	11.2%	$909.13				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $22.78; the 3σ(ε)-adjusted target price is $23.41; and the analysts' median target price is $22.53

Sensitivity Analysis

Revenue growth variations account for 95.9% of total varian
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total vari
Continuing period growth variations account for 0.2% of tot

GoPro, Inc.
GPRO

Analyst: Nicolas Morand
Sector: Information Technology

BUY on GPRO

Price Target: $37.81

Key Statistics as of 12/11/15

Market Price:	$19.15
Industry:	Photographic Equipment & Supplies.
Market Cap:	$2.63 B
52-Week Range:	$16.77 - $69.75
Beta:	0.66

Thesis Points:

- Strong revenue growth year over year
- Recent market news drop the stock price to its lowest level since its IPO making it a good entry point
- New product launch for 2016 to respond in the lack of innovation criticism

Company Description:

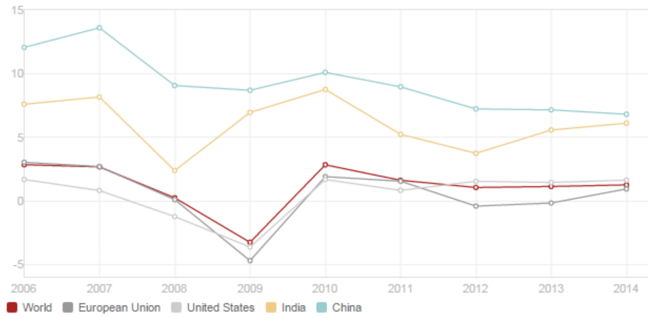
GoPro Inc, is a company that manufactures and sells cameras with related accessories to enable customers to capture, share and manage both their photographic and videography experienced. The company offers cameras, accessories such as helmets, roll bar, handlebar and other items that can fix cameras on bodies so as to allow consumers to capture the moment while being involved in an activity. In addition with all the hardware product it offers, GoPro also provide its consumers a software solution, GoPro Studio, which able consumers to create professional videos with the content of their GoPro cameras. With its App, GoPro allow its customer to manage, store and share their videos' content from the camera to the mobile device.

Thesis

GoPro is among the top leader in the digital camera and manages to provide a unique experience with its cameras. Financially, this is a great company which has no debt, provide a strong growth in revenue every year while decreasing some operation costs, and invest in research and development to provide consumers the latest technology on the market. Recent market news such as the new patent from Apple to control cameras wirelessly, let the firm's stock price down because investors were afraid that Apple take some market share in the digital camera business which would hurt GoPro's business. This year, there was a bad criticism concerning its latest product "Hero4 Black", which led investors to complain about the lack of innovation in their product. These 2 events are most of the decrease of GoPro's stock price to a level, which I find too low for this company. GoPro take some initiative from these criticism and will launch in 2016 two brand new product category, such as a drone, and a six camera rig to enable spherical photos and videos for virtual reality. This should be appreciated by consumers and the market could respond if sales follow expectations, driven the stock price higher. Acquiring this company might be a good investment opportunity for a medium to long-term investment.

Industry Outlook

The Photographic and Equipment industry have drastically changed with new technologies in recent years. Over the past decade, there was a massive increase of competitors with the rise of online retailers and consumer electronic stores. This has affect people's consumptions and many cameras stores went out of business. For the coming years, the trend of new technologies in the camera business is expected to continue as it gives a professional quality work without the need of a specialist. The global digital photography has been increasing for years thanks to the rise of social networking such as YouTube, Facebook or Instagram. The market has been revolutionized, more and more people share their videos or photography through social networks as the internet of things make it easier to share content online. With the elaboration of professional software which allow consumers to work on their photos, every single person is able to provide a professional quality work. This should drive the global digital photography market higher in the coming years.



This market is specially expected to grow fast in the APAC area such as China or India because of the increase in GDP growth per capital. As you can see on the graph above from World Bank, Both China (in blue) and India (in yellow) are expected to see a faster increase in GDP per capita than the US, the European Union or the World in average (bright grey, dark grey and red respectively).

Porter's Five Forces

Bargaining power of suppliers: **LOW**

GoPro takes advantages of its diverse distribution channel and should not be threaten by suppliers. Besides, there is a large number of suppliers from which GoPro could receive its materials.

Bargaining power of customers: **HIGH**

The bargaining power of customer is between medium and high. GoPro must maintain the same quality standard to both justify the premium on its products and to be able to keep their customers satisfy. However, there is few substitutes to GoPro's actions' camera which give them a competitive advantage in the digital photography market.

Threat of substitutes: **LOW**

There is indeed some cameras to replace GoPro's camera on the market. Nevertheless, they have significantly lower performance and a much lower quality. There are very few cameras on the market that can offer the same potential and quality as a GoPro camera.

Existing rivalry: **LOW**

There is many firm that provide digital cameras on the market but none which can match the potential of a GoPro. GoPro takes advantages of both its product diversification and its strong brand image to keep its customers loyal to the company. GoPro provides a special experience to its customers that other competitors cannot provide, which gives few opportunity to competitors to gain GoPro's market shares.

Barriers to Entry: **MEDIUM**

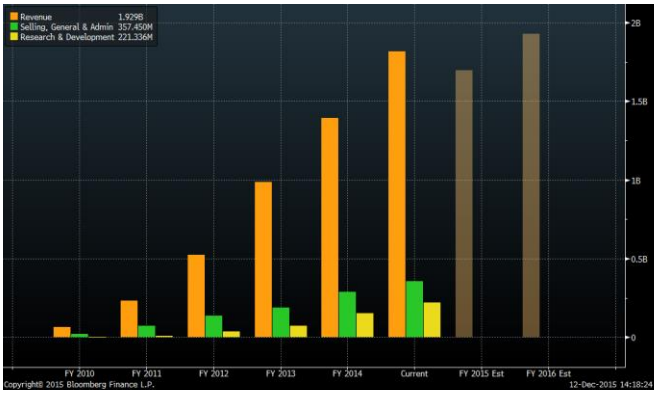
It might not be easy for a new business to enter this market for several reasons. The first one is that a strong distribution is required to be able to compete with existing rivals. Then, the brand name is very strong as it testify of the quality of the products. Finally a strong investment in technologies and R&D is an absolute requirement to be able to provide a high quality camera. However, some companies do have the technology and the strong brand name to launch their own digital cameras, which could harm GoPro's business.

Product Portfolio

As opposed to most of digital camera providers, GoPro sells premium camera and do not positioned its business as a low-cost provider. They manage to increase the technology of their product so as to give a unique experience to their customers who will pay a premium for that. Nowadays, GoPro provide 6 different cameras which are sell at $129.99 for the cheapest one to $499.99 for the most expensive one. The firm distinguish itself by offering the latest quality image and latest technology in its product. Let's take the example of its last camera, the "HERO4 Black". This camera is the first camera of its kind to offer the possibility to record in ultra-high-resolution. This camera is 2x more powerful than the previous model thanks to its new processor, its powerful new features and its new technologies incorporated. Besides technology improvement, GoPro's product differentiate themselves by being slight, transportable, waterproof and easily connected with other mobile devices. GoPro completes its differentiation by selling various mounts which allow consumers to capture the moment they want without even needed their hands. GoPro's marketing is mainly focus on sport activities and most of their consumers buy these cameras for this purpose. On the Software side, GoPro provide with its camera a software called "GoPro Studio", a platform that allow customers to work on their videos. Consumers are able to modify their files by adding some music, adding effects or simply to create a professional quality clip of their best videos. Concerning mobile devices, GoPro's App provide to its users the ability to manage, store and to share content from the camera to mobile device. With its product and solutions, GoPro did cover all the steps that any individual would do to capture the moment of his/her life, from the transportable and wearable high-quality camera to the wirelessly transfer on mobile device for compilation or sharing. Right now, The camera and accessories business represents 100% of GoPro's sales, where 63.9% of them occurred in Americas, 26.6% in EMEA area and 9.5% in the APAC area for the fiscal year ending in 2014.

Financials

2014 has been a very profitable year for GoPro. The company has managed to increase its sales by 41.4% from $985 million to $1.4B. Revenues are constantly increasing every year and are at a level of $1.82B for the LTM. This increase of revenues can be explain by the working current strategy of international expansions. Indeed, this growth was mostly driven with an increase in sales in the EMEA and APAC area of both 175%, despite a decrease in sales in both Australia and New-Zealand due to a strong dollar. GoPro wants to increase its positions in these areas as we are expected to see an increase in the residual income per capita, which led GoPro's management to believe that there is an opportunity for future sales growth. In 2014, 5.18 million units were sold compare to 3.85 million the previous year. GoPro do believe that sales should continue to increase in the coming years for some reasons that I will describe in the valuation part. As you can see on the graph below, the increase in revenue (orange) is possible thanks to a continuous investment in both Research & Development (yellow) and in Selling, General & Administrative expenses (green). The new technologies available in GoPro's products is possible with the increase of these expenses are and mandatory as consumers are expected a premium product with a high quality standard compare to the average industry, just like Apple do with its iPhone.



As a result, the Net Income has risen from $128.1 million in 2014 to $192.8 million in the LTM. This cash could be used for further research to develop higher technological product in the future. Another notable aspect which proves its financial health is its absence of debt. GoPro managed to decrease both its short-term and long-term debt to 0 in 2014. This decrease in debt should be very much appreciated by investors.

Valuation

As you may have notice, GoPro's stock price have declined in one year by 80%. Indeed, in last December, the stock was traded for $80 whereas it is worth $19.15 currently. The drop started on January and after a quick recovery until July, it continue its decline to reach its current level. There is two factor that can explain this decline. The first one is that earlier this year in January, Apple received the right from the U.S. Patent and the Trademark Office to patent for a remote camera control for its Apple Watch. This news afraid investors who believed that Apple could take GoPro's market share in the camera business. Indeed, according to my section about Porter's 5 forces, I said that threat of new entrants was medium because GoPro's main advantage over competitor was its powerful brand name and its high technological assets. Apple have those two criteria and could really hurt GoPro's business if they decided to launch their own cameras. The second reason for the stock price drop is the bad criticism for GoPro's last camera "Hero4 black". During the Q3 conference call, GoPro's management have explained some reasons about this lack of sales for this new product and decided to strengthen their marketing to an "aggressive level" to counter their lack on advertisement expenses for this product. In addition to that, the company has been blame for its lack of innovation in its product. Indeed, for now they pretty much offered cameras with higher quality and few new functionality that could revolutionize the company. GoPro responded to this blame by launching their first drone called Karma for the year 2016. Furthermore, they will also launch a six camera rig that will enable spherical photos and videos to capture virtual reality. Both distributors and retailers are excited about this two new product category, and should satisfy those who were waiting for innovations. On a more traditional valuation point of view, one of the most remarkable aspects of GoPro's balance sheet is their EBITDA margins. Indeed, it has grown over year and outperform the revenue growth. From 2014 to the LTM, revenues increased at a 30% growth while EBITDA increased by 43.5% for the same period. This ratios shows that the company is currently creating value by eliminating some expenses. Another ratio which proves GoPro's ability to create value is the ROIC/WACC ratio. As you can see on the graph below, the ratio is always above 1, with a 5-year ratio of 2.84, which proves the firm's constant ability to create value to its shareholders.

	LTM	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020		
ROIC	32.8%	39.6%	35.3%	36.7%	38.1%	35.2%	33.7%		5-year average
WACC	12.6%	12.6%	12.6%	12.6%	12.6%	12.7%	12.7%		
ROIC/WACC	2.61	3.14	2.81	2.91	3.02	2.78	2.66		2.84

The company also announced during its Q3 earning call its willingness to repurchase about $300 million of shares in the Quarter which is a good thing to know since that means the firm believes its current price is undervalued. I valuated the company using a discount cash flow model that focus on the ROIC. You will find a summary of the outputs used in my proforma at the end of this report. I used a fast decay growth rates to determine the speed of reversion toward long-term stability. For revenue growth, I based my assumptions on analysts' estimates until 2018 and following years have been compute to decline in order to reach the long-term GDP growth of 3%. I put a market risk premium of 6.9, an additional 1.4 compare to the U.S. risk premium since 36% of the firm's revenue come from EMEA and APAC area. Then, I decided to make the valuation of the company converging to sub-industry for the continuing period. Operating costs are unlikely to change so they are computed to remain the same in the future. According to my calculations, GoPro could revert to a one-year target price of $37.81, a level reached for the last time in September, which represents an increase of 105.58% compare to the current stock price

Conclusion

I do believe that GoPro current stock is undervalued and that buying it at this level could be a good investment opportunity. I do think that there is an upside potential greater than its downside since retailers are excited to sell GoPro's new products for 2016. Financially, I do think that they have the potential to grow and to keep their positions as a leader in the digital camera industry. GoPro seems to have learned from its mistakes and is following a good path of innovation for 2016 which should bring some value to the firm.

SIENA college

Siena Market Line
4th week of November 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

		Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield		
GoPro, Inc.	gpro	Nicolas Morand	$18.39	$34.88	$37.81	0%	1-y Return: 105.58%	BULLISH

General Info	
Sector	Consumer Discretionary
Industry	Household Durables
Last Guidance	July 21, 2015
Next earnings date	February 5, 2016
Market Data	
Enterprise value	$2,076.47
Market Capitalization	$4,449.48
Daily volume	0.22
Shares outstanding	137.52
Diluted shares outstanding	147.35
% shares held by institutions	26.01%
% shares held by insiders	33.21%
Short interest	22.70%
Days to cover short interest	3.25
52 week high	$69.75
52-week low	$16.77
5y Beta	0.00
6-month volatility	61.99%

Peers	Market Cap.
Fitbit Inc.	$6,898.19
Garmin Ltd.	$7,065.50
Apple Inc.	$647,686.20
Skullcandy, Inc.	$118.40
Emerson Radio Corp.	$26.59

Current Capital Structure	
Total debt/Common Equity (LTM)	0.01
Cost of Borrowing (LTM)	0.00%
Estimated Cost of new Borrowing	2.63%
Altman's Z	14.53
Estimated Debt Rating	AAA
Current levered Beta	1.41
LTM WACC	12.59%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Woodman, Nicholas	Founder, Chairman and Chief Executive Offi	$2,118,462	$1,852,791	$77,427,175
Bates, Anthony	President and Director	$0	$0	$27,586,968
Lazar, Jack	Chief Financial Officer	$0	$0	$10,337,985
Zezima, Sharon	General Counsel and Secretary	$0	$802,767	$452,380
Brown, George	Vice President of Communications	$0	$0	$0
Crandell, Paul	Senior Vice President of Marketing	$0	$927,518	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	-7.05%	-16.28%	-13.79%	2.76%
Last Quarter-1	6.04%	19.00%	34.62%	8.26%
Last Quarter -2	6.64%	23.95%	33.33%	7.82%
Last Quarter -3	8.99%	28.31%	41.43%	9.42%
Last Quarter -4	5.34%	41.00%	50.00%	13.64%
Standard error	2.8%	9.6%	11.1%	5.38%
Standard Error of Revenues prediction	2.8%			
Imputed Standard Error of Op. Cost prediction	9.2%			
Imputed Standard Error of Non Op. Cost predictio	5.6%			

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (100th Percentile), Intensity of Existing Rivalry (100th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (100th

Proforma Assumptions

Convergence Assumptions

All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years

General Assumptions	
Money market rate (as of today)	0.37%
Risk-Free rate (long term estimate)	2.93%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	37.5%
Country Risk Premium	6.9%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$1,817.28
FY2015	-6.6%	$1,696.92
FY2016	13.7%	$1,928.82
FY2017	18.0%	$2,276.19
FY2018	22.4%	$2,785.35
FY2019	12.7%	$3,138.66
FY2020	7.8%	$3,384.80
FY2021	5.4%	$3,568.29
FY2022	4.2%	$3,718.54
FY2023	3.6%	$3,852.60
FY2024	3.3%	$3,979.84
Continuing Period	3.0%	$4,099.23

Items' Forecast Assumptions

	Base year (LTM)	Convergence period (Sub-industry)	Adjustment per year
Operating Cash/Rev.	0.00%	0.00%	0.0%
NWV/Rev.	7.95%	7.95%	0.0%
NPPE/Rev.	3.72%	3.72%	0.0%
Dpr/NPPE	31.87%	31.87%	0.0%
NOPAT MARGIN	18.43%	18.43%	0.0%
Op. Exp./Rev.	79.30%	79.30%	0.0%
SBC/Rev.	4.50%	4.50%	0.0%
Rent Exp./Rev.	0.40%	0.40%	0.0%
R&D/Rev.	11.17%	11.17%	0.0%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	16.25%	16.25%	0.0%
ROIC	33%	32.81%	0.00%
EV/Rev.	2.00x	2.0x	0.00x
EV/EBITA	8.32x	8.32x	0.00x
Debt/Equity	1%	19%	1.8%
Unlevered beta	1.40	1.29	-0.01
Dividends/REV	0%	5%	0.5%

Other Assumptions

Tobin's Q	
Excess cash reinvestment	Money market rate
Other claims on the firm's assets	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus	
DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions	
Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (6.693%, 6.9%, 7.107%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value σ(ε)	$0.09
1-year target price σ(ε)	$0.10

Valuation

Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share
LTM	32.8%	12.6%	$1,241.78	$4,875.06	$273.39	137.52	$34.36
FY2015	39.6%	12.6%	$1,160.58	$4,917.20	$98.01	137.52	$36.99
FY2016	35.3%	12.6%	$1,317.02	$5,282.40	-$79.62	137.52	$41.07
FY2017	36.7%	12.6%	$1,551.35	$5,699.32	-$264.32	137.52	$45.62
FY2018	38.1%	12.6%	$1,894.81	$6,171.56	-$460.15	137.52	$50.11
FY2019	35.2%	12.7%	$2,133.15	$6,524.87	-$712.35	137.52	$54.30
FY2020	33.7%	12.7%	$2,299.19	$6,800.11	-$1,227.71	137.52	$59.12
FY2021	32.9%	12.7%	$2,422.97	$7,030.91	-$1,759.85	137.52	$63.83
FY2022	32.6%	12.7%	$2,524.32	$7,238.69	-$2,120.71	137.52	$67.83
FY2023	32.4%	12.8%	$2,614.76	$7,435.55	-$2,437.87	137.52	$71.63
FY2024	32.3%	12.8%	$2,700.59	$7,627.96	-$2,730.44	137.52	$75.32
Continuing Period	32.8%	12.9%	$2,302.92				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $34.88; the 3σ(ε)-adjusted target price is $37.81; and the analysts' median target price is $39.76

Sensitivity Analysis

Revenue growth variations account for 95.9% of total variance
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total variance
Continuing period growth variations account for 0.2% of total variance

PGT, Inc.

NasdaqGM:PGTI

Analyst: Daniel Bacchi
Sector: Industrials

BUY

Price Target: $21.43

Key Statistics as of 12/10/2015

Market Price:	$11.35
Industry:	Building Products
Market Cap:	$569.73M
52-Week Range:	$8.28 – 16.15
Beta:	1.20

Thesis Points:

- Growth in the Florida construction market will play a large part in continued growth for the corporation
- Recent acquisition demonstrates the commitment towards becoming the market leader for windows in Florida

Company Description:

"We are the leading U.S. manufacturer and supplier of residential impact-resistant windows and doors and pioneered the U.S. impact-resistant window and door industry. Our impact-resistant products, which are marketed under the WinGuard ®, PremierVue ™, PGT Architectural Systems and PGT Commercial Storefront System brand names, combine heavy-duty aluminum or vinyl frames with laminated glass to provide protection from hurricane-force winds and wind-borne debris by maintaining their structural integrity and preventing penetration by impacting objects. Impact-resistant windows and doors satisfy stringent building codes in hurricane-prone coastal states and provide an attractive alternative to shutters and other "active" forms of hurricane protection that require installation and removal before and after each storm. Combining the impact resistance of WinGuard, PremierVue ™, PGT Architectural Systems, and PGT Commercial Storefront System with our insulating glass creates energy efficient windows that can significantly reduce cooling and heating costs. We also manufacture non-impact resistant products in both aluminum and vinyl frames including our SpectraGuard ™ line of products. Our current market share in Florida, which is the largest U.S. impact-resistant window and door market, is significantly greater than that of any of our competitors." (Form 10-K, March 19, 2015)

Thesis

PGT, Inc. (PGTI) has had great growth in the past year, both on the top and bottom line. Management has identified the improved new construction housing market as the primary catalyst for the sales growth. In addition to the growth, net margin has improved as well, related to economies of scale, reducing SG&A costs. The recent acquisitions have allowed PGT, Inc. to focus on costs and less on competing with other players in the market. The reduced competition and high cost of entry into the market have allowed PGT, Inc. to maintain higher margins; therefore PGT, Inc. is a recommended buy.

Industry Outlook

PGT, Inc. operates in the Building Products Industry, their key market area and the locations of their manufacturing, support and storage facilities are in Florida which makes up 88% of generated sales. Their main product lines are impact resistant windows and doors. A valuable product in an area that experiences tropical storms and hurricanes.

Exhibit 1

	Manufacturing	Support	Storage
	(in square feet)		
Owned:			
Main Plant and Corporate Office, North Venice, FL	348,000	15,000	—
Glass tempering and laminating, North Venice, FL	80,000	—	—
New glass facility, North Venice, FL	96,000	—	—
Insulated Glass, North Venice, FL	42,000	—	—
PGT Wellness Center, North Venice, FL	—	3,600	—
Leased:			
James Street Storage, Venice, FL	15,000	—	—
Center Court, Venice, FL	19,600	15,400	—
Endeavor Court, Nokomis, FL	—	2,300	—
Endeavor Court, Nokomis, FL	—	6,100	—
Technology Park, Nokomis, FL	—	1,800	—
Sarasota Warehouse, Bradenton, FL	—	—	48,000
Plant and Administrative Offices, Miami, FL	90,000	17,000	—
Total square feet	690,600	61,200	48,000

The outlook for construction market in Florida is strong, suggesting continued organic growth for PGT, Inc. Year over years new mandates are required by the government in the Florida requiring the installation of impact resistant windows to help combat damage to houses. Coupled with new housing construction, this situation is very favorable for the corporation. In early December, Time Equities announced they would be redeveloping a property south of downtown West Palm Beach. (source: Developer Plans Hundreds of Condos, Retail in West Palm Beach) This is an example of the growth expected in Florida as a result of recent economic conditions nationwide. The author of the article noted that the redevelopment plan is coming in the middle of a West Palm Beach development boom, citing several other construction plans that are under way or in the works. Coupled with codes that require impact resistant glass (source: Will Florida Codes Changes Boost Window Prices?) and PGT's saturation in the market it is not unexpected to see growth in the near future for PGT, Inc.

Porter's Five Forces

The bargaining power of suppliers is low, PGT, Inc. maintains a diverse supply chain sourcing its raw materials from numerous suppliers. The cost of switching supplies would not materially affect the company's operations. But the effects of costs of some of their raw materials, namely aluminum and polyvinyl butyral, could have a dramatic effect on costs.

The bargaining power of customers is low, PGT, Inc. maintains a current market share greater than any of the other competitors in the market. Their customer base is made of approximately 1,100 different distributors. The quality of their product is unrivaled in the market and switching to another supplier could present issues down the road that could have negative implications to the customer, demonstrating an intangible cost to switching.

The intensity of existing rivalry is medium, PGT, Inc. fights for the same distributors as other manufacturers. The importance of relationships with the distributors is paramount to maintaining an edge over competition. PGT, Inc. also has built strong relationships with installation experts by offering educational courses that build confidence in their products giving them an edge to other competitors in the market.

The threat of substitutes is low, government regulations requiring impact resistant glass in residential housing construction allows very minimal opportunity for substitutes to thrive. The quality of PGT, Inc. glass windows is not rivaled by other products, therefore the threat of substitutes, specifically PGT, Inc., is low.

The threat of new competition is low, the capital required to start a manufacturing business is intense. The technology is constantly evolving, requiring continual research and development. PGT, Inc. ensures continual technological advancements by completing in-house R&D and testing.

Acquisition

This November, PGT, Inc. announced the acquisition of WinDoor, Inc. This acquisition lies in line with PGT's strategy of acquiring "brands and products that generate revenue and leverage [their] core capabilities." This acquisition comes 18 months after they acquired CGI Windows and Doors Holding, Inc.

The acquisition is expected to enhance the leadership position PGT, Inc. already maintains in the industry, and to broaden the product offerings. Financially, WinDoor, Inc. already maintains higher margins, adding this corporation will not only add WinDoor's higher margins but will serve to increase the margins as the economies of scale becomes present for the acquisition.

The acquisition is expected to close in Q1 of 2016. PGT, Inc. will acquire WinDoor, Inc. with $350M in debt. The debt is expected to be used to pay for WinDoor and other purposes. The acquisition will be earnings accretive within 12 to 18 months, depending on cost of capital. Relaying the opportunity that WinDoor, Inc. will provide to PGT, Inc. in the short term and into the long term.

Competitive Advantage

There is no one competitive advantage that PGT, Inc. sticks to. Instead they managed to have diversified their advantage across the board. Besides offering a product line that boasts quality and innovation, PGT, Inc. has managed to vertically integrate into the market. Another key advantage of PGT, Inc. is their educational course that serve to train all the players in the industry, giving PGT, Inc. a step above other manufacturers.

PGT, Inc. relies heavily on the names of their subsidiaries and their own to generate sales. PGT, Inc. boasts the fact that they pioneered the impact-resistant market. They also have zero reported impact failures, furthering the brand name as number one in the industry.

They have vertically integrated with in-glass cutting, tempering and laminating that has not only managed to reduce costs but also lower lead-time. They are always looking for opportunities to further vertical integration into the market and consistently look to improve manufacturing efficiencies.

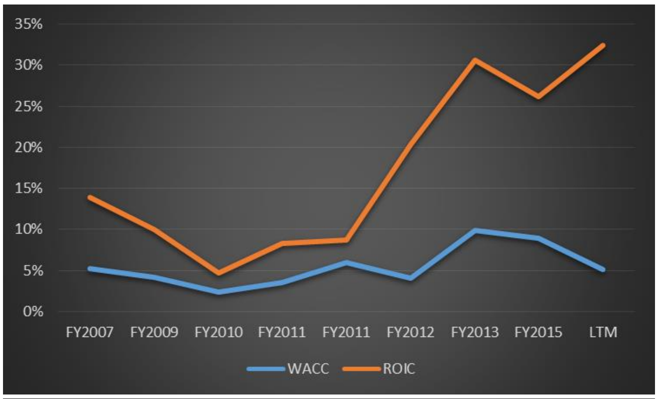
PGT, Inc. boasts training more than 40,000 customers, installers, architects and building code officials. This helps maintain relationships and gives their products an advantage over other products as their product is first to name whenever possible.

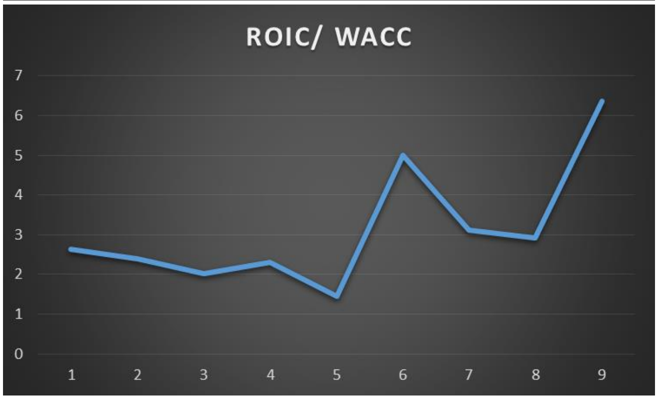
Overall no one real reason exists for PGT, Inc.'s growth and competitiveness. The diversified advantages help PGT, Inc. maintain their stake in the industry.

Financials

PGT, Inc. is a financially aggressive corporation. They use debt quite often, for acquisitions and growth opportunities. Year over year they have been able to create value. Looking at ROIC/WACC it is apparent that the management is able to manage this corporation with value creation in mind.

Exhibit 2





The second graph in Exhibit 2 shows that ROIC/WACC has ridden above 1 for many years, indicating value creation. ROIC/WACC has grown significantly, indicative of the synergistic benefits associated with their acquisitions. The value creation that PGT, Inc. has been able to maintain is impressive and will only increase further as they research and develop new products, continue their strategy and further maintain their advantages in the market.

Valuation

The valuation of PGT, Inc. is computed by a pro forma using a discounted cash flow model and a main focus on invested capital. At the end of the report is attached a brief overview of assumptions and results of the pro forma.

When valuing PGT, Inc. an aggressive approach has been applied. A 6% market premium was applied to account for their small cap status. A fast decay from the LTM revenue growth was used to forecast the revenues into the continuing period where a 3% terminal growth was applied.

I assumed that all other forecast variables, such as operating costs, beta, capital structure, etc. will reflect the company's historical values. Indicative of "what will the company be if they do not change?" Cash will be reinvested into the business reflected of their commitment to growing their business into the future. R&D and rent expense were both capitalized straight-line over 10 years.

The intrinsic value was computed as $20.92 and the 1 year return will net $21.43.

Summary

A qualitative and quantitative analysis has led me to believe that PGT, Inc. will become a cash cow. Value creation into the future is apparent, and the effectiveness of the management to capture the increasing market share in both Construction and Aerospace and Defense will play a large part in their ability to continue the growth of the corporation. I recommend at BUY at the current price of $11.35.

Other Sources:

- PGT, Inc. , 10-K
- Capital IQ
- Bloomberg
- SEC
- ir.pgtindustries.com

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PGT, Inc.	PGTI	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	1-y Return: 88.79%	BULLISH
		Daniel Bacchi	$11.35	$20.92	$21.43	0%		

General Info	
Sector	Industrials
Industry	Building Products
Last Guidance	December 9, 2015
Next earnings date	February 24, 2016
Market Data	
Enterprise value	$690.20
Market Capitalization	$55.45
Daily volume	0.01
Shares outstanding	48.65
Diluted shares outstanding	50.20
% shares held by institutions	6.72%
% shares held by insiders	3.15%
Short interest	5.49%
Days to cover short interest	6.60
52 week high	$16.15
52-week low	$8.28
5y Beta	1.20
6-month volatility	56.83%

Peers	Market Cap.
Apogee Enterprises, Inc.	$1,323.86
Builders FirstSource, Inc.	$1,328.70
Masco Corporation	$9,858.63
Continental Building Products, Inc.	$759.60
Quanex Building Products Corporation	$594.56
Patrick Industries Inc.	$625.08
Beacon Roofing Supply, Inc.	$2,442.89
Gibraltar Industries, Inc.	$787.80
Armstrong World Industries, Inc.	$2,556.89

Current Capital Structure	
Total debt/Common Equity (LTM)	0.33
Cost of Borrowing (LTM)	5.56%
Estimated Cost of new Borrowing	6.36%
Altman's Z	2.73
Estimated Debt Rating	CCC
Current levered Beta	0.72
LTM WACC	5.08%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2015
Hershberger, Rodney	Co-Founder, Chairman of the Board, Chief E	$892,620	$1,021,422	$0
Jackson, Jeffrey	President and Chief Operation Officer	$644,700	$711,693	$0
West, Bradley	Chief Financial Officer	$0	$0	$0
Ferrucci, Mario	Vice President, General Counsel and Secretary	$343,205	$355,227	$0
LaPinska, Deborah	Vice President of Human Resources	$311,279	$321,841	$0
Mikesell, Danielle	Vice President of Marketing, R&D and Custo	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	0.60%	-17.26%	-23.53%	7.23%
Last Quarter-1	-1.15%	-0.99%	0.00%	0.36%
Last Quarter -2	4.36%	12.95%	27.27%	6.68%
Last Quarter -3	2.49%	-4.36%	-11.11%	3.93%
Last Quarter -4	1.56%	-4.43%	-7.69%	2.71%
Standard error	0.9%	4.8%	8.5%	3.07%
Standard Error of Revenues prediction	0.9%			
Imputed Standard Error of Op. Cost prediction	4.7%			
Imputed Standard Error of Non Op. Cost predictio	7.0%			

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (71th Percentile), Intensity of Existing Rivalry (0th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (90th Percentile).

Proforma Assumptions

Convergence Assumptions

All base year ratios linearly converge towards the Company ratios over an explicit period of 10 years

General Assumptions	
Money market rate (as of today)	0.41%
Risk-Free rate (long term estimate)	3.00%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	37.5%
Country Risk Premium	6.0%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$381.52
FY2016	25.0%	$479.03
FY2017	15.0%	$552.65
FY2018	9.0%	$610.67
FY2019	6.0%	$653.71
FY2020	4.5%	$692.04
FY2021	3.8%	$730.02
FY2022	3.4%	$770.17
FY2023	3.2%	$814.04
FY2024	3.1%	$862.68
FY2025	3.0%	$916.89
Continuing Period	3.0%	$977.14

Items' Forecast Assumptions

	Base year (LTM)	Convergence period (Company)	Adjustment per year
Operating Cash/Rev.	0.00%	0.00%	0.0%
NWV/Rev.	12.87%	12.87%	0.0%
NPPE/Rev.	18.18%	18.18%	0.0%
Dpr/NPPE	8.53%	8.53%	0.0%
NOPAT MARGIN	9.82%	9.82%	0.0%
Op. Exp./Rev.	83.81%	83.81%	0.0%
SBC/Rev.	0.42%	0.42%	0.0%
Rent Exp./Rev.	0.42%	0.42%	0.0%
R&D/Rev.	0.47%	0.47%	0.0%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	16.32%	16.32%	0.0%
ROIC	32%	32.38%	0.00%
EV/Rev.	2.01x	1.20x	-0.08x
EV/EBITA	13.53x	9.75x	-0.38x
Debt/Equity	33%	52%	1.9%
Unlevered beta	0.59	0.59	0.00
Dividends/REV	0%	0%	0.0%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Cost of capital
Other claims on the firm's assets	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus	
DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions	
Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (6.79%, 6%, 7.21%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value σ(ε)	$0.09
1-year target price σ(ε)	$0.10

Valuation

Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share
LTM	32.4%	5.1%	$170.03	$1,179.17	$207.58	48.65	$20.83
FY2016	34.5%	5.2%	$184.27	$1,195.66	$211.37	48.65	$21.28
FY2017	29.9%	5.3%	$229.29	$1,249.18	$214.22	48.65	$22.06
FY2018	26.5%	16.1%	$279.09	$1,439.53	$216.47	48.65	$25.66
FY2019	23.3%	8.0%	$332.18	$1,542.90	$218.15	48.65	$27.35
FY2020	20.7%	7.6%	$388.61	$1,648.05	$219.63	48.65	$29.00
FY2021	18.6%	7.5%	$448.54	$1,759.73	$221.11	48.65	$30.72
FY2022	17.0%	7.5%	$512.30	$1,879.90	$222.66	48.65	$32.55
FY2023	15.7%	7.6%	$580.29	$2,009.94	$224.37	48.65	$34.49
FY2024	14.7%	7.7%	$653.01	$2,151.11	$226.25	48.65	$36.57
FY2025	13.9%	7.7%	$731.00	$2,304.66	$228.36	48.65	$38.80
Continuing Period	32.4%	7.8%	$296.41				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $20.92; the 3σ(ε)-adjusted target price is $21.43; and the analysts' median target price is $14.14

Sensitivity Analysis

Revenue growth variations account for 95.9% of total variance
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total variance
Continuing period growth variations account for 0.2% of total variance

Pozen, Inc.
NasdaqGS:POZN

Analyst: Nils Weddig
Sector: Healthcare

BUY

Price Target: $9.30

Key Statistics as of 12/11/2015

Market Price:	$6.48
Industry:	Drug Manufacturers - Other
Market Cap:	$215.14 M
52-Week Range:	$5.49-$12.69
Beta:	1.74

Thesis Points:

- Recent acquisition will significantly diversify Pozen's product portfolio and provide future revenue growth
- Discount on POZN due to negative macroeconomic news and insider sales
- Pozen is creating value even without the FDA approval of their innovative drug YOSPRALA

Company Description:

Pozen, Inc. is a pharmaceuticals firm founded in 1996 and based in Chapel Hill, North Carolina. Pozen is in the business of manufacturing and licensing specialty drugs in the United States as well as internationally. Pozen's products are marketed for the treatment of acute and chronic pain, as well as therapies for other pain related conditions such as osteoarthritis, ankylosing spondylitis and rheumatoid arthritis. In addition, Pozen is offering various products for treatment of migraine attacks and is currently awaiting the FDA approval for one of their products, YOSPRALA which will provide the cardiovascular benefit of aspirin, causing less gastrointestinal side effects than aspirin.

Thesis

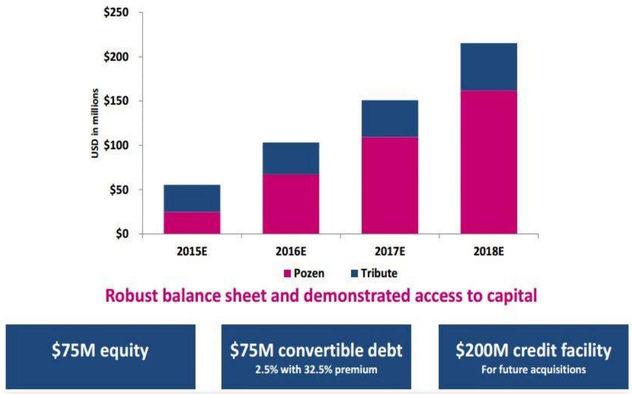
Pozen, Inc. (NasdaqGS: POZN) is a fast growing specialty pharmaceutical firm with a promising product portfolio as well as pending approval for an innovative drug that will further boost the company's revenue growth.
Negative macroeconomic news as well as insider sales caused the company's stock price to decrease by 35.46% since September. In addition, the recent acquisition of Tribute Pharmaceuticals Canada, Inc. caused a negative reaction of the market and further led to a discount on POZN although the acquisition will further diversify Pozen's product portfolio and lead to future growth of the merged firm Aralez Pharmaceuticals Inc. Lastly, Pozen's current financial performance demonstrates the company's ability to create value even without the FDA approval of their innovative drug, YOSPRALA.
A BUY of Pozen, Inc. (POZN) is therefore recommended with a one-year target price of $9.30. Currently trading at $6.48, it will provide an upside potential of 51.75%.

Industry Outlook

Pozen, Inc. is primarily providing products for the specialty drug industry. The outlook for the industry is very positive and Pozen is expecting significant growth in the upcoming years. Overall, the specialty pharmaceutical industry is growing at a fast pace. However, firm specific growth depends on each company's product portfolio and pipeline. Therefore, Pozen is positioned relatively well in the market due to their current diversified product portfolio and a promising drug in their pipeline.
YOSPRALA provides a unique market opportunity for growth. The target market of secondary prevention patients in the U.S. amount to approximately 24 million. Additional growth will come from Pozen's Canadian and European customers. Management expects mid-single digit market share for YOSPRALA.
The market outlook of Business Insights identifies multiple growth drivers for the specialty pharmaceutical industry. Drivers of the market will be the increase in government and national health bodies' reimbursements, biotechnology growth and industry consolidation. The biggest resistor on the other hand will be an increase in competition through the entry of large pharmaceutical firms into the market.
United Health Group states that U.S. spending on specialty drugs was approximately $87 billion in 2012 and is expected to grow to about $400 billion by 2020.

Acquisition Leading To Diversification of Product Portfolio

Pozen is expected to complete its acquisition of Tribute Pharmaceuticals in Q1 FY 2016. There have been several changes in the execution of the merger between the two companies. Originally, the merged firm Aralez Pharmaceuticals was supposed to be located in Ireland. Being forced to relocate the new firm to Canada received a negative reaction in the market and led to a discount of POZN in the market.
This negative reaction however is not justified. The acquisition of Tribute and relocation to Canada will still provide the intended tax advantages and the new management, under the lead of Pozen's new CEO Adrian Adams, will focus on a more value creating strategy combining both organic and inorganic growth of the company. Management stated that it will primarily focus on an aggressive business development strategy with value-creating acquisition that are targeted to increase the inorganic growth of the company. Financing of the acquisition will come from Deerfield Management, a venture capitalist that committed a $200 million credit line for future acquisitions. In addition, the acquisition will further diversify Pozen's product portfolio.



On November 23rd 2015, Pozen and Tribute released an update regarding their planned merger and announced for the first time that the new firm Aralez will now be located in Canada instead of Ireland. This caused a decrease of POZN's stock price by 4.47% and recently further declined due to the market's negative sentiment regarding this announcement. The discount however is not justified and Pozen's management is confident that the move to Canada instead of Ireland will have further competitive advantages since Aralez can take advantage of Tribute's current business foundation in Canada.

Why The Market Is Wrong: Overreaction to negative macroeconomic news

Since September, Pozen's stock price declined by 35.46% due to a tweet by Hillary Clinton as well as insider sales in the company.
On September 21st 2015, Presidency Candidate Clinton heavily criticized the past trend towards high prices in the specialty pharmaceutical industry. She released a statement planning to fight the high prices on specialty drugs. This announcement led to a sector wide decline of pharmaceutical stocks, primarily affecting pharmaceutical firms like Pozen. Clinton's critic was related to a large price increase of $736.50 on Turing Pharmaceuticals' drug for cancer treatment. Clinton's tweet caused the NYSE Arca Pharmaceutical Index (DRG) to decrease by 7.33% within one week. During the same period POZN decreased by 39.49% and has not yet recovered from this price decline.
Further downward pressure on POZN came in recent months from insider sales. However, new CEO Adrian Adams has purchased among others recently 1,000,000 shares of Pozen's stock which is an indicator of his confidence in the company and a possible indicator of POZN's current undervaluation.

Management

Pozen, Inc. is currently being managed by CEO Adrian Adams. He has an executive team around him with several years of experience in the specialty pharmaceutical industry.

Mr. Adams has recently been introduced as the new CEO after founder John Plachetka retired. Previous founder and CEO Plachetka played a large role in choosing the new CEO, Adams, and sees him as the right fit for the company. Mr. Adams is a highly regarded CEO in the specialty pharmaceutical industry with experience of more than 30 years. He especially has expertise in commercializing new products and is focused on business development and growth which will be important in the upcoming months in the transition to the new company Aralez Pharmaceuticals. Additionally, Mr. Adams has a proven track record of creating value for the companies he has been managing and increasing shareholders' wealth. Every company he has managed in the past has been acquired by a larger pharmaceutical firm, clarifying his ability to grow valuable companies.

Value Creation

The FDA approval of YOSPRALA will lead to a large increase of Pozen's revenue growth due to the potential opportunity to gain a large market share. In November 2014, POZN was trading 38% higher at a price of $10 when the market expected the approval of YOSPRALA to happen in 2016. The long process and continuous setbacks in the FDA approval process led to an uncertainty currently prevailing in the market regarding the possibility of the introduction of YOSPRALA to the market. This uncertainty is one of the reasons for the current discount on POZN.
Analyzing Pozen's past earnings calls however demonstrates the confidence of Pozen's management regarding the possible FDA approval. The management believes that Pozen is closer than ever in getting YOSPRALA approved in 2016. Especially the change in management and Mr. Adams willingness to use a different ingredient supplier of aspirin provides Pozen with a bigger opportunity of receiving the FDA approval. Issues regarding Pozen's current ingredient supplier caused the setbacks and the FDA's refusal of approving YOSPRALA since Pozen's ingredient supplier does not apply to the FDA's regulations.
A closer look into Pozen's financials proves the company's ability to create value even without an approval of Pozen's new drug, YOSPRALA. Therefore, Pozen does not necessarily depend on the FDA approval in order to continue operations in the upcoming years. Pozen's ROIC/WACC ratio of 7.44 demonstrates Pozen's ability to create value in the LTM. The additional revenue growth of the merger with Tribute will further enable the company to create value in the upcoming years.
(Source: S&P Capital IQ)

Financials

Pozen, Inc. has positioned itself with the upcoming merger among industry leaders in the specialty pharmaceutical industry and experienced large growth in the past years.
In FY2014 the company grew revenues by 213%. For the LTM revenue grew by 21.6%. Total operating expenses, excluding D&A and stock based compensation, only increased by 3.38% in the same period. The increase in operating expenses is primarily due to transitional costs related to the change in management, pre-commercialization expenses for YOSPRALA and preparations for the upcoming merger. In addition to the $200 million commited capital by Deerfield Management, Pozen has a current cash balance of $41.65 million. This puts the company in a promising position for future growth through value creating acquisitions.

Valuation

The valuation of Pozen, Inc. (POZN) is based on a proforma that values the company with a discounted cash flow model and focuses on the company's return on capital. A summary of the outputs of the valuation is attached to this report and can be found on the last page. When valuing Pozen, a conservative approach has been utilized. The revenue growth for FY 2016 and FY 2017 are analysts' median estimates of -20.1% and 169.4% respectively. Revenue growth has been set to decline year-over-year at a fast speed of reversion towards LT stability to reach a revenue growth for the long-term of 3%. This is a conservative approach, assuming revenue growth to follow long-term GDP growth.
Historically, the company's operating expenses as a percentage of revenue have been at 53.2%. Pozen plans to continue to acquire target firms that they identify of being value adding to increase organic growth. Therefore, the assumption of increasing operating costs up to a ten year convergence ratio of 72.5% has been used when valuing Pozen, Inc.

Summary

Pozen is currently heavily discounted in the market. Especially negative macroeconomic news led to an overreaction of the market. The continuous setbacks in the company's FDA approval process further discounts Pozen's stock price at this moment. Analysis however demonstrates that at the same time Pozen is able to create value which proves that the current valuation of Pozen at a price of $6.48 is not justified. A BUY of Pozen, Inc. (POZN) is therefore recommended with a one-year target price of $9.30. Currently trading at $6.48, it has an upside potential of 51.75%.

Sources:
- Pozen, Inc. 10-K
- Pozen, Inc. Investor Presentations
- Business Insights Market Outlook
- United Health Group Market Outlook
- Capital IQ
- Bloomberg
- SEC
- http://www.pozen.com/

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POZEN Inc.	POZN	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	1-y Return: 51.75%	BULLISH
		Nils Weddig	$6.13	$8.02	$9.30	0%		

General Info	
Sector	Healthcare
Industry	Pharmaceuticals
Last Guidance	November 6, 2014
Next earnings date	November 9, 2015

Market Data	
Enterprise value	$157.09
Market Capitalization	$4,449.48
Daily volume	0.22
Shares outstanding	32.42
Diluted shares outstanding	32.38
% shares held by institutions	26.01%
% shares held by insiders	11.05%
Short interest	7.36%
Days to cover short interest	4.52
52 week high	$12.69
52-week low	$5.49
5y Beta	1.51
6-month volatility	73.12%

Peers	Market Cap.
Zogenix, Inc.	$295.45
Merck & Co. Inc.	$155,224.76
Johnson & Johnson	$282,698.63
Cumberland Pharmaceuticals, Inc.	$104.92
Xenoport, Inc.	$387.93
Concept Therapeutics Incorporated	$438.89
Pfizer Inc.	$216,227.21
Achaogen, Inc.	$101.45

Current Capital Structure	
Total debt/Common Equity (LTM)	0.01
Cost of Borrowing (LTM)	0.00%
Estimated Cost of new Borrowing	2.63%
Altman's Z	8.98
Estimated Debt Rating	AAA
Current levered Beta	0.56
LTM WACC	7.30%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Hodges, William	Chief Financial Officer and Senior Vice Preside	$744,867	$626,065	$885,327
Thomas, Gilda	Senior Vice President, General Counsel and Se	$713,213	$603,511	$854,173
McNamara, Dennis	Chief Business Operations Officer and Senior	$399,811	$302,992	$710,772
Fort, John	Chief Scientific Advisor	$758,543	$652,460	$910,498
Adams, Adrian	Chief Executive Officer and Director	$0	$0	$0
Koven, Andrew	President and Chief Business Officer	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	-4.94%	NM	NM	NM
Last Quarter-1	-4.94%	NM	NM	NM
Last Quarter -2	15.67%	23.27%	40.00%	7.19%
Last Quarter -3	0.53%	0.00%	100.00%	33.24%
Last Quarter -4	10.75%	0.00%	50.00%	15.20%
Standard error	4.2%	7.8%	18.6%	9.64%
Standard Error of Revenues prediction	4.2%			
Imputed Standard Error of Op. Cost prediction	6.5%			
Imputed Standard Error of Non Op. Cost predictio	16.9%			

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (100th Percentile), Intensity of Existing Rivalry (100th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (100th

Proforma Assumptions

Convergence Assumptions

All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years

General Assumptions	
Money market rate (as of today)	0.37%
Risk-Free rate (long term estimate)	2.93%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	26.5%
Country Risk Premium	8.0%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$27.03
FY2015	-20.1%	$21.60
FY2016	169.4%	$58.20
FY2017	50.0%	$87.30
FY2018	26.5%	$110.43
FY2019	14.8%	$126.72
FY2020	8.9%	$137.97
FY2021	5.9%	$146.16
FY2022	4.5%	$152.69
FY2023	3.7%	$158.40
FY2024	3.4%	$163.73
Continuing Period	3.0%	$168.64

Items' Forecast Assumptions

	Base year (LTM)	Convergence period (Sub-industry)	Adjustment per year
Operating Cash/Rev.	20.72%	0.00%	-2.1%
NWV/Rev.	0.00%	14.66%	1.5%
NPPE/Rev.	0.10%	41.77%	4.2%
Dpr/NPPE	71.49%	15.40%	-5.6%
NOPAT MARGIN	50.78%	19.58%	-3.1%
Op. Exp./Rev.	53.24%	72.50%	1.9%
SBC/Rev.	15.81%	1.62%	-1.4%
Rent Exp./Rev.	1.55%	0.83%	-0.1%
R&D/Rev.	19.10%	11.33%	-0.8%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	34.20%	26.42%	-0.8%
ROC	25%	13.29%	-1.19%
EV/Rev.	10.74x	2.39x	-0.83x
EV/EBITA	18.19x	8.98x	-0.92x
Debt/Equity	1%	44%	4.3%
Unlevered beta	0.55	0.78	0.02
Dividends/REV	0%	7%	0.7%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Money market rate
Other claims on the firm's assets	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus

DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions

Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (7.76%, 8%, 8.24%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value σ(ε)	$0.09
1-year target price σ(ε)	$0.10

Valuation

Forecast Year	ROC	WACC	Total Capital	Implied Enterprise Value	Other Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share
LTM	25.2%	7.3%	$56.08	$261.07	$17.24	32.42	$7.35
FY2015	17.8%	7.6%	$70.42	$285.19	$13.69	32.42	$8.81
FY2016	43.0%	7.9%	$109.38	$316.40	$17.97	32.42	$9.89
FY2017	37.8%	8.2%	$146.54	$338.01	$18.81	32.42	$10.62
FY2018	32.5%	8.4%	$180.35	$352.75	$16.54	32.42	$11.04
FY2019	27.5%	8.7%	$208.46	$362.02	$16.24	32.42	$11.20
FY2020	23.5%	9.0%	$231.29	$368.43	$14.80	32.42	$11.24
FY2021	20.4%	9.3%	$249.94	$374.17	$12.63	32.42	$11.26
FY2022	17.9%	9.6%	$265.40	$380.67	$10.01	32.42	$11.29
FY2023	15.9%	9.9%	$278.44	$388.90	$0.00	32.42	$11.35
FY2024	14.4%	10.1%	$289.72	$399.52	$0.00	32.42	$11.74
Continuing Period	13.3%	10.2%	$248.43				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $8.02; the 3σ(ε)-adjusted target price is $9.3; and the analysts' median target price is $15.17

Sensitivity Analysis

Revenue growth variations account for 95.9% of total variance
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total variance
Continuing period growth variations account for 0.2% of total variance