Stock	Doc #	Thesis	Current Price	Target Price
Natus Medical Inc (BABY)	5	My recommendation is a LIMIT BUY as of February 4, 2015 aat a price of $33.00 as I see continued growth and developing products under an experienced, loyal management team. Natus is currently very accurately priced, and I expect the price to drop at sometime within the quarter to lower 30's, of which is when we shall buy. With their preexisting products continuing to grow within both U.S. and international facilities as well as two acquisitions in 2015 already, of two small cap companies each with developed products, Natus Inc. is expanding rapidly. The company is in a solid position financially after retiring all of their remaining debt they had in the last quarter of 2014 and also repurchasing $1.2 million of their own shares. Margins are continuing to grow, with profitability especially growing, faster than the company's original expectations.	$36.55	$37.90
Flotek Industries Inc. (FTK)	6	As the price of crude oil continues to trade between $40-50, Flotek Industries is a company well positioned to survive the current storm. Flotek Industries is a buy at the current price of $16.26 and has a target price of $19.20, a potential upside of 18%. The stock is considered undervalued despite the good management team and the adequate strategy to tackle the volatile times. Flotek Industries is a company that has a strong balance sheet with positive free cash flow and increasing revenue. The firm continues to develop new products and define itself as a leader in green oilfield chemistry.	S16.26	$19.20
General Finance Corporation (GFN)	7	I would recommend a BUY on General Finance Corporation at $13.50. Ron's strong management and knowledge of the industry helps guide the company in the right direction and is making the next big step in growing the company. The potential growth vehicles with its recent acquisitions (Lone Star) will be a big impact in increasing its revenue and EBITDA. Along with its amazing strong trending growth displayed in the financials, the company foresees itself increasing its revenue and EBITDA. The company is still in the growing stage and the peak is nowhere close in the future as they continue to expand its network and potentially acquire more companies to further the value of General Finance Corporation.	$7.92	$13.50
Kate Spade & Company (KATE)	8	Kate Spade & Company is a buy because of their strategic partnerships, diversification in brand, and global expansion. Currently, their strategic partnerships will allow them to realize increased EBITDA margins. The diversification of their products and brand allows the company to have multiple sources of revenue, which have significant growth potential. The availability and plan to grow globally gives the company a greater potential for growth.	$32.32	$37.60
Lannett Co Inc (LCI)	9	Lannett has shown a consequent growth for the past few years in a competitive promising market. Lannett, thanks to its strategic partnerships, should be able to keep such high margins. With the increasing number of drugs' patents expiring in the years to come, Lannett will continue to expand its product selection and propose to its customer new generics. In a market environment where healthcare spending is a real concern for households, the demand for generics becomes crucial. With LCI's margin improvement and its upcoming product launches, the company should be able to keep improving its EBITDA and increase its shareholder value. With generics companies trading 12.6% below analyst price targets, I recommend LCI as a buy.	$51.70	$68.50
Ligand Pharmaceuticals (LGND)	10	Ligand is a BUY because of their highly diversified portfolio of products, both on the market, and in their pipeline. They are diversified across many different diseases. Their pipeline includes five major assets that are likely to produce important news catalysts in the next 6-24 months. They have financial strength, with revenues coming from three sources: Licensing, Royalties and Captisol., all of which have unlimited growth potential as new products in their pipeline will soon be commercially available. They are also the makers of Captisol, a formulation that improves product development for pharmaceutical companies. It allows Ligand to partner with many major drug companies to launch new, innovative products, generating more revenue.	$54.99	$88.70
RPX Corporation (RPXC)	11	RPX Corporation was founded in 2008 and is headquartered in San Francisco, California. The company provides patent risk management solutions on a subscription fee basis to companies operating within the technology industry in the US and internationally. RPX Corporation's services include "Defensive Patent Acquisitions", "Syndicated Acquisition", "Market Intelligence and Advisory Services", and "Litigation Insurance". Their purpose is to help companies protect, exchange, and be informed on the use and ownership of patents.	$12.81	$19.60
SEI Investments Co. (SEIC)	12	I am recommending a buy on SEI Investments Co. for their consistent financial growth that will continue to grow as they expand their market activity. The stock has surpassed its 52 week high during my analysis of it and based on analysis and estimates this value should only continue to rise and push the ceiling of this stock price higher. With their adaptability to market trends, plans to land jumbo clients in the near future, backed by solid financials, I am recommending a buy on SEI Investments Co. in belief that it will reach, if not exceed its one year target price of $44.50.	$42.12	$44.50
Taser International Inc. (TASR)	13	Taser, a leading company in its sector providing mainly weapons has recently launched a new promising segment in its production and is investing into new markets. It seems that the company is at a point where it is on a track for better margins, global recognition, and constant significant sales' growth. For those reasons, everything is indicating that the stock's price will increase over the next	$26.98	$36.00

		couple of years.		
Trecora Resources (TREC)	14	I recommend a buy on Trecora Resources at a current price of $13.71. The mean target price is $17.23, which corresponds to a 25% growth from current price. The company has performed very well over the past five years, with increasing revenues and margins. With favorable macroeconomic conditions, high competitive positioning, strong financial statement and high growth forecasts, Trecora Resources is expected to perform even better during the next fiscal year.	$13.71	$16.00

Macroeconomic Overview

This past week, all major U.S. indices increased on a weekly basis after the recovery in oil prices and favorable earnings and economic reports caused stocks to record gains. In effect, the Dow Jones Industrial Average and the NASDAQ Composite gained 2.67% and 1.45% respectively, while the S&P 500 increased by 1.71% during the last week. Small cap stocks measured by the Russell 2000 index experienced higher returns throughout the week with an increase of 2.55%. The VIX week-to-date change of -11.01% indicates that volatility levels decrease at a faster rate during the past week compared to its year-to-date change of -2.81%. The yield on the 10-year U.S. T-note increased by 27 basis points to 1.95%, indicating that investors' demand for safer investments decreased during the week. In addition, oil prices started to recover, being currently at a price of $51.69.

U.S. Stocks		
Index	% Change Week-to-Date	% Change Year-to-Date
DJIA	2.67%	0.01%
S&P 500	1.71%	-0.17%
NASDAQ Composite	1.45%	0.18%
Russell 2000	2.55%	0.01%
VIX	-11.01%	-2.81%

This week's stock price momentum was primarily driven by positive U.S. economic data. The Labor Department reported a higher than expected increase in jobs, with 257,000 jobs added by employers in January. Reported employment data of previous months has been revised, stating additional job gains of 147,000. The unemployment rate decreased slightly in January to 5.7% and the labor force participation rate increased by 2 basis points to 62.9%. The U.S. inflation rate decreased to 0.8% compared to 1.3% in the previous month, which keeps inflation below the Fed's 2% target for now 32 straight months. In addition to the improvement of the labor market, fourth-quarter

earnings reports have had positive impacts on the market, contributing to the rally in stock prices in the past weeks. The analytics firm FactSet projected overall Q4 earnings to increase by 3% in the S&P 500.

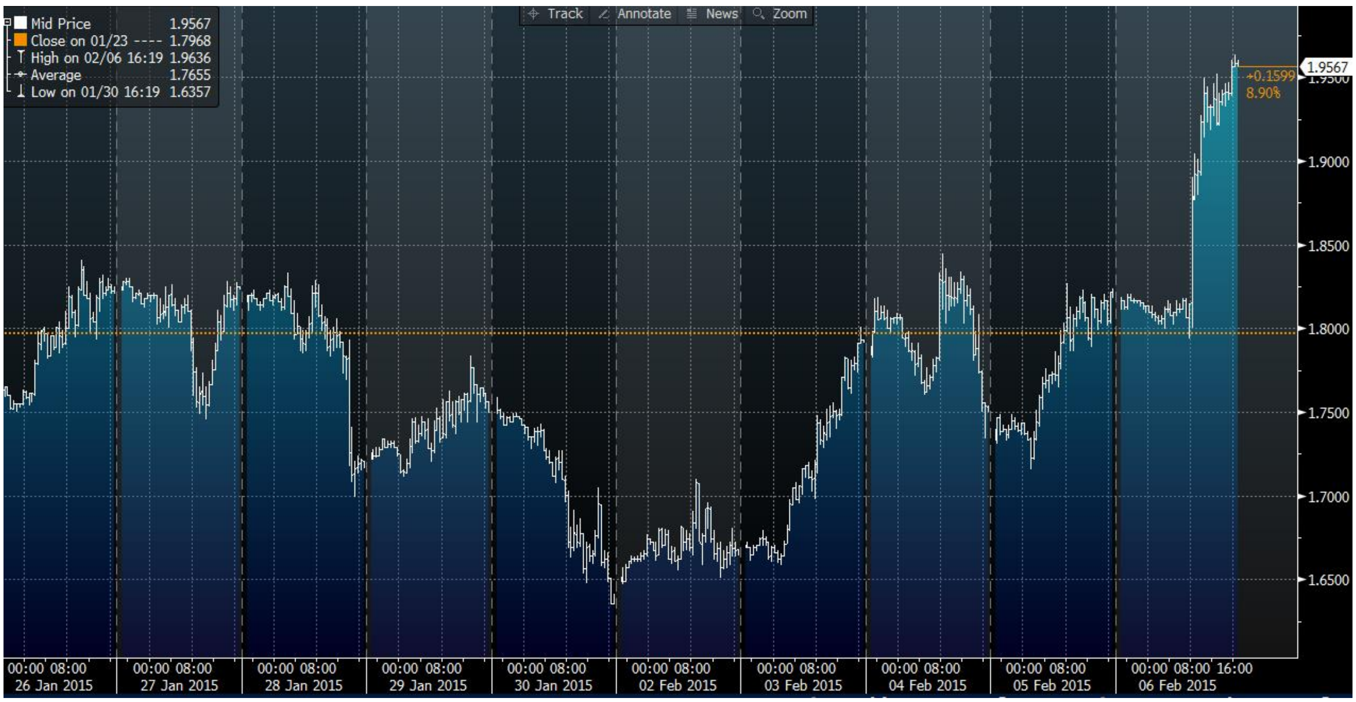
In the past week oil prices posted their largest one week percentage gain of 4.28% since 2011 after signals of temporarily reduced drilling activity in the U.S. The overall number of U.S. drilling rigs in operation experienced its largest weekly decrease since 1987, according to oil services firm Baker Hughes. However, analysts expect that continued oversupply in the global oil market will keep crude oil prices low in the near future. The auto market experiences positive impacts from the currently low gas prices. Auto sales, especially of high-value pickups and SUVs, increased significantly in January, beating expectations in a usually slow month of January.

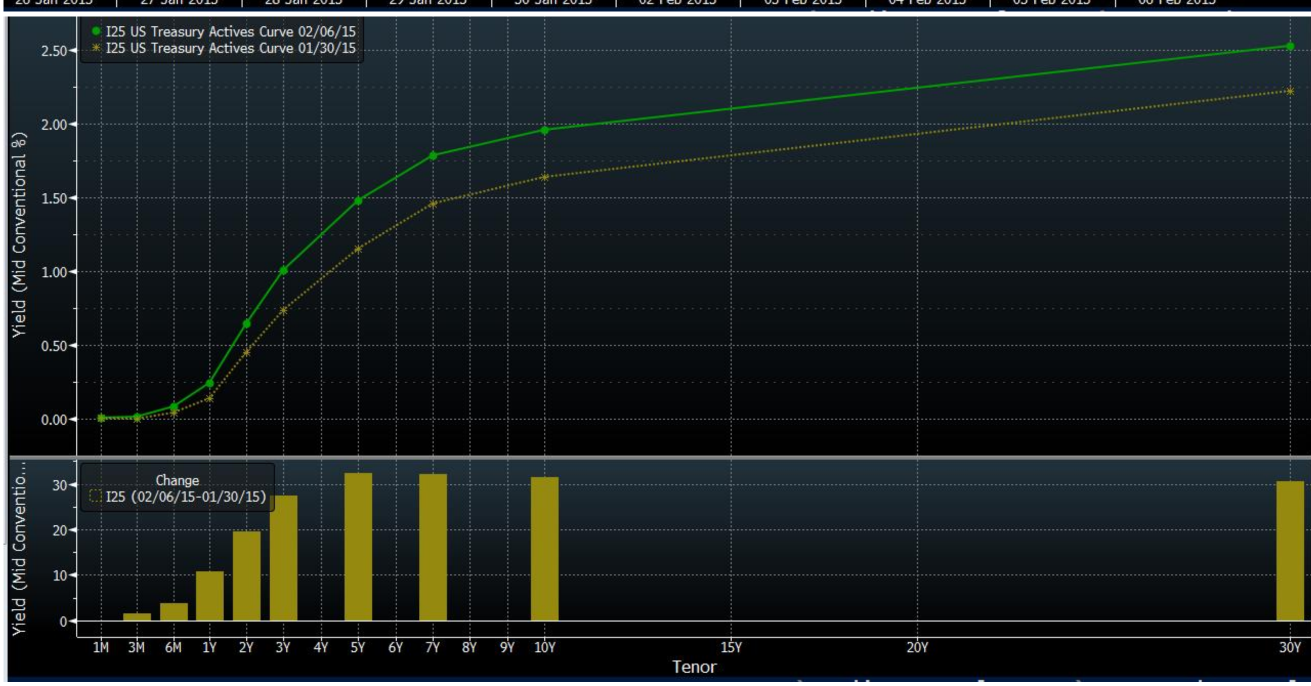
After recently reporting the slowest annual growth rate in 25 years, China's central bank announced on Wednesday that Chinese commercial banks will be able to loan out additional $100 billion due to a lower amount of reserves banks will be required to hold. This signal worries analysts about the country's slowing economy and recently led to large amounts of investors' funds leaving the economy. Another indicator of capital flowing out of China is the country's fourth-quarter report about the largest deficit in its capital and financial account in more than a decade. Regarding the Eurozone, one of the European Central Bank's main goals in the following months will be to fight deflation, recently reporting an inflation rate of -0.4%. Retail sales in the Eurozone rose for a third straight month and at the economy's fastest annual growth rate in nearly eight years. This is an indicator that falling oil prices led to increased consumer spending, boosting the economic growth in Europe. The European Union's official economist stated that lower oil prices and a weaker euro will boost growth in the Eurozone leading to improved growth forecasts for 2015.

Next week, investors will be looking forward to see data from different economic reports that will have an impact on the U.S. markets. On Monday 9th, China will release their Consumer Price Index (YoY). On Tuesday 10th, Great Britain will report on the economy's manufacturing production (MoM). The following day, Wednesday 11th, Australia will release the country's employment data. On Thursday 12th, Bank of England will release the economy's inflation report. On the same day, the U.S. Census Bureau will release U.S. retail sales numbers. At the end of the week on Friday 13th, Germany will release the country's Q4 GDP data. As we can see, next week's reports will be important for the global markets and their future outlooks.

Bond Report

U.S. Treasury Yields have jumped this past week, most notably on Friday, with the subsequent yield curve flattening. This movement in treasury yields comes as a result of U.S. Government officials releasing a progressive labor market report. The report discloses resurgence in the job market and boosts in pay, which in turn raises the expectations of a rise in interest rates in mid-2015 by the Federal Reserve. Investors have responded to this report by selling off U.S. Treasuries which continues to send bond prices down and yields up. Approximately $480 billion worth of Treasury Bonds were traded on Friday, as compared to the same time period a month before with an average of $180 billion traded. The 10-year Treasury note yield rose from 1.68% in the beginning of this week, closing at 1.95% on Friday – a .27% increase and the highest percentage point increase since June 2013. The uncertain global outlook has put the Federal Reserve in a tough spot on deciding when to raise interest rates; this will continue to cause great volatility in the bond market. Even with the volatility and continuing low yields in the U.S. analysts state U.S. bonds will continue to see strong interest from investors due to the shoddy economic growth and even lower yields in Japan and Europe.





What's Next & Key Earnings

On Tuesday, February 10th, the U.S. Bureau of Labor Statistics will release its data of JOLTS's Job Openings. This is a report of statistics compiled by surveyors who help to identify current job openings, recruitment opportunities, hires and separations at businesses. A reading that is stronger than forecasted is generally a bullish indication of the USD, while a weaker than forecasted will be seen as bearish.

On Wednesday, February 11th, FOMC member Richard Fisher is set to speak about "Monetary Policy and a Reflection on 10 years at the Fed." These speeches are closely watched by investors because FOMC members are responsible for setting the benchmark interest rate, as well as identifying indicators on possible changed in monetary policy in the future. He also speaks on Friday 2/13.

Also on Wednesday, the Energy Information Administration will be releasing reports on inventory levels of U.S. crude oil, gasoline and petroleum distillates stocks. These numbers released tells us how much oil is available in storage, as well as an insight of the U.S. demand for petroleum. This can affect already very volatile U.S. oil securities as well as gas prices, which has effect on inflation.

On Thursday, February 12th, the Census Bureau is releasing their Core Retail Sales Report and Retail Sales Report. Core Retail Sales measures the change in the total value of sales at the retail level in the U.S., excluding automobiles. Retail Sales measure the change in the total value of inflation-adjusted sales at the retail level. It is the foremost indicator of consumer spending, which accounts for the majority of overall economic activity. The forecast is set at -.5%, up from the previous -.9% in January.

Symbol	Company	Actual	Forecast	Prev.	Imp.	Period End
		Monday, February 9, 2015				
CSC	Computer Sciences		1.12	-		12/2014
DO	Diamond Offshore Drilling		0.65	0.96		12/2014
DNB	Dun&Bradstreet		2.63	1.85		12/2014
HAS	Hasbro		1.21	1.46		12/2014
L	Loews		0.53	0.63		12/2014
MAS	Masco		0.2	0.31		12/2014
TE	TECO Energy		0.21	0.32		12/2014
TTM	Tata Motors		-	-		12/2014

Tuesday, February 10, 2015					
GAS	AGL Resources		0.84	0.19	12/2014
AKAM	Akamai		0.63	0.62	12/2014
CVS	CVS Health Corp		1.2	1.15	12/2014
CERN	Cerner		0.47	0.42	12/2014
KO	Coca-Cola		0.42	0.53	12/2014
FTI	FMC Technologies		0.78	0.78	12/2014
FBR	Fibria Celulose	-0.23	0.23	-0.09	12/2014
GNW	Genworth		-0.13	-0.64	12/2014
HCP	HCP		0.48	0.54	12/2014
KGC	Kinross Gold		0.03	0.06	12/2014
MLM	Martin Marietta Materials		0.82	1.45	12/2014
TAP	Molson Coors Brewing		0.69	1.46	12/2014
OMC	Omnicom		1.26	0.95	12/2014
PCG	Pacific Gas&Electric		0.53	1.73	12/2014
PXD	Pioneer Natural Resources		1	1.35	12/2014
REGN	Regeneron		2.81	2.52	12/2014
RAI	Reynolds American		0.87	0.95	12/2014
SEE	Sealed Air		0.47	0.52	12/2014
HOT	Starwood Hotels&Resorts		0.76	0.66	12/2014
TM	Toyota Motor Ord		-	-	12/2014
WU	Western Union		0.34	0.44	12/2014
WYN	Wyndham		0.84	1.67	12/2014

Wednesday, February 11, 2015

AEM	Agnico Eagle Mines	0.09	0.02	12/2014
AMX	America MovilB	0.39	-	12/2014
AMAT	Applied Materials	0.27	0.27	01/2015
BIDU	Baidu	1.6	1.76	12/2014
CTL	CenturyLink	0.63	0.63	12/2014
CSCO	Cisco	0.51	0.54	01/2015
EFX	Equifax	1.02	1.01	12/2014
HSIC	Henry Schein	1.51	1.34	12/2014
LPSN	LivePerson	-0.06	-0.02	12/2014
LO	Lorillard	0.93	0.9	12/2014
MET	MetLife	1.36	1.6	12/2014
MDLZ	Mondelez	0.43	0.5	12/2014
MOS	Mosaic	0.83	0.56	12/2014
NVDA	NVIDIA	0.28	0.31	01/2015
NTAP	NetApp	0.77	0.7	01/2015
NU	Northeast Utilities	0.69	0.75	12/2014
PEP	Pepsico	1.08	1.36	12/2014
TSLA	Tesla	0.31	0.02	12/2014
TSO	Tesoro	1.5	3.06	12/2014
TWX	Time Warner	0.94	0.97	12/2014
TRIP	TripAdvisor	0.37	0.48	12/2014
WFM	Whole Foods Market	0.45	0.35	12/2014
WEC	Wisconsin Energy	0.56	0.56	12/2014
AUY	Yamana Gold	0.04	-0.01	12/2014
ZTS	Zoetis Inc	0.36	0.41	12/2014

Natus Medical Inc. (BABY: NASDAQ)

Financial Analysis By: Nicholas Luca– Healthcare

<u>Company Profile as of 2/6/2015</u>

Market Price: $36.55
Industry: Medical Appliances & Equipment
Market Cap: $1.18B
52-Week: $21.54 - $39.12
Beta: 0.7

Source	Target Price	Recommendation
Yahoo Finance	$41.33	BUY
Capital IQ	$42.00	BUY
Bloomberg	$41.33	BUY

<u>Thesis</u>

-Broadened business segments through recent acquisitions
-Full retirement of debt last quarter
-Continued margin expansion
-Product development opportunities

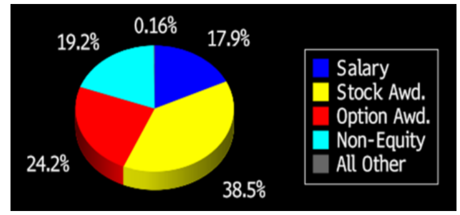
My recommendation is a <u>LIMIT BUY</u> as of February 4, 2015 aat a price of $33.00 as I see continued growth and developing products under an experienced, loyal management team. Natus is currently very accurately priced, and I expect the price to drop at sometime within the quarter to lower 30's, of which is when we shall buy. With their preexisting products continuing to grow within both U.S. and international facilities as well as two acquisitions in 2015 already, of two small cap companies each with developed products, Natus Inc. is expanding rapidly. The company is in a solid position financially after retiring all of their remaining debt they had in the last quarter of 2014 and also repurchasing $1.2 million of their own shares. Margins are continuing to grow, with profitability especially growing, faster than the company's original expectations.

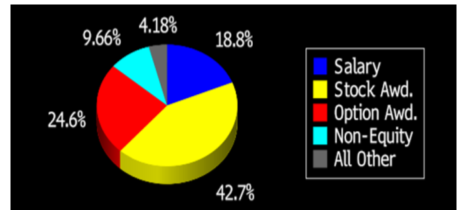
<u>Company Overview</u>

Natus Medcial is a world-wide medical appliance and service provider for hospitals, NICUS, and other medically related facilities such as laboratories in over 100 countries today. The markets they currently tend to are Newborn Care, Neurology, Sleep, Hearing and Balance markets. Natus develops products aimed towards newborn babies from conception until 1 year of age. Through innovative screening, running diagnostics, and other procedures involving their products, they seek to reduce and cure birth ailments, improve outcomes, and change the complicated, time consuming procedures these facilities run frequently.

Management

Natus Medical Inc. is led by President and CEO James B. Hawkins who started with the company in 2004 and provides company loyalty and true expertise in the medical device field. Hawkins serves as a director of the Digirad Corporation, a publicly traded company that provides diagnostic solutions with incorporating imaging, and also at IRIDEX Corp., a publicly traded company that provides laser systems, delivery devices and instrumentation to treat eye diseases. Jim Hawkins has 38.5% of his compensation endowed in stock awards, of which is almost double of his 17.9% in salary. Hawkins personal investment within Natus shows his concern in the price of the stock and supports my interest in holding Natus.





Jonathan Kennedy has served as Senior VP and CFO of Natus Inc. since April 2013. Mr. Kennedy holds a B.S in Business Administration and MBA in Accounting from the University of Central Florida, and also is a Certified Public Accountant. Along with Hawkins, Kennedy also holds a large stake in the company, roughly 43% of his compensation.

Adding to Hawkins and Kennedy's expertise of Natus Inc. is Steven Murphy, CPA and B.S. in Business Administration from California State University. Mr. Murphy has been with the company since 2002, holding the position of VP of Finance since 2003.

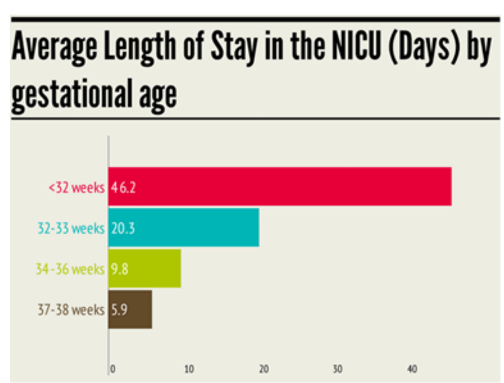
Their management team is conservative and truthful, and for 2015 high hopes for Natus. James Hawkins moves with the best interests of the company in mind and is personally involved as much as a president could. From the discussion in earnings calls you can hear the confidence within them, but yet there is no exaggeration or boasting involved. Belief in the company's success is stemmed from the decisions that management continues to make, and with the development and planning that took place in 2014, I can't see anything but success from this management in 2015.

Recent Acquisitions

My bullishness towards Natus Medical stems from their two acquisitions made in January of this year. Both of these acquisitions contain products that are already on the market in limited quantities, and have a lot of room to grow. They are currently in the beginning stages of producing revenue, which made them perfect targets for acquisitions. The research and development of these is essentially finished, and now Natus must implement these products in as many NICUs, hospitals, and other relative facilities as possible to receive the revenue they anticipate.

The first of the two acquisitions was Global Neuro-Diagnostics (GND) of which is a relatively small firm that generates roughly 7 million in revenue per year and was a customer of Natus prior to acquisition. GND's main focus is on electroencephalography or EEG, of which simplifies the complicated routine of EEG testing, and also the first ever to allow this procedure to be done anywhere, whether it's home, at the medical office, or halfway across the world, of which is all patented. The continued accreditation from well-known individuals within the field sparked a serious interest from Natus, as they saw the profits in the buyout of an 11 million dollar company. Although the buyout is a relatively small percentage of Natus, they see huge growth within the acquisition and look to offer their EEG testing device throughout the rest of the nation within a few months, as they are only currently operating in Texas businesses. The expansion nationwide, and then globally hopefully, will result in profits much larger than GND currently recorded. With operating margins at roughly 20% for GND, Natus seeks to obtain roughly $75 – $100 million in revenue from the nationwide distribution of GND.

The next acquisition of the New Year was also a medical device company named Nicview. Nicview develops cameras that are placed within the rooms of new born babies that allow parents, relatives, and other close friends to check in through live feed anywhere in the world through web streaming. Often times, whether traveling for business or having long distance relatives, you are unable to hold a presence with the newborn. With Nicview you are able to login anywhere and check in on the newborn. Natus looks to incorporate these cameras with their diagnostic testing in the future and also bring this device nationwide with GND. Nicview is used in only 9 of the top 50 children's hospitals in the U.S. (from



U.S. News Rankings), a number that will be over double of that come 2016 according to Natus president Jim Hawkins. People logged in from 31 countries from 2012-2014 to check on infants, from only 40 NICUs. With more than 1,500 NICUs in the U.S. alone, you can see the opportunity this product has to expand. Jim Hawkins also has the interest of pursuing these cameras in the elderly homes to. Although he doesn't see as much success as the NICUs, he sees more potential revenue generated from this low cost product. With the expansion of the newly acquired companies, Natus hopes to capitalize in new business segments such as newborn care and neurology.

Product Development

Natus Medical currently operates in 58 hospitals across the U.S. of which 19 of them were added to that number last quarter and 17 in the third quarter. Natus is signing contracts much quicker than they expected, and set their target at 3000 total hospitals. Along with these acquisitions comes one of Natus's newer products, the Peloton hearing screening test. Peleton basically runs the screening with the help of any practitioner and has the information collected and sent to an offsite Natus examiner. Response time is much quicker than the standard conducted hearing test and also puts less constraint on the practitioner, and allows he or she to focus on the care of the patient instead. The Peleton creates revenue of roughly $100 per baby, of which is 10x the amount of revenue created prior to this product. Hawkins believes that on average they will generate $150,000 in revenue per hospital signed. With expectations of adding 10 hospitals per quarter, there is clear future value created from this product.

Another developing product is the Vista Ultrasound System, of which is the first in their segment to develop ultrasound sound testing with an EMG workstations. This allows the practitioner, on a real – time basis to locate nerves that aid to the placing of needle electrodes to perform nerve studies. The ultrasound equipment was introduced in October of 2014 and is just starting to play a role in hospitals right now. This ultrasound advancement opens up a new market segment and adds to the portfolio of the types of screening Natus provides equipment for. No yet revenue has been generated, but yet all of the costs have already been endured, leading the reflection of revenue to be seen as early as the first quarter of this year.

Financial Position

Retirement of Debt

Natus, in the fourth quarter, increased cash by $8.9 million and also managed to pay off the remaining $8 million of bank debt. They had $38 million in bank debt come the start of 2014, and were capable of paying it all off by 2015. With this cash they also bought back $1.2 million of Natus stock in the fourth quarter.

Improving Margins

Natus improved operating and profitability margins yet again and reported a revenue increase of 3.2% year over year to $94 million. Hawkins also expects a 3 to 5% jump in revenue for 2015 and by 2016 expects profitability margins to increase to 20%, of which they raised to 16.1% this most recent quarter.

Conclusion

From the number of new product launches and a developing pipeline through 2015 acquisitions, I have high expectations for continued growth for Natus Inc. for 2015. Management is speaking quite highly of the New Year, and is certainly making moves towards the growth they originally desired. I find their management, most importantly president James Hawkins, to be very conservative with their guidance each quarter, as they continue to beat almost every aspect of earnings each quarter. With that being said, their optimistic view on the increase of revenue and earnings per share for 2015 is very encouraging. Management understands that a lot of money went into investing into new products, products that are now completed and ready to hit the market. While they boast revenue with these new products, they are also expanding their contracts with clients rapidly. Their market segment poses very little risk as newborn care is always going to be present. Natus Inc. is the leader of their market and will continue to see growth in financials throughout 2015, much of which is rooted from excellent planning and investing accomplished in prior quarters. If margins continue to increase, more acquisitions come in 2015, and the products continue to develop as planned, Natus Inc. will very likely have another year of success.

Natus Medical Inc.	baby	Analyst: Rigolo des Bois	Current Price: 36.55	Lower Bound Intrinsic Value: $33.4	Lower Bound 1y-Target: $37.9	Dividend Yield: 0%	1y Upside (downside): 3.66%

General Info

Sector	Healthcare
Industry	Healthcare Equipment and Supplies

Description: Natus Medical Incorporated provides newborn care and neurology healthcare products worldwide. It offers healthcare products used for the screening, detection, treatment, monitoring and tracking of common medical ailments in newborn care, hearing impairment, neurological dysfunction, epilepsy, sleep disorders, and balance and mobility disorders. The company's product offerings include computerized neurodiagnostic systems for audiology, neurology, polysomnography, and neonatology; newborn care products, such as hearing screening systems, phototherapy devices for the treatment of newborn jaundice, head-cooling products for the treatment of brain injury in newborns, and incubators to control the newborn's environment; and software systems for managing and tracking disorders and diseases for public health laboratories. It provides ALGO, ABaer, AuDX, and Echo-Screen newborn hearing screeners; and hearing screening supply products that are used with newborn hearing screening devices. The company also offers diagnostic hearing assessment product lines, which include the Navigator Pro system, the Scout sport portable diagnostic device, and the AuDX PRO; and diagnostic hearing supply products. In addition, it provides monitoring systems, balance and mobility products, newborn brain injury diagnostic products, thermoregulation products, and jaundice management products.

Market Data

Enterprise value	$1,100.09
Market Capitalization	$875.45
Daily volume	0.99875
Shares outstanding	31.92
Diluted shares outstandi	32.57
% shares held by instituti	78.7%
% shares held by insiders	3.8%
Short interest	3.4%
Days to cover short inter	4.76
52 week high	$39.12
52-week low	$21.54
5y Beta	0.96
6-month volatility	27.53%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NasdaqGS:ICUI	ICU Medical, Inc.	$ 1,338.91	15.7x	2.7x	21%	0%		18.10
NasdaqGS:VOLC	Volcano Corporatio	$926.40	74.3x	3.0x	4%	36%	(0.6x)	1.61
NasdaqGS:MASI	Masimo Corporatio	$1,416.70	14.8x	5.0x	17%	3%		5.73
NasdaqGS:NUVA	NuVasive, Inc.	$2,198.23	20.0x	3.5x	15%	16%	2.1x	2.43
NYSE:CFN	CareFusion Corpor:	$12,211.80	14.0x	2.3x	23%	16%	7.4x	2.85
NasdaqCM:NURO	NeuroMetrix Inc.	$13.50	NM	2.2x	-123%	0%		-15.09
NasdaqGS:HOLX	Hologic Inc.	$8,387.33	12.9x	4.0x	36%	34%	1.9x	0.63
NasdaqGS:NXTM	Nxstage Medical, In	$1,085.99	NM	5.8x	-3%	2%	(28.0x)	3.12
NasdaqGS:THOR	Thoratec Corp.	$1,376.70	18.1x	3.0x	20%	0%	3,303.5x	3.40
Peers' Median		**$1,416.70**	**15.7x**	**3.0x**	**17%**	**3%**	**2.0x**	**2.85**
baby		**$1,166.82**	**18.0x**	**3.3x**	**17%**	**0%**		

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Hawkins, James	Chief Executive	#########	$ 2,791,893.00	$ -
Moore, William	Co-Founder,	$ 158,011.00	$ 196,388.00	$ -
Kennedy, Jonathan	Chief Financial	$ -	$ 1,858,380.00	$ -
Traverso, Kenneth	Vice President and	$ 731,311.00	$ 772,312.00	$ -
Cheng, D.	Vice President of	$ 697,328.00	$ 726,437.00	$ -
Noll, Austin	Vice President and	$1,138,752.00	$ 834,485.00	$ -

Performance

	baby Last	baby 10y Med.	Peers Last	Peers 10y Med.	Industry Last	Industry 10y Med.	All U.S. firms Last	All U.S. firms 10y Med.
ROIC	10.0%	8.9%	5.49%	5.70%	9.33%	9.96%	8.69%	11.95%
EBITA Margin	17.4%	19.3%	23.51%	23.32%	16.24%	15.85%	13.63%	13.61%
Imputed Rev./Invested cap.	1.24	0.68	0.71	0.63	1.19	1.27	1.61	1.74
Excess Cash/Rev.	18.75%	16.71%	48.79%	35.15%	41.50%	36.04%	22.37%	18.66%
Total Cash /Rev.	18.75%	16.71%	48.79%	35.15%	48.87%	41.30%	32.05%	29.10%

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	0.00%
Interest Coverage	
Debt Rating	AAA
5y Beta	0.19
WACC (based on market value weights)	8.8%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	0.0%	0.0%	2.6%
Last Quarter-1	2.5%	0.4%	6.5%
Last Quarter -2	1.9%	-11.7%	7.7%
Last Quarter -3	1.1%	15.3%	13.0%
Last Quarter -4	0.6%	22.3%	19.4%

Last Guidance Jan-28-2015 **Next earnings NM** **Last Earning Call Transcript:** www.natus.com

Natus Medical Inc. reported unaudited consolidated earnings results for the fourth quarter and year ended December 31, 2014. For the quarter, the company reported revenue of $94,010,000 compared to $90,636,000 a year ago. Income from operations was $14,099,000 compared to $14,415,000 a year ago. Income before tax was $14,597,000 compared to $13,134,000 a year ago. Net income was $9,920,000 or $0.30 per diluted share compared to $9,420,000 or $0.30 per diluted share a year ago. Non-GAAP income before provision for income tax was $17,517,000 compared to $16,331,000 a year ago. Non-GAAP net income was $13,110,000 or $0.40 per diluted share compared to $11,962,000 or $0.38 per diluted share a year ago. Non-GAAP operating profit was $17,019,000 compared to $17,610,000 a year ago. Non-GAAP Operating margin was 18.1% compared to 19.4% a year ago.

For the year, the company reported revenue of $355,834,000 compared to $344,112,000 a year ago. Income from operations was $45,050,000 compared to $34,726,000 a year ago. Income before tax was $46,001,000 compared to $32,010,000 a year ago. Net income was $31,697,000 or $0.97 per diluted share compared to $23,325,000 or $0.76 per diluted share a year ago. Non-GAAP income before provision for income tax was $57,333,000 compared to $44,348,000 a year ago. Non-GAAP net income was $40,940,000 or $1.26 per diluted share compared to $32,144,000 or $1.04 per diluted share a year ago. Non-GAAP operating profit was $57,175,000 compared to $47,064,000 a year ago. Non-GAAP Operating margin was 16.1% compared to 13.7% a year ago. Cash flow from operations was about $0.5 million.

Continuing Period Assumptions

Money market rate as of today	0.45%	Risk-Free rate	2.3%	LT Op. Costs/Rev	78.0%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	9.0%
Yield Spread acceleration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	17.4%
Marginal Tax Rate	37.5%	LT Growth	4.0%	Growth in PPE	Follows Forward Rev. Gro

: weights are either implied from the stability of each time-series"--i.e., median/[max.-min.], or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution.

	Rev./Capital Last	Rev./Capital 10y Median	LT Imputed Growth Last	LT Imputed Growth 10y Median	LT Op. Costs/Rev. Last	LT Op. Costs/Rev. 10y Median	Unlevered Beta Last	Unlevered Beta 10y Median	TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
baby	0.80	0.68	2.5%	24.3%	82.8%	83.82%	1.02	1.20	2.1x	14.9x	16.2x	16.9x
Peers	0.71	0.63	4.7%	8.9%	76.2%	77.12%	0.69	0.78	2.8x	12.5x	14.8x	34.7x
Primary Industry	0.97	0.99	11.5%	13.6%	79.3%	78.96%	0.92	0.87	3.6x	14.6x	16.3x	33.4x
Industry	0.93	1.00	11.4%	14.1%	79.8%	79.59%	0.93	0.90	3.7x	15.5x	16.8x	37.0x
Industry Group	1.73	1.81	7.0%	10.2%	83.9%	83.52%	0.90	0.87	3.0x	13.6x	17.4x	33.8x
Sector	1.11	1.29	9.4%	12.1%	81.0%	81.22%	0.95	0.94	3.8x	13.9x	17.4x	34.8x
All U.S. Firms	1.61	1.74	6.9%	8.0%	80.6%	81.40%	0.99	0.96	2.5x	12.5x	16.9x	31.1x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
baby long-run estimate	1.00		4.00%		78.00%		0.92		2.0x	14.7x	16.2x	25.0x

(Multiples: 10Y Historical Median Value)

Capitalization

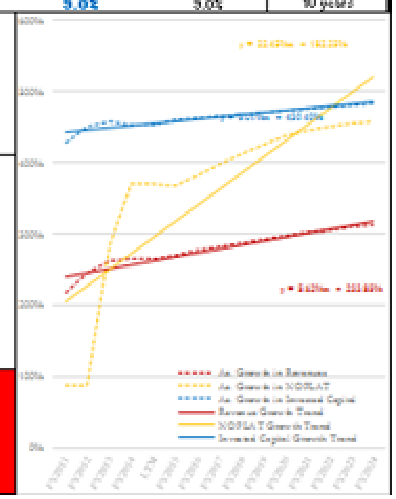
Operating Leases	yes
	Straightline
	10 years
R&D Exp.	Yes
	Straightline
	10 years
Expl./Drilling Exp	No
	Straightline
	10 years
SG&A	No
	Straightline
	10 years

Explicit Period Assumptions

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	to ∞
Growth	3.4%	5.5%	6.0%	5.5%	5.0%	5.0%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%
Op.Costs/Rev.	82.8%	83.0%	80.7%	78.5%	76.4%	74.6%	73.1%	72.1%	71.6%	71.6%	72.0%	78.0%
WACC	8.8%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$44.3	$42.3	$49.2	$57.0	$65.1	$73.5	$81.5	$88.5	$93.9	$97.7
Invested capital	$442.1	$474.2	$486.9	$499.1	$510.8	$522.3	$536.7	$549.3	$561.9	$575.4
ROIC	10.0%	9.6%	10.4%	11.7%	13.0%	14.4%	15.6%	16.5%	17.1%	17.4%
UFCF	$0.00	$10.22	$36.44	$44.73	$53.41	$62.04	$67.08	$76.01	$81.33	$84.20
EVA	$5.04	$2.74	$6.68	$13.46	$20.65	$28.11	$35.48	$41.16	$45.50	$48.29
Terminal value										$1,689.73
Enterprise value (mid-year adj.)	$1,165.96	$1,257.17	$1,342.67	$1,422.06	$1,499.17	$1,573.34	$1,644.36	$1,716.04	$1,784.01	$1,857.53
Total Debt	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Minority Interest	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$0.00	$17.37	$16.20	$15.34	$14.41	$13.43	$15.54	$15.87	$16.10	$16.25
V of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
act of options,warrants, and converts	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$66.73	$101.91	$145.71	$198.50	$260.26	$330.71	$409.65	$496.53	$589.90	$687.96
Equity value	$1,232.70	$1,341.71	$1,472.19	$1,605.23	$1,745.02	$1,890.62	$2,038.47	$2,196.70	$2,357.81	$2,529.24
Shares outstanding	$31.92	$31.92	$31.92	$31.92	$31.92	$31.92	$31.92	$31.92	$31.92	$31.92
Price per share as of 2/7/2015	$38.97	$42.57	$46.54	$50.73	$55.12	$59.85	$64.34	$69.31	$74.39	$79.23



Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0%	5.4%	N/A	N/A	Normal
Op. Costs Variation	0%	4.0%	N/A	N/A	Normal
Market Risk Premium	7.0%	N/A	5.0%	9.0%	Triangular
Long term Growth	4.00%	N/A	3.2%	24.3%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$38.97	$42.57
σ(ε)	$1.86	$1.56
) adjusted price	$33.40	$37.89
Current Price	$36.55	
sts' median est.		$41.33

CGF

Flotek Industries Inc. (FTK: NYSE)

Financial Analysis By: Issam Kaisse – Basic Materials

Company Profile as of 01/26/2015

Market Price: $16.26
Industry: Oil & Gas Equipment & Services
Market Cap: $877.03M
52-Week: $15.15 - $32.92
Beta: 1.42

Source	Target Price	Recommendation
Siena	$19.20	BUY
Bloomberg	$23.63	BUY
Capital IQ	$19	OUTPERFORM
Yahoo Finance	$23.63	BUY

Thesis

-Strong Financials
-Leader in green oilfield industry
-Growth & Expansion in all three business Segments
-Strong management team
-International Expansion and Opportunities

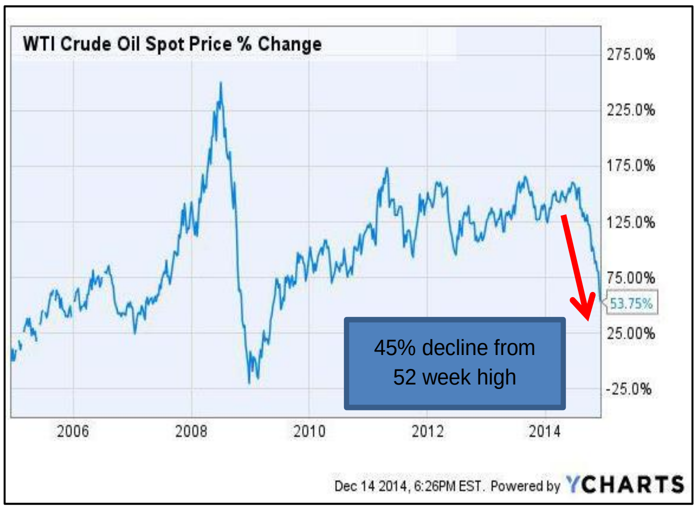
As the price of crude oil continues to trade between $40-50, Flotek Industries is a company well positioned to survive the current storm. Flotek Industries is a buy at the current price of $16.26 and has a target price of $19.20, a potential upside of 18%. The stock is considered undervalued despite the good management team and the adequate strategy to tackle the volatile times. Flotek Industries is a company that has a strong balance sheet with positive free cash flow and increasing revenue. The firm continues to develop new products and define itself as a leader in green oilfield chemistry.

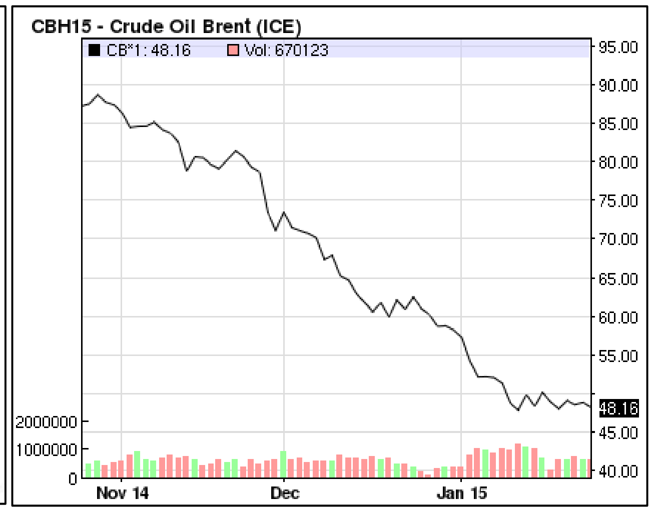
Company Overview

Flotek Industries Inc. is specialized in oilfield chemicals and logistics, down-hole drilling tools and down-hole production tools used in the energy and mining industries in both the United States and internationally. The company operates in three segments: Energy Chemical Technologies, Drilling Technologies, and Production Technologies. The first segment adds value in the drilling, completion and production stages of oil and gas wells. The second segment provides downhold-drilling tools for use in oilfield, mining, water-well and industrial drilling activities. The third segment provides pumping system components and complimentary services in order to address production challenges for oil and gas companies. The firm acquired Florida Chemical Co Inc. and SiteLark, LLC as it wants to enhance its position as a global developer and distributor of innovative specialty chemicals.

Industry Outlook

The oil and gas equipment and services industry is indirectly affected by commodity prices. Companies in this sector are dependent on the revenue from oil and gas producers' capital expenditures. The price of oil can have a direct impact on the players of this industry and their performance relies on its fluctuation. The oil and gas equipment and services industry can be qualified as cyclical and very few companies can survive this difficult environment. Recently the crude oil prices plunged to levels unexperienced since March 2009 because of the increase in US shale oil production and the decision by the top oil exporter Saudi Arabia to keep the same output. Also, OPEC does not want to intervene and prefer to let the market decide a more accurate price. Hence, the Brent crude oil, the global benchmark, is trading between $40-50 and numerous American oil companies saw their share prices plunge. It has become the norm to see double digit declines for many oil companies and the markets continue to look for the new "normal" price for this commodity. Oil-related equities want to drive down operation and production costs in order to survive the current storm. This is where oilfield service companies start to play an important role because they will have to come up with advanced technologies and innovation to help oil companies in lowering overall cost of production.





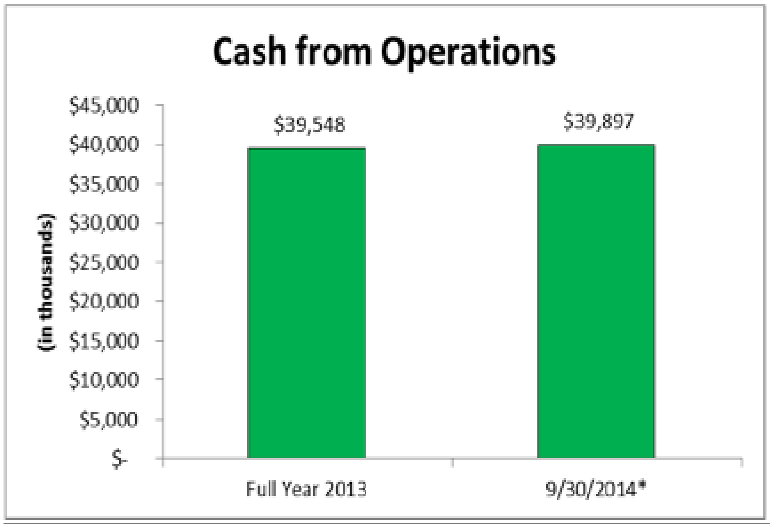
Several factors lead us to say that Oilfield service companies can grow despite the difficult situation. First, there are still an important number of rigs searching for oil and gas in the U.S. According to the last report from the U.S. Energy Information administration, oil production per rig has increased even if oil prices are declining[1].Second, oil companies should keep renewing their drilling activity in order to maintain their production level. Third, Berkshire Hathaway has recently acquired an oilfield chemical company because Warren Buffet spotted an opportunity in the midst of tough conditions. Overall, oil and gas equipment and services industry will benefit from tight oil production and will help to improve the efficiency of oil companies.

Strong Financials

Flotek Industries Inc. is a company that remains undervalued because of the current downturn in crude oil prices. The firm has a strong balance sheet in comparison with its competitors. As of December 2014, Flotek increased its annual revenue by 21% from 2013 levels, which is considered a record for the company. The technology that the firm offers its clients drove the increase, mainly the sales of the Complex nano-Fluid as well as downhole technology called Stemulator. As a matter of fact, Flotek has announced through its 10K that the CnF chemistry has allowed the companies that adopted it to increase their value by nearly $8 billion and the firm is planning to introduce it in Canada as demand for this technology is growing. Also, Flotek has introduced a new technology entitled Stemulator, which enables oil companies to accelerate their drillbit penetration and reducing their cost. This unique competitive advantage is crucial for Flotek because it allows them to prepare themselves for the future and capitalize on it. Thus, the company posted a net income that increased by nearly 44% from the 2013 levels and as the CEO of the company stated "there is little doubt that 2015 will present a plethora of challenges for the Flotek team[2]." The operational performance of Flotek continues to show the efforts made by the management team in order to improve the financial position of the company. For example, Flotek carried $88 million after the acquisition of Florida Chemical, but reduced its debt by approximately 53% within 15 months. Regarding cash flow generation, the company makes about $1 million per week and use the proceed to reduce its debt rapidly. As a matter of fact, Flotek

[1] http://www.eia.gov/petroleum/drilling/pdf/dpr-full.pdf
[2] http://finance.yahoo.com/news/flotek-industries-inc-announces-2014-210500181.html

generated approximately $40 million in cash from operation within the first nine months of 2014 compared to $39 million for the entire 2013.

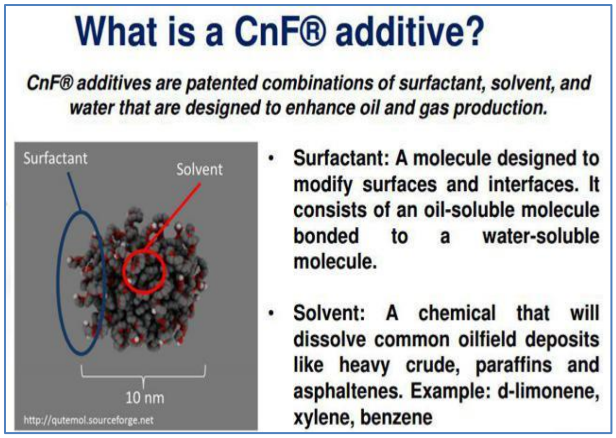


During the fourth quarter Flotek conducted a repurchase program of nearly 622,000 shares at a price of $16.74 per share. This repurchase illustrates the belief of the management team that the share price of the company is undervalued. Also, the firm has been able to increase its earnings per share by 45% from 2013 and beaten the estimates for the fourth quarter by 1 cent.

Leader in green oilfield industry

Flotek Industries Inc. operates in three segments, but recently the company has grown to be the leader in green oilfield chemistry. In 2013 Flotek acquired the world's largest processor of citrus oils Florida Chemical , with $50 million in cash and 3.28 million shares of Flotek common stock, and this vertical integration will enable the company to use a key ingredient called Complex nano-Fluid technology (CnF). This innovation is important for a company like Flotek since the increasing environmental regulations are limiting the development of new technologies that could decrease the cost of production for oil companies. CnF is a biodegradable additive that enabled Flotek to grow its market share significantly. Thus, the company enables drilling firms to improve their performance with their greenest chemicals. Flotek has been able to avoid bankruptcy with patents on its developed chemicals and is determined to enhance the production for oil companies. Through its Research & Innovation Leadership Center, Flotek continues to develop the "next generation" Complex nano-Fluids as it believes that oil and natural gas exploration should respect the increasing environmental regulations. Thanks to its innovative product offerings such as CnF and other drilling fluids, Flotek can expect future positive cash flows if it continues to expand its three business segments. In a recent press release CEO John Chisholm declared "no company is completely sheltered from a sharp and sustained downturn in commodity prices and, as a result, oilfield activity. However, Flotek, with its innovative suite of customized oilfield chemistries that optimize well performance through maximizing production, is relatively well insulated from more diffiult commodity price environments.[3]"

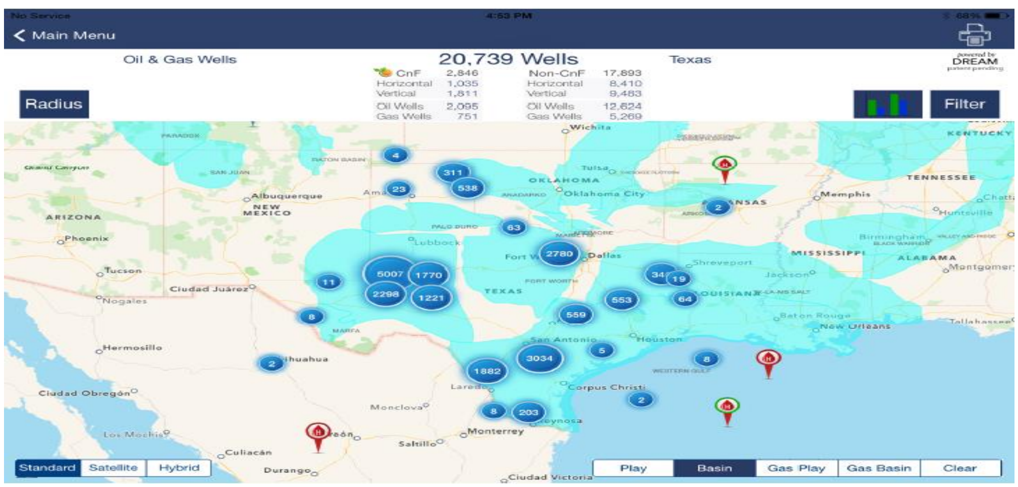
[3] http://finance.yahoo.com/news/flotek-industries-announces-presentation-cowen-120500968.html



Growth & Expansion in all three business segments

Flotek Industries Inc. operates in three segments: Energy Chemical Technologies, Drilling Technologies and Production Technologies.

The first segment reported a revenue increase of approximately 34% from 2013 levels because the company sold more chemical additives than previous years. As a matter of fact, the firm introduced patent-pending mobile application entitled FracMax software that helps the oil companies to see the positive economic impact of CnF chemistries on the production. Thus, the software played a key role in the success of this segment because new projects have been accepted and have shown the benefits of the CnF technology. Flotek developed FracMax in order to collect public data and show quantitative results that CnF wells produce more than wells without the CnF technology. As you can see in the picture below[4], the mobile app illustrates the benefit of new technology for oil companies as well as the positive correlation between CnF and high production.



The second segment generated revenue of nearly $113 million for 2014 because Flotek rented more tools to drilling companies. Flotek uses this segment to design, manufacture, repair and install downhole tools for oilfield companies. In 2008 the company acquired Teledrift, a measurement while drilling (MWD) tool, in order to grow nationally and internationally. In fact, this drilling technology gives clients the ability to increase the rate of penetration during horizontal drilling. Flotek believes that this segment will provide growth in the future and mainly internationally wise because 40% of all Saudi partners are using this technology for their rigs. The firm also introduces new concepts entitled TelePulse and Stemulator in 2014 and according to the CEO these two technologies will "provide new added-value technologies will somewhat offset an expectation of reduced demand for commoditized tools as the rig count moderates"[5]. This comment shows the confidence of the management team that the drilling technologies will be a key for successful growth. As you can see on the map below, Flotek's drilling technologies are gaining territory in the United States.

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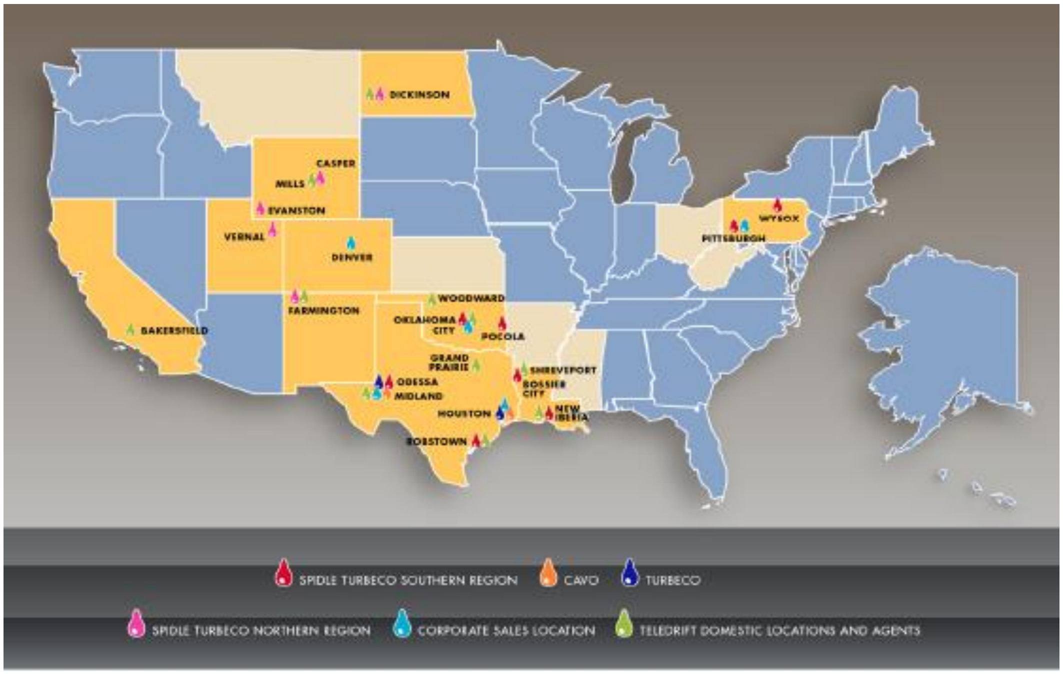
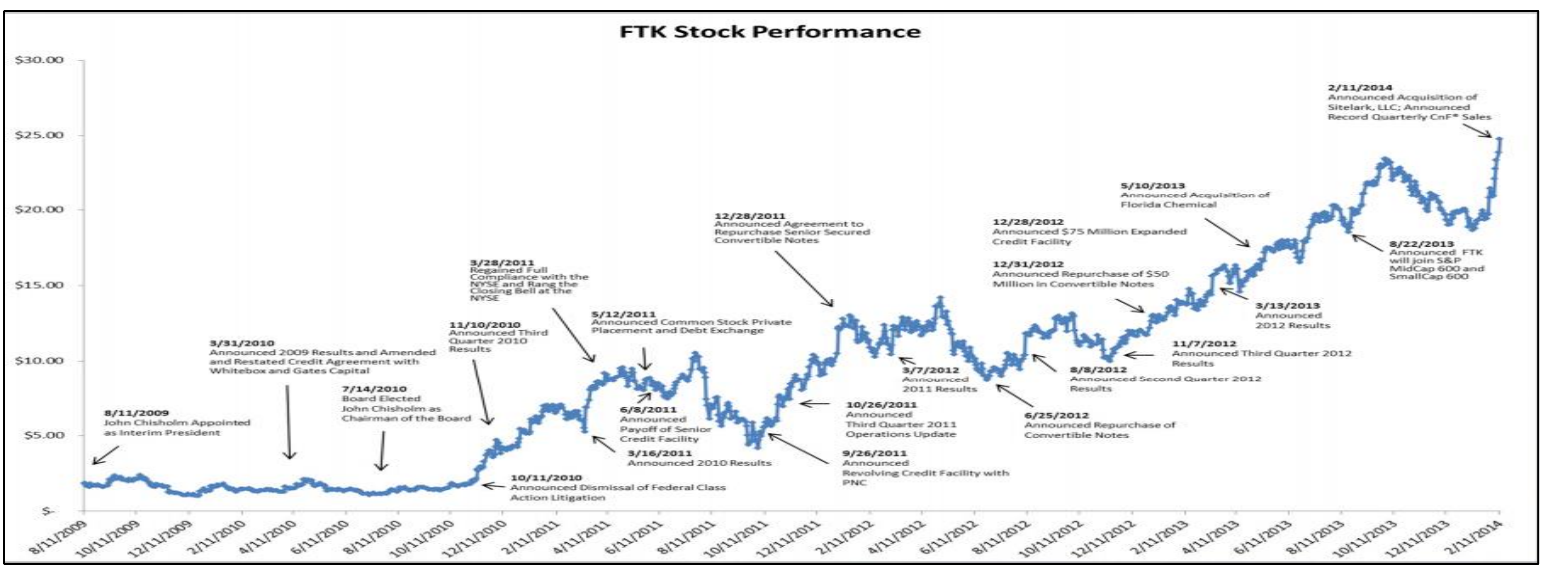
4 http://www.ogfj.com/articles/print/volume-11/issue-12/features/oilfield-services-technology-a-special-report/innovation-from-smaller-service-firms.html

5 http://www.marketwatch.com/story/flotek-industries-inc-announces-2014-results-provides-financial-and-operational-update-announces-year-end-2014-conference-call-details-2015-01-27



The third segment generated a revenue increase of nearly 8% from the 2013 levels because Flotek was able to sell more lifting units. In fact, the company tries to focus its efforts on niche, added value technologies that will give the firm a competitive advantage versus its competitors. This segment continues to expand internationally via the sale of PetroValve, a pumping system component, and will develop new business opportunities in the future. Last week Flotek decided to acquire International Artificial Lift for $2.25 million in order to maximize production for oil and natural gas wells. As a matter of fact, this acquisition is crucial for Flotek as it creates a technology advantage and improves the company's reputation as a best-in-class hydraulic lift developer. The management team believes that this acquisition will enhance the services of Flotek and provide precision pumping as well as pumping equipment for oil and gas production. As the CEO stated "the technological advances seen in International Artificial Lift's hydraulics provide Flotek with an opportunity to become a difference maker in hydraulic lift in short order[6]."

Overall, these business segments allowed Flotek to generate cash and improve productivity during 2014. The recent acquisitions enhance all the segments of Flotek and make the company's future more optimistic among its competitors. The firm is trying to create new opportunities to work with new customers as well as new industries. This recent initiative shows the willingness of Flotek to diversify in specialty chemicals as it wants to avoid its dependence on the oil and gas industry. The company continues to benefit from the acquisitions and there is a positive impact on the stock performance when it is announced.



Strong Management Team

[6] http://finance.yahoo.com/news/flotek-industries-inc-announces-acquisition-120500240.html

In 2009 Flotek Industries Inc. was on the brink of collapse and defaulted on its credit facility with only $600,000 in cash. Their balance sheet was over-levered because of several acquisitions before the downturn and they could not make the payment for their next week's payroll. When the new CEO & president, John Chisholm, took over he motivated Flotek team and they were able to use operational cash flow and equity in order to reduce leverage. Hence, the company survived the global recession and reduced its debt by almost 64% thanks to its cash flow. The management team learnt from the past mistakes of the previous board and began using leverage in a conservative way. Thus, leverage will only be used for maximizing the value of the enterprise rather than value destruction. As you can see on the graph below, the company has reduced the amount of debt significantly compared to other competitors. As a matter of fact, the debt to capitalization is at approximately 12.3% compared to Baker Hughes (BHI), the world's largest oilfield service company, with 20%. The management team is doing a good job in restructuring Flotek because they reduced the size of the company and they were able to achieve high productivity with fewer employees. The high commitment of the management team led Flotek to be named top 10 NYSE performer for 2011 and 2012. Overall, Flotek Industries Inc. is determined in improving the firm's revenue and profitability as well as paying down the debt significantly. The management team has learnt how to deal with challenging environments and is prepared to keep developing technologies that will assist their clients in enhancing their exploration.

International Expansion and Opportunities

Flotek provides its services across North America and through partnership internationally. In Canada, several companies are using Flotek products and the CnF market potential is believed to be in the range of $125 million. Canadian customers are using more and more CnF because they discovered through their research that it maximizes efficiency. In November 2013, the company decided to enter into a joint venture with a subsidiary of Gulf Energy in order to target the Middle Easter and North African markets. According to the CEO of Flotek, "this partnership with Gulf Energy, which has been several months in process, is an important and significant step in establishing Flotek's leadership position in global oilfield chemistry.[7]"In the Middle East Flotek introduced its micro solution technologies to several companies and signed distribution agreement with countries such as Saudi Arabia and Oman. Also, the company will own 60% of two companies, a chemical production firm and a research and development laboratory, in Oman by the end of 2014. In Latin-South America Flotek is trying to implement the CnF technology and conducting several final validation tests.

7 http://www.streetinsider.com/Corporate+News/Flotek+Industries+%28FTK%29+Enters+R%26D+Venture+with+Gulf+Energy+in+Middle+East,+Africa/8184071.html

Flotek Industries Inc. has several international clients and it illustrates the ability of the company to progress toward a strong market share. The firm is well positioned in key oilfield markets around the globe and no wonder why it was named one of the fastest growing companies in 2014 by Fortune 500.

<u>Best case/worst case</u>

Regarding Flotek Industries share price, there are three outcomes that could occur:

I am being conservative if the company cannot use its recent acquisitions and its superior technology to improve the condition of oil companies in the current downturn. Thus, I believe that if the share price attains $12-13$ range in the next few months it means that the company was not able to deliver the promises that it stated in the latest earning calls or 10K.

I am being neutral if Flotek does not use the chemistry technology to remain a remarkable market leader and other competitors merge and acquire other players in oilfield chemicals and logistics. The neutral range is between $14 and $16 because I believe that the company has what it takes to improve its position within the industry.

I am being optimistic as Flotek has a strong balance sheet with strong cash flow and those elements enable the company to grow in green oilfield chemistry. Hence, oil companies will shift their spending to improve oil production and Flotek's products deliver just what is needed for the next upcoming years. I initiate my buy recommendation at the $16 levels and according to my estimates and assumptions Flotek will attain at least $19 through its innovation and research.

Conclusion

Based on all of the above factors, I reiterate my Buy recommendation with a price target of $19.20. Flotek Industries remains a company that is fairly undervalued in a downturn oil price environment. The market is full of uncertainty and investors are looking for companies that are able to continuously grow. The stock price have been experiencing severe pressure since oil prices started to fall, but Flotek is well positioned to survive the current turmoil with a strong balance sheet and line of new products. The company, with strong growth and technologies, has to provide its clients with value added services in order to sustain high returns and great revenue. I believe that Flotek is most likely to emerge in a more advantageous position than its peers because it operates in a niche segment of future importance. Throughout its acquisitions, Flotek keeps consolidating its position as a leader in green oilfield chemistry because clients are looking for cutting-edge innovation. The company is reducing the amount of debt while trying to grow organically through a series of acquisitions. Due to their key acquisitions and innovations in terms of chemicals, I believe that Flotek will growth between 20% and 15% until it establishes itself as a key player in its industry. Also, the firm will keep creating value for its shareholders and will maintain ROIC at 16% compared to WACC at 12%. In fact, Flotek expects that 2015 is the start of the growth of the business because the research & innovation is intelligently increasing for the benefit of the firm's new era. Overall, the future success of Flotek Industries depends on its ability to adapt to changing market environment and the efficient use of its new acquisitions.

Flotek Industries Inc. | **FTK** | **Analyst: DJ SAM** | **Current Price: 16.3** | **Lower Bound Intrinsic Value: $15.9** | **Lower Bound 1y-Target: $19.2** | **Dividend Yield: 0%** | **1y Upside (downside): 17.64%**

General Info

Sector	Materials
Industry	Chemicals

Description: Flotek Industries, Inc. develops and supplies oilfield products, services, and equipment to the oil, gas, and mining industries in the United States and internationally. Its Energy Chemical Technologies segment designs, develops, manufactures, packages, and markets specialty chemicals used in oil and gas well drilling, cementing, completion, stimulation, and production. This segment also constructs and manages automated material handling facilities; and manages loading facilities and blending operations for oilfield services companies. The company's Consumer and Industrial Chemicals Technologies segment develops, manufactures, and processes citrus oil products for the flavor and fragrance, and specialty chemical industry, as well as for beverage and food companies, and companies providing household and industrial cleaning products. Its Drilling Technologies segment manufactures, sells, rents, and inspects down-hole drilling equipment used in energy, mining, water well, and industrial drilling activities, as well as provides specialized equipment for drilling, completion, production, and work-over activities. This segment also rents tools, such as stabilizers, drill collars, reamers, wipers, jars, shock subs, wireless survey, measurement while drilling tools, stemulator tools, and mud-motors; and sells equipment

Market Data

Enterprise value	$959.94
Market Capitalization	$916.81
Daily volume	0.72237
Shares outstanding	53.36
Diluted shares outstanding	55.53
% shares held by institutions	78.2%
% shares held by insiders	6.9%
Short interest	13.3%
Days to cover short interest	6.75
52 week high	$32.92
52-week low	$14.41
5y Beta	2.17
6-month volatility	50.06%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NasdaqGS:HERO	Hercules Offshore, Inc.	$ 142.35	3.6x	0.2x	33%	104%	1.7x	0.28
NYSE:ATW	Atwood Oceanics, Inc.	$1,899.18	5.7x	0.7x	53%	50%	9.1x	
NYSE:BAS	Basic Energy Services, In	$302.28	3.9x	0.8x	21%	79%	1.2x	1.67
NYSE:KEG	Key Energy Services Inc.	$313.09	5.9x	0.3x	12%	75%	(0.7x)	1.33
NasdaqGS:GEOS	Geospace Technologies (	$373.48	4.5x	1.1x	30%	0%	114.2x	23.20
NYSE:PKD	Parker Drilling Co.	$385.59	3.4x	0.6x	28%	67%	2.7x	1.67
NYSE:PES	Pioneer Energy Services (	$304.63	3.0x	0.6x	25%	63%	1.5x	1.82
NYSE:SPN	Superior Energy Services	$3,362.98	4.3x	0.8x	23%	35%	5.0x	2.14
NasdaqGS:MIND	Mitcham Industries Inc.	$84.95	20.3x	0.5x	6%	31%	4.9x	3.55
NYSE:NE	Noble Corp.	$4,527.92	4.3x	0.6x	49%	48%	9.3x	2.20
Peers' Median		$343.28	4.3x	0.6x	26%	56%	3.8x	1.82
FTK		$916.81	9.7x	3.0x	22%	5%	50.4x	9.18

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Chisholm, John	Chairman, Chief	$ 4,347,229.00	$ 2,797,269.00	$ -
Walton, H.	Chief Financial Officer,	$ -	$ 971,146.00	$ -
Reeves, Steven	Executive Vice President	$ 1,686,410.00	$ 1,228,626.00	$ -
Snively, Joshua	Executive Vice President	$ -	$ 554,002.00	$ -
Penny, Glenn	Director of Technology	$ -	$ -	$ -
Bodnar, Robert	Chief Information	$ -	$ -	$ -

Performance

	FTK Last	FTK 10y Med.	Peers Last	Peers 10y Med.	Industry Last	Industry 10y Med.	All U.S. firms Last	All U.S. firms 10y Med.
ROIC	18.5%	26.2%	7.11%	11.02%	7.00%	14.17%	8.69%	11.95%
EBITA Margin	21.9%	20.4%	16.33%	19.24%	12.13%	11.44%	13.63%	13.61%
Imputed Rev./Invested cap.	1.29	1.23	0.49	0.59	1.51	1.61	1.61	1.74
Excess Cash/Rev.	0.28%	0.84%	6.25%	9.68%	15.50%	13.07%	22.37%	18.66%
Total Cash /Rev.	0.28%	0.84%	6.25%	9.68%	16.52%	16.66%	32.05%	29.10%

Current Capital Structure

Total debt/market cap	4.59%
Cost of Borrowing	3.03%
Interest Coverage	50.37
Debt Rating	AA
5y Beta	2.17
WACC (based on market value weights)	10.7%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	1.2%	2.9%	3.6%
Last Quarter-1	2.4%	4.8%	8.3%
Last Quarter -2	-2.1%	-4.0%	-16.7%
Last Quarter -3	-0.1%	2.1%	0.0%
Last Quarter -4	-0.8%	18.3%	11.1%

Last Guidance Jan-06-2015 | Next earnings date NM | Last Earning Call Transcript: www.flotekind.com

Flotek Industries Inc. provided revenue guidance for the fourth quarter ended December 31, 2014. For the quarter, the company believes that revenue will exceed $122 million. In addition, the company expects Energy Chemical Technologies revenues for the quarter to exceed $74 million and quarterly Drilling Technologies revenues to be greater than $31 million.

Continuing Period Assumptions

Money market rate as of today	0.46%	Risk-Free rate	2.4%	LT Op. Costs/Rev	85.0%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	12.0%
Yield Spread accelaration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	16.0%
Marginal Tax Rate	37.5%	LT Growth	8.0%	Growth in PPE	Follows Forward Rev. Growth

LT convergence estimates: weights are either implied from the stability of each time-series"--i.e., median/[max.-min.], or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution, and threat of new entries.

	Rev./Capital Last	Rev./Capital 10y Median	LT Imputed Growth Last	LT Imputed Growth 10y Median	LT Op. Costs/Rev. Last	LT Op. Costs/Rev. 10y Median	Unlevered Beta Last	Unlevered Beta 10y Median	TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
FTK	1.23	1.23	16.2%	26.0%	78.0%	77.97%	1.94	1.47	2.3x	12.1x	13.6x	15.1x
Peers	0.49	0.59	4.1%	15.4%	68.3%	66.37%	1.11	1.53	2.8x	8.0x	13.4x	13.9x
Primary Industry	1.64	1.64	5.3%	8.0%	83.9%	86.80%	1.18	1.09	1.8x	10.7x	14.5x	29.5x
Industry	1.53	1.66	3.9%	7.9%	82.6%	85.13%	1.20	1.12	1.9x	11.0x	14.4x	33.1x
Industry Group	1.43	1.57	4.7%	8.1%	83.7%	84.23%	1.12	1.15	1.8x	11.3x	15.9x	31.5x
Sector	1.43	1.57	4.7%	8.1%	83.7%	84.23%	1.12	1.15	1.8x	11.3x	15.9x	31.5x
All U.S. Firms	1.61	1.74	6.9%	8.0%	80.6%	81.40%	0.99	0.96	2.5x	12.5x	16.9x	31.1x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FTK long-run estimate	1.50		5.00%		80.00%		1.20		1.8x	11.0x	13.0x	20.0x

Multiples (10Y Historical Median Value): TEV/Rev., TEV/EBITDA, TEV/EBITA, TEV/UFCF

Capitalization

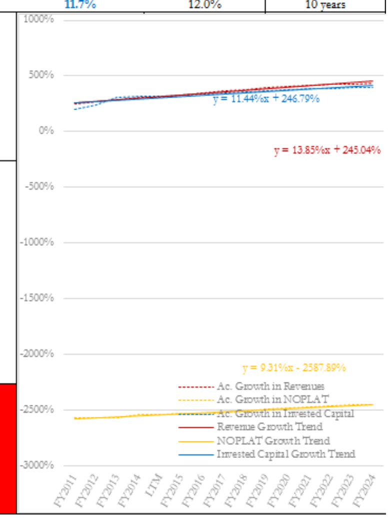
Operating Leases	No
	Straightline
	10 years
R&D Exp.	Yes
	Straightline
	10 years
Expl./Drilling Exp.	Yes
	Straightline
	10 years
SG&A	NO
	Straightline
	10 years

Explicit Period Assumptions

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	to ∞
Growth	21.0%	20.0%	19.0%	18.0%	15.0%	14.0%	12.0%	10.0%	8.0%	7.0%	6.0%	5.0%
Op.Costs/Rev.	78.0%	80.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
WACC	10.7%	10.9%	10.9%	11.0%	11.1%	11.2%	11.3%	11.4%	11.5%	11.6%	11.7%	12.0%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$67.4	$70.7	$63.8	$74.7	$86.9	$98.9	$112.0	$123.0	$133.9	$142.9
Invested capital	$364.8	$401.7	$442.3	$486.5	$530.3	$576.2	$621.0	$663.3	$701.8	$738.5
ROIC	18.5%	19.4%	15.9%	16.9%	17.9%	18.7%	19.4%	19.8%	20.2%	20.4%
UFCF	$0.00	$33.79	$23.18	$30.54	$43.11	$53.03	$67.13	$80.69	$95.46	$106.25
EVA	$29.06	$34.14	$22.14	$28.77	$35.90	$42.95	$50.52	$55.70	$60.93	$64.64
Terminal value										$1,948.83
Enterprise value (mid-year adj.)	$1,157.05	$1,246.02	$1,339.08	$1,456.36	$1,574.23	$1,694.96	$1,815.57	$1,934.03	$2,052.02	$2,172.14
Total Debt	$44.04	$44.04	$44.04	$44.04	$44.04	$44.04	$44.04	$44.04	$44.04	$44.04
Minority Interest	$0.35	$0.35	$0.35	$0.35	$0.35	$0.35	$0.35	$0.35	$0.35	$0.35
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PV of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dilutive impact of options,warrants, and converts	$20.88	$20.59	$20.28	$19.93	$19.55	$19.14	$18.69	$18.21	$17.71	$17.28
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$1.27	$24.08	$34.49	$50.49	$77.21	$111.94	$158.94	$217.77	$290.03	$372.03
Equity value	$1,093.04	$1,205.12	$1,308.91	$1,442.53	$1,587.49	$1,743.37	$1,911.43	$2,089.19	$2,279.95	$2,482.50
Shares outstanding	$53.36	$53.36	$53.36	$53.36	$53.36	$53.36	$53.36	$53.36	$53.36	$53.36
Price per share as of 2/6/2015	$20.70	$22.84	$24.77	$27.30	$30.04	$33.07	$36.14	$39.49	$43.09	$46.52



Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0%	1.4%	N/A	N/A	Normal
Op. Costs Variation	0%	5.9%	N/A	N/A	Normal
Market Risk Premium	7.0%	N/A	5.0%	9.0%	Triangular
Long term Growth	5.00%	N/A	3.2%	26.0%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$20.70	$22.84
σ(ε)	$1.59	$1.22
3 σ(ε) adjusted price	$15.92	$19.18
Current Price	$16.30	
Analysts' median est.		$19.13

CGF

General Finance Corporation (GFN: NASDAQ)

Financial Analysis By: Jacky Cheng – Services

<u>Company Profile as of 2/06/2015</u>

Market Price: $7.92
Industry: Rental & Leasing
Market Cap: $202.2M
52-Week: $6.18-10.15
Beta: 0.63

Source	**Target Price**	**Recommendation**
Siena	$13.50	BUY
Capital IQ	$13.33	BUY
Yahoo Finance	$13.33	BUY
Bloomberg	$13.33	BUY

<u>Thesis</u>

-CEO strong management and knowledge of industry
-Utilization of Acquisition
-Growing EBITDA Margin

I would recommend a BUY on General Finance Corporation at $13.50. Ron's strong management and knowledge of the industry helps guide the company in the right direction and is making the next big step in growing the company. The potential growth vehicles with its recent acquisitions (Lone Star) will be a big impact in increasing its revenue and EBITDA. Along with its amazing strong trending growth displayed in the financials, the company foresees itself increasing its revenue and EBITDA. The company is still in the growing stage and the peak is nowhere close in the future as they continue to expand its network and potentially acquire more companies to further the value of General Finance Corporation.

<u>Company Overview</u>

General Finance Corporation sells and leases portable storage containers, portable container buildings, and freight containers in the Asia Pacific and North America. Their network in North America includes 20 states in the United States and one province in Canada. These containers range from general purpose units to hazardous goods containers and refrigerated containers. GFN recently acquired Lone Star Tank Rental Inc. which helped expand the company into Texas.

<u>Operating Companies</u>

General Finance Corporation runs under multiple family companies all over the world. This includes Royal Wolf, Pac-Van, Lone Star, and Southern Frac.

Royal Wolf leases and sells mobile storage containers, portable container building and freight containers in Australia and New Zealand. They currently operate 18 customer service centers in Australia and seven in New Zealand. Royal Wolf is the only portable container lease and sales company represented in all major business centers in Australia.

Pac-Van leases and sells modular buildings, mobile offices, portable storage containers and related services in the United States. There are 28 branch locations across 18 states and one province of Canada. It has seen improvements due to a number of key sectors including commercial, mining and energy, construction, and industrial.

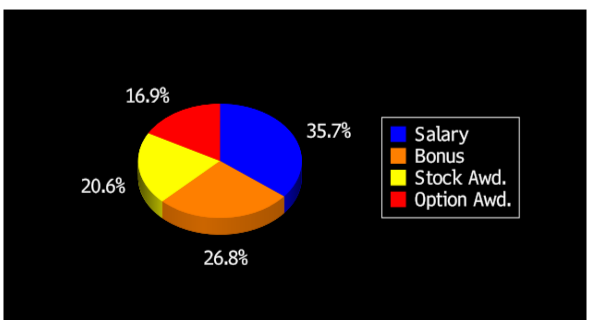
Lone Star, their recent acquisition, leases portable liquid storage tank containers, oil test tanks, acid tanks, related fluid management equipment, and containment products to the oil and gas industry in Texas. It has been the main catalyst in its recent earnings which they blown out of the water.

Southern Frac manufactures portable liquid storage tank containers in Texas. Their products consist of mainly frac tanks, mud tanks, acid tanks, and vacuum tank trailers. The revenue has increased by nearly 50% due to increased demand in the North American leasing operations.

Management

General Finance Corporation is run by Chairman, President, and CEO Ronald F. Valenta who has been with the company since October 14, 2005. Ron co-founded Mobile Storage Group, Inc. in 1988 and served as CEO until 2003. Ron also served as Senior Vice President at Public Storage Group, Inc. from 1980 to 1985. This shows that Ron has been with the industry for a long time and his knowledge on the portable storage industry should not be in question.

Ron is committed to creating value for General Finance Corporation and growing the company. Over the years, Ron's compensation went from 100% salary to 35.7% in salary and 26.8% in bonus with stock award and option award of 20.6% and 16.9% respectively. This shows that there is an incentive for Ron to help the company to perform well and create value instead of sidelining and collecting his yearly salary.

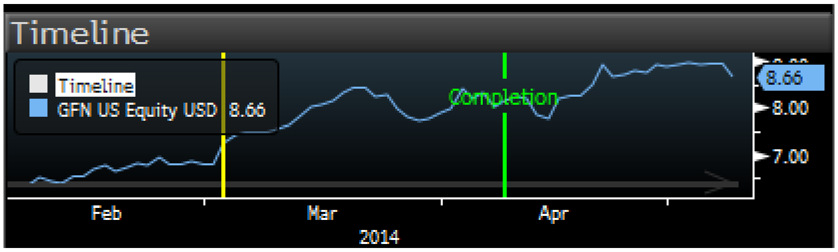


Year	Salary (USD)	Bonus (USD)	Total (USD)
2014	400,000	300,000	1,120,950
2013	325,000	225,000	880,565
2012	275,000	146,250	488,450
2011	200,000	97,000	309,800
2010	200,000	N.A.	200,000

Acquisitions

General Finance Corporation has made some recent acquisitions in expanding its company in North America, investing approximately $20 million. These acquisitions helped generate more revenue for the company and overall increasing the value of the company. Ron plans on continuing to acquire more company in order to expand his network.

On 4/08/2014, GFN acquired Lone Star Tank Rental LP (also known as KHM Rentals LLC) in cash. The Lone Star Tank Rental was the main factor Q1 Earnings greatly exceeded estimated earnings, capitalizing on the strength in demand for portable liquid storage tank containers and related services. It is projected that Lone Star will be a main factor for the next several years, despite the current situation on crude oil.



Financials

General Finance Corporation has been growing over the past years and is forecasted to keep growing. The revenue and EBITDA has witnessed growth for 18 consecutive quarters. Out of the entire financials, EBITDA clearly stands out from the rest of the numbers, showing consistent increase in its margins from 15.9% to 26.4%. Ron expects the EDITDA to increase by 5% over the fiscal year of 2015 which does not take into account the impact of the current acquisitions.

Along with its excellent increase in EBITDA, the revenue has been growing at a slow rate from 16.6% to 17%. Cash from operations have also been increasing, drastically in FY 2014 which also translates to an increase in Free Cash Flow which nearly doubled from 2013 to 2014. With the excess cash, it can be foreseen that there will be acquisitions in the future.

In Millions of USD	FY 2011	FY 2012	FY 2013	FY 2014	Current/LTM	FY 2015 Est	FY 2016 Est
12 Months Ending	2011-06-30	2012-06-30	2013-06-30	2014-06-30	2014-09-30	2015-06-30	2016-06-30
Revenue	182.3	212.2	245.5	287.1	301.8	333.7	365.3
Growth %, YoY	16.6	16.4	15.7	16.9	17.0	16.2	9.5
Gross Profit	112.8	132.6	152.5	157.7	190.2	168.3	180.8
Margin %	61.9	62.5	62.1	54.9	63.0	50.4	49.5
EBITDA	28.9	45.2	51.7	67.2	79.7	90.9	99.9
Margin %	15.9	21.3	21.1	23.4	26.4	27.3	27.4
Cash from Operations	18.5	15.2	34.9	51.5	65.2		
Capital Expenditures	-3.8	-3.2	-8.5	-7.2	-7.0	-8.2	-6.0
Free Cash Flow	14.7	12.0	26.4	44.4	58.2		

Conclusion

I would recommend a BUY on General Finance Corporation at $13.50. Ron's strong management and knowledge of the industry helps guide the company in the right direction and is making the next big step in growing the company. The potential growth vehicles with its recent acquisitions (Lone Star) will be a big impact in increasing its revenue and EBITDA. Along with its amazing strong growth displayed in the financials, the company foresees itself increasing its revenue and EBITDA. The company is still in the growing stage and the peak is nowhere close in the future as they continue to expand its network and potentially acquire more companies to further the value of General Finance Corporation.

General Finance Corporation	GFN	Analyst: Rigolo des Bois	Current Price: 7.95	Lower Bound Intrinsic Value: $11.9	Lower Bound 1y-Target: $14.8	Dividend Yield: 0%	1y Upside (downside): 86.27%

General Info

Sector	Industrials
Industry	Trading Companies and Distributors

Description: General Finance Corporation, through its subsidiaries, leases and sells portable storage containers, portable container buildings, and freight containers. It offers mobile storage containers, including general purpose units, double pallet-wide high cube units, hazardous goods containers, and refrigerated containers; portable building containers, such as site offices and cabins, workforce accommodation units, luxury accommodation units, restroom blocks, blast-resistant units, and specialized office and infrastructure units; and freight containers consisting of curtain-side containers, hi-cube containers, pallet-wide containers, side-opening door containers, and bulk containers. The company provides its products for various storage applications, including retail and manufacturing inventory, construction materials and equipment, documents and records, and household goods. It also leases and sells storage trailers and other storage structures, office containers, mobile offices, portable liquid storage tank containers, and modular buildings, as well as ancillary products comprising steps, ramps, furniture, portable toilets, security systems, shelving, mud pumps, hoses, splitter valves, tee connectors, and other items for use in connection with its equipment. In addition, the company

Market Data

Enterprise value	$648.05
Market Capitalization	$205.01
Daily volume	0.01912
Shares outstanding	25.79
Diluted shares outstanding	26.06
% shares held by institutions	15.5%
% shares held by insiders	44.2%
Short interest	0.7%
Days to cover short interest	4.84
52 week high	$10.15
52-week low	$6.18
5y Beta	0.71
6-month volatility	39.53%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NYSE:CAP	CAI International Inc	$457.85	15.9x	1.1x	47%	75%	2.9x	0.66
NYSE:TAL	TAL International Gr	$1,406.28	8.3x	2.0x	82%	69%	2.7x	0.83
NasdaqGS:HEES	H&E Equipment Serv	$778.73	11.5x	6.2x	14%	55%	2.6x	1.87
Peers' Median		$778.73	11.5x	2.0x	47%	69%	2.7x	0.83
GFN		$205.01	8.0x	1.8x	27%	49%	3.4x	1.04

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Valenta, Ronald	Chairman, Chief	$ 488,450.00	$ 880,565.00	$ 1,120,950.00
Barrantes, Charles	Chief Financial	$ 385,800.00	$ 489,135.00	$ 566,300.00
Wilson, Christopher	Vice President,	$ 500,700.00	$ 512,085.00	$ 467,800.00
Kluckman, Jeffrey	Executive Vice	$ 199,650.00	$ 403,835.00	$ 659,050.00
Allan, Robert	Chief Executive	$ 809,043.00	$ 800,924.00	$ 1,061,184.00
Mourouzis, Theodore	President of Pac-Van	$ 311,983.00	$ 437,269.00	$ -

Performance

	GFN Last	GFN 10y Med.	Peers Last	Peers 10y Med.	Industry Last	Industry 10y Med.	All U.S. firms Last	All U.S. firms 10y Med.
ROIC	5.4%	4.8%	8.19%	8.37%	8.56%	14.27%	8.92%	11.07%
EBITA Margin	15.4%	10.6%	29.94%	22.54%	11.79%	12.65%	13.56%	13.62%
Imputed Rev./Invested cap.	0.54	0.51	0.32	0.45	1.89	1.96	1.76	2.02
Excess Cash/Rev.	3.11%	N/A	8.66%	6.66%	8.01%	7.52%	23.19%	18.87%
Total Cash/Rev.	3.11%	2.49%	8.66%	6.66%	11.33%	8.59%	32.72%	30.13%

Current Capital Structure

Total debt/market cap	49.37%
Cost of Borrowing	5.84%
Interest Coverage	3.35
Debt Rating	CCC
5y Beta	0.71
WACC (based on market value weights)	8.8%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-5.7%	15.0%	133.3%
Last Quarter-1	22.1%	30.6%	-50.0%
Last Quarter-2	1.2%	-0.9%	0.0%
Last Quarter-3	-3.9%	12.4%	75.0%
Last Quarter-4	-1.8%	-11.8%	-50.0%

Last Guidance: Nov-10-2014 | Next earnings: 2/9/2015 | Last Earning Call Transcript: www.generalfinance.com

General Finance Corporation announced unaudited consolidated earnings results for the first quarter ended September 30, 2014. For the quarter, the company reported revenue of $80,442,000 against $65,746,000 a year ago. Operating income was $15,468,000 against $6,768,000 a year ago. Income before provision for income taxes was $10,668,000 against $3,783,000 a year ago. Net income attributable to common stockholders was $3,718,000 or $0.14 per basic and diluted share against $402,000 or $0.02 per basic and diluted share a year ago. Adjusted EBITDA was $25,487,000 against $12,833,000 a year ago. At September 30, 2014, the company had total debt of $318.6 million compared with $302.9 million at June 30, 2014.

For the fiscal 2015, the company's consolidated revenues were expected to be in the range of $320 million to $335 million and that consolidated adjusted EBITDA was expected to increase 28% to 33%.

Continuing Period Assumptions

Money market rate as of today	0.37%	Risk-Free rate	2.4%	LT Op. Costs/Rev	66.0%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	8.8%
Yield Spread acceleration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	11.2%
Marginal Tax Rate	37.5%	LT Growth	2.5%	Growth in PPE	Follow Forward Rev. Growt

: weights are either implied from the stability of each time-series"--i.e., median/[max.-min.], or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution

	Rev./Capital Last	Rev./Capital 10y Median	LT Imputed Growth Last	LT Imputed Growth 10y Median	LT Op. Costs/Rev. Last	LT Op. Costs/Rev. 10y Median	Unlevered Beta Last	Unlevered Beta 10y Median	Multiples (10Y Historical Median Value) TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
GFN	0.45	0.51	9.0%	35.6%	76.2%	80.28%	0.13	0.43	1.5x	8.0x	15.5x	36.2x
Peers	0.32	0.45	10.1%	6.4%	58.3%	66.83%	0.98	0.90	3.7x	9.8x	14.3x	23.0x
Primary Industry	1.88	1.88	5.1%	7.9%	81.9%	81.05%	1.06	1.03	2.3x	12.7x	15.6x	30.2x
Industry	1.88	1.88	5.1%	7.9%	81.9%	81.05%	1.06	1.03	2.3x	12.7x	15.6x	30.2x
Industry Group	1.86	1.97	5.9%	7.3%	85.8%	86.43%	1.18	1.18	1.7x	11.7x	15.0x	30.1x
Sector	1.92	2.13	5.9%	6.9%	84.9%	85.58%	1.13	1.11	1.7x	11.7x	15.5x	28.6x
All U.S. Firms	1.76	2.02	5.9%	6.6%	80.8%	81.45%	0.99	0.96	2.5x	12.4x	16.7x	29.6x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
GFN long-run estimate	1.00		2.50%		30.00%		1.00		2.0x	4.0x	7.0x	20.0x

Capitalization

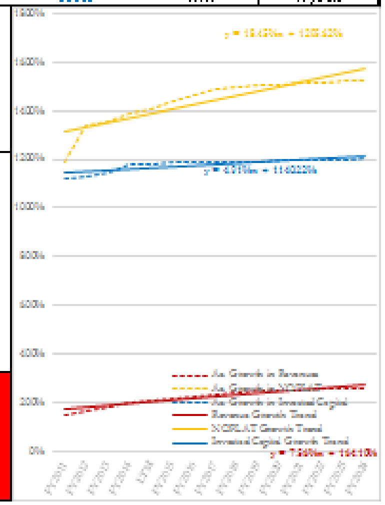
Operating Leases	100%
Straightline	10 years
R&D Exp.	0%
Straightline	10 years
Expl./Drilling Exp	0%
Straightline	10 years
SG&A	0%
Straightline	10 years

Explicit Period Assumptions

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	t+ **
Growth	16.9%	16.2%	9.5%	8.5%	7.0%	5.5%	4.0%	3.0%	2.5%	2.5%	2.5%	2.5%
Op.Costs/Rev.	76.2%	73.0%	70.0%	68.0%	67.0%	66.0%	66.0%	66.0%	66.0%	66.0%	66.0%	66.0%
WACC	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$34.5	$43.0	$52.1	$62.2	$68.4	$75.1	$76.9	$80.4	$81.7	$85.1
Invested capital	$639.6	$678.4	$687.3	$697.4	$706.6	$719.7	$743.7	$751.4	$757.6	$766.3
ROIC	5.4%	6.6%	7.7%	9.0%	9.8%	10.6%	10.7%	10.8%	10.9%	11.2%
UFCF	$0.00	$10.70	$43.24	$52.04	$59.25	$61.94	$52.92	$72.70	$75.47	$76.37
EVA	-$18.75	-$14.74	-$7.65	$1.72	$7.08	$13.17	$14.00	$15.15	$15.66	$18.60
Terminal value										$1,044.64
Enterprise value (mid-year adj.)	$841.40	$918.54	$981.87	$1,019.20	$1,049.84	$1,074.99	$1,105.92	$1,135.98	$1,153.44	$1,174.25
Total Debt	$319.95	$319.95	$319.95	$319.95	$319.95	$319.95	$319.95	$319.95	$319.95	$319.95
Minority Interest	$92.38	$92.38	$92.38	$92.38	$92.38	$92.38	$92.38	$92.38	$92.38	$92.38
Preferred Equity	$40.10	$40.10	$40.10	$40.10	$40.10	$40.10	$40.10	$40.10	$40.10	$40.10
Capitalized Operating leases	$79.91	$108.72	$113.00	$116.80	$120.29	$128.72	$148.86	$153.37	$156.53	$162.12
# of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ect of options, warrants, and converts	$6.75	$6.54	$6.31	$6.06	$5.79	$5.48	$5.14	$4.74	$4.27	$3.70
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$9.39	$19.10	$45.45	$79.22	$120.20	$168.45	$219.89	$275.51	$332.85	$393.57
Equity value	$311.70	$369.95	$455.58	$523.13	$591.53	$656.80	$719.38	$800.94	$873.06	$949.57
Shares outstanding	$25.79	$25.79	$25.79	$25.79	$25.79	$25.79	$25.79	$25.79	$25.79	$25.79
Price per share as of 2/6/2015	$12.89	$15.56	$18.58	$21.22	$23.83	$26.39	$29.00	$32.03	$34.89	$36.82



Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0%	13.7%	N/A	N/A	Normal
Op. Costs Variation	0%	57.1%	N/A	N/A	Normal
Market Risk Premium	7.0%	N/A	5.0%	9.0%	Triangular
Long term Growth	2.50%	N/A	3.2%	35.6%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$12.89	$15.56
σ(x̄)	$0.32	$0.25
) adjusted price	$11.93	$14.81
Current Price	$7.95	
rs' median est.		$13.33

CGF

Lannett Co Inc (LCI: NYSE)

Financial Analysis By: Laura Pladys – Healthcare

Company Profile as of 2/05/2015

Market Price: $51.70
Industry: Drugs generic
Market Cap: $1.7B
52-Week: $29.12-59.44
Beta: 2.08

Source	Target Price	Recommendation
Siena	$68.50	BUY
Bloomberg	$66.67	BUY
Capital IQ	$67.00	BUY
Yahoo Finance	$63.25	BUY

Thesis

-Strong Financials: high and increasing profit margins, phenomenal EBITDA growth
-Vertical Integration
-Strong Focus on Product Development

Lannett has shown a consequent growth for the past few years in a competitive promising market. Lannett, thanks to its strategic partnerships, should be able to keep such high margins. With the increasing number of drugs' patents expiring in the years to come, Lannett will continue to expand its product selection and propose to its customer new generics. In a market environment where healthcare spending is a real concern for households, the demand for generics becomes crucial. With LCI's margin improvement and its upcoming product launches, the company should be able to keep improving its EBITDA and increase its shareholder value. With generics companies trading 12.6% below analyst price targets, I recommend LCI as a buy.

Company Overview

Lannett Company, Inc. develops, manufactures, packages, markets, and distributes generic versions of branded pharmaceutical products in the United States. It offers solid oral, extended release, topical, and oral solution finished dosage forms of drugs that address a range of therapeutic areas. The company provides its products for various medical indications comprising glaucoma, migraine, antibiotic, pain management, anesthetic, endometriosis, anxiety, irritable bowel syndrome, obesity, congestive heart failure, antipsychotic, tuberculosis, thyroid deficiency, dryness of the mouth, epilepsy, gout, low sodium, bronchospasms, hypertension, and gallstone, as well as HIV. It also manufactures active pharmaceutical ingredients. Lannett Company, Inc. markets its products under the Diamox, Fioricet, Fiorinal, Fiorinal w/ Codeine #3, Cleocin, Danocrine, Valium, Bentyl, Tenuate, Dospan, Lanoxin, Adoxa, Periostat, Prolixin, Dilaudid, Niazid, Levoxyl, Synthroid, Loxitane, Adipex-P, Fastin, Salagen, Mysoline, Benemid, Rifadin, Brethine, Dyazide, Actigall, and Retrovir brands. The company sells its pharmaceutical products to generic pharmaceutical distributors, drug wholesalers, chain drug retailers, private label distributors, mail-order pharmacies, other pharmaceutical manufacturers, managed care organizations, hospital buying groups, governmental entities, and health maintenance organizations. It has development and supply agreements with Azad Pharma AG, Swiss Caps of Switzerland, Pharma 2B, the GC Group of Israel, and HEC Pharm Group, as well as with Jerome Stevens Pharmaceuticals, Inc., Cerovene, and Summit Bioscience LLC. The company was founded in 1942 and is based in Philadelphia, Pennsylvania.

Industry Outlook

The manufacturing and distribution of generic pharmaceutical products is a highly competitive industry. Competition primarily arises from price and from the first-to-file generics. The Hatch-Waxman Act permits first-to-file generic maker to have the exclusivity of the product for 180 days when it first enters the market. The industry is seen bullish because of the global trend towards generics (86% of all the scripts written in the US are for generics), the ongoing patent cliff, as well as the Affordable Care Act that enable the industry to benefit from market expansion. The healthcare industry is seen as a defense sector as even in recession, people will still spend money on drugs. In addition, the world population is expected to grow by 1 billion in the next twelve years. People over 60 years of age are the demographics that grow the fastest. Their need for drugs on a regular basis is estimated to be 90%. The aging population is a long-term driver for the healthcare industry, including the drug generics sector. Moreover, in the last decade, generics helped to reduce healthcare spending by $1.2 trillion in the US alone. When it comes to pharmerging countries, generic drugs' spending in their global healthcare spending is forecasted to increase by 5% by 2017, reaching 63%. It is a growth opportunity that developed countries could take advantage of. As you can see from the graph below showing the price of the ETF (white) following the pharmaceutical industry and Lannett Co Inc (green), it is clear that LCI follows the trend of the industry. LCI represents 3.29% of the SPDR S&P Pharmaceuticals ETF (XPH). With the positive outlook of the industry, there is an incentive that LCI stock price will increase.

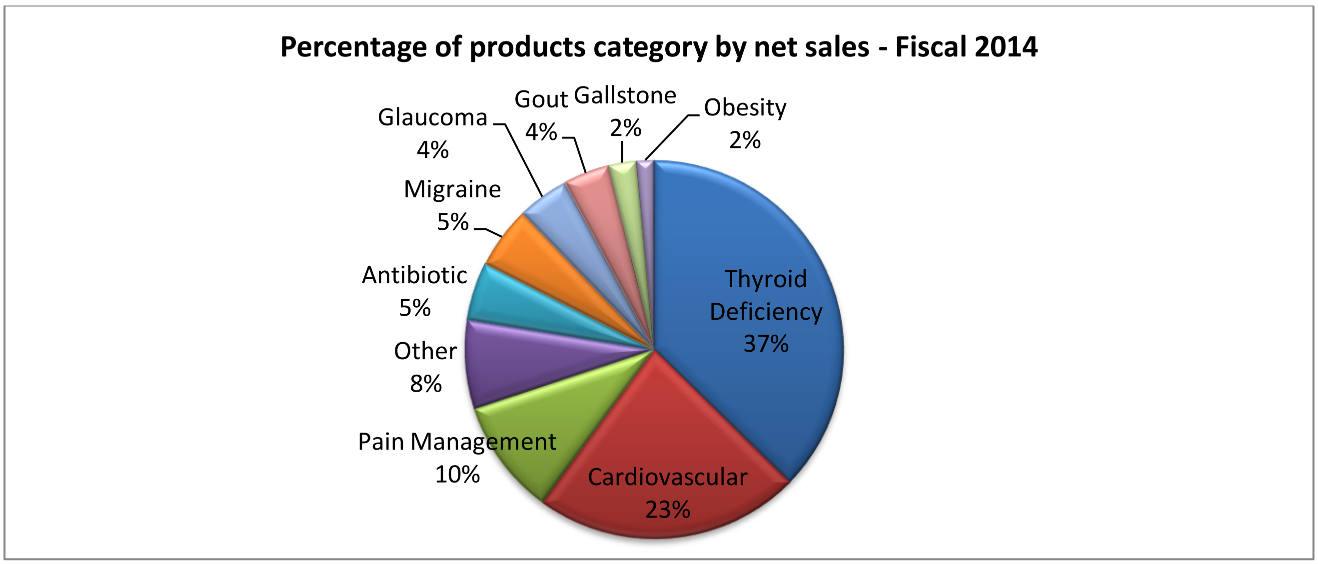
Strength in Management

Lannett's asset Arthur P Bedrosian has been within the company for more than a decade. He has operated within the generics sector for many years. Since he took over as Chief Executive Officer in 2006, LCI's stock gained a total return of 22.80%. In addition to being the CEO of the company, Arthur Bedrosian serves as President. Over the past five years, LCI has experienced a 71% growth in net sales thanks to strategic partnerships and launches of additional generic thanks to FDA's approval. With the addition of Martin P Galvan in August 2011 as Chief Financial Officer, LCI met an impressive total return of 94.64%. Below is a chart showing the performance of LCI's stock under the different CFO's tenure. In December, Lannett welcomed Michael Bogda as President, leaving Arthur Bedrosian as CEO. Michael Bogda has been hired in order to help the company manage its rapid growth as well as their merger and acquisitions program. Michael Bodga has decades of experience in the healthcare industry as VP of operations, Chief Operating Officer, and President in other companies.

	Chart	Name	Age	Start	End	Tenure	% TRA
		Chief Financial Officer					
10)		Martin P Galvan	*62	08/2011		3.4	94.38
11)		Keith R Ruck		03/2009	08/2011	2.4	-6.68
12)		Brian J Kearns	*48	03/2005	03/2009	4.0	-7.50
13)		Larry Dalesandro		06/2003	12/2004	1.6	-33.00

Products Offered

Lannett proposes drugs generic in different areas. Its top seller is a generic drug dealing with thyroid deficiency which represented 36% of LCI's net sales in the first quarter of fiscal year 2015, an increase of 13% from the previous fiscal year.. Its second category generics is cardiovascular representing 20% and of its net sales in Q1 of fiscal 2015. See below a chart of the product mix for the fiscal year 2014.



In the second quarter of LCI's fiscal year 2015, the company launched the generic Oxycodore HCL oral solution, a narcotic pain relievers that can be used for acute or chronic pain. Since the beginning of fiscal 2015 in July 2014, LCI received its fouth product approval by the Food and Drug Administration with a combination of Dorzolamide Hydrochloride and Timolol Maleate Ophthalmic Solution. The company expects to launch the product in the following month. LCI currently manufactures and distributes 31 different products, has 15 product applications pending at the FDA, and has an additional 58 products at different stage of development.

Strong Financials: high and increasing profit margins, phenomenal EBITDA growth

For the second quarter of their fiscal year 2015, LCI beat its estimates. It was the 9th consecutive quarter of record in net sales and the 12th consecutive quarter in which net sales and adjusted EPS exceeded the comparable prior-year period. LCI's strategy is focused towards research and development, strategic partnerships with domestics and international companies, purchase of ANDA's by other generic manufacturer, and market generic drugs under brand name. Over the past few years, LCI has delivered remarkable financials. For the fiscal year 2014, Lannett has passed the threshold of $1 billion market cap. Its total revenues increased by 119% since FY 2010, with a CAGR of 21.6%. Its gross margin increased by 18.4% from FY2013 to reach 56.4% in FY 2014. The first quarter of its fiscal year 2015 increased as well from FY 2014: LCI's gross margin represented 77% of net sales, principally due to an increase in price. The higher margins also come from LCI's vertical integration. The company has direct control over its supply and can therefore avoid increasing costs linked to buying APIs from thrid-party manufacturers. Lannett's has shown one of the fastest growth in the industry with its sales more than doubling. EBITDA grew at a fantastic rate of 1.39K%. The EBITDA margin in 2014 was more than twice the margin of most of Lannett's biggest competitors. With $146M in cash and cash equivalents and no debt, Lannett has a wide opportunity for further growth. With the two products that Lannett acquired in the last fiscal year and that should be sold in the next few months, Lannett has in its hands a potential sales booster. In addition, in FY 2014, its EBIT/interest expense ratio was 1,394.2 times. This is a phenomenal ratio for this industry. Operating income was $54.7M for the first quarter of FY 2015, compared to a $-

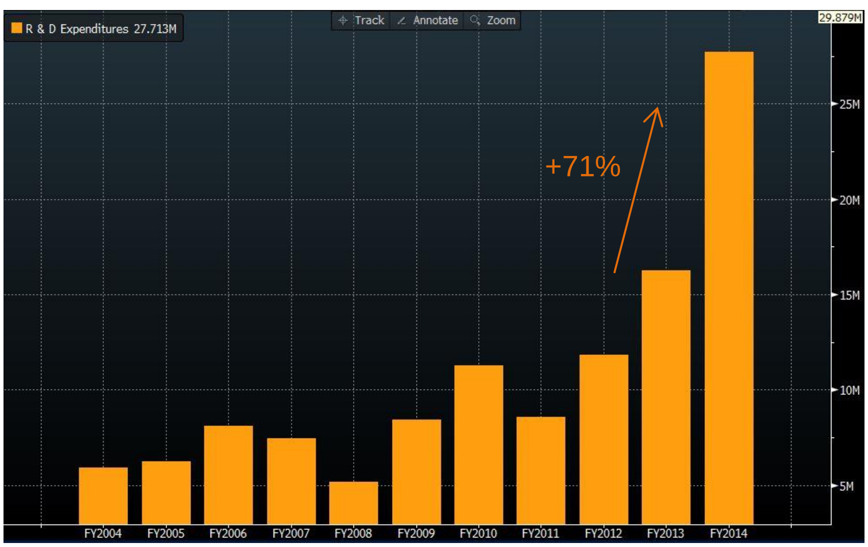
10.6 a year ago. Last but not least, Lannett's net income growth reached an impressive growth rate of 2.13K% from FY 2013 to FY 2014. It resulted from an increase in sales faster than the costs of sales with other components (tax and interest expenses) remaining the same. The EV/EBITDA of 10.13 times is comparatively lower than 11 out of its 12 direct peers.

Vertical Integration

Lannett first started by establishing a strategic partnership with Jerome Stevens Pharmaceutical. In May 2004, Lannett signed a 10-year contract that gave LCI an exclusive distribution rights in the US for JSP line of products since they do not distribute themselves. Before May 2004, Lannett was distributing JSP's products without any formal agreement. In May 2014, Lannett and JSP decided to renew this agreement. JSP line of products has become an integral part of LCI products, particularly Levothyroxine Sodium Tablets (treat thyroid disorders and second most prescribed molecule in the market) and Digoxin Oral (treat congestive heart failure), two of LCI's best sellers. With the exclusivity on these products, Lannett has the opportunity to increase prices, therefore improving margins. Lannett is now focused on controlled substances, and not a lot of companies are able to provide the supply for it. In 2007, LCI vertically integrated Cody Labs, an Active Pharmaceutical Ingredient (API) facility. Cody Labs delivers controlled substances to Lannett. LCI took the opportunity offered to them and the increase in price fastens their growth margin. Lannett is now concentrating on this area and expect to have 50% of its manufactured products in this area. In the near term, Lannett hopes to expand its vertical integration onto morphine sulfate (pain reliever), hydrocodone (analgesic), fentanyl (analgesic 100 times more potent than morphine), and oxycodone (narcotic analgesic). The company now has to wait for the FDA approvals. Lannett wants to be able to make all of the material they can themselves. One molecule can derive more than 48 different products. This would enable the company to expand its product line without having to manufacture a lot of different products. In the controlled substances area, LCI only has one vertically integrated competitor, leaving room for LCI to develop. Lannett is currently discussing its first acquisition and does not want to take great risk. It is the primary reason why it has been under discussion for so long but no acquisition has been signed yet.

Strong Focus on Product Development

Lannett works on expired patents to produce generics more accessible to patients. In the past few years, Lannett has increased its R&D expenses. The company heavy investments in research and development increased 249% since 2006. With Lannett's increasing pipeline and the number of products approval pending at the FDA, the company's future growth depends on product development. In LCI's second quarter of FY 2015, R&D represented 41% of its operating expenses. In Lannett's books, research and development gathers all product related costs until FDA's approvals. The company may need up to 36 months or more for one of its product to be FDA approved, keeping the costs of every single generic as R&D for more than 3 years. As we can see on the chart provided on the left, R&D expenses have been increasing, especially starting in FY 2011. The $10 million gap between FY 2013 and FY 2014 is mainly explained by the company efforts to achieve organic growth by relying on R&D. From FY 2013 to FY 2014, the company increased its R&D expenses by 71% as Lannett started to ask for more FDA approvals per year, increasing the costs. With currently 21 ANDAs pending at the FDA and 5 FDA approvals expected by the end of the FY 2015, beginning of FY 2016, Lannett's R&D expenses are forecasted to slightly decrease.



Conclusion

I recommend a buy on Lannett at the current market price. If LCI were bought at $51.70 per share, there would be a return of 32.5%. The company's impressive performances in the 9 last quarters in addition to its focus on product development and desire of vertical integration forecast a bright future for Lannett. There is a pipeline of companies with which LCI is in stage of negotiations for potential acquisitions, enabling LCI to expand its plan of vertical integration. LCI's recently approved ANDAs should let appear on the market a few products by the end of fiscal year 2015. The company's pending FDA approvals could result in first-to-file generics and therefore in high market shares in new launched products, increasing LCI's sales and margins within the next few years. The increasing demand of generic drugs in the Unites States as well as internationally should enable LCI to acquire important APIs in the drug industry, giving the company control on its suppliers. While the company has been profitable so far, it showed continued double, triple, or even quadruple digits in revenues, EBITDA, and net income growth. For these reasons, I recommend a buy on Lannett Co Inc.

Lannett Company, Inc. | LCI | Analyst: Laura Pladys | Current Price: 51.7 | Lower Bound Intrinsic Value: $63.9 | Lower Bound 1y-Target: $68.5 | Dividend Yield: 0% | 1y Upside (downside): 32.55%

General Info

Sector	Healthcare
Industry	Pharmaceuticals

Description: Lannett Company, Inc. develops, manufactures, packages, markets, and distributes generic versions of branded pharmaceutical products in the United States. It offers solid oral, extended release, topical, and oral solution finished dosage forms of drugs that address a range of therapeutic areas. The company provides its products for various medical indications comprising glaucoma, migraine, antibiotic, pain management, anesthetic, endometriosis, anxiety, irritable bowel syndrome, obesity, congestive heart failure, antipsychotic, tuberculosis, thyroid deficiency, dryness of the mouth, epilepsy, gout, low sodium, bronchospasms, hypertension, and gallstone, as well as HIV. It also manufactures active pharmaceutical ingredients. Lannett Company, Inc. markets its products under the Diamox, Fioricet, Fiorinal, Fiorinal w/ Codeine #3, Cleocin, Danocrine, Valium, Bentyl, Tenuate, Dospan, Lanoxin, Adoxa, Periostat, Prolixin, Dilaudid, Niazid, Levoxyl, Synthroid, Loxitane, Adipex-P, Fastin, Salagen, Mysoline, Benemid, Rifadin, Brethine, Dyazide, Actigall, and Retrovir brands. The company sells its pharmaceutical products to generic pharmaceutical distributors, drug wholesalers, chain drug retailers, private label distributors, mail-order pharmacies, other pharmaceutical manufacturers, managed care organizations, hospital buying groups, governmental entities, and

Market Data

Enterprise value	$1,559.66
Market Capitalization	$1,743.20
Daily volume	1.09039
Shares outstanding	35.76
Diluted shares outstanding	36.93
% shares held by institutions	51.7%
% shares held by insiders	13.9%
Short interest	11.6%
Days to cover short interest	0.00
52 week high	$59.44
52-week low	$29.12
5y Beta	1.25
6-month volatility	53.18%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NasdaqGS:SGNT	Sagent Pharmaceuticals, I	$ 807.32	22.1x	3.2x	9%	0%	13.4x	7.92
NasdaqGS:IPXL	Impax Laboratories Inc.	$2,661.13	18.8x	2.9x	21%	0%	2,141.0x	7.23
NasdaqGS:MDCO	The Medicines Company	$1,845.71	37.9x	2.0x	7%	14%	0.5x	1.87
Peers' Median		**$1,845.71**	**22.1x**	**2.9x**	**9%**	**0%**	**13.4x**	**7.23**
LCI		**$1,743.20**	**7.1x**	**4.6x**	**60%**	**0%**	**1,566.7x**	

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Bedrosian, Arthur	Chief Executive Officer,	$ 838,111.00	$ 1,264,994.00	$ 3,134,061.00
Galvan, Martin	Chief Financial Officer,	$ 474,134.00	$ 733,715.00	$ 1,759,287.00
Schreck, William	Chief Operating Officer	$ 589,875.00	$ 704,634.00	$ 1,400,401.00
Smith, Kevin	Senior Vice President of	$ 430,024.00	$ 622,794.00	$ 1,348,416.00
Bogda, Michael	President	$ -	$ -	$ -
Landis, G.	Chief Accounting Officer	$ -	$ -	$ -

Performance

	LCI		Peers		Industry		All U.S. firms	
	Last	10y Med.	Last	10y Med.	Last	10y Med.	Last	10y Med.
ROIC	85.4%	11.9%	3.20%	-8.79%	10.91%	10.95%	8.92%	11.07%
EBITA Margin	70.9%	18.2%	13.00%	20.24%	19.29%	18.28%	13.56%	13.62%
Imputed Rev./Invested cap.	1.88	0.78	1.17	2.57	0.74	0.93	1.76	2.02
Excess Cash/Rev.	50.14%	19.99%	65.51%	70.60%	61.12%	48.03%	23.19%	18.87%
Total Cash /Rev.	50.14%	19.99%	65.51%	70.60%	81.19%	59.49%	32.72%	30.13%

Current Capital Structure

Total debt/market cap	0.07%
Cost of Borrowing	11.30%
Interest Coverage	1566.67
Debt Rating	AAA
5y Beta	1.25
WACC (based on market value weights)	10.1%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-0.2%	0.0%	10.0%
Last Quarter-1	0.2%	15.9%	16.0%
Last Quarter -2	-0.2%	15.1%	3.2%
Last Quarter -3	-5.0%	1.2%	3.3%
Last Quarter -4	8.2%	20.1%	31.4%

Continuing Period Assumptions

Money market rate as of today	0.47%	Risk-Free rate	2.3%	LT Op. Costs/Rev	87.8%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	15.2%
Yield Spread acceleration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	20.0%
Marginal Tax Rate	37.5%	LT Growth	3.9%	Growth in PPE	Follows Forward Rev. Growth

Last Guidance Feb-04-2015 | **Next earnings date** 5/6/2015 | **Last Earning Call Transcript:** www.lannett.com

Lannett Company, Inc. announced unaudited consolidated earnings results for the second quarter and six months ended December 31, 2014. For the quarter, the company announced net sales of $114,822,000 compared to $67,326,000 for the same period a year ago. Operating income was $66,543,000 compared to $25,367,000 for the same period a year ago. Income before income tax was $67,256,000 compared to $26,392,000 for the same period a year ago. Net income was $44,821,000 compared to $16,592,000 for the same period a year ago. Net income attributable to the company was $44,811,000 compared to $16,566,000 for the same period a year ago. Earnings per common share attributable to the company, diluted were $1.21 compared to $0.46 for the same period a year ago.

For the six months, the company announced net sales of $208,209,000 compared to $113,155,000 for the same period a year ago. Operating income was $121,194,000 compared to $14,749,000 for the same period a year ago. Income before income tax was $122,006,000 compared to $16,163,000 for the same period a year ago. Net income was $79,771,000 compared to $10,605,000 for the same period a year ago. Net income attributable to the company was $79,743,000 compared to $10,571,000 for the same period a year ago. Earnings per common share attributable to the company, diluted were $2.15 compared to $0.31 for the same period a year ago. Adjusted net income, which excludes the impact of the JSP contract renewal charge equal to $12.6 million after-tax, was $23.2 million, or $0.69 per diluted share, in the first six months of fiscal 2014.

The company revised earnings guidance for the full year of fiscal 2015. The company raised its financial guidance for the fiscal 2015 full year as: net sales in the range of $395 million to $405 million, up from

LT convergence estimates: weights are either implied from the stability of each time-series"--i.e., median/[max.-min.], or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution, and threat of new entries.

	Rev./Capital		LT Imputed Growth		LT Op. Costs/Rev.		Unlevered Beta		Multiples (10Y Historical Median Value)			
	Last	10y Median	Last	10y Median	Last	10y Median	Last	10y Median	TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
LCI	1.01	0.78	78.8%	17.7%	58.3%	87.83%	1.11	0.73	1.6x	12.0x	14.5x	26.6x
Peers	1.17	2.57	2.8%	8.4%	89.7%	91.13%	1.15	0.94	2.8x	32.5x	34.6x	21.0x
Primary Industry	0.68	0.88	14.1%	15.3%	77.5%	77.01%	1.00	0.92	4.2x	12.5x	13.2x	31.2x
Industry	0.68	0.88	14.1%	15.3%	77.5%	77.01%	1.00	0.92	4.2x	12.5x	13.2x	31.2x
Industry Group	0.54	0.75	16.0%	15.1%	74.2%	75.25%	1.02	1.03	5.1x	13.6x	17.7x	34.7x
Sector	1.07	1.22	10.0%	12.2%	80.8%	80.95%	0.95	0.94	3.7x	13.5x	16.7x	32.6x
All U.S. Firms	1.76	2.02	5.9%	6.6%	80.8%	81.45%	0.99	0.96	2.5x	12.4x	16.7x	29.6x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
LCI long-run estimate	0.88		3.90%		87.83%		1.11		1.6x	12.0x	13.2x	28.9x

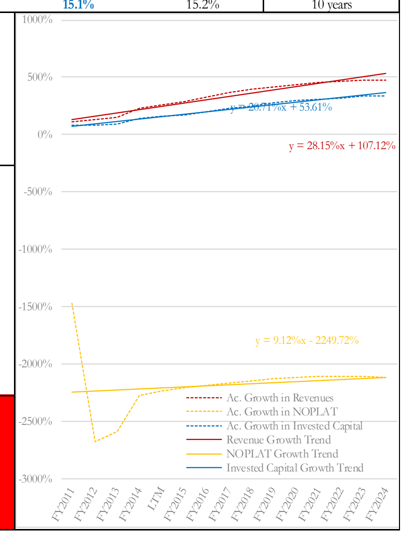
Capitalization

Operating Leases
100%
Straightline
10 years
R&D Exp.
100%
Straightline
10 years
Expl./Drilling Exp.
0%
Straightline
10 years
SG&A
38%
Straightline
10 years

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	to ∞
Growth	81.2%	55.0%	40.0%	35.0%	30.0%	25.0%	20.0%	15.0%	10.0%	8.0%	5.0%	3.9%
Op.Costs/Rev.	58.3%	66.0%	70.0%	73.0%	74.0%	75.0%	78.0%	80.0%	82.0%	85.0%	87.0%	87.8%
WACC	10.1%	10.6%	11.1%	11.6%	12.1%	12.6%	13.1%	13.6%	14.1%	14.6%	15.1%	15.2%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$230.9	$152.2	$179.9	$217.7	$263.2	$300.0	$325.4	$341.6	$341.0	$330.8
Invested capital	$288.4	$400.5	$510.1	$639.9	$786.4	$945.4	$1,109.3	$1,267.0	$1,415.7	$1,552.7
ROIC	85.4%	47.7%	45.1%	42.8%	41.2%	38.3%	34.6%	30.9%	27.0%	23.4%
UFCF	$0.00	$62.62	$70.30	$87.90	$116.64	$141.00	$161.46	$183.97	$192.26	$193.83
EVA	$175.16	$146.79	$170.90	$196.79	$225.84	$238.70	$233.16	$214.21	$177.24	$131.56
Terminal value										$3,184.19
Enterprise value (mid-year adj.)	$2,180.00	$2,299.02	$2,457.32	$2,622.15	$2,786.06	$2,938.12	$3,086.06	$3,238.54	$3,410.37	$3,559.76
Total Debt	$1.07	$1.07	$1.07	$1.07	$1.07	$1.07	$1.07	$1.07	$1.07	$1.07
Minority Interest	$0.32	$0.32	$0.32	$0.32	$0.32	$0.32	$0.32	$0.32	$0.32	$0.32
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PV of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dilutive impact of options,warrants, and converts	$60.36	$59.95	$59.52	$59.06	$58.59	$58.12	$57.65	$57.21	$56.84	$56.55
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$184.94	$211.21	$272.12	$355.59	$468.90	$604.73	$756.64	$924.24	$1,091.11	$1,248.98
Equity value	$2,303.17	$2,448.88	$2,668.53	$2,917.28	$3,194.97	$3,483.34	$3,783.65	$4,104.17	$4,443.24	$4,750.79
Shares outstanding	$35.76	$35.76	$35.76	$35.76	$35.76	$35.76	$35.76	$35.76	$35.76	$35.76
Price per share as of 2/5/2015	$64.81	$69.28	$75.29	$82.33	$90.12	$98.49	$106.65	$115.66	$125.06	$132.86



Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0%	5.3%	N/A	N/A	Normal
Op. Costs Variation	0%	32.2%	N/A	N/A	Normal
Market Risk Premium	7.0%	N/A	5.0%	9.0%	Triangular
Long term Growth	3.90%	N/A	3.2%	17.7%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$64.81	$69.28
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$63.85	$68.53
Current Price	$51.70	
Analysts' median est.		$67.00

CGF

Kate Spade & Company (KATE: NYSE)

Financial Analysis By: Remy Fields – Consumer Discretionary

Company Profile as of 2/5/2015

Market Price: $32.32
Industry: Special Apparel
Market Cap: $4108.2M
52-Week: $24.06 – 42.87
Beta: 2.15

Source	Target Price	Recommendation
Siena	$37.60	Buy
Bloomberg	$40.00	Buy
Capital IQ	$36.43	Buy
Yahoo Finance	$36.50	Buy

Thesis

-Strategic partnerships

-Product diversification

-Global expansion

Kate Spade & Company is a buy because of their strategic partnerships, diversification in brand, and global expansion. Currently, their strategic partnerships will allow them to realize increased EBITDA margins. The diversification of their products and brand allows the company to have multiple sources of revenue, which have significant growth potential. The availability and plan to grow globally gives the company a greater potential for growth.

Company Overview

Kate Spade & Company, together with its subsidiaries, primarily designs and markets a range of apparel and accessories. It operates through Kate Spade, Adelington Design Group, and Juicy Couture segments. The company offers a diverse product line ranging from designer apparel, handbags, briefcases, travel bags, small leather goods, tabletop products, legwear, bedding, stationery, jewelry, apparel, footwear, optics, fragrances, electronics cases, fashion accessories, beauty, and home décor products. It offers its products under the Kate Spade Saturday, Jack Spade, Liz Claiborne, Monet, Trifari, Kensie, Lizwear, Liz Claiborne New York, and Juicy Couture brands. With collections encompassing a wide range of demographics, genders, and international locations, the brands are intended to accent customers' interesting lives and inspire adventure at each turn. The company sells its products through its own retail and outlet stores, as well as to department store chains and specialty retail store customers. Kate Spade & Company operates approximately 118 specialty retail stores, 51 outlet stores, and 43 concessions stores. It is also involved in e-commerce and licensing operations. The company was formerly known as Fifth & Pacific Companies, Inc. and recently changed its name to Kate Spade & Company in February 2014. Kate Spade & Company was founded in 1976 and is based in New York, New York.

Management

Kate Spade & Company is led by their Chief Executive Officer Craig A Leavitt who became CEO in 2010. Before taking over as CEO Mr. Leavitt served as President of Global Retail at Link Theory Holdings and was responsible for merchandising, operations, planning, resource allocation, and real estate development for the Theory and Helmut Lang retail businesses. Prior to that, he was with Diesel where he served as Executive Vice President of Sales and Retail. He served as Executive Vice President of Retail Concepts at Polo Ralph Lauren and also held different positions for 16 years.

Mr. George M. Carrara has been President of Kate Spade & Company since February 25, 2014 and has been its Chief Operating Officer since April 2, 2012. Mr. Carrara oversees Finance, Global Operations and Information Technology. He also served as Chief Financial Officer of Kate Spade & Company from April 2, 2012 to October 14, 2014. He worked for Tommy Hilfiger North America from 1999 to 2011 and served in various senior positions, including as Chief Financial Officer for the Jeans division from 1999 to 2003; Chief Operating Officer and Chief Financial Officer of wholesale operations from 2003 to 2004; Executive Vice President of U.S. Operations - Wholesale and Retail from 2004 to 2005 and Chief Operating Officer from 2006 to 2011. In addition Mr. Carrara served as Chief Financial and Operating Officer for Mirage Apparel Group. He began his career in the Entrepreneurial Services & Consumer Product Groups at Price Waterhouse and is a Certified Public Accountant.

Mr. Thomas J. Linko, has been Chief Financial Officer at Kate Spade & Company since October 14, 2014. Mr. Linko joined Kate Spade in July 2012 as Chief Financial Officer for Juicy Couture leading Finance, Store Operations, Planning & Allocation, Real Estate, Commercial Operations and Order Management. Prior to that, he served as Chief Financial Officer of DG USA at Delta Galil Industries Ltd. since February 23, 2011. He has more than 20 years of experience in retail finance and operations. He spent 12 years at Tommy Hilfiger where he oversaw the financial operations of the US and Canadian Wholesale and Retail Divisions as the Senior Vice President of Finance for Tommy Hilfiger North America. He held various other positions with Tommy Hilfiger such as Vice President of Finance and Vice President of Tommy Hilfiger Europe.

Macro Outlook

The retail industry has gone through rapid change during the past few decades. These changes have caused many companies at the top of the industry to fall behind, while allowing new upcoming companies to innovate. These innovations took place in marketing and the production of clothing. Companies began marketing their products as a lifestyle, rather than a product. This has allowed companies, such as, Michael Kors, Nike, Under Armour and many others to build brands that are everyone knows. Brand recognition has created customer loyalty, which makes it more difficult for new brands to make a name for themselves. In addition, the industry has evolved from a made-to-order market to a ready-to-wear market. Over the past couple of decades, these changes have led to a very competitive industry.

More recently, companies have been facing competition from online competitors. Online sales have been growing because of how easy it is. This pace has kept up because companies have made the online experience more and more pleasurable for consumers. The online companies have also cut down how long their products take to get to the consumers door step, which gives consumers a greater incentive to order online. Companies who were born before the internet age have had to adjust by being where the consumer is, but they also have to find ways to intrigue consumers to come to their stores. Companies have done this by creating unique in-store experiences. These experiences are inspiring shoppers through social lifestyles.

Moreover, Kate Spade & Company is in competition with higher-end brands, which are affected by the economy. These brands do not perform well in down economies because of their pricing, but when economies are in good shape these companies tend to excel. This is because of people have more money to spend. This industry has a close correlation with the performance of the economy. The current outlook is positive in the U.S. because consumer confidence has risen through 2014 and continues to keep rising through 2015. This is measured by the Consumer Confidence Index which is up to 112.6 (January) from 99.9 (December), which also saw an increase in consumer confidence from November to December. The increase in the consumer confidence index means more spending and borrowing for consumers. To have a better understanding of where the retail industry may be heading it is also important to consider relevant factors like GDP expectations, inflation, personal income and interest rates. GDP is expected to grow around 3% compared to the expected 3.4% growth in 2014. The expected 3% GDP growth is healthy for economy, so there should be no concern because of GDP. Inflation's growth is expected to be around 2.1%, which is also a healthy expectation for an economy. One area that retailers could see a small cut in spending could potentially be as interest rates begin to rise. The Federal Reserve has done its best to set expectations for consumers, but when it actually occurs; you never know how people will react. The next increase in short-term interest rates is expected in late 2015. In addition, the significant decrease in oil prices should have a positive affect on spending in general. The consumer discretionary industry should be one industry that will realize a positive effect for as long as oil prices are down. Q4 earnings are expected to be positive for specialty apparel & accessories retailers despite a competitive promotional environment.

Strategic Partnerships

Kate Spade & Company has been setting up partnerships with other companies to help expand into new categories and to increase margins. New partnerships have been created in the recent past and this is expected to continue. They have not only used these partnerships to increase their margins, but they have been able to have industry leading top line growth because of the partnerships. Through 2014 they were able to add approximately 530 new premium retail points of distribution. Two of the main retail points will be located in Bloomingdale's and Von Maur. These are both up-scale department stores that sell brand names such as Michael Kors, Coach, and many more. These partnerships will also increase Kate Spade's brand relevance. Another partnership the company has created was with GapKids. This limited edition partnership was only for the 2014 Holiday, but it will open Kate Spade to a new market, children's wear. This momentum has been taken into 2015 with an additional partnership in children's wear with Tawil Associates. This license will bring Kate Spade to children's of all ages furthering Kate Spade's breadth. One last partnership that has had a positive impact for the company is with Contour. They have connected Kate Spade with premium phone makers, such as, Apple. This partnership allows Kate Spades customers to purchase their phone cases in the same store they buy their phones. Lastly, these partnerships are anticipated to expand margins, build brand equity, and brand awareness.

Product Diversification

Another strength that Kate Spade & Company has been developing is the diversification of their products. Kate Spade sells a large variation of products from handbags all the way to swim wear. The brand is known for their handbags, small leather goods, and clothing, but has seen increasing demand for other categories. Since they have entered into the accessory category, they have seen a surge in sales. The accessories category makes up about 50% of their sales through Q3. The reason it is such a large part is that the category is made up of many different products, such as, wallets, sunglasses, phone cases, hats, belts, and many more products. New categories, such as, stationary have seen a 180% growth rate during the year. Kate Spade has also kept gross margins growing, while allowing customers of different types of consumers to become part of the lifestyle. Kate Spade has especially done this in the tech area with its phone cases. They are able to sell a phone case for $40 when it costs much less to produce. This is partly due to the necessity to protect Smartphone's due to their glass screens, but is also because of the Kate Spade name. This is the level of growth they would like from a small revenue stream, but it shows how popular the brand is. The growth of these sales has occurred because of the strategic partnerships mentioned above. The company has done a good job of creating relationships to get their accessories into retailers, such as, Bloomingdales, Nordstrom and even smaller retailers. Kate Spade has been successful in growing their top line because they have gotten their products in every place their customers are shopping, which is creating stronger brand equity and awareness.

The diversification and growth in many categories is important because it allows Kate Spade to tap into many different markets. These revenue streams all see great margins due to their branding strategy. Kate Spade's brand has become so strong that they have seen gross margins expand to 60%. Although not every product can be a significant part of the revenue stream, they are able to lower the volatility of their revenue expectations because if one line is seeing negative pressure they have other revenue streams that are seeing growth. They have been able to do this by making Kate Spade a lifestyle that people want to live. The casual yet sophisticated look they have given to women through wallets, handbags, clothing, and more is the reason for the popularity of the brand. They have given many people the feeling of being apart of something more.

Global Expansion

Kate Spade & Company has been growing their sales internationally too. They have stores in many major cities throughout the world. Some examples are Sydney, Hong Kong, and Tokyo. They target these highly diverse cities because they are fashion mecas as well as cultural hubs. Kate Spade can also be found in Brazil, Canada, Germany, U.K., Singapore, and over fifteen other countries. Kate Spade has barely tapped the international market, so if they can correctly target consumers of different cultures they have potential for vast growth. This is one of the focuses of management and in the chart below you can see the type of growth Kate Spade is seeing internationally. From 2012 to 2013 the company saw a 136% increase in sales. Currently, international sales are only 10% of total revenue, but if they continue to grow at a fast pace as expected, they will become a serious revenue stream for Kate Spade.

In Millions of USD except Per Share	FY 2011	FY 2012	FY 2013
12 Months Ending	2011-12-31	2012-12-29	2013-12-28
Revenue	1,518.7	1,043.4	1,264.9
Product/Brand Segments	1,518.7	1,043.4	1,264.9
Geographic Segments	1,518.7	1,043.4	1,264.9
Domestic	1,455.4	969.6	1,090.5
International	63.3	73.8	174.4

Kate Spade's management has taken international growth seriously in the recent years and plan to continue along this path well into the future. They have started a new partnership with Walton Brown, a subsidiary of Lane Crawford Joyce Group. This group is a premier fashion retail and management group. They have over 20 years of experience in brand building experience. This partnership will help Kate Spade become more relevant in China. Kate Spade will begin to build brand awareness in China, which will accelerate growth in the region for the next five to ten years. China is a country that many retailers want to be right now because of the growth the country is achieving. This growth has increased spending by the Chinese consumers, which is positive for the all retailers. Kate Spade will be able to differentiate itself because of its casual yet sophisticated products, and customer service.

Conclusion

Kate Spade & Company is a buy because of their strategic partnerships, product diversification, and plans for global expansion. The strategic partnerships are a key reason for a positive outlook for Kate Spade because the licensing agreements will expand margins. Kate Spade already has great gross margins, but their EBITDA margins will see an increase of about 15-20% in 2015. These licensing agreements help with that because they do not increase operating costs, but increase sales. Kate Spade's diversified product line leads to a diverse revenue stream. This helps in times when one product may see a slower growth because other products will be see faster growth, which will lowers the unpredictability of revenue. Finally, Kate Spade's management wants Kate Spade to become a global brand. They have barely tapped any of the international market and they are growing their international sales at a fast rate. Kate Spade has positioned themselves to grow internationally for the long-term through partnerships with companies that have a better understanding of the international consumer.

Kate Spade & Company | **KATE** | **Analyst: Remy Fields** | **Current Price: 32.29** | **Lower Bound Intrinsic Value: $33.4** | **Lower Bound 1y-Target: $37.6** | **Dividend Yield: 0%** | **1y Upside (downside): 16.59%**

General Info

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods

Description: Kate Spade & Company, together with its subsidiaries, primarily designs and markets a range of apparel and accessories. It operates through KATE SPADE, Adelington Design Group, and JUICY COUTURE segments. The company offers apparel, handbags, briefcases, travel bags, small leather goods, tabletop products, legwear, bedding, stationery, jewelry, apparel, footwear, optics, fragrances, electronics cases, fashion accessories, beauty, and home décor products. It offers its products under the KATE SPADE SATURDAY, JACK SPADE, LIZ CLAIBORNE, MONET, TRIFARI, KENSIE, LIZWEAR, LIZ CLAIBORNE NEW YORK, and JUICY COUTURE brands. The company sells its products through its own retail and outlet stores, as well as to department store chains and specialty retail store customers. Kate Spade & Company operates approximately 118 specialty retail stores, 51 outlet stores, and 43 concessions stores. It is also involved in e-commerce and licensing operations. The company was formerly known as Fifth & Pacific Companies, Inc. and changed its name to Kate Spade & Company in February 2014. Kate Spade & Company was founded in 1976 and is based in New York, New York.

Market Data

Enterprise value	$4,379.71
Market Capitalization	$299.43
Daily volume	1.46779
Shares outstanding	127.11
Diluted shares outstanding	128.95
% shares held by institutions	108.0%
% shares held by insiders	0.4%
Short interest	5.5%
Days to cover short interest	2.96
52 week high	$42.87
52-week low	$24.07
5y Beta	2.73
6-month volatility	59.52%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NYSE:ARO	Aéropostale, Inc.	$ 208.88	NM	2.0x	-6%	58%	(28.1x)	2.82
NYSE:COH	Coach, Inc.	$10,787.75	8.2x	4.3x	27%	0%	3,165.8x	
NasdaqGS:LULU	Lululemon Athletica Inc.	$9,323.23	20.3x	8.6x	25%	0%		25.12
NYSE:OXM	Oxford Industries Inc.	$927.92	8.9x	3.3x	12%	14%	21.9x	4.46
NasdaqGS:PLCE	The Children's Place, Inc.	$1,274.12	7.2x	2.1x	9%	2%	82.2x	4.72
NasdaqGS:FOSL	Fossil Group, Inc.	$5,056.29	8.1x	5.4x	19%	11%	38.6x	6.30
NYSE:ZQK	Quiksilver Inc.	$385.14	NM	6.9x	-1%	71%	(0.8x)	1.27
NYSE:AEO	American Eagle Outfitters,	$2,847.35	8.0x	2.5x	10%	0%		5.96
NasdaqGS:GIII	G-III Apparel Group, Ltd.	$2,242.71	13.8x	3.0x	8%	7%	16.7x	5.09
NYSE:UA	Under Armour, Inc.	$15,721.68	36.2x	11.6x	14%	2%	66.3x	
Peers' Median		**$2,545.03**	**8.5x**	**3.8x**	**11%**	**4%**	**30.3x**	**4.90**
KATE		**$4,094.25**	**67.4x**	**58.4x**	**5%**	**9%**	**0.0x**	**6.41**

Management

Professional	Title	Comp. FY2011	Comp. FY2012	Comp. FY2013
Carrara, George	President and Chief	$ -	$ 1,611,013.00	$ 2,121,250.00
Yanussi, Linda	Senior Vice President of	$ -	$ -	$ 729,618.00
Leavitt, Craig	Chief Executive Officer	$ -	$ -	$ -
Linko, Thomas	Chief Financial Officer	$ -	$ -	$ -
Rinaldo, Michael	Chief Accounting Officer,	$ -	$ -	$ -
Baron, David	Head of corporate quality	$ -	$ -	$ -

Performance

	KATE Last	KATE 10y Med.	Peers Last	Peers 10y Med.	Industry Last	Industry 10y Med.	All U.S. firms Last	All U.S. firms 10y Med.
ROIC	3.8%	-1.6%	5.24%	9.72%	13.94%	14.26%	8.92%	11.07%
EBITA Margin	4.7%	0.8%	10.62%	15.01%	11.77%	11.37%	13.56%	13.62%
Imputed Rev./Invested cap.	4.25	1.16	3.44	3.44	1.86	1.90	1.76	2.02
Excess Cash/Rev.	8.35%	5.14%	13.81%	15.23%	16.03%	12.88%	23.19%	18.87%
Total Cash /Rev.	8.35%	5.16%	13.81%	15.23%	16.06%	13.64%	32.72%	30.13%

Current Capital Structure

Total debt/market cap	9.33%
Cost of Borrowing	8.03%
Interest Coverage	0.05
Debt Rating	D
5y Beta	2.04
WACC (based on market value weights)	9.5%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-1.7%	1.7%	-100.0%
Last Quarter-1	12.1%	57.6%	0.0%
Last Quarter -2	62.5%	39.7%	
Last Quarter -3	-16.0%	-27.7%	-48.3%
Last Quarter -4	-0.3%	-9.7%	

Last Guidance Jan-29-2015 | **Next earnings date NM** | **Last Earning Call Transcript: www.katespadeandcompany.com**

Kate Spade & Company provided earnings guidance for the year 2014. For the year, the company expects net sales in the range of $1.13 billion to $1.14 billion, reflecting impressive growth both in the U.S. and globally. The company also estimate 2014 adjusted EBITDA between $145 million and $150 million.

For the year 2015, the company expects adjusted EBITDA of $185 million to $200 million. Putting aside the positive and negative impact of the various factors just described, it is important to note that both sales and adjusted EBITDA at the midpoint of guided ranges are expected to increase in excess of 20% in 2015 compared to 2014.

Continuing Period Assumptions

Money market rate as of today	0.47%	Risk-Free rate	2.4%	LT Op. Costs/Rev	30.0%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	10.0%
Yield Spread accelaration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	26.5%
Marginal Tax Rate	37.5%	LT Growth	4.0%	Growth in PPE	Follows Forward Rev. Growth

LT convergence estimates: weights are either implied from the stability of each time-series"--i.e., median/[max.-min.], or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution, and threat of new entries.

	Rev./Capital Last	Rev./Capital 10y Median	LT Imputed Growth Last	LT Imputed Growth 10y Median	LT Op. Costs/Rev. Last	LT Op. Costs/Rev. 10y Median	Unlevered Beta Last	Unlevered Beta 10y Median	Multiples (10Y Historical Median Value) TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
KATE	1.16	1.16	24.6%	-17.4%	95.3%	95.85%	1.81	0.80	1.0x	10.1x	11.2x	2.3x
Peers	3.44	3.44	1.2%	3.8%	84.8%	81.63%	1.65	1.66	1.9x	10.2x	12.1x	117.8x
Primary Industry	1.69	1.79	12.2%	10.1%	79.9%	81.17%	1.06	1.25	2.2x	12.6x	14.9x	30.3x
Industry	1.73	1.82	11.4%	9.8%	82.5%	83.16%	0.97	1.19	2.0x	11.9x	14.2x	29.5x
Industry Group	1.85	1.80	9.6%	6.9%	87.1%	87.14%	1.10	1.13	1.6x	11.8x	16.1x	31.2x
Sector	2.19	2.19	6.1%	6.2%	84.7%	84.86%	1.06	1.05	1.7x	11.5x	16.0x	26.8x
All U.S. Firms	1.76	2.02	5.9%	6.6%	80.8%	81.45%	0.99	0.96	2.5x	12.4x	16.7x	29.6x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
KATE long-run estimate	1.00		4.00%		30.00%		1.00		2.0x	4.0x	7.0x	20.0x

Capitalization

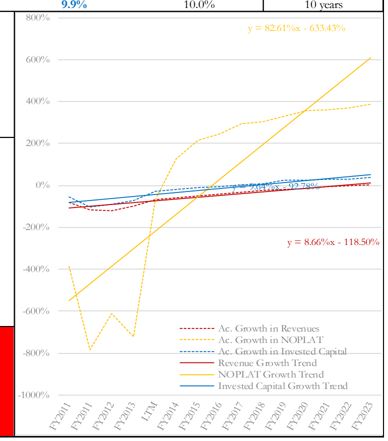
Operating Leases
100%
Straightline
10 years
R&D Exp.
0%
Straightline
10 years
Expl./Drilling Exp.
0%
Straightline
10 years
SG&A
0%
Straightline
10 years

Explicit Period Assumptions

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	to ∞
Growth	21.2%	40.0%	7.2%	9.4%	9.0%	9.0%	6.0%	5.5%	5.5%	5.3%	5.0%	4.0%
Op.Costs/Rev.	95.3%	90.0%	83.0%	81.0%	75.0%	75.0%	70.0%	65.0%	65.0%	65.0%	60.0%	30.0%
WACC	9.5%	9.4%	9.4%	9.4%	9.4%	9.5%	9.5%	9.6%	9.7%	9.8%	9.9%	10.0%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$41.1	$140.5	$195.0	$280.4	$327.5	$405.3	$511.1	$558.4	$595.0	$699.3
Invested capital	$1,218.0	$1,763.1	$1,871.4	$1,971.3	$2,056.6	$2,369.0	$2,525.5	$2,594.3	$2,639.6	$2,814.5
ROIC	3.8%	8.8%	11.0%	14.9%	16.6%	19.7%	21.5%	22.1%	22.9%	26.5%
UFCF	$0.00	-$86.92	$86.69	$180.51	$242.18	$92.85	$354.56	$489.55	$549.76	$524.44
EVA	-$48.89	-$8.29	$31.24	$109.66	$147.20	$243.27	$302.09	$322.54	$346.91	$468.88
Terminal value										$8,796.62
Enterprise value (mid-year adj.)	$5,444.30	$6,128.96	$6,653.89	$7,164.69	$7,610.52	$8,288.12	$8,729.30	$9,141.26	$9,470.69	$9,771.51
Total Debt	$408.80	$408.80	$408.80	$408.80	$408.80	$408.80	$408.80	$408.80	$408.80	$408.80
Minority Interest	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$870.40	$1,432.54	$1,534.79	$1,631.95	$1,715.47	$2,024.48	$2,176.62	$2,241.16	$2,282.38	$2,453.77
PV of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dilutive impact of options,warrants, and converts	$83.54	$82.18	$80.68	$79.03	$77.20	$75.18	$72.95	$70.48	$67.83	$65.25
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$123.33	$461.50	$628.97	$884.65	$1,190.67	$1,580.95	$2,085.81	$2,644.00	$3,243.21	$3,957.82
Equity value	$4,204.89	$4,666.94	$5,258.59	$5,929.57	$6,599.73	$7,360.60	$8,156.74	$9,064.82	$9,954.90	$10,801.52
Shares outstanding	$127.11	$127.11	$127.11	$127.11	$127.11	$127.11	$127.11	$127.11	$127.11	$127.11
Price per share as of 2/5/2015	$34.32	$38.40	$43.15	$48.43	$53.94	$60.18	$66.56	$73.65	$80.54	$84.98



Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0%	56.9%	N/A	N/A	Normal
Op. Costs Variation	0%	71.4%	N/A	N/A	Normal
Market Risk Premium	7.0%	N/A	5.0%	9.0%	Triangular
Long term Growth	4.00%	N/A	-17.4%	10.1%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$34.32	$38.40
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$33.36	$37.65
Current Price	$32.29	
Analysts' median est.		$36.43

CGF

Ligand Pharmaceuticals Inc. (LGND: NASDAQ)

Financial Analysis By: Pamela Juergens- Healthcare

Company Profile as of 2/6/2015

Market Price: $54.99
Industry: Healthcare
Market Cap: $1.10B
52-Week: $41.99-80.42
Beta: 1.74

Source	**Target Price**	**Recommendation**
Siena	$88.70	BUY
Capital IQ	$84.80	BUY
Yahoo Finance	$84.80	BUY
Bloomberg	$67.00	BUY

Thesis

- Diversified product pipeline
- Strong financials
- Proven revenue generation from patent protected Captisol

Ligand is a BUY because of their highly diversified portfolio of products, both on the market, and in their pipeline. They are diversified across many different diseases. Their pipeline includes five major assets that are likely to produce important news catalysts in the next 6-24 months. They have financial strength, with revenues coming from three sources: Licensing, Royalties and Captisol., all of which have unlimited growth potential as new products in their pipeline will soon be commercially available. They are also the makers of Captisol, a formulation that improves product development for pharmaceutical companies. It allows Ligand to partner with many major drug companies to launch new, innovative products, generating more revenue.

Company Overview

Ligand Pharmaceuticals, Inc. develops and markets new drugs that address critical unmet medical needs in the areas of cancer, men's and women's health, skin diseases, osteoporosis, and metabolic, cardiovascular and inflammatory diseases.

Currently, Ligand's revenues come from three sources: Captisol, royalty, and licensing fees. Ligand partners with 62 different drug companies to market their drugs.

Management

On January 27, 2015, Ligand appointed Matther Foehr as the president and COO. He has more than 20 years' experience in the pharmaceutical industry, having manages global operations and various research and development programs. John L. Higgins has been CEO of Ligand Pharmaceuticals since January 16, 2007. He has over 14 years' experience in corporate development, financing, strategic planning, commercialization and investment banking in the biopharmaceutical industry. Prior to working at Ligand he was the CFO of Connetics.

Product Pipeline

Ligand has a large, diversified product pipeline across all stages of development. They have over 27 drugs in the preclinical phase, over 41 drugs in Phase 1, 15 drugs in Phase 2, 9 drugs in Phase 3/NDA, and 7 drugs that are currently marketed. Not only is their portfolio diversified across all stages of development, it is also balanced by indications. Their portfolio includes 41% oncology drugs, 14% inflammation, 9% infectious, 9% central nervous system, 8% metabolic, 8% blood, 4% ophthalmology, and 3% other. There are many major assets in their pipeline, in all different stages that are expected to be highly accretive in the future for Ligand, and create major news catalysts over the next 6 to 24 months. These assets include:

Program (Therapy Area)	Year 2015	2016	2017
CE- Melphalan (Oncology)	Approval	Launch	
Delafloxacin IV (Infection)	Phase 3 Data	Approval/Launch	
MK-8931 (Alzheimer's Disease)			Phase 3 Data
Sparsentan (FSGS - Kidney Disease)	Enrollment Completion	Phase 2 (Potentially Pivotal) Data	
SAGE-547 (Neurology)	Pivotal Initiation		

CE_Melphalan: Captisol Enabled Melphalan is being developed as a novel version of the well-established conditioning treatment in autologous transplant for patients with multiple myeloma. This formulation avoids the use of propylene glycol, which is used as a co-solvent in the current formulation of melphalan. It has been reported that propylene glycol causes renal and cardiac side effects that limit the ability to deliver higher quantities. The use of Captisol technology to reformulate melphalan is expected to allow for longer administration durations and slower infusion rates, which will allow a higher dosage to be administered. Multiple myeloma is a cancer of plasma cells. In multiple myeloma, a group of plasma cells becomes cancerous and multiples, raising the number of plasma cells to a higher than normal level, which can crowd out normal blood cells and lead to abnormally high proteins in the blood or urine.

There were approximately 22,000 new cases in 2013, with the incidence of new cases increasing by approximately 1.7% per year. The American Cancer Society estimates that in the United States in 2015, there will be about 26,850 new cases diagnosed (14,090 in men and 12,760 in women) and about 11,240 deaths will occur. The current intravenous melphalan market is approximately $100 million annually. It is currently used predominantly in stem cell transplants. The rate of autologous stem cell transplants for patients with multiple myeloma is growing by approximately 3.3% annually. Ligand signed a partnership with Spectrum Pharmaceuticals in 2013. Per the agreement terms, Spectrum Pharma is responsible for the pivotal study and filing the NDA. Ligand received a license fee of $3 million and is eligible to receive milestone payments and royalties following the commercialization. CE_Melphalan is in the NDA stage of FDA approval. It is expected that the review will take approximately 10 months. If approved, Spectrum Pharma will launch the drug in 2015.

Delafloxacin IV: Delafolxacin is an investigational fluoroquinolone for the treatment of patients with acute bacterial skin and skin structure infections (ABSSSI) caused by Gram-positive (MRSA), and Gram-negative bacteria. In early January Ligand's partner in the venture, Melinta Therapeutics, reported positive top-line results from the first of two Phase III PROCEED studies. Delafloxacin met the study's primary objective endpoint, required by the FDA, of a reduction in the measurement of lesion erythema at the primary infection site at 48-72 hours.
The FDA has designated Delafloxacin a Qualified Infectious Disease Product (QIDP). This designation enables 5 years of market exclusivity, Priority Review, and Fast Track eligibility. This drug is medically important, and there is a large and growing market for it. The market for MRSA in the United States alone was $2 billion in 2013. Delafloxacin has a potential launch date some time in 2016, pending FDA approval. Ligand's peak potential royalty revenue range following the launch would be greater than $40 million.

MK-8931: This is an oral beta-secretase (BACE1) inhibitor for potential treatment of Alzheimer's disease. In tests it is the first BACE1 inhibitor that has demonstrated to lower amyloid beta in the cerebral spinal fluid of people with Alzheimer's disease. Amyloid beta are peptides of 36-43 amino acids that are crucially involved in Alzheimer's disease as the main components of the amyloid plaques found in the brains of patients.

There is a growing need for Alzheimer's drugs, as the size and proportion of the U.S. population age 65 and older continues to increase. The number will escalate rapidly as the baby boom generation ages. An estimated 5.2 million Americans had Alzheimer's disease in 2014, with 5 million people being over the age of 65 and only 200,000 people with earlier onset Alzheimer's. About 11% of people age 65 and older have Alzheimer's. Presently, the FDA has only approved two types of medications cholinesterase inhibitors and memantine to treat the cognitive symptoms (memory loss, confusion, and problems with thinking and reasoning. The current medications do not stop the damage that Alzheimer's causes to brain cells, they lessen or stabilize the symptoms for a period of time. MK-8931 is formulated to treat the cause of Alzheimer's, and halt the brain damage that occurs. It is currently in the midst of two Phase III trials to assess its safety and efficacy, which are expected to conclude in mid-2017. MK-8931 has a potential launch date of 2018. Ligand is partnered with Merck on this venture, and can earn royalties greater than $100 million on potential future net sales.

Sparsentan (RE-021): RE-021 is a dual-acting endothelin receptor antagonist (ERA) and angiotensin receptor blocker (ARB) being developed for Focal Segmental Glomerulosclerosis (FSGS). FSGS is defined by diminished glomerular filtration in the kidneys, which leads to progressive scarring of the glomeruli and increased levels of proteinuria. It is a rare and severe nephropathy which affects approximately 50,000 patients in the United States, mostly pediatric. The current standard of care for FSGF patients is to take steroids: 20-30% of patients go into remission while others are put on ARBs. Progression to dialysis and transplant is often rapid. RE-021 acts as both an ERA and ARB; studies in similar nephropathies have shown both to be effective in reducing proteinuria. It is currently involved in a potentially pivotal Phase II clinical trial, called DUET, with the primary endpoint being reduced proteinuria. Ligand is partnered with Retrophin . Ligand has a 9% royalty rate on the therapy, with peak potential revenue range greater than $70 million. Re-021 has a potential launch date of 2017.

SAGE-547: Sage-547 is an allosteric modulator of both synaptic and extra-synaptic GABAA receptors. It is an IV treatment in development as a therapy combined with current therapeutic approaches, for the treatment of super-refractory status epilepticus (SRSE). SRSE is a status epilepticus that continues or recurs 24 hours or more after the onset of anaesthetic therapy. SRSE is an acute, orphan disease. There are presently no drugs for the treatment of SRSE. Sage-547 was given orphan drug designation in April 2014, and Fast Track Designation in July 2014. Fast Track designation is granted by the FDA to facilitate the development and expedite the review of drug candidates that are intended to treat serious or life-threatening conditions and demonstrate the potential to address unmet medical needs.
In November 2014, a Phase1/2 trial concluded and SAGE-547 met all primary and secondary endpoints. In 73% of patients in the trial, treatment with SAGE-547 allowed tm to be weaned off their anaesthetic agent. In early 2015, Sage

Therapeutics will initiate a pivotal trial to continue to test SAGE-547. Ligand is partnered with Sage Therapeutics, and has a peak potential revenue range greater than $40 million. SAGE-547 has a potential launch date of 2017.

Captisol

One of Ligand's major sources of revenue is their product Captisol. Captisol is a formulation technology that improves product development. It enables the creation of new products by significantly improving solubility, stability, bioavailability and dosing of active pharmaceutical ingredients (APIs). Traditional formulation systems for insoluble and/or unstable APIs involve a combination of organic solvents, surfactants, and extreme pH conditions. Upon injection these formulations may cause irritation or other adverse reactions, and at sometimes these approaches are inadequate for solubilizing enough active agents for a preferred formulation. Captisol Technology solves the problems associated with traditional formulation systems. The solubilities of neutral, cationic and anionic APIs have increased by a factor of anywhere from 10 to 25,000, depending on the compound. Captisol stabilizes by providing a beneficial and protected environment for the API in its lipophilic cavity. Using Captisol early in the development process can increase the number of candidates that can be evaluated, decrease development time and increase lead candidate survivability.
Captisol has partnerships with major drug companies including Pfizer, Merck, Bristol Myers Squibb, Celgene, and many others. There are currently six FDA-approved Captisol-enabled Drugs on the market (Nexterone, VFEND, Geodon, Cerenia, Abilify, and Kyprolis), with many more in various phases of the approval process. The Captisol business is thriving, and helping drive growth for Ligand. There are new customers buying Captisol due to recent and expanded deals. Ligand also has supply contracts to support large, late-stage trials. Finally, multiple new Captisol partners are gearing up for potential commercial launch in 2015. In order to keep up with demand Ligand is increasing production of Captisol at their two contract manufacturing locations in Ireland and Portugal. They are also increasing their stockpile of Captisol that they hold on reserve in the U.S. to ensure a reliable supply to their growing customer needs. Ligand expects that in Q4 2014, Captisol orders will make up approximately half of their revenue, around $12 million. As pharmaceutical companies are realizing the helpfulness and effectiveness of using Captisol in the development of their drugs orders will continue to increase, driving revenue growth for Ligand.

Financials

Ligand's cash flow generation and growth potential is becoming increasingly clear. Their already launched royalty assets are performing well in the commercial marketplace, and the Captisol business is thriving. For the first nine months of 2012, they had $17.8 million in revenue and had an operating cash loss. For the first nine months of 2014 they had $41 million in revenue. Their revenues come from three sources: Captsiol, licensing deals, and royalties. Their lead royalty program is Promacta, a drug launched by GSK. In Q3 2014 Promacta posted $104 million in sales. Ligand currently earns a royalty rate of 7.5% and by next year will be earning royalties of 9.4%. All of Ligand's royalty deals continue to generate revenue. The growth in their royalties, as well as their increased Captisol sales are driving increased profits and cash flow for Ligand. Because a large percentage of their business is royalty and licensing fees, they have a consistent gross margin of 88%. Their EBITDA margin has increased dramatically, from 9.3% in FY 2012 to 35.95% in FY2013. High annual revenue growth is projected for the next three years. Revenues for FY 2015 are expected to be $81-83 million, greater than $107 million in FY 2016, and greater than $146 million in FY 2017. This is will be attributed to their ever expanding portfolio. At the same time their revenues are growing, their annual cash expenses will remain the same, approximately $20 to $22 million, leading to a greatly increased net income.

Conclusion

With a 1 year target price of $88.70, and a potential upside of 64.5% Ligand is a buy. They have three sources of revenue that will continue to grow, as new products from their pipeline are launched. Many of these pipeline assets will generate important news catalysts over the next 6 to 24 months, potentially driving upward momentum in the stock price.

Ligand Pharmaceuticals Incorporated | LGND | Analyst: Rigolo des Bois | Current Price: 53.9 | Lower Bound Intrinsic Value: $82.4 | Lower Bound 1y-Target: $88.7 | Dividend Yield: 0% | 1y Upside (downside): 64.54%

General Info

Sector	Healthcare
Industry	Biotechnology

Description: Ligand Pharmaceuticals Incorporated, a biotechnology company, acquires and develops royalty revenue generating assets in the United States. Its late-stage development programs include Promacta, an oral thrombopoietin receptor agonist therapy for the treatment of adult patients with chronic immune thrombocytopenic purpura; Kyprolis for the treatment of multiple myeloma; AVINZA, a pain therapeutic; Captisol-enabled Melphalan IV for the multiple myeloma transplant setting; Viviant (bazedoxifene) for the treatment of postmenopausal osteoporosis; and Nesterone, an injectable formulation. The company's late-stage development programs that are in Phase III clinical trials comprise Captisol-enabled Noxafil-IV; MK-8931 Beta-Secretase Inhibitor program for the treatment of Alzheimer's disease; Captisol-enabled Carbamazepine-IV for the management of acute seizure disorder for hospital or emergency settings; and Captisol-enabled Delafloxacin-IV for the treatment of acute bacterial skin and skin structure infections. It also offers Sparsentan that is in Phase II clinical trials for kidney diseases; Lasofoxifene, an estrogen partial agonist for osteoporosis treatment and other diseases; and Captisol-enabled Topiramate Injection, which is in Phase I clinical trials for the treatment of partial onset or primary generalized tonic-clonic seizures. In

Market Data

Enterprise value	$1,085.04
Market Capitalization	$875.45
Daily volume	0.99875
Shares outstanding	20.02
Diluted shares outstanding	21.55
% shares held by institutions	78.7%
% shares held by insiders	2.7%
Short interest	23.1%
Days to cover short interest	17.17
52 week high	$80.42
52-week low	$41.99
5y Beta	1.27
6-month volatility	41.24%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NasdaqGS:SLXP	Salix Pharmaceuticals Ltd.	$ 8,907.20	24.6x	16.9x	34%	26%	1.9x	1.39
NasdaqCM:ENZN	Enzon Pharmaceuticals	$43.04	0.5x	1.5x	91%	0%		29.07
NasdaqGM:MNKD	MannKind Corp.	$2,760.79	NM	NM	0%	8%	(9.6x)	
AMEX:RNN	Rexahn Pharmaceuticals,	$129.25	NM	4.5x	0%	0%		
Peers' Median		$1,445.02	12.5x	4.5x	17%	4%	(3.8x)	15.23
LGND		$1,079.25	54.8x	24.4x	35%	18%	7.6x	0.97

Management

Professional	Title	Comp. FY2011	Comp. FY2012	Comp. FY2013
Higgins, John	Chief Executive Officer	$ 1,633,156.00	$ 2,371,336.00	$ 3,004,911.00
Foehr, Matthew	President and Chief	$ 1,410,536.00	$ 1,222,160.00	$ 1,965,465.00
DeSilva, Nishan	Chief Financial Officer	$ -	$ 1,331,767.00	$ 1,125,131.00
Berkman, Charles	Vice President, General	$ 478,873.00	$ 685,206.00	$ 731,761.00
Herman, Melanie	Principal Accounting	$ -	$ -	$ -
McKay, Rob	Senior Director of	$ -	$ -	$ -

Performance

	LGND Last	LGND 10y Med.	Peers Last	Peers 10y Med.	Industry Last	Industry 10y Med.	All U.S. firms Last	All U.S. firms 10y Med.
ROIC	1.7%	-28.0%	#VALUE!	#VALUE!	11.30%	10.80%	8.69%	11.95%
EBITA Margin	28.8%	-65.0%	#VALUE!	#VALUE!	22.55%	19.45%	13.63%	13.61%
Imputed Rev./Invested cap.	1.12	0.17		0.00	0.62	0.83	1.61	1.74
Excess Cash/Rev.	320.61%	12.66%	#VALUE!	#VALUE!	108.26%	84.60%	22.37%	18.66%
Total Cash/Rev.	331.56%	137.99%	#VALUE!	#VALUE!	144.81%	134.87%	32.05%	29.10%

Current Capital Structure

Total debt/market cap	17.88%
Cost of Borrowing	2.20%
Interest Coverage	7.56
Debt Rating	BB
5y Beta	0.19
WACC (based on market value weights)	7.6%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-1.8%	0.0%	0.0%
Last Quarter-1	9.0%	0.0%	71.4%
Last Quarter-2	18.0%	0.0%	40.0%
Last Quarter-3	8.5%	60.0%	75.0%
Last Quarter-4	20.8%	29.0%	100.0%

Last Guidance Nov-18-2014 | Next earnings date 2/9/2015 | Last Earning Call Transcript: www.ligand.com

Ligand Pharmaceuticals Incorporated provided earnings guidance for the years 2015, 2016 and 2017. For the year 2015, the company projected revenue to be in the range of $81 million to $83 million, with non-GAAP diluted EPS projected to be in the range of $2.14 to $2.18. Gross margin is projected to be 85%, adjusted cash flow margin is projected to be 60% and adjusted profit margin is projected to be 55%.

For the year 2016, revenue is projected to exceed $107 million and non-GAAP diluted EPS is projected to exceed $3.20.

For the year 2017, revenue is projected to exceed $146 million and non-GAAP diluted EPS is projected to exceed $4.65.

Continuing Period Assumptions

Money market rates as of today	0.45%	Risk-Free rate	2.3%	LT Op. Costs/Rev	85.0%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	9.2%
Yield Spread acceleration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	70.7%
Marginal Tax Rate	37.5%	LT Growth	4.0%	Growth in PPE	Follows Forward Rev. Growth

LT convergence estimates: weights are either implied from the stability of each time-series"--i.e., median/[max-min], or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution, and threat of new entries.

	Rev./Capital Last	Rev./Capital 10y Median	LT Imputed Growth Last	LT Imputed Growth 10y Median	LT Op. Costs/Rev. Last	LT Op. Costs/Rev. 10y Median	Unlevered Beta Last	Unlevered Beta 10y Median	Multiples (10Y Historical Median Value) TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
LGND	0.29	0.17	18.5%	9.6%	61.9%	139.50%	0.90	1.33	12.9x	82.6x	98.5x	55.4x
Peers		0.00		0.0%	#VALUE!		1.28	0.98	23,594.2x	65.1x	146.2x	20.0x
Primary Industry	0.40	0.63	17.7%	17.2%	67.6%	68.28%	1.04	1.04	7.1x	13.5x	17.7x	42.6x
Industry	0.40	0.63	17.7%	17.2%	67.6%	68.28%	1.04	1.04	7.1x	13.5x	17.7x	42.6x
Industry Group	0.56	0.79	14.7%	15.6%	74.8%	75.63%	1.00	1.00	5.2x	14.2x	17.5x	35.5x
Sector	1.11	1.29	9.4%	12.1%	81.0%	81.22%	0.95	0.94	3.8x	13.9x	17.4x	34.8x
All U.S. Firms	1.61	1.74	6.9%	8.0%	80.6%	81.40%	0.99	0.96	2.5x	12.5x	16.9x	31.1x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
LGND long-run estimate	0.50		4.00%		85.00%		1.20		2.0x	8.0x	12.0x	15.0x

Capitalization

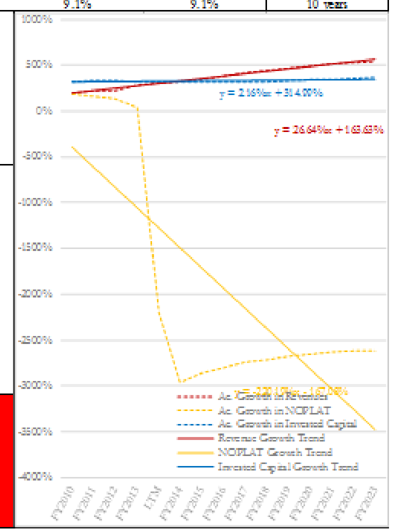
Operating Leases
Yes
Straightline
10 years
R&D Exp.
Yes
Straightline
10 years
Expl./Drilling Exp.
No
Straightline
10 years
SG&A
No
Straightline
10 years

Explicit Period Assumptions

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	to ∞
Growth	56.0%	35.0%	28.8%	32.0%	37.0%	30.0%	30.0%	25.0%	20.0%	15.0%	4.0%	4.0%
Op.Costs/Rev.	61.9%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%
WACC	7.6%	7.6%	7.6%	7.6%	7.6%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$2.9	$18.6	$31.0	$47.2	$65.0	$86.1	$108.8	$131.3	$151.6	$160.6
Invested capital	$177.5	$166.0	$163.9	$165.3	$171.0	$185.7	$200.6	$214.6	$227.3	$243.0
ROIC	1.7%	11.1%	18.7%	28.8%	39.3%	50.3%	58.4%	65.4%	70.6%	70.7%
UFCF	$0.00	$19.22	$33.15	$45.83	$59.28	$71.38	$93.98	$117.25	$138.81	$144.94
EVA	-$5.05	$5.81	$18.10	$35.15	$52.42	$76.83	$99.17	$120.91	$139.85	$149.61
Terminal value										$2,562.42
Enterprise value (mid-year adj.)	$1,771.67	$1,886.12	$2,007.67	$2,128.54	$2,259.59	$2,404.60	$2,533.69	$2,646.84	$2,742.83	$2,858.32
Total Debt	$193.97	$193.97	$193.97	$193.97	$193.97	$193.97	$193.97	$193.97	$193.97	$193.97
Minority Interest	-$1.59	-$1.59	-$1.59	-$1.59	-$1.59	-$1.59	-$1.59	-$1.59	-$1.59	-$1.59
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$5.60	$25.70	$29.78	$34.63	$38.45	$47.27	$52.33	$54.50	$55.57	$59.66
PV of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dilutive impact of options, warrants, and converts	$66.56	$65.37	$64.10	$62.76	$61.35	$59.93	$58.61	$57.65	$0.00	$0.00
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$186.59	$207.72	$226.04	$255.76	$296.00	$349.70	$418.62	$503.25	$602.63	$708.87
Equity value	$1,693.71	$1,810.39	$1,947.45	$2,094.53	$2,263.41	$2,454.73	$2,649.01	$2,845.57	$3,097.51	$3,315.14
Shares outstanding	$20.02	$20.02	$20.02	$20.02	$20.02	$20.02	$20.02	$20.02	$20.02	$20.02
Price per share as of 2/5/2015	$86.63	$93.06	$99.82	$107.54	$116.36	$126.31	$135.69	$146.46	$158.45	$165.57



Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0%	33.7%	N/A	N/A	Normal
Op. Costs Variation	0%	60.0%	N/A	N/A	Normal
Market Risk Premium	7.0%	N/A	5.0%	9.0%	Triangular
Long term Growth	4.00%	N/A	0.0%	17.2%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$86.63	$93.06
σ(s)	$1.41	$1.46
3 σ(s) adjusted price	$82.39	$88.69
Current Price	$53.90	
Analysts' median est.		$84.80

CGF

RPX Corporation (RPXC: NASDAQ)

Financial Analysis By: Kevin Akbaraly – Professional Services

Company Profile as of 2/4/2014

Market Price: $12.81
Industry: Professional Services
Market Cap: $690.5M
52-Week: $11.94 - $18.16
Beta: 1.14

Source	Target Price	Recommendation
Siena	$19.60	BUY
Capital IQ	$18.00	BUY
Yahoo Finance	$18.00	BUY
Bloomberg	$18.67	BUY

Thesis

-Innovative and unique business model in response to Patent Trolls
-Growing revenues and high margins
-Valuable network and patent portfolio

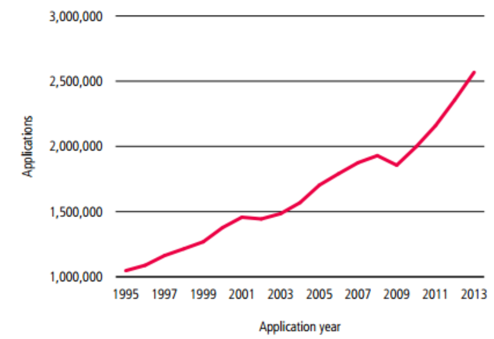
Company Overview:

RPX Corporation was founded in 2008 and is headquartered in San Francisco, California. The company provides patent risk management solutions on a subscription fee basis to companies operating within the technology industry in the US and internationally. RPX Corporation's services include "Defensive Patent Acquisitions", "Syndicated Acquisition", "Market Intelligence and Advisory Services", and "Litigation Insurance". Their purpose is to help companies protect, exchange, and be informed on the use and ownership of patents.

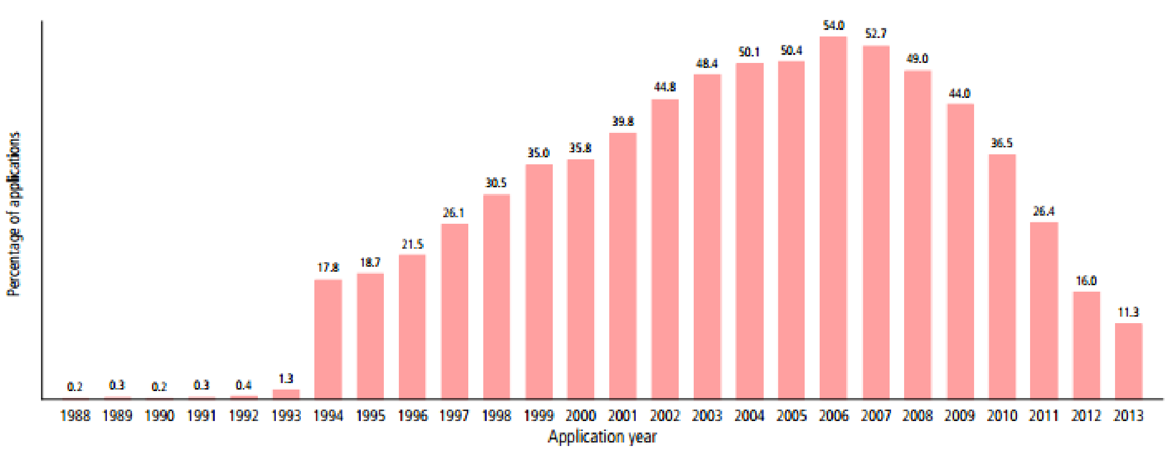
Industry Outlook:

Intellectual Property Rights (IPRs) have been a growing concern over the past years, and is likely to continue to impact companies and individuals in the future. The number of patent applications around the world has reached record highs since the "Dotcom" bubble that started in late 1990s, and has grown tremendously since then. Following the complexity and fast development of new technologies and practices during this period, agencies responsible for the issuance of new patents have started to be more flexible with the acceptance of IPRs. This resulted in a growing number of patents that were vaguely worded and not clearly defined, and that are now threatening companies that are using the patent in their products and services. Indeed, in some cases, one single patent could potentially affect hundreds of products, increasing exponentially risks of litigation. Generally, patent rights last up to 20 years, and as of 2006, the World Intellectual Property Organization (WIPO) recorded its highest rate of acceptance over the number of patent applications (54%). As a result, we can expect that this will have a noticeable impact until 2026, and thereafter.

Figure 1. Patent applications worldwide

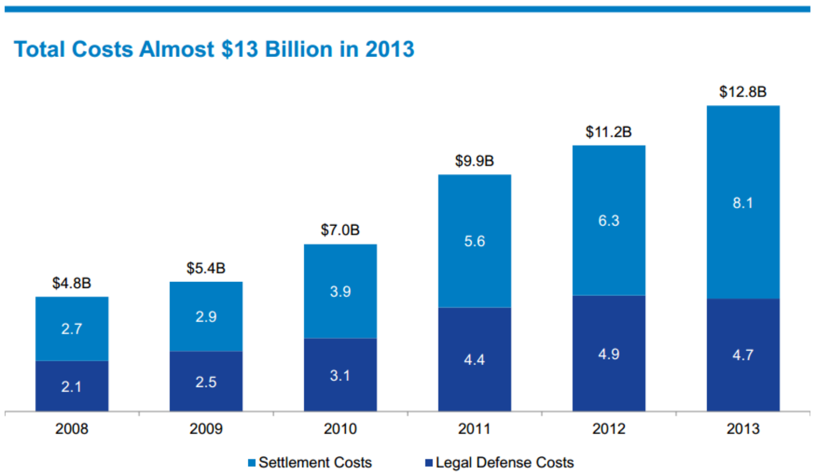


A30 Patents in force in 2013 as a percentage of total applications



The apparition of Non-Practicing Entities (NPEs), also referred to as Patent Trolls, is one of the major consequences of this event. NPEs are companies that buy portfolios of patents from liquidating and operating companies with the objective of enforcing their rights by suing operating companies that would potentially infringe their newly acquired IPRs. Also, because these NPEs are "Non-Practicing" companies, they cannot be countersued because they do not produce or use any technology. Costs related to IPR litigations for operating companies have been estimated around $13 Billion during 2013, and comprise both Settlement and Legal Defense costs. Although, they disregard other opportunity costs such as the time spent on the defense, and increased risks for the whole company.

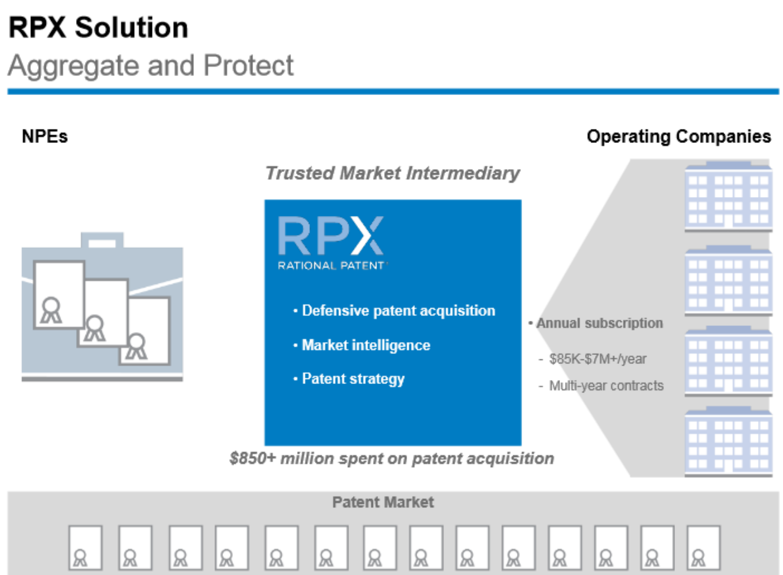
Growing Cost of NPE Litigation



The U.S. government acknowledged the problem only recently, with 2,900 infringements lawsuits nationwide, which represent about six times the level of 2006. The White House published a study on the issue during 2013, in which it is stated that the patent system *“is meant to encourage innovation and invention. It was designed to reward Americans for their hard work, risk taking and genius”*. Realizing that 62% of all patent lawsuits were initiated by NPEs during 2012, the government now wants to take action to limit damages that are made to U.S. companies. However, the complexity of the problem resides in the fact that owners of such IPRs have all legal rights to enforce their patents. By trying to resolve the issue and changing the whole patent system, the government might actually worsen the situation even further, and raise concerns about the true rights that are given to IPRs’ holders. As a result, no significant changes are expected any time soon, but it is important to monitor new regulations that might impact RPX Corporation’s operations.

RPX Corporation’s Business Model

RPX Corporation’s goal is to help operating companies to counter NPEs’ threats. The company’s strategy is to acquire all “dangerous” patents to prevent any risk for their clients’ operations before it gets into an NPE’s portfolio. As a result, RPXC raises its own portfolio of patents, but instead of enforcing them for money, the company will provide licenses to all its network in exchange for subscription fees. By using its network’s collective buying power, RPX wants to remove all threatening patents from the market, which on the long-term would result into a “Clearing House” as the CEO stated it during the last Earning Call. The company has currently 195 members paying an annual subscription fee based on their most recent reported revenues. The fee is calculated based on each client, and is recalculated every year based on their needs and their financial results. RPXC’s clients include companies such as Adobe, Dell, IBM, Intel, Oracle and others. As of September 31, 2014, RPXC had acquired $644.5 million of patents and they announced on December 23, 2014, the acquisition of 4,000 patents from Rockstar Consortium LLC, an entity formed in 2011 by Apple, Blackberry, Ericsson, Microsoft and Sony, which purchased 6,000 patents from Nortel’s bankruptcy. Following that transaction, RPXC now receives license payments from 30 additional companies including Google, and Cisco. Also, by paying a subscription fee, each client gets access to the company’s Market Intelligence service, which are data collected by the company to inform their clients on an “underserved and opaque market”.



In addition, the company offers its services as an underwriter for “Syndicated Acquisition”; which target companies that want to share the benefits of one or more patents on their own without giving access to other members of the network. They provide them their expertise in order to make each transaction more transparent and fair for each party. As of 2013, the company advised its clients on syndicated acquisitions for IPs totaling more than $800 million. Also, the company can provide advisory services regarding a company’s strategy on IP management. These services are not part of the subscription’s agreement and will cost clients an extra fee based on each deal.

Through a partnership with Lloyd’s, “the world’s specialist insurance market” RPX launched its “A” rated NPE Patent Litigation Insurance. This insurance is provided to small and mid-size companies to reduce unpredictable financial impact due to patent litigations. RPX’s role with this new product is to provide marketing, underwriting, and claims management on the behalf of Lloyd’s, and result only to a small fraction of risk for the company. As of September 31, 2014, 38 clients have subscribed to this insurance.

Porter’s Five Forces

Threat of New Entrants

Barriers to new entrants are low as long as they can have access to outstanding patents on the secondary market. However, the value created by RPX through its portfolio, the quality of its network, and the development of its Market Intelligence service, have helped the company building a competitive advantage that could lower risks related to potential new entrants.

Threat of Substitution

The unique characteristics that define patents make them impossible to substitute. As a result, companies must either acquire the patents on their own, pay RPX a subscription fee to get access to their patent portfolio, or remain under the threat of possible litigation.

Supplier's Bargaining Power

Suppliers' bargaining power is moderate as patents can be acquired from companies filing for bankruptcy, NPEs, or operating companies that need to raise capital. The number of NPEs and individual inventors offering their patents directly to RPX has been growing over the years. The company currently has 80 potential acquisitions under review each month.

Customers' Bargaining Power

Customers' bargaining power is low as operating companies must either acquire patents by themselves, or subscribe to RPX's patent risk management solutions.

Competitive Rivalry

RPX Corporation's business model is unique and offers distinctive solutions. As of 2015, the company's direct competitors are considered to be operating companies' own patent management department. RPX's strategy is to inform and convince those operating companies to outsource all or a fraction of their patent risk management activities. The company does not recognize any competitor providing the same services for now.

Management

RPX Corporation has been co-founded by John A. Amster (CEO) and Geoffrey T. Barker (Executive Director) in 2008. Mr Amster started his career as an associate at Weil Gotshal & Manges where he was responsible for mergers and acquisitions activities, equity investments, venture capital financings, intellectual property licensing, and patent litigation. He was then Vice President at InterTrust Technologies and worked on intellectual property transactions. He finally joined Intellectual Ventures as a Vice President where he was responsible for the acquisition of patent portfolios and the development of e-commerce licensing programs.

Ned Segal joined the company in 2013 as CFO and just resigned in January 2015 to join Intuit. Prior to RPX, Mr Segal was Managing Director of the Global Software Investment Banking and COO of Technology Banking at Goldman Sachs. Robert Heath has been named to replace Mr Segal as CFO effective January 2015. Mr Heath was a Senior Vice President responsible for the corporate development of RPX. Prior to RPX, he was Head of Strategy and Acquisition at Technicolor, and COO and CFO at iBahn.

Key Statistics

In Millions of USD	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Current/LTM	FY 2014 Est	FY 2015 Est
12 Months Ending	2008-12-31	2009-12-31	2010-12-31	2011-12-31	2012-12-31	2013-12-31	2014-09-30	2014-12-31	2015-12-31
Revenue	--	32.8	94.9	154.0	197.7	237.5	251.9	260.0	281.8
Growth %, YoY	--	--	189.1	62.4	28.3	20.1	10.1	9.5	8.4
Gross Profit	--	15.1	51.3	86.7	115.4	126.7	128.3	135.4	151.1
Margin %	--	46.0	54.0	56.3	58.4	53.4	50.9	52.1	53.6
EBITDA	--	22.2	70.2	110.6	150.2	178.7	186.8	196.0	207.0
Margin %	--	67.6	73.9	71.8	76.0	75.3	74.2	75.4	73.5
Net Income Before XO	--	1.9	13.9	29.1	39.0	40.8	37.1	52.9	62.2
Margin %	--	5.9	14.6	18.9	19.7	17.2	14.7	20.3	22.1

Since RPX was founded in 2008, the company reported growing revenues on a yearly basis. In 2012, RPX reported $197.7M of revenue, a 28.3% growth compared to 2011, and $237.5M in 2013, representing a 20.1% growth compared to 2012. Currently, 195 clients are paying RPX an annual subscription fee, and based on their vision, the company wants to increase this number to a range of 300 to 500 clients on the long term. As of 2014, the renewal rate was about 90%, and the increase in the number of clients is what will drive the company forward.
Interestingly, when looking at EBITDA margins, we can see that it averaged 73% over the past 5 years, while gross margins averaged only 54%. Indeed, the company's highest expenses are the amortization of their patents, which makes EBITDA metrics irrelevant when looking at margins. Net profit margin was about 17.2% in 2013 and is expected to grow to 20.3% and 22.1% in 2014 and 2015 respectively.

RPX is currently debt free, and is able to finance all its operations and acquisitions by the use of its free cash flows. The company's current ratio is about 2.4, and 49.4% of total assets are held in cash and short-term investments. This level of liquidity allows the company to be effective in the acquisition of patents following coming opportunities.

Valuation

The valuation of RPX Corporation has been made using a proforma that is presented on the last page of this report
Revenue growths for FY2014 and 2015 reflect projections of the company, and are rapidly decelerating to a long-term growth of 2.5%. Company's projections of increasing their client portfolio to a range of 300 to 500 have been ignored to keep a conservative approach in the valuation. The long-term growth rate of 2.5% is also a conservative assumption. The company is projecting to increase the number of patents in its portfolio. Therefore, the level of operating costs over revenue has been increased to 78% from 73% in 2013.
The WACC was about 10.3% in 2013, and has been increased to 11.5% in my assumptions, even though the company is currently debt-free.
Following the activity of the company, I also assumed that RPX incurred expenses related to the improvement of the company such as employees' training. Therefore, 70% of the SG&A has been capitalized to avoid an overestimation of ROIC. The lack of direct competition makes multiples irrelevant for the valuation.
All these assumptions are assumed to be conservative compared to company's projections. My 1-year target price is $19.6, which shows an upside potential of 48% from actual price.

Conclusion

To conclude, I recommend a BUY on RPXC with a 12-month target price of $19.60. The company offers patent risk management solutions to companies operating within the Technology Industry, and has no competitor as of today. The industry outlook, along with the business model that has been developed by RPX is showing a good opportunity for value investors. After having analyzed the company, the inputs that were used in the below Proforma were rather conservative compared to company's projections. Based on the company's potential and current share price, I believe that this stock has an upside potential of 48.6% within the

General Info

Sector	Industrials
Industry	Professional Services

Description: RPX Corporation provides patent risk management solutions in the United States, Japan, and internationally. It offers a subscription-based patent risk management solution that facilitates exchanges of value between owners and users of patents. The company provides a defensive patent aggregation in which it acquires patents assets to offer clients with licenses to protect them from patent infringement assertions; and insurance services to small- and medium-sized businesses to cover certain costs of NPE patent litigation. It also offers its clients with access to its proprietary patent market intelligence and data. RPX Corporation's clients include companies that design, make, or sell technology-based products and services, as well as companies that use technology in their businesses. The company was founded in 2008 and is headquartered in San Francisco, California.

Market Data

Enterprise value	$409.94
Market Capitalization	$713.07
Daily volume	0.14098
Shares outstanding	53.94
Diluted shares outstandir	54.65
% shares held by institutic	84.1%
% shares held by insiders	3.3%
Short interest	6.9%
Days to cover short inter	13.38
52 week high	$18.16
52-week low	$11.94
5y Beta	1.14
6-month volatility	30.27%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NasdaqGS:ACTG	Acacia Research Cc	$ 650.57	NM	1.3x	-14%	0%		11.33
Peers' Median		$650.57	#NUM!	1.3x	-14%	0%	#NUM!	11.33
RPXC		$713.07	2.3x	1.5x	71%	0%		4.85

Management

Professional	Title	Comp. FY2011	Comp. FY2012	Comp. FY2013
Amster, John	Co-Founder, Chief	$ 3,780,207.00	$ 632,000.00	$ 2,701,250.00
Barker, Geoffrey	Co-Founder and	$ 2,558,775.00	$ -	$ 60,417.00
Swank, Steven	Head of Client	$ -	$ 750,656.00	$ 1,056,692.00
Roberts, Martin	Senior Vice	$ -	$ 804,758.00	$ 1,907,083.00
Scola, Paul	Senior Vice President	$ -	$ -	$ 1,053,775.00
Heath, Robert	Chief Financial	$ -	$ -	$ -

Performance

	RPXC Last	RPXC 10y Med.	Peers Last	Peers 10y Med.	Industry Last	Industry 10y Med.	All U.S. firms Last	All U.S. firms 10y Med.
ROIC	51.9%	74.2%	-9.59%	-2.25%	9.58%	12.69%	8.99%	11.16%
EBITA Margin	92.6%	90.8%	0.95%	6.85%	12.29%	12.73%	13.56%	13.62%
Imputed Rev./Invested cap.	1.49	0.85	0.43	1.21	1.94	2.40	1.76	2.02
Excess Cash/Rev.	83.82%	N/A	189.75%	124.94%	18.21%	13.25%	23.19%	18.87%
Total Cash /Rev.	120.36%	122.41%	196.62%	126.68%	26.51%	20.78%	32.72%	30.13%

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	0.00%
Interest Coverage	
Debt Rating	AAA
5y Beta	1.14
WACC (based on market value weights)	10.3%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	3.2%	11.3%	13.0%
Last Quarter-1	1.0%	7.0%	14.3%
Last Quarter -2	-0.3%	1.9%	4.5%
Last Quarter -3	0.2%	-0.9%	-10.0%
Last Quarter -4	1.0%	9.3%	0.0%

Continuing Period Assumptions

Money market rate as of today	0.37%	Risk-Free rate	2.4%	LT Op. Costs/Rev	78.0%
Annual increase (decrease) in interest rates	0.25%	Op. Cash/Rev.	0.00%	LT WACC	11.5%
Yield Spread accelaration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	15.8%
Marginal Tax Rate	37.0%	LT Growth	2.5%	Growth in PPE	Follows Forward Rev. Grow

Last Guidance Dec-08-2014 **Next earnings d 2/10/2015** **Last Earning Call Transcript:** www.rpxcorp.com

RPX Corporation announced that Robert Heath, currently the company's senior vice president, corporate development, will assume the role of chief financial officer. Ned Segal, the company's current chief financial officer, has resigned effective mid-January 2015. Since Heath joined RPX in 2011, he has played a leadership role in the Company's development and in many of its most significant patent transactions, including the successful Kodak transaction. Prior to joining RPX, Heath served as head of strategy and acquisitions for Technicolor.

The company provided earnings guidance for the fourth quarter and full year 2014. For the quarter, the company's fee-related revenue expected to be in the range of $4.2 million and $6.2 million. Total revenue expected in the range of $67.0 million and $69.6 million. Net income (non-GAAP) expected in the range of $12.0 million and $13.7 million. Effective tax rate (non-GAAP) expected to be 37%.

For full year 2014, the company's fee-related revenue expected to be in the range of $8.0 million and $10 million. Total revenue expected in the range of $258.6 million and $261.2 million. Net income (non-GAAP) expected in the range of $52 million and $53.7 million. Effective tax rate (non-GAAP) expected to be 37%.

stimates: weights are either implied from the stability of each time-series"--i.e.. median/[max.-min.]. or estimated based on the "uniqueness" of its competitive power--i.e.. buyers power. suppliers power. competitive rivalry. threat of substitution. and thr

	Rev./Capital Last	Rev./Capital 10y Median	LT Imputed Growth Last	LT Imputed Growth 10y Median	LT Op. Costs/Rev. Last	LT Op. Costs/Rev. 10y Median	Unlevered Beta Last	Unlevered Beta 10y Median	TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
RPXC	0.85	0.85	18.4%	29.1%	27.7%	27.69%	1.11	1.11	2.4x	3.4x	3.5x	5.2x
Peers	0.43	1.21	-30.2%	27.7%	119.6%	102.86%	0.82	1.24	5.2x	18.1x	18.1x	23.7x
Primary Industry	1.37	2.19	5.1%	6.9%	80.1%	81.30%	0.94	0.75	2.7x	13.5x	15.6x	24.1x
Industry	2.48	2.90	5.4%	6.7%	85.2%	86.48%	1.13	0.99	2.2x	13.1x	15.6x	22.9x
Industry Group	1.99	2.38	5.6%	6.4%	84.0%	84.60%	1.07	0.96	1.9x	11.9x	15.9x	24.4x
Sector	1.92	2.13	5.9%	6.9%	84.9%	85.58%	1.13	1.11	1.7x	11.7x	15.5x	28.6x
All U.S. Firms	1.76	2.02	5.9%	6.6%	80.8%	81.45%	0.99	0.96	2.5x	12.4x	16.7x	29.6x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
RPXC long-run estimate	0.82		2.50%		78.00%		1.11		2.4x	3.4x	3.5x	5.3x

(Multiples: 10Y Historical Median Value)

Explicit Period Assumptions

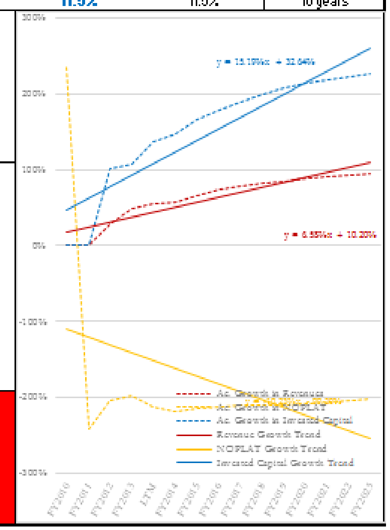
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	to ∞
Growth	20.1%	9.5%	8.4%	7.0%	5.0%	4.0%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Op.Costs/Rev.	73.0%	74.0%	75.0%	76.0%	77.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%	78.0%
WACC	10.3%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%

Capitalization

Operating Leases
100%
Straightline
10 years
R&D Exp.
100%
Straightline
10 years
Expl./Drilling Exp
0%
Straightline
10 years
SG&A
70%
Straightline
10 years

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$145.5	$108.7	$112.1	$113.9	$114.8	$115.4	$116.5	$119.0	$121.4	$123.8
Invested capital	$279.9	$443.7	$506.5	$565.4	$619.7	$676.3	$719.0	$754.0	$783.8	$813.9
ROIC	51.9%	30.5%	25.4%	22.5%	20.3%	18.7%	17.2%	16.6%	16.1%	15.8%
UFCF	$0.00	$27.72	$49.27	$54.95	$60.42	$58.85	$73.78	$83.95	$91.65	$93.74
EVA	$106.15	$83.19	$69.88	$62.13	$54.57	$48.19	$41.21	$38.06	$36.04	$35.00
Terminal value										$980.47
Enterprise value (mid-year adj.)	$820.43	$928.75	$950.08	$977.77	$1,005.79	$1,041.70	$1,067.72	$1,091.65	$1,114.08	$1,140.21
Total Debt	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$1.38	$32.85	$77.53
Minority Interest	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$28.00	$35.37	$32.80	$31.76	$31.63	$40.47	$42.66	$43.60	$44.81	$51.09
PV of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
npact of options,warrants, and converts	$16.20	$15.55	$14.87	$14.13	$13.33	$12.46	$11.50	$10.43	$9.19	$7.69
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$303.13	$218.81	$186.42	$153.58	$118.75	$82.84	$46.06	$9.20	$0.00	$0.00
Equity value	$1,079.36	$1,096.63	$1,088.84	$1,085.47	$1,079.59	$1,071.62	$1,059.62	$1,045.44	$1,027.25	$1,003.91
Shares outstanding	$53.94	$53.94	$53.94	$53.94	$53.94	$53.94	$53.94	$53.94	$53.94	$53.94
Price per share as of 2/6/2015	$20.12	$20.34	$20.16	$20.09	$19.96	$19.84	$19.55	$19.26	$18.89	$18.61



Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0%	4.1%	N/A	N/A	Normal
Op. Costs Variation	0%	19.3%	N/A	N/A	Normal
Market Risk Premium	7.0%	N/A	5.0%	9.0%	Triangular
Long term Growth	2.50%	N/A	3.2%	29.1%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$20.12	$20.34
σ(ε)	$0.32	$0.25
(ε) adjusted price	$19.16	$19.59
Current Price	$13.18	
ysts' median est.		$18.67

CGF

SEI Investments Co. (SEIC: NASDAQ)

Financial Analysis By: Mark Papuzza – Financial

Company Profile as of 2/6/15

Market Price: $42.12
Industry: Financials
Market Cap: $7.08B
52-Week: $29.92-41.59
Beta: 1.4

Source	Target Price	Recommendation
Siena	$44.50	Buy
Capital IQ	$45.00	Buy
Yahoo Finance	$45.00	Buy
Bloomberg	$45.00	Buy

Thesis

- Solid Financials - Consistent growth in revenue, growth in profit, and no debt
- Strong Growth Potential due to Prospective Clients

I am recommending a buy on SEI Investments Co. for their consistent financial growth that will continue to grow as they expand their market activity. The stock has surpassed its 52 week high during my analysis of it and based on analysis and estimates this value should only continue to rise and push the ceiling of this stock price higher. With their adaptability to market trends, plans to land jumbo clients in the near future, backed by solid financials, I am recommending a buy on SEI Investments Co. in belief that it will reach, if not exceed its one year target price of $44.50.

Company Overview

SEI Investments Co. is an investment manager that provides wealth management and investment advisory services to its clients through its subsidiaries. Their revenue is generated through its services to corporations, financial institutions, financial advisors, high net worth families, banks and trust institutions, investment advisors, financial planners, not-for-profit organizations, and pension plans. Their business model focuses on organic growth, client relationships, financial strength, and innovation. The company has been consistently increasing its revenue each year, and projections only estimate continued growth. One of their key goals is managing expenses, and it shows when they are compared to competitors. SEI Investments Co. has a proven track record of adding value for clients, and with their upcoming goals and plans they will continue to do so.

Management

SEI Investments Co. was founded in 1968 by a man named Alfred P. West Jr., who has remained CEO and chairman since the company's creation. This demonstrates both his commitment to the company, and that he is an experienced leader in the industry. With his innovative attitude and adaptability to industry trends, he has propelled the company to one of the top wealth management's services in business today. West has been named as one of "Forbes 400 Wealthiest Americans" three times since the company's creation, and notably in 2008 moved in to "Forbes World's Richest People List." Investors should be very encouraged by his success and his dedication to remain as CEO and chairman since the commencement of the company.

Solid Financials

SEI Investments Co. hosted an earnings call this past week (January 28, 2015), releasing their fourth quarter earnings. They finished a strong financial year with a strong fourth quarter performance. SEI's revenue, as shown below, has consistently increased the past few years, and is projected to continue to do so. SEI's EBITDA margin is very notable as well, as the percentage has been increasing each year and is projected to jump even higher in the upcoming years. This illustrates that the company is becoming a more profitable operation, as they are finding ways to eliminate operating expenses that are eating into their bottom line. The EBITDA Margin is expected to continue to grow and generate value for shareholders. Another notable financial statistic of SEI Investments Co. is their net debt. Their net debt, as shown below, demonstrates they possess more cash than debt. At this very moment, the company has enough liquidity to cover its liabilities. This essentially eliminates the possibility of bankruptcy. Their Altman Z score is 14.54, whereas the median score of its peers is 4.47. This proves that not only are they creating long-term sustainable growth, but they are continually reducing operating costs and do not rely on debt for their financing, which is very encouraging to investors.

In Millions of USD	FY 2011	FY 2012	FY 2013	FY 2014	Current/LTM	FY 2015 Est	FY 2016 Est
12 Months Ending	2011-12-31	2012-12-31	2013-12-31	2014-12-31	2014-12-31	2015-12-31	2016-12-31
Revenue	929.7	992.5	1,126.1	1,266.0	1,266.0	1,365.0	1,489.6
Growth %, YoY	3.2	6.8	13.5	12.4	12.4	7.8	9.1
Gross Profit	556.4	618.4	700.8	804.2	804.2		
Margin %	59.8	62.3	62.2	63.5	63.5		
EBITDA	252.8	267.4	305.5	413.9	413.9	619.0	699.5
Margin %	27.2	26.9	27.1	32.7	32.7	45.3	47.0
Net Income Before XO	206.7	208.0	288.5	318.7	318.7	353.0	396.6
Margin %	22.2	21.0	25.6	25.2	25.2	25.9	26.6
12 Months Ending		2010-12-31	2011-12-31	2012-12-31	2013-12-31	2014-12-31	2015-02-03
Net debt		-505.9	-498.3	-478.2	-604.3	-693.1	-693.1

Strong Growth Potential

Three primary goals for SEI Investments Co. for the year of 2015 are to continue to build a globally diversified institutional client base, continue to provide clients with value added advice and discretionary service, and to place increased emphasis on market expansion. As the overall market activity for wealth management has expanded, SEI Investments Co. has been working hard to land "jumbo" prospects. They have been making significant progress in developing the necessary functionality for these large prospects. These prospects require a lot of decision makers inside the firm, as they are complex sales situations.

SEI Investments Co. proved that the signs of their focuses are evident with their most recent earnings call report. This year, they plan to focus their attention on increased asset management distribution opportunities and improving profitability in the private banking segment. Their investment management services segment will increase the business they do with existing clients and prepare to work with the large prospects being brought in. They have received great feedback from both their clients and their target market, and will continue to adapt to any changes necessary to keep them happy.

Conclusion

I am recommending a buy on SEI Investments Co. for their consistent financial growth that will continue to grow as they expand their market activity. The 52 week high for the stock price has been surpassed multiple times this past week, and based on estimates and all factors analyzed they will continue to push their stock price even higher. With zero debt, along with growing revenue and EBITDA margins each year they are more attractive financially than many of its peers. Under a very experienced CEO in West who has proved he can adapt well to changes in the market, SEI Investments Co. will stay up with current trends and should be successful in reaching the estimated one year target price of $44.50.

SEI Investments Co.	SEIC	Analyst: Mark Papuzza	Current Price: 42.12	Lower Bound Intrinsic Value: $31.4	Lower Bound 1y-Target: $44.5	Dividend Yield: 1.13%	1y Upside (downside): 6.76%

General Info

Sector	Financials
Industry	Capital Markets

Description: SEI Investments Co. is a publicly owned investment manager. The firm provides wealth management and investment advisory services to its clients through its subsidiaries. Through its subsidiaries, it provides its services to corporations, financial institutions, financial advisors, high net worth families, banks and trust institutions, investment advisors, financial planners, not-for-profit organizations, and pension plans. The firm manages separate client-focused portfolios through its subsidiaries. Through its subsidiaries, it also manages equity, fixed income, and balanced mutual funds, hedge funds, fund of funds, and private equity funds. The firm invests in public equity and fixed income markets across the globe through its subsidiaries. Through its subsidiaries, it also invests in alternative investment markets. SEI Investments Co. was founded in 1968 and is based in Oaks, Pennsylvania.

Market Data

Enterprise value	$6,411.65
Market Capitalization	$7,079.10
Daily volume	0.35989
Shares outstanding	167.24
Diluted shares outstanding	172.57
% shares held by institutions	69.7%
% shares held by insiders	16.3%
Short interest	0.8%
Days to cover short interest	2.48
52 week high	$42.38
52-week low	$29.92
5y Beta	1.21
6-month volatility	15.98%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NYSE:EV	Eaton Vance Corp.	$4,946.27	9.0x	7.3x	37%	14%	13.0x	5.28
NYSE:LM	Legg Mason Inc.	$6,536.20	11.3x	1.4x	21%	16%	8.9x	
NYSE:TSS	Total System Services, In	$6,803.86	11.4x	4.0x	28%	18%		3.66
Peers' Median		$6,536.20	11.3x	4.0x	28%	16%	11.0x	4.47
SEIC		$7,079.10	12.7x	5.7x	30%	0%	770.3x	14.54

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
West, Alfred	Chairman and Chief	$ 1,455,874.00	$ 1,689,549.00	$ -
McGonigle, Dennis	Chief Financial Officer	$ 1,079,817.00	$ 1,272,692.00	$ -
Withrow, Wayne	Executive Vice President	$ 1,137,172.00	$ 1,373,772.00	$ -
Ujobai, Joseph	Executive Vice President	$ 1,634,492.00	$ 1,791,839.00	$ -
Meyer, Stephen	Executive Vice President	$ 1,360,560.00	$ 1,451,910.00	$ -
Doran, William	Secretary, Director and	$ 410,450.00	$ 448,150.00	$ -

Performance

	SEIC Last	SEIC 10y Med.	Peers Last	Peers 10y Med.	Industry Last	Industry 10y Med.	All U.S. firms Last	All U.S. firms 10y Med.
ROIC	40.8%	32.0%	16.03%	9.26%	14.70%	9.96%	8.69%	11.95%
EBITA Margin	24.3%	30.8%	24.27%	22.81%	20.77%	20.66%	13.63%	13.61%
Imputed Rev./Invested cap.	2.85	1.07	0.87	0.81	1.67	2.23	1.61	1.74
Excess Cash/Rev.	52.72%	45.42%	37.61%	37.63%	55.99%	35.09%	22.37%	18.66%
Total Cash /Rev.	52.72%	45.42%	37.61%	37.63%	93.60%	80.92%	32.05%	29.10%

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	0.00%
Interest Coverage	770.27
Debt Rating	AAA
5y Beta	1.21
WACC (based on market value weights)	10.4%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-1.0%	-13.9%	6.3%
Last Quarter-1	0.9%	-22.2%	4.3%
Last Quarter -2	1.7%	-15.7%	14.3%
Last Quarter -3	-1.0%	-23.9%	5.1%
Last Quarter -4	3.6%	-25.6%	2.8%

Last Guidance Jan-28-2015   Next earnings date NM   Last Earning Call Transcript: www.seic.com

SEI Investments Company reported unaudited consolidated earnings results for the fourth quarter and year ended December 31, 2014. For the quarter, the company reported income from operations of $90,264,000, net income before income taxes of $115,525,000, net income attributable to the company of $77,097,000 or $0.45 per diluted share on total revenues of $322,757,000 against income from operations of $68,455,000, net income before income taxes of $101,063,000, net income attributable to the company of $65,515,000 or $0.37 per diluted share on total revenues of $299,024,000 for the same period a year ago. Cash flow from operations was $126.4 million or $0.74 per share. Fourth quarter capital expenditures, excluding capitalized software, were $2 million.

For the full year, the company reported income from operations of $352,784,000, net income before income taxes of $489,662,000, net income attributable to the company of $318,713,000 or $1.85 per diluted share on total revenues of $1,266,005,000 against income from operations of $248,409,000, net income before income taxes of $435,398,000, net income attributable to the company of $288,124,000 or $1.64 per diluted share on total revenues of $1,126,132,000 for the same period a year ago. Cash flow from operations was $367.7 million or $2.13 per share. Year-to-date capital expenditures, again, excluding capitalized software, was $28.5 million.

The company provided earnings guidance for the year 2015. For the period, The company expects tax rate will be in the more normal range of 36%. The company expects capital expenditure to be around same number of 2014.

Continuing Period Assumptions

Money market rate as of today	0.37%	Risk-Free rate	1.9%	LT Op. Costs/Rev	68.0%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	10.0%
Yield Spread accelaration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	12.0%
Marginal Tax Rate	37.5%	LT Growth	4.0%	Growth in PPE	Reverts to Maintenance

LT convergence estimates: weights are either implied from the stability of each time-series"--i.e., median/[max.-min.], or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution, and threat of new entries.

	Rev./Capital Last	Rev./Capital 10y Median	LT Imputed Growth Last	LT Imputed Growth 10y Median	LT Op. Costs/Rev. Last	LT Op. Costs/Rev. 10y Median	Unlevered Beta Last	Unlevered Beta 10y Median	TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
SEIC	1.49	1.07	8.7%	6.4%	70.4%	70.31%	1.19	1.12	4.5x	13.7x	14.8x	23.9x
Peers	0.87	0.81	6.6%	5.1%	73.7%	74.95%	1.25	1.25	2.5x	10.5x	11.9x	12.7x
Primary Industry	0.76	0.76	16.1%	11.1%	67.0%	66.79%	0.79	0.85	3.4x	13.0x	16.0x	25.6x
Industry	3.04	4.28	2.7%	2.6%	70.6%	70.43%	0.86	0.96	2.8x	13.4x	15.8x	23.6x
Industry Group	1.83	2.51	4.3%	4.3%	66.2%	66.68%	0.84	0.92	3.9x	13.1x	15.2x	26.6x
Sector	1.06	1.39	6.9%	5.4%	75.7%	76.63%	0.83	0.70	2.6x	12.1x	15.5x	24.1x
All U.S. Firms	1.61	1.74	6.9%	8.0%	80.6%	81.40%	0.99	0.96	2.5x	12.5x	16.9x	31.1x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SEIC long-run estimate	1.49		4.00%		68.00%		1.20		4.5x	13.7x	14.8x	23.9x

Multiples (10Y Historical Median Value)

Capitalization

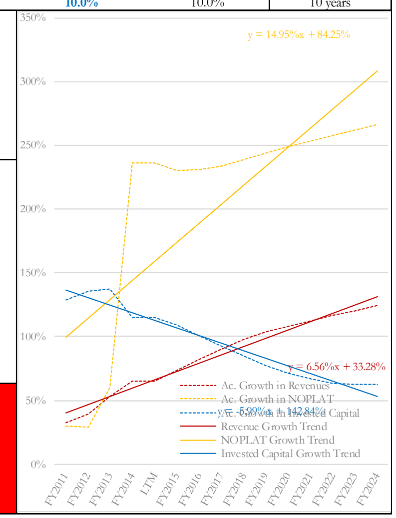
Operating Leases
Yes
Straightline
10 years
R&D Exp.
Yes
Straightline
10 years
Expl./Drilling Exp.
No
Straightline
10 years
SG&A
No
Straightline
10 years

Explicit Period Assumptions

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	to ∞
Growth	12.4%	8.0%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Op.Costs/Rev.	70.4%	69.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%
WACC	10.4%	10.5%	10.4%	10.3%	10.2%	10.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$345.7	$324.8	$329.7	$338.2	$354.5	$374.0	$393.2	$410.2	$427.7	$445.4
Invested capital	$847.7	$795.5	$728.0	$667.3	$615.0	$569.9	$537.5	$512.1	$496.7	$489.2
ROIC	40.8%	38.3%	41.5%	46.5%	53.1%	60.8%	69.0%	76.3%	83.5%	89.7%
UFCF	$0.00	$377.04	$397.27	$398.89	$406.83	$419.13	$425.50	$435.66	$443.03	$452.87
EVA	$263.60	$220.98	$226.04	$241.29	$264.01	$289.03	$317.14	$339.60	$365.18	$389.70
Terminal value										$8,776.31
Enterprise value (mid-year adj.)	$6,520.96	$6,985.87	$7,271.74	$7,557.10	$7,862.90	$8,183.34	$8,518.13	$8,879.05	$9,264.33	$9,738.29
Total Debt	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Minority Interest	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$0.00	$19.30	$17.21	$15.49	$13.67	$11.76	$13.61	$13.89	$14.09	$14.22
PV of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dilutive impact of options,warrants, and converts	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$667.45	$946.38	$1,249.02	$1,570.19	$1,901.03	$2,255.95	$2,630.73	$3,022.07	$3,433.81	$3,866.20
Equity value	$7,188.41	$7,912.95	$8,503.55	$9,111.79	$9,750.26	$10,427.54	$11,135.25	$11,887.23	$12,684.05	$13,590.27
Shares outstanding	$167.24	$167.24	$167.24	$167.24	$167.24	$167.24	$167.24	$167.24	$167.24	$167.24
Price per share as of 2/6/2015	$43.42	$47.80	$51.21	$54.86	$58.70	$62.94	$67.02	$71.54	$76.36	$81.26



Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0%	0.6%	N/A	N/A	Normal
Op. Costs Variation	0%	75.7%	N/A	N/A	Normal
Market Risk Premium	7.0%	N/A	5.0%	9.0%	Triangular
Long term Growth	4.00%	N/A	2.6%	11.1%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$43.42	$47.80
σ(ε)	$4.00	$1.10
3 σ(ε) adjusted price	$31.42	$44.49
Current Price	$42.12	
Analysts' median est.		$44.67

CGF

Taser International Inc (TASR: NASDAQ)

Financial Analysis By: Hugo Perrin – Industrials

Company Profile as of 02/05/2015

Market Price: $26.98
Industry: /-++/-++
Market Cap: $1,416.9M
52-Week: $10.46 – 28.30
Beta: 0.38

	Target Price	Recommendation
Souce	36	BUY
Capital IQ	23	HOLD
Yahoo Finance	23	HOLD
Bloomberg	20.33	HOLD

Thesis

-Leader in market share
-Constant double digits growth in revenues
-Debt free balance sheet
-Diversification insuring future revenue stream
-International expansion

Taser, a leading company in its sector providing mainly weapons has recently launched a new promising segment in its production and is investing into new markets. It seems that the company is at a point where it is on a track for better margins, global recognition, and constant significant sales' growth. For those reasons, everything is indicating that the stock's price will increase over the next couple of years.

Company Overview

Taser International, Inc. headquartered in Scottsdale, Arizona, is engaged in the development, manufacturing and the sale of conducted electrical weapons (CEWs) since its inception in 1993. Its primary usage is for law enforcement; such as federal, military, corrections, private security, and personal defense markets worldwide, on a lower extent. Its core mission is to "protect life and to protect truth through technologies that make communities safer." To do so, the weapons transmit electrical pulses along the wires and into the body affecting the sensory and motor functions of the peripheral nervous system. The company offers products such as TASER X26P, TASER X2, TASER X26, and TASER M26; and TASER eXtended Range Electronic Projectile, a self-contained wireless CEW. Recently, the company is offering AXON and Evidence.com, two new services with a fully integrated hardware and software solution to provide its clients, the ability to capture, store, manage and analyze video and other digital evidence. Those videos are captures from the visual prospective of the officer. Products offered by Taser Inc. have showed a significant reduction in both officer and suspect injuries with CEW usage. Production is directly sold to law enforcement agencies and through a network of distribution channels developed by the company, primarily in North America.

Management

Rick Smith, current CEO and Cofounder of Taser International, launched the brand following the idea created in 1967 by Jack Cover, the instigator of the now named Taser. Rick launched the company with his brother Tom in 1993 after graduating from and receiving his MBA from the University of Chicago in International Finance. Shortly after, he and his brother created the Air Taser, a device classified as a non-firearm which would trigger the company's success up until now.

Doug Klint, currently the company's President and General Counsel has been in the company since late 2002. Doug oversees Taser's Weapons Group including Operations, R&D, Medical & Technical Services, and Government & Public Affairs. Prior working for Taser, Doug served as CEO and Vice President at Aspec Technology, a provider of merchant semiconductor intellectual property ('SIP") solutions for high-performance, complex IC designs, including system-on-a-chip ICs.

Taser's Products segmentation:

Taser International Inc. is offering various products that are not limited to CEW as most people think. The company's revenues have been recently generated through two distinct and complementary segments:

Taser Weapons: The CEWs, implemented more than twenty years ago has made what Taser is today. The NMI (Neuro Muscular Incapacitation) of those weapons are designed for two different segments, law enforcement and consumer market. CEWs use replaceable cartridge containing compressed nitrogen deploying two small probes attached to the weapons by insulating conductive wires lengths ranging from 15 to 35 feet. The basic goal is to provide incapacitating effects lasting in cycles of five seconds for law enforcement usage (30 second for consumer market). Several studies have shown that Taser weapons have prevented death or serious injury more than 118,000 times from first deployment in 2000 to the end of 2013. Additionally, it has reduced injuries for both suspects and officers.

Video products: Also, the company has launched a new segment of video products and software supports also designated for law enforcement under the name of Axon and Evidence.com. Created in 2012, Taser International believes that the video evidence capture and management will grow significantly in the near future due to several factors including increasing recognition of the benefits of video evidence. Cameras are sold under the name of AXON since May 2012. Devices use advanced audio-video record and capture devices mainly worn by Police officers to record video of incidents from the officer's prospective. Another tool recently implemented, Evidence.com, is a cloud-based digital management system and warehouse, offering analysis and storage in a secure and accessible environment. Its purpose is to allow an agency to manage all of its digital evidence in one place. Videos recorded by AXON products are transferred to Evidence.com using ETM (Evidence Transfer Manager), a service sold by Taser. Recording made on Apple devices or on Android products can also be transferred onto the cloud service in a safe way. Evidence's mission is to promote safer communities by advancing the creation and adoption of new technologies in the public safety space. Currently, Evidence.com is the number one body-worn video solution used by large police forces in Australia, Brazil, New-Zealand and the United States. The company will invest onto the European market as explained later.

Key Statistics:

Quarterly basis:

In Millions of USD	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014 Est	Q1 2015 Est
3 Months Ending	2012-09-30	2012-12-31	2013-03-31	2013-06-30	2013-09-30	2013-12-31	2014-03-31	2014-06-30	2014-09-30	2014-12-31	2015-03-31
Revenue	28.8	32.1	30.4	32.2	35.2	40.0	36.2	37.2	44.3	42.2	39.0
Growth %, YoY	18.0	50.6	18.7	14.0	22.3	24.6	18.9	15.5	26.0	5.4	7.8
Gross Profit	16.8	19.2	18.5	19.7	22.1	25.6	22.2	23.2	28.7	26.7	24.2
Margin %	58.4	59.7	60.6	61.4	62.8	63.8	61.4	62.4	64.7	63.4	62.1
EBITDA	7.0	6.3	6.7	8.4	8.1	12.8	6.2	7.6	13.9	11.2	7.9
Margin %	24.3	19.6	21.9	26.1	22.9	31.9	17.2	20.3	31.3	26.6	20.3
Net Income Before XO	3.7	3.8	3.3	4.5	5.1	6.9	3.4	3.9	7.6	7.9	5.3
Margin %	12.8	11.9	10.8	13.9	14.5	17.3	9.4	10.4	17.0	18.8	13.7
Adjusted EPS	0.07	0.07	0.06	0.08	0.10	0.13	0.06	0.07	0.14	0.14	0.10
Growth %, YoY	250.0	--	50.0	33.3	42.9	85.7	0.0	-12.5	40.0	7.7	58.3

Yearly basis:

In Millions of USD	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Current/LTM	FY 2014 Est	FY 2015 Est
12 Months Ending	2006-12-31	2007-12-31	2008-12-31	2009-12-31	2010-12-31	2011-12-31	2012-12-31	2013-12-31	2014-09-30	2014-12-31	2015-12-31
Revenue	67.7	100.7	92.8	104.3	86.9	90.0	114.8	137.8	157.7	160.0	179.7
Growth %, YoY	42.0	48.7	-7.8	12.3	-16.6	3.6	27.5	20.1	21.4	16.1	12.3
Gross Profit	43.2	57.6	57.0	63.4	45.4	48.3	67.7	85.8	99.7	100.9	114.1
Margin %	63.8	57.1	61.4	60.8	52.2	53.6	59.0	62.3	63.2	63.1	63.5
EBITDA	12.9	22.8	7.9	3.6	2.1	-2.4	29.1	33.4	40.4	38.2	45.8
Margin %	19.0	22.7	8.5	3.4	2.5	-2.7	25.3	24.2	25.6	23.8	25.5
Net Income Before XO	-4.1	15.0	3.6	0.0	-4.4	-7.0	14.7	18.2	21.8	27.0	32.2
Margin %	-6.0	14.9	3.9	0.0	-5.0	-7.8	12.8	13.2	13.8	16.9	17.9
Adjusted EPS	0.12	0.23	0.05	0.00	-0.07	-0.03	0.25	0.37	0.40	0.45	0.58
Growth %, YoY	475.0	100.0	-78.3	--	--	57.1	--	48.0	29.0	22.2	28.3

As for 2013, CEW represented 92.5% of the sales, while the Video segment made the rest of the revenues, at 7.5%. On the first nine months of 2014, the Video segment accounted for 10.7% of the sales, proving that the new segment exploited by Taser has found its place on the market.

The charts above display the company's key statistics on both quarterly and yearly basis. This emphasizes the sales' growth the company is generating since 2012. Taser International Inc. has been able to increase its sales on a double digit basis during the last eleven quarters (9 quarters shown above).

Between FY 2011 and FY 2013, the firm has been able to significantly increase its sales by more than 50%. This figure will become more important once 2014 Q4 results will be released on 02/26/2015. Taser's revenue should double between FY 2011 and FY 2014.

The video segment's sales increased from 8.1% to 10.7% as a percentage of revenue between the first three quarters of 2013 and 2014 but sales have increased by 60% on that same time period.

Another key factor of Taser's profitability is the gross margin that keeps increasing under both yearly and quarterly basis. Following the quarterly table, Taser's growth profits increased from 58.4% to 64.7% since Q3 2012. The trend is the same for the EBITDA margin that almost doubled between late 2012 and Q3 2014 from 6.3% to 13.9%. The combination of a sales' increase and a higher EBITDA margin proves a higher profitability for the firm.

We do have to note that the gross margins are significantly different for both segments. The gross margin for the weapons' segments was at 68% in Q3 2014 compared to 18% for the other segment.

The company states that because of the launch of the new video and cameras' services, fixed costs are high but will eventually remain stable and will result in a lower cost of service as revenue are set to increase rapidly. SG&A increased 81.9% in 2013 versus prior year as a result of the company doubling its video salesforce and increasing its promotions and marketing activities. We can also note a decrease in the litigation fees by $2.8 million between Q3 2013 and Q3 2014. This shows two things; first, the firm is being less sued than before, proving the need for Taser weapons. Second, it shows that the SG&A increase is primarily imputed to products developments and breaching into new markets.

The company continues to have strong net income margin, currently at 13.8%. More importantly, we note the constant increase in the firm's net income since 2012. According to Bloomberg, it is set to keep increasing during the next two years to reach $32.2 million.

For FY 2013, the firm's total SG&A increased by $6.5 million, decreased from 34.1% to 33.8% as a percentage of sales. This increase in amount spent is primarily due to hiring of an additional 60 people, most of them being Evidence.com and Vide sales representatives.

European Expansion:

One of the main focuses of the company, besides products diversification, is international expansion, especially in Europe. In late 2014, the firm was in process on setting up its international headquarters in Amsterdam. The company decided to do so for many reasons. The most important one is to acquire new markets and increase its market share on. Consequently, the teams deployed in Holland represent the firm's largest team internationally. Even if the firm already has some market share in this region, we can see that they keep on gaining market share once we look at their continuous increase in revenues.

On February 6th, 2015, the company announced the availability of its digital evidence management platform in the United Kingdom. In the meantime, the company won a contract with the East Midlands Strategic Commercial Unit for Body Worn Video. According to the firm's CEO, the firm is expecting more growth next year, justifying an increase in investments in international as they are building up their European teams. Currently, the US market represents about 85% of the firm's sales, which has been constant during the last couple of years.

Another reason why the firm decided to delocalize its international headquarter in Holland was for tax purposes, which was clearly stated by Rick Smith, the CEO. Up until now, Taser was under an effective income tax rate of 34.9% for 2013. In Holland, its tax rate will be lowered to 25%, which will increase the company's net income and shareholders' value.

The last reason argued by Taser was for operational implications. As the company wants to be close to the heart of Europe, it will save some of the costs and time to deal with European governments. There has been a shift in policies as most European governments used to be reluctant with the usage of such devices, but things are slowly changing; as justified with the example above. Recently, the chairman of the Police Federation of England and Wales states in February 1st, 2015, that "all frontlines police should be given Taser weapons to protect themselves against terrorist attackers". Even though those are not automatically translated into sales, we see the emergence of such ideas in locations where Taser did not particularly focus on prior years. Taser is expecting that the growth in European markets will be faster than in the US over the next few years.

Forecasts growth:

One of the interesting fact about Taser is that the firm has most of the time been ahead of the people's need. However, the company's stock price is not intensely affected by spontaneous news. In August 2015, after the Ferguson events, the stock's price increase by 20%, which is significant, but it is only 3 months later that the stock price increased sharply because of the earnings announcements. This means that the firm's stock price is highly correlated to its revenues performance and less by the news, which is essential for this industry. However, events such as what happened in Ferguson raise interests from police forces to have their officers wearing cameras and Tasers. Consequently, the city of Los Angeles announced in late December 2014 that it will buy 7,000 body cameras. The first 700 cameras are worth $7.6 million for Taser. Those first cameras will be worn by officers in early 2015, showing the rapid response that Taser can bring to its clients. Few weeks set apparat the command of such equipment and their sales.

To insure the company's future financial stability, Taser is selling its Evidence.com service with a contract. In Q3 2014, 87% of the contracts booked were for multiple years, insuring the firm a source of revenues for the coming years. Clients have the possibility to either buy a subscription for one year or for multiple years. This high proportion of multiple-years contracts gives an idea of how agencies think that Taser is providing the technology that is needed on an everyday basis for the coming years.

A study conducted in Rialto a few months ago concluded that in a department of 157 people (115 sworn), the office saw a decrease in of $400,000 worth in hard costs from the reduction of complaints once cameras were deployed. Considering that the first-year program costs were $90,000, this cut the police forces' costs, one of the main focus on any governments. Two officers out of the three were redeployed, saving an additional $380,000 per year. This study has increased the number of programs on a national scale.

As of Q3 2014, the company was operating in 11 major cities and another 35 were in form of pilot program. That number was 3 times more important as of prior quarter. The firm is highly confident that these trials are going well and will be transformed into purchases' contracts.

Taser is also confident that 46 of the 66 major cities that are on a trial period with the software Evidence.com will turn into clients with the purchase of the program by the end of 2015.

In the coming future, the company will also stop the production of one of its oldest weapons (out of 4 different ones), favoring the production of "smart weapons", which is what the clients are purchasing the most.

CEW Product	Year Introduced	Sales (in millions) 2013	2012	2011	% of Net Sales 2013	2012	2011
TASER X26P	2013	$21.9	$ —	$ —	16%	*	*
TASER X2	2011	26.5	25.8	8.1	19%	23%	9%
TASER X26	2003	30.3	35.2	36.6	22%	32%	41%
TASER M26	1999	0.7	0.5	2.4	*	*	3%

The chart above shows in what extent the new weapons' sales are far more successful than the previous ones. For example, the X26P had a much more successful launch compared to its predecessors X2 with $21.9 million worth of sales versus $8.1 million. The company has a broader range of products available to its customers, offering more choices and consequently, potentially the possibility to target more customers and increase its sales.

Also, Taser is unique in this environment of electroshock weapons and videos. Thanks to the 85 U.S and 82 foreign patents the company possesses, almost no competition can exist. One of Taser's competitors, Stinger went out of business in 2010 because of the numerous lawsuits Taser filled. Another competitor, Karbon used a patent's loss of Taser but only realized $1.5 million in sales in 2013, versus $123.5 for Taser. This competitor is not mentioned by Taser, considering them as not being a threat for their business or market share. Karbon is also continuously being sued by Taser for patent infringement.

Concerning the future of Taser's products, the firm is internally funding the improvement of its existing products and is investing on the expansion of the Evidence.com and Axon products to efficiently respond to the demand and offer the most efficient products.

TASER International Inc.	TASR	Analyst: Hugo PERRIN	Current Price: 26.64	Lower Bound Intrinsic Value: $32.7	Lower Bound 1y-Target: $36	Dividend Yield: 0%	1y Upside (downside): 35.01%

General Info

Sector	Industrials
Industry	Aerospace and Defense

Description: TASER International, Inc. is engaged in the development, manufacture, and sale of conducted electrical weapons (CEWs) for use in law enforcement, federal, military, corrections, private security, and personal defense markets worldwide. Its CEWs transmit electrical pulses along the wires and into the body affecting the sensory and motor functions of the peripheral nervous system. The company manufactures four hand-held CEW product lines, including TASER X26P, TASER X2, TASER X26, and TASER M26; and TASER eXtended Range Electronic Projectile, a self-contained wireless CEW that deploys from a 12-gauge pump-action shotgun. It also offers consumer products comprising TASER C2 CEW; the TASER StrikeLight, a handheld stun device, integrated with a flashlight; various types of cartridges comprising standard cartridges, Smart cartridges, training cartridges, and others; and other accessories, such as batteries. In addition, the company provides video products, including AXON system that utilizes advanced audio-video record and capture devices worn by first responders to record video of critical incidents from the visual perspective of the officer; the AXON body camera, a body worn camera for law enforcement; EVIDENCE.COM, a cloud-based digital evidence management system and warehouse, offering digital evidence management, sharing, analysis, and storage; and

Market Data

Enterprise value	$1,331.53
Market Capitalization	$1,399.05
Daily volume	1.02461
Shares outstanding	52.52
Diluted shares outstandi	54.83
% shares held by instituti	84.5%
% shares held by insiders	2.2%
Short interest	25.1%
Days to cover short inter	4.01
52 week high	$28.30
52-week low	$10.46
5y Beta	0.32
6-month volatility	51.61%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NYSE:DGI	DigitalGlobe, Inc.	$2,214.33	10.6x	1.6x	48%	35%	286.5x	1.14
NYSE:ATK	Alliant Techsystems	$4,447.37	8.1x	2.2x	15%	32%	7.1x	2.95
Peers' Median		$3,330.85	9.3x	1.9x	32%	34%	146.8x	2.04
TASR		$1,399.05	34.5x	11.9x	24%	0%	394.4x	13.79

Management

Professional	Title	Comp. FY2011	Comp. FY2012	Comp. FY2013
Smith, Patrick	Co-Founder, Chief	$ 276,344.00	$ 898,801.00	$ 1,076,920.00
Klint, Douglas	President, General	$ 421,200.00	$ 623,168.00	$ 805,411.00
Behrendt, Daniel	Chief Financial	$ 432,800.00	$ 661,768.00	$ 833,792.00
Larson, Luke	Executive Vice	$ -	$ -	$ -
Womack, Marcus	General Manager of	$ -	$ -	$ -
Tuttle, Steve	Vice President of	$ -	$ -	$ -

Performance

	TASR Last	TASR 10y Med.	Peers Last	Peers 10y Med.	Industry Last	Industry 10y Med.	All U.S. firms Last	All U.S. firms 10y Med.
ROIC	63.0%	11.2%	5.84%	9.19%	10.58%	13.51%	10.71%	13.29%
EBITA Margin	25.3%	12.9%	11.61%	11.48%	11.72%	11.41%	13.56%	13.62%
Imputed Rev./Invested cap.	3.58	1.30	0.89	1.64	1.73	1.84	1.76	2.02
Excess Cash/Rev.	42.86%	40.46%	9.20%	8.69%	12.51%	13.30%	23.19%	18.87%
Total Cash/Rev.	42.86%	40.46%	9.20%	8.69%	13.53%	14.20%	32.72%	30.13%

Current Capital Structure

Total debt/market cap	0.01%
Cost of Borrowing	93.14%
Interest Coverage	394.38
Debt Rating	AAA
5y Beta	0.32
WACC (based on market value weights)	9.5%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	12.0%	39.9%	40.0%
Last Quarter-1	-0.9%	6.0%	-12.5%
Last Quarter -2	6.8%	6.7%	0.0%
Last Quarter -3	6.1%	76.9%	37.5%
Last Quarter -4	6.7%	-3.6%	25.0%

Last Guidance Apr-30-2014 **Next earnings 2/26/2015** **Last Earning Call Transcript: www.taser.com**

TASER International Inc. reported unaudited consolidated earnings results for the first quarter ended March 31, 2014. For the quarter, the company reported net income of $3,391,000 or $0.06 per diluted share on net sales of $36,185,000 compared to net income of $3,298,000 or $0.06 per diluted share on net sales of $30,434,000 reported a year ago. Income from operations was $4,856,000 compared to $5,257,000 reported a year ago. Income before provision for income taxes was $4,886,000 compared to $5,234,000 reported a year ago. EBITDA was $6,049,000 compared to $6,655,000 reported a year ago. Adjusted EBITDA was $7,217,000 compared to $7,712,000 reported a year ago. Net cash provided by operating activities was $4,310,000 compared to $4,519,000 reported a year ago. CapEx in the quarter was $0.4 million.

For the year 2014, the company expects tax rate of 39%.

Continuing Period Assumptions

Money market rate as of today	0.37%	Risk-Free rate	2.4%	LT Op. Costs/Rev	65.0%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	9.1%
Yield Spread acceleration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	20.0%
Marginal Tax Rate	25.0%	LT Growth	4.0%	Growth in PPE	Follows Forward Rev. Gro

: weights are either implied from the stability of each time-series"--i.e., median/(max.-min.), or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution,

	Rev./Capital Last	Rev./Capital 10y Median	LT Imputed Growth Last	LT Imputed Growth 10y Median	LT Op. Costs/Rev. Last	LT Op. Costs/Rev. 10y Median	Unlevered Beta Last	Unlevered Beta 10y Median	TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
TASR	2.42	1.30	17.2%	5.0%	75.8%	86.25%	0.31	1.82	4.7x	37.3x	53.4x	25.5x
Peers	0.89	1.64	7.8%	5.2%	82.0%	84.49%	0.46	0.49	1.3x	8.3x	11.4x	49.5x
Primary Industry	1.56	1.64	6.5%	9.4%	84.1%	84.84%	0.94	0.99	1.9x	10.6x	12.6x	28.0x
Industry	1.56	1.64	6.5%	9.4%	84.1%	84.84%	0.94	0.99	1.9x	10.6x	12.6x	28.0x
Industry Group	1.86	1.97	5.9%	7.3%	85.8%	86.43%	1.18	1.18	1.7x	11.7x	15.0x	30.1x
Sector	1.92	2.13	5.9%	6.9%	84.9%	85.58%	1.13	1.11	1.7x	11.7x	15.5x	28.6x
All U.S. Firms	1.76	2.02	5.9%	6.6%	80.8%	81.45%	0.99	0.96	2.5x	12.4x	16.7x	29.6x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TASR long-run estimate	2.20		4.00%		62.00%		1.00		4.7x	37.3x	50.0x	25.0x

(Multiples: 10Y Historical Median Value)

Capitalization

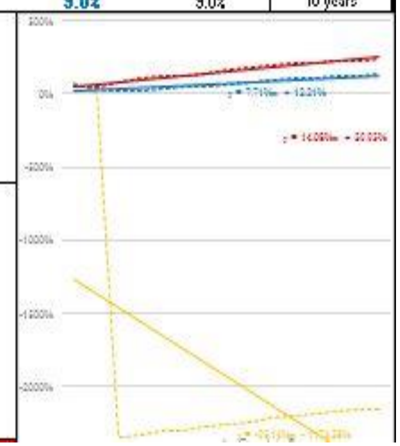
Operating Lease
100%
Straightline
10 years
R&D Exp.
0%
Straightline
10 years
Expl./Drilling Ex
0%
Straightline
10 years
SG&A
0%
Straightline
10 years

Explicit Period Assumptions

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	to ∞
Growth	20.1%	21.0%	21.0%	18.0%	15.0%	15.0%	13.0%	11.0%	8.0%	6.0%	5.0%	4.0%
Op.Costs/Rev.	75.8%	75.0%	74.0%	72.0%	72.0%	70.0%	70.0%	67.0%	65.0%	65.0%	65.0%	65.0%
WACC	9.5%	9.4%	9.4%	9.3%	9.3%	9.3%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$35.9	$40.4	$49.7	$58.5	$70.2	$81.3	$96.7	$112.6	$121.0	$128.0
Invested capital	$56.1	$77.0	$86.6	$97.2	$108.1	$122.6	$134.0	$142.5	$149.4	$157.7
ROIC	63.0%	59.0%	64.4%	67.5%	72.1%	75.2%	78.8%	83.9%	84.9%	85.7%
UFCF	$0.00	$32.31	$40.11	$47.86	$59.26	$66.82	$85.31	$104.01	$114.12	$119.73
EVA	$35.62	$38.13	$47.87	$56.60	$67.99	$81.10	$93.59	$106.87	$113.43	$120.93
Terminal value										$2,593.16
Enterprise value (mid-year adj.)	$1,711.31	$1,847.74	$1,979.34	$2,111.40	$2,245.04	$2,377.51	$2,499.58	$2,614.35	$2,721.84	$2,850.53
Total Debt	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08
Minority Interest	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$12.00	$26.10	$28.78	$31.14	$33.20	$38.76	$41.64	$42.83	$43.56	$46.42
V of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
act of options,warrants, and converts	$50.97	$50.16	$49.35	$48.60	$48.02	$0.00	$0.00	$0.00	$0.00	$0.00
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
lon-operating cash and LT investments	$67.60	$93.16	$127.71	$170.74	$225.43	$291.55	$373.99	$474.25	$585.03	$704.69
Equity value	$1,715.86	$1,864.57	$2,028.84	$2,202.33	$2,389.17	$2,630.22	$2,831.86	$3,045.69	$3,263.22	$3,508.72
Shares outstanding	$52.52	$52.52	$52.52	$52.52	$52.52	$52.52	$52.52	$52.52	$52.52	$52.52
Price per share as of 2/7/2015	$33.68	$36.72	$39.80	$43.19	$47.12	$51.58	$55.35	$59.45	$63.78	$66.81



Trecora Resources (TREC: NYSE)

Financial Analysis By: Guillaume Valentin – Materials

Company Profile as of 2/2/2015:

Market price: $13.71
Industry: Chemicals
Market Cap: $348.4 million
52-week: $9.72 - $15.61
Beta: 1.82
Dividend: N/A

Source	Target price	Recommendation
Siena	$16.00	Buy
Bloomberg	$17.25	Buy
Capital IQ	$17.83	Buy
Yahoo Finance	$17.83	Buy

I recommend a buy on Trecora Resources at a current price of $13.71. The mean target price is $17.23, which corresponds to a 25% growth from current price. The company has performed very well over the past five years, with increasing revenues and margins. With favorable macroeconomic conditions, high competitive positioning, strong financial statement and high growth forecasts, Trecora Resources is expected to perform even better during the next fiscal year.

Thesis

-Strong industry outlook
-Outperformed direct competitors
-Strong revenue and EBITDA growth
-Positive effect of drop in oil price
-Acquisition of SSI Chusei and interest in AMAK
-Completion of an expansion project in early 2015
-Very low amount of debt and high liquidity

Company Overview

Trecora Resources, formerly known as Arabian American Development Company before June 2014, is based in Sugar Land, Texas. It operates in one business segment: manufacturing of various specialty petrochemical products. It is a leading provider of petrochemical solvents and other petroleum based products for use in the production of polyethylene, packaging, and polypropylene crude oil from the Canadian tar sands, as well as in the catalyst support industries. Additionally, Trecora Resources has 35% of interest in Al Masane Al Kobra Mining, a Saudi Arabian company that produces copper and zinc concentrates. Therefore, the company is also involved in the developing of mineral properties.

<u>Strong industry outlook:</u>

The Major diversified chemicals sub-industry of the chemicals industry (green line on the chart above) has performed very well on a five-year basis. The index price increased at CAGR of 16.01% over the past five years. The chart below highlights the strong correlation between the stock price of Trecora Resources and its own industry. On average the industry performed slightly better than the stock, but this difference has been diminishing since the middle of 2014. It stills makes the stock relatively cheap in comparison to the industry. With low oil and natural gas prices, the forecast for the chemical industry is excellent. According to the American Chemistry Council, "The consensus is that U.S. chemical output will improve during 2015 and into the second half of the decade". Cost of goods sold of chemical company is often correlated with oil and natural gas prices. As we will discuss in the "drop in oil prices" paragraph, this will have a positive impact on Trecora Resources. Moreover, analysts expect "chemical production to increase 4.0% in 2015, compared with 2.4% in 2014 and 3.0% for the overall U.S. economy this year"[8]. This will make chemical companies more profitable during the upcoming year.

Additionally, the decrease in oil prices (and consequently gasoline prices) will rev up consumer spending. The overall increase in vehicle sales and housing starts, two sectors that heavily rely on chemicals during their manufacturing process, will ultimately drive chemicals output up in 2015. Most of the companies in this industry will take advantage of this growth.

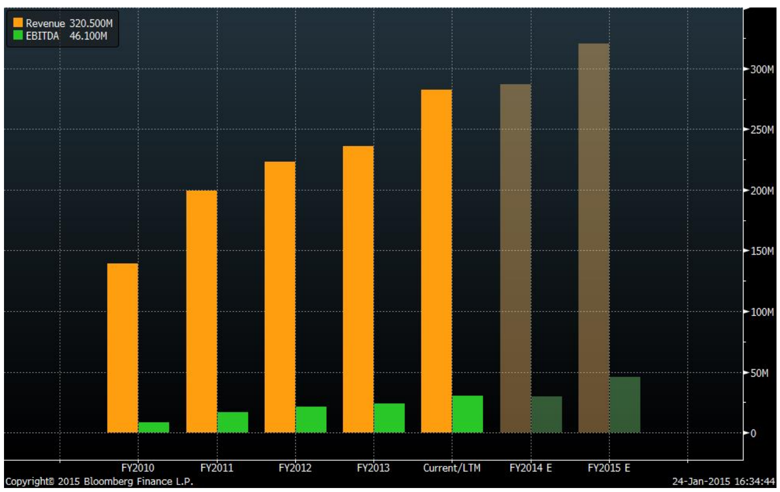
<u>Outperformed direct competitors:</u>

[8] http://cen.acs.org/articles/93/i2/Chemical-Outlook-2015-Region.html

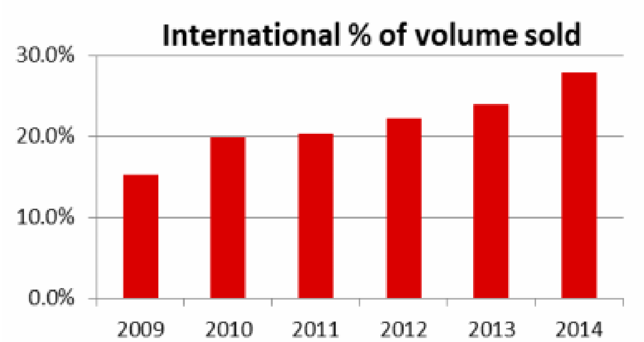
	Name	Ticker	Mkt Cap (USD)	P/E	EPS - 1 Yr Gr:Q	Rev - 1 Yr Gr:Q
	Average		3.48B	14.48	4.38%	11.30%
100)	TRECORA RESOURCES	TREC US	348.36M	18.89	9.09%	26.36%
101)	KOPPERS HOLDINGS INC	KOP US	400.88M	13.01	--	11.36%
102)	WESTLAKE CHEMICAL CORP	WLK US	7.76B	9.00	-50.59%	24.80%
103)	CELANESE CORP-SERIES A	CE US	8.24B	13.97	54.63%	-3.53%
104)	KRATON PERFORMANCE P...	KRA US	639.85M	17.54	--	-2.49%

The chemicals industry is a very large industry with many sub-industries. Looking at companies with similar market capitalization and operations, Trecora Resources has four main competitors. It was not easy to find many companies that produce the same type of petrochemical products than Trecora Resources. The market capitalizations of these companies range from $400.88 million to $8.24 billion, which is still higher than our company. What is interesting is that Trecora Resources has a higher P/E ratio than all of its competitors, which means that investors are expecting a higher earnings growth than all of its direct competitors. The P/E ratio of Trecora is not high enough to claim that the company is overpriced. All of the analysts' estimates forecast a higher one-year target price, which support this argument. Also, the company has performed much better in terms of EPS and Revenues growth over the past year. It means that Trecora Resources i financially healthier than its direct competitors. It has a lot of room to expect further high growth.

<u>Strong revenue and EBITDA growth:</u>



Beginning January 2010, Trecora Resources saw a continuous increase in revenues, with a CAGR of 15.20% from 2010 to 2014. If we follow analysts' estimates, the company is expected to follow this trend, to reach $320.5 million in sales by the end of 2015. EBITDA is forecasted to grow 33.33% by the end of 2015, which is 19.76% higher than revenues. Therefore, analysts expect that the company will be more efficient in managing its operating costs. Indeed, the company currently has a 15.1% gross profit margin. It has been increasing 4.53% on average each year over the past five years. Furthermore, the EBITDA margin, currently at 10.8%, has a 12.10% CAGR. It means that EBITDA margin is growing much faster than gross profit margin. Currently, the company generates $6.80 of net income for each $100 of revenues. Back in 2010, the company only generated $1.94 of net income for each $100 of revenues. The company has managed to make economies of scale. Historical performance is only a tool that helps building a forecast. As presented in the next paragraph significant changes in the macroeconomic environment will lead to further profitability for Trecora Resources.



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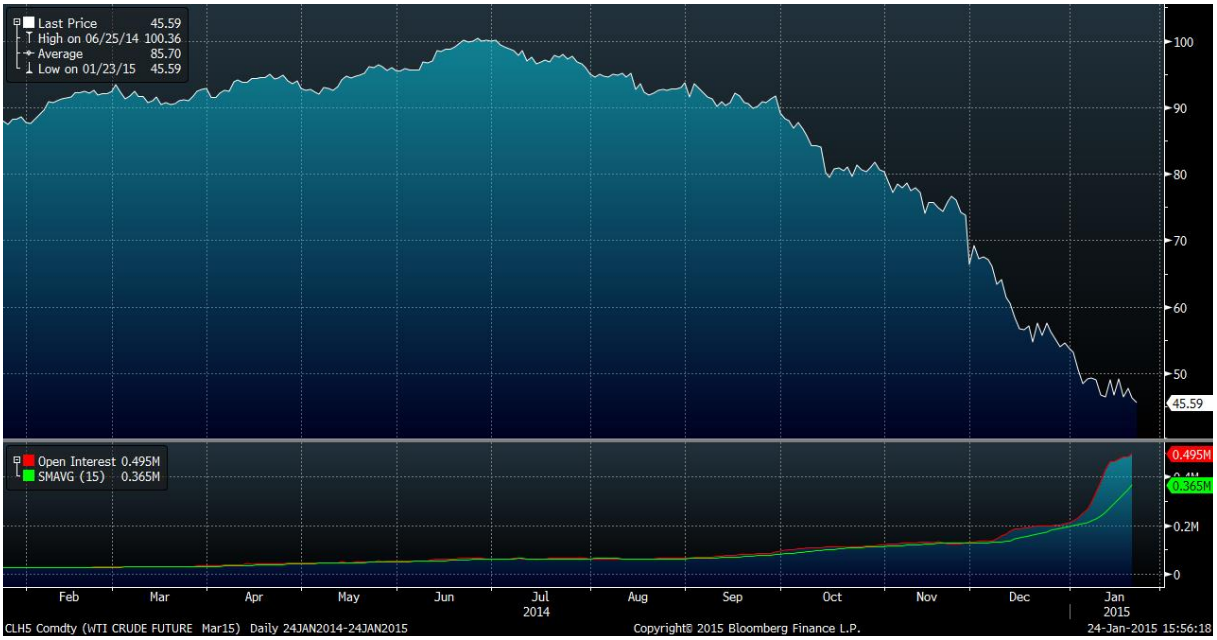
Additionally, the company's international sales have been increasing over the past five years. Currently, about 28% of the company's sales are shipped internationally. This is a 12% increase from 2009. Trecora increased its production in order to sustain such an increase in overseas demand. Trecora meets high expectations from international customers since it is offering very high quality products that are hard to find in foreign markets. This shows the competitive advantage it has over most of its competitors. The company expects Middle East demand to continue in 2016, which could lead to a further increase in this percentage.

Positive effect of drop in oil prices:

In order to produce petrochemical solvents and other petroleum products Trecora Resources needs feedstock. In this sense, Trecora Resources purchases all of its raw materials, consisting of both feedstock and natural gas, on the open market.[9] Therefore, the cost of these materials is a function of spot market oil and gas prices. The two graphs below highlight the strong influence oil prices had historically on Trecora's stock price and the positive impact it is expected to generate in the near future.



The first graph is the WTI crude future, Mar 2015 commodity. The oil price dropped 54.30% from $99.75 to $45.59 over the past seven month. Moreover, Saudi Arabia Prince Al Saud recently said that "the world will never again see the price of oil at $100 per barrel". This quote, by the second largest oil producer worldwide, can surely be taken seriously. Therefore, the implementation of dropping oil prices into the cost of goods sold of Trecora will ultimately increase their profit margin in the near future. It can also be beneficial in the long run if oil price remain at current levels. A decrease in cost of goods sold (due to lower inventory prices) will boost profit margin and possibly EBITDA margin. The second graph shows the correlation between TREC stock price and oil prices over

[9] http://ir.trecora.com/annual-reports/content/0000007039-14-000002/0000007039-14-000002.pdf

the past five year. We can see that they are both negatively correlated. It confirms that TREC stock price moves the opposite way of oil prices. This confirms the positive outlook for the company.

Acquisition of SSI Chusei and interest in AMAK:

Trecora Resources recently agreed on a $73 million deal cash to buy SSI Chusei, a Florida based specialty chemicals manufacturer and marketer. The deal was completed on January 10, 2014. SSI Chusei is a leading manufacturer of specialty polyethylene waxes, which Trecora Resources is not familiar with. The aim of this acquisition for the company is to strengthen its market share and offer a wider range of products to businesses. "We view this acquisition and financing as a transformative event for Trecora" said Nick Carter, CEO of Trecora Resources. There are significant growth opportunities in this industry, which makes the acquisition of healthy firms valuable for acquiring companies. In this senses, SSI Chusei reported $23 million in revenues and $6.6 million in EBITDA for the last fiscal year. With a stunning 28.7% EBITDA margin, this acquisition will lead to further improvements of Trecora Resources' financial statements and market share in the chemical industry.

Moreover, Trecora Resources is a 35% minority owner of Al Masane Al Kobra Mining (AMAK), a copper and zinc Saudi Arabian mining company. This company shipped 72,000 metric tons of copper and zinc to Asian countries as of fiscal year ending July 2013, which is 260% higher than its previous fiscal year[10][11]. Trecora Resources has a significant influence over the operating and financial policies of AMAK. Over the past two years, Trecora Resource has managed to greatly improved the profitability and efficiently of AMAK. They expect this positive change to be reflected in Trecora Resources' financial results by the beginning of 2015. Confident about the future of this company, TREC recently executed a limited guarantee over a loan to AMAK, which would help them achieve their objectives.

Completion of an expansion project in early 2015:

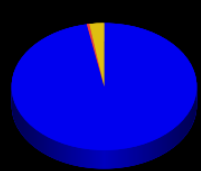
In order to support its current and planned growth, Trecora Resources has initiated a $7.2 million expansion project two and a half years ago. This project is located in Silsbee, Texas. The construction of an expanded pipeline, a storage unit and a truck and railcar loading capacity will increase the production capacity of the company by 60%. The project, known as "D train expansion", will be partially operative in early 2015. This increase in production will be necessary to meet the expected increase in US polyethylene demand in 2016. Trecora is also recognized for its very high customer service. This expansion project will increase its advantage in the rapid delivery of custom products to its customers. Ultimately, it should also increase Trecora's efficiency.

Low amount of debt and high liquidity:

11) Profitability | 12) Growth | 13) Credit | 14) Liquidity | 15) Working Capital | 16) Yield Analysis | 17) DuPont Analysis

In Millions of USD except Per Share	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
12 Months Ending	2008-12-31	2009-12-31	2010-12-31	2011-12-31	2012-12-31	2013-12-31
Cash Ratio	0.13	0.31	1.00	0.55	0.78	0.53
Current Ratio	1.47	3.27	3.51	3.45	3.39	3.24
Quick Ratio	0.71	1.88	2.49	2.47	2.08	2.08

Capital Structure (Millions of USD)



Market Cap	295.9	97.0%
ST Debt	1.4	0.5%
LT Debt	7.8	2.6%
Pref. Eqty	0.0	0.0%
Total	305.1	100.0%

Trecora Resources is almost debt free. Its total amount of debt equals 3.1% of its total capital structure. The company released debt in December 2014 for the acquisition of SSI Chusei. Even with this recent addition of low debt, the company is still very liquid. Indeed, it has a very high current ratio of 3.24 in 2013. With a cash ratio of 0.53, the company is able to pay more than half of its current liabilities with its cash on hand. The company has not a lot on inventory on hand (8.4% of total assets), which means that it will be able invest its excess of cash in the foreseeable future. It leaves room for further acquisitions.

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[10] http://ir.trecora.com/annual-reports#document-10154-0000007039-14-000002
[11] http://www.prnewswire.com/news-releases/trecora-resources-provides-update-on-improved-operations-at-al-masane-al-kobra-mining-company-300009210.html

Conclusion:

I recommend a buy on Trecora Resources at $13.71. The company has performed very well over the past five years. Its revenues have increased at a steady rate, while its EBITDA increased faster. It means that the company is more efficient in managing its operating costs. It is already performing much better than its direct competitors and it is expected to perform even better in the future. Several macroeconomic conditions will ease this task. The significant drop in oil prices will ultimately lower its cost of goods sold, which will drive up its gross profit margin and its profitability. Consumer spending will also increase, which will boost the sales of chemicals-dependent products. Finally, the company, which has an almost debt-free capital structure, has enough cash on hand to cover half of its liabilities. It is financially healthy and is expected to remain like this during the

Trecora Resources	TREC	Analyst: Guillaume Valentin	Current Price: 14.31	Lower Bound Intrinsic Value: $11	Lower Bound 1y-Target: $16	Dividend Yield: 0%	1y Upside (downside): 11.77%

General Info

Sector	Materials
Industry	Chemicals

Description: Trecora Resources manufactures various specialty petrochemical products. It produces petrochemical solvents; and other petroleum based products, including isopentane, normal pentane, isohexane, and hexane for use in the production of polyethylene, packaging, polypropylene, expandable polystyrene, poly-iso/urethane foams, and crude oil from the Canadian tar sands, as well as in the catalyst support industries. The company, through its 35% interest in Al Masane Al Kobra Mining Company, produces copper and zinc concentrates. It was formerly known as Arabian American Development Company and changed its name to Trecora Resources in June 2014. Trecora Resources was founded in 1967 and is based in Sugar Land, Texas.

Market Data

Enterprise value	$343.10
Market Capitalization	$875.45
Daily volume	0.99875
Shares outstanding	24.26
Diluted shares outstanding	24.87
% shares held by institutions	78.7%
% shares held by insiders	20.8%
Short interest	1.2%
Days to cover short interest	4.29
52 week high	$15.61
52-week low	$9.72
5y Beta	1.81
6-month volatility	37.08%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NYSE:PSX	Phillips 66	$40,884.48	6.5x	1.9x	3%	14%	12.8x	
Peers' Median		$40,884.48	6.5x	1.9x	3%	14%	12.8x	#NUM!
TREC		$347.39	11.7x	2.9x	11%	3%	45.6x	7.37

Management

Professional	Title	Comp. FY2011	Comp. FY2012	Comp. FY2013
Carter, Nicholas	Chairman, Chief	$ 919,463.00	$ 843,577.00	$ 868,898.00
Cook, Connie	Chief Financial Officer,	$ 371,189.00	$ 345,682.00	$ 348,914.00
Upfill-Brown, Simon	Executive Vice President	$ -	$ 222,440.00	$ 625,856.00
Williamson, Mark	Vice President of	$ 522,175.00	$ 465,001.00	$ 465,780.00
Franklin, Ronald	Vice President of	$ 467,739.00	$ 448,187.00	$ 443,977.00
Goehringer, Charles	General Counsel	$ 25,649.00	$ 9,382.00	$ -

Performance

	TREC Last	TREC 10y Med.	Peers Last	Peers 10y Med.	Industry Last	Industry 10y Med.	All U.S. firms Last	All U.S. firms 10y Med.
ROIC	23.5%	20.3%	73.38%	18.31%	3.85%	14.22%	8.69%	11.95%
EBITA Margin	9.7%	8.3%	2.34%	2.52%	11.07%	11.03%	13.63%	13.61%
Imputed Rev./Invested cap.	4.68	3.30		8.48	1.57	1.73	1.61	1.74
Excess Cash/Rev.	4.94%	3.10%	2.12%	2.22%	15.50%	13.07%	22.37%	18.66%
Total Cash /Rev.	4.94%	3.10%	2.12%	2.22%	16.52%	16.66%	32.05%	29.10%

Current Capital Structure

Total debt/market cap	2.73%
Cost of Borrowing	4.27%
Interest Coverage	45.62
Debt Rating	A
5y Beta	0.19
WACC (based on market value weights)	12.6%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	1.8%	17.0%	4.5%
Last Quarter-1	9.7%	26.2%	11.1%
Last Quarter -2	-5.4%	-29.3%	-47.6%
Last Quarter -3	18.1%	3.5%	0.0%
Last Quarter -4	6.9%	22.7%	30.8%

Continuing Period Assumptions

Money market rate as of today	0.45%	Risk-Free rate	2.3%	LT Op. Costs/Rev	85.0%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	13.7%
Yield Spread accelaration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	23.5%
Marginal Tax Rate	37.5%	LT Growth	4.0%	Growth in PPE	Follows Forward Rev. Growth

Last Guidance Jul-31-2014 Next earnings date 3/6/2015 Last Earning Call Transcript: www.trecora.com

Trecora Resources reported unaudited consolidated earnings results for the second quarter and six months ended June 30, 2014. Revenue was a record for the second quarter at $74.6 million, a 33.2% increase from the $56.0 million in the second quarter of 2013. Operating income was $7.4 million against $5 million last year. Income before income taxes was $7.4 million against $9.4 million last year. Net income attributable to the company was $5.0 million or $0.20 per diluted share against $6.3 million or $0.26 per basic and diluted share last year. Adjusted EBITDA was $8.4 million against $5.9 million last year. Cash provided by operations during the quarter was $6.0 million. Capital expenditures were $2.4 million as compared to $1.7 million during second quarter of 2013, an increase of 45.9%, primarily associated with preparations for the D-Train expansion.

For the six months, revenue was a $138.7 million against $108.7 million last year. Operating income was $11.8 million against $8.0 million last year. Income before income taxes was $11.2 million against $15.2 million last year. Net income attributable to the company was $7.6 million or $0.31 per diluted share against $11.1 million or $0.45 per diluted share last year. On a cash flow basis, AMAK was positive for about by about $8 million.

For the year 2014, about 31,500 wet metric tons of copper concentrate and around 38,000 wet metric tons of zinc concentrate are planned to be produced in total.

LT convergence estimates: weights are either implied from the stability of each time-series"--i.e., median/[max.-min.], or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution, and threat of new entries.

	Rev./Capital Last	Rev./Capital 10y Median	LT Imputed Growth Last	LT Imputed Growth 10y Median	LT Op. Costs/Rev. Last	LT Op. Costs/Rev. 10y Median	Unlevered Beta Last	Unlevered Beta 10y Median	TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
TREC	3.39	3.30	10.3%	13.5%	89.7%	90.09%	2.03	1.81	0.9x	10.1x	14.4x	13.6x
Peers		8.48	-8.1%	-2.1%	97.0%	97.48%	1.61	1.74	0.2x	9.8x	12.1x	8.3x
Primary Industry	1.89	2.11	-0.6%	7.4%	84.2%	89.01%	1.42	1.30	1.1x	9.4x	13.4x	22.0x
Industry	1.53	1.66	3.9%	7.9%	82.6%	85.13%	1.20	1.12	1.9x	11.0x	14.4x	33.1x
Industry Group	1.43	1.57	4.7%	8.1%	83.7%	84.23%	1.12	1.15	1.8x	11.3x	15.9x	31.5x
Sector	1.43	1.57	4.7%	8.1%	83.7%	84.23%	1.12	1.15	1.8x	11.3x	15.9x	31.5x
All U.S. Firms	1.61	1.74	6.9%	8.0%	80.6%	81.40%	0.99	0.96	2.5x	12.5x	16.9x	31.1x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TREC long-run estimate	2.00		4.00%		85.00%		1.50		1.2x	9.0x	12.0x	14.0x

Multiples (10Y Historical Median Value): TEV/Rev., TEV/EBITDA, TEV/EBITA, TEV/UFCF

Capitalization

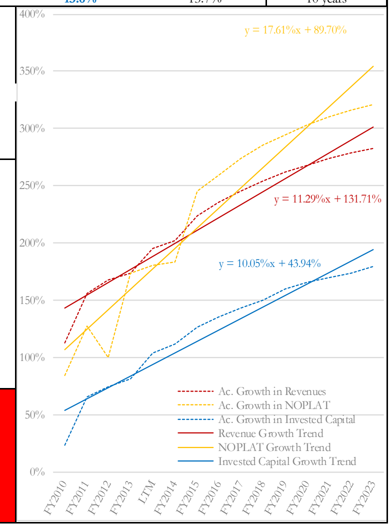
Operating Leases	Yes, Straightline, 10 years
R&D Exp.	Yes, Straightline, 10 years
Expl./Drilling Exp.	No, Straightline, 10 years
SG&A	No, Straightline, 10 years

Explicit Period Assumptions

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	to ∞
Growth	6.0%	28.6%	21.5%	11.7%	9.7%	8.7%	7.7%	6.7%	5.7%	4.7%	4.0%	4.0%
Op.Costs/Rev.	89.7%	89.1%	86.3%	86.2%	85.8%	85.5%	85.3%	85.2%	85.0%	84.9%	84.8%	85.0%
WACC	12.6%	12.7%	12.7%	12.8%	12.9%	13.0%	13.1%	13.3%	13.4%	13.5%	13.6%	13.7%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$16.4	$26.3	$32.1	$36.7	$41.1	$45.3	$49.2	$52.8	$56.1	$59.0
Invested capital	$74.7	$101.3	$111.7	$120.5	$128.9	$140.6	$149.6	$156.7	$163.0	$171.1
ROIC	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%
UFCF	$0.00	$10.70	$21.79	$27.89	$32.73	$33.52	$40.13	$45.71	$49.83	$50.98
EVA	$9.84	$17.71	$21.13	$24.03	$27.24	$30.95	$32.53	$34.42	$36.41	$38.80
Terminal value										$670.53
Enterprise value (mid-year adj.)	$418.32	$477.83	$514.95	$550.07	$585.07	$623.53	$658.50	$693.34	$730.41	$768.90
Total Debt	$9.37	$9.37	$9.37	$9.37	$9.37	$9.37	$9.37	$9.37	$9.37	$9.37
Minority Interest	$0.29	$0.29	$0.29	$0.29	$0.29	$0.29	$0.29	$0.29	$0.29	$0.29
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$14.40	$26.69	$28.46	$30.04	$31.43	$36.37	$38.91	$39.94	$40.59	$43.30
PV of Unfunded Pension Plan Liabilities	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dilutive impact of options,warrants, and converts	$13.37	$13.19	$13.01	$12.81	$12.60	$12.38	$12.15	$11.92	$11.70	$11.53
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$13.95	$26.45	$49.73	$78.64	$112.11	$150.07	$192.45	$239.19	$290.07	$344.74
Equity value	$394.83	$454.73	$513.55	$576.21	$643.49	$715.19	$790.22	$871.00	$958.52	$1,049.15
Shares outstanding	$24.26	$24.26	$24.26	$24.26	$24.26	$24.26	$24.26	$24.26	$24.26	$24.26
Price per share as of 2/4/2015	$17.13	$19.64	$22.06	$24.71	$27.55	$30.63	$33.71	$37.14	$40.79	$43.25



Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0%	24.3%	N/A	N/A	Normal
Op. Costs Variation	0%	17.4%	N/A	N/A	Normal
Market Risk Premium	7.0%	N/A	5.0%	9.0%	Triangular
Long term Growth	4.00%	N/A	-2.1%	13.5%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$17.13	$19.64
σ(ε)	$2.06	$1.22
3 σ(ε) adjusted price	$10.97	$15.99
Current Price	$14.31	
Analysts' median est.		$17.83

CGF

Unifirst Corporation (UNF: NYSE)

Financial Analysis By: Matthew Darcy – Industrials

Company Profile as of 2/6/2015

Market Price: $120.35
Industry: Commercial Service and Supplies
Market Cap: $2.43B
52-Week: $124.61-91.59
Beta: 1.11

Source	Target Price	Recommendation
Siena	$131.80	Buy
Capital IQ	$125.67	Hold
Yahoo Finance	$131.00	Hold
Bloomberg	$125.67	Hold

Thesis

-Diversified Customer Base reduces risk of decreased demand
-ROIC is much greater than WACC with Organic growth of 6.9%
-Negative Net Debt significantly decreases risk of default, and increases credit rating
-Stable revenue forecasts makes proforma more reliable

Recommendation: Buy at $119.80. Unifirst's diverse customer base reduces the risks of shocks in the market effecting revenue. When oil prices fall significantly, this does not reduce all of their customers' need for the product. Unifirst's returns on invested capital are much higher than their costs of capital. This means the company has room to grow. The company has such a low cost of capital partly, because it has no liquidity problems. The company is able to pay off all of its long term debt using only its cash on hand. This increases the company's credit rating and lets them enjoy lower interest payments. The proforma becomes much more reliable, when you know that the revenues have historically been forecasted very accurately. This is true because a Monte Carlo Simulation revealed that variation in revenue was the biggest driver of variation in the value of the company. This means a reduced risk.

Company Overview

Unifirst Corporation designs, manufactures, rents out, leases, delivers, launders/decontaminates, and sells uniforms. The uniforms include shirts, pants, jackets, coveralls, lab coats, smocks, and aprons. They also make protective uniforms out of flame resistant and high visibility garments. Under the rental program, Unifirst will deliver clean uniforms on a regular basis, and pick up used ones, which will be repaired, replaced, decontaminated, and/or cleaned, by Unifirst, and then put back into service. The company also manufactures, leases, and sells floor mats, mops, other cleaning supplies, and first aid supplies. Unifirst makes 70% of the products they sell. The products are made at 3 plants in Mexico, and a fourth plant in Nicaragua. The company services locations in The US, Canada, and Europe. Only 9.7% of revenue is produced outside the US. The CEO, Ronald Croatti, has been with the company for 50 years, and has been CEO for 24 years. He recently won a 'Best in the Biz' award for 'Executive of the Year.' The company was founded in 1936, and was incorporated in Massachusetts, in 1950.

Diversified Customer Base

The industrials industry has seen some negative effects from the decrease in oil prices. Due to the fact that many industrial company's main customers are in the energy business, industrial companies have suffered a loss of revenue from decreased customer demand. This is not the case with Unifirst, however.

Unifirst's main customers include auto service, delivery, retailers, food processing, light manufacturing, restaurants, wholesalers, and transportation. Consumers of specialty products and services include government agencies, research and development laboratories, high technology companies, and utility companies operating nuclear reactors. No customer represents more than 1% of the company's revenue.

Because the company has a diverse customer base, there will be minimal impact from the reduction in oil prices. While reduced oil prices reduce the demand coming from Utility companies, they also increase the demand coming from delivery and transportation companies. If there is a shock in some market other than oil, then there will likely be a similar stabilizing effect.

ROIC vs WACC

The Company has a long term return on invested capital of 15.4% with a long term weighted average cost of capital of 10.4%. The ROIC measures the amount of money coming back to the company as a percent of the money that it invests in itself. The WACC measures the amount of money the company pays to make those investments. When the company receives more than it pays on investments, then it is beneficial for the company to continue investing. Therefore, the company can benefit from growth.

Unifirst has seen organic growth of 6.9% over the past year, and has intentions to grow both organically and inorganically moving forward.

Negative Net Debt

Net Debt is a measure of a company's ability to pay of its debts. A negative number means the company has more cash on hand than it needs in order to pay off its debts. This helps the company maintain a low interest rate. The fact that the company is low debt means the company has a reduce amount of risk as well as interest expenses.

Predictable Revenue Estimates

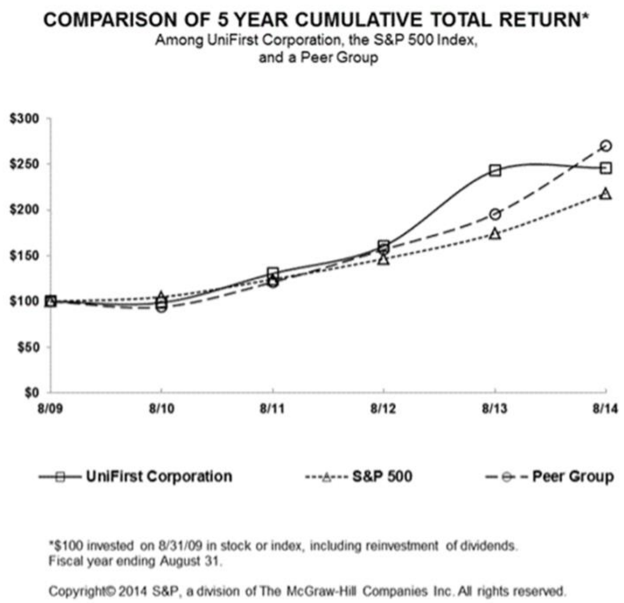
When a Monte Carlo Simulation is run, on the proforma sheet seen below, 50.1% of the variation in the 1 year target estimate is due to variations in revenue. This means that revenue is the most important thing to have forecasted correctly. Unifirst has been able to predict their revenue very well in the past. They have reported revenue misses of no more that 1.1% in the past year, with a maximum positive surprise of 2.8%. Because the revenue is so well forecasted, there is a large reduction in the amount of the uncertainty in the estimated one year target price of $131.80.

Competition

The competition in this industry is strong. Threat from competition is the strongest of porter's 5 forces for this company. In addition to the following 3 competitors, Unifirst also sees competition from numerous smaller firms. The company has expressed interest in purchasing some of these firms, in order to integrate horizontally. This will reduce competition and support inorganic growth. It is a good decision, because the company has a higher ROIC than WACC, as explained above.

G&K

G&K Services is Unifirst's top competitor. They provide all the same products from locations in the US and Canada. They do not operate in Europe. G&K only produces 47% of the apparel placed in service, mainly in the Dominican Republic, while Unifirst manufactures 70%.



<u>Cintas</u>

Cintas Corporation has a wider range of products and a larger global reach than Unifirst. Cintas offers services such as fire protection, document management, and promotional products. The company does not offer floor mats and other products that Unifirst and G&K offer. Unifirst is more focused in the Uniform industry, and less susceptible to an appreciating dollar.

<u>Aramark</u>

Aramark also has a wider geographic reach than Unifirst. The company provides much of the same uniform related services that Unifirst provides, but they use a 'social responsibility' competitive advantage. When a company employs this advantage, they attempt to attract customers by saying that they care for the environment, have a smaller negative ecological impact than other companies, donate money to community programs, ect.

This strategy probably works much better when your main customers are not businesses. The companies that they are selling to most likely care more about the cost and quality of the services than the environmental impacts. Therefore I do not see Aramark as a huge threat to Unifirst.

Conclusion

This stock has a target value of $131.80, which gives it an upside potential of 9.65%. I have confidence in these values due to the fact that their revenue growth has been very predictable. I recommend this company for a buy at $119.80, because it is relatively low risk, due to its wide customer base, and high liquidity, and because it has the opportunity for both organic and inorganic growth.

UniFirst Corp.	unf	Analyst: Matthew Darcy	Current Price: 120.38	Lower Bound Intrinsic Value: $119.8	Lower Bound 1y-Target: $131.8	Dividend Yield: 0.12%	1y Upside (downside): 9.65%

General Info

Sector	Industrials
Industry	Commercial Services and Supplies

Description: UniFirst Corporation provides workplace uniforms and protective work wear clothing primarily in the United States, Canada, and Europe. It operates through US Rental and Cleaning; Canadian Rental and Cleaning; Manufacturing; Specialty Garments Rental and Cleaning; and First Aid segments. The company designs, manufactures, personalizes, rents, cleans, delivers, and sells a range of uniforms and protective clothing, including shirts, pants, jackets, coveralls, lab coats, smocks, and aprons; and specialized protective wear, such as flame resistant and high visibility garments. It also rents industrial wiping products, floor mats, facility service products, and dry and wet mops; restroom and cleaning supplies comprising air fresheners, paper products, and hand soaps; and other textile products. In addition, the company provides first aid cabinet services and other safety supplies; decontaminates and cleans work clothes, and other items that may have been exposed to radioactive materials; and services special clean room protective wear and facilities. Further, it offers a range of garment service options, including full-service rental programs in which garments are cleaned and serviced; lease programs in which garments are cleaned and maintained by individual employees; and purchase programs to buy garments and related items directly. The company serves

Market Data

Enterprise value	$2,222.66
Market Capitalization	$2,429.50
Daily volume	0.04401
Shares outstanding	20.10
Diluted shares outstanding	19.97
% shares held by institutions	76.6%
% shares held by insiders	10.1%
Short interest	1.0%
Days to cover short interest	2.37
52 week high	$124.61
52-week low	$91.59
5y Beta	1.03
6-month volatility	21.46%

Peers

Symbol	NAME	Market Cap	TEV/EBITDA	P/B	EBITDA Margin	Total Debt/TEV	EBIT/Int. Exp.	Altman Z
NasdaqGS:GK	G&K Services Inc	$ 1,435.24	12.0x	3.8x	15%	15%	15.7x	3.43
NasdaqGS:CTAS	Cintas Corporation	$9,387.41	12.0x	4.3x	18%	13%	10.0x	4.75
NYSE:ARMK	Aramark	$7,595.63	11.8x	4.4x	7%	42%	1.7x	1.98
NasdaqGM:SGC	Superior Uniform Grou	$248.79	13.8x	3.1x	10%	9%	36.6x	4.21
Peers' Median		$4,515.44	12.0x	4.0x	13%	14%	12.9x	3.82
unf		$2,429.50	8.2x	2.1x	19%	0%	263.6x	7.03

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Croatti, Ronald	Chairman, Chief	$ 1,917,999.00	$ 2,039,687.00	$ 2,685,484.00
Sintros, Steven	Chief Financial Officer	$ 546,735.00	$ 649,154.00	$ 871,035.00
Boynton, Bruce	Senior Vice President of	$ 651,915.00	$ 754,497.00	$ 1,060,564.00
DiFillippo, David	Senior Vice President of	$ 586,000.00	$ 688,591.00	$ 991,058.00
Croatti, Cynthia	Executive Vice President,	$ 822,393.00	$ 956,756.00	$ 1,418,305.00
Katz, David	Senior Vice President of	$ 563,755.00	$ 646,519.00	$ -

Performance

	unf		Peers		Industry		All U.S. firms	
	Last	10y Med.	Last	10y Med.	Last	10y Med.	Last	10y Med.
ROIC	12.9%	11.3%	7.88%	6.27%	10.58%	12.73%	8.92%	11.07%
EBITA Margin	17.1%	14.3%	8.02%	7.96%	13.56%	14.05%	13.56%	13.62%
Imputed Rev./Invested cap.	1.48	1.15	2.00	1.71	1.72	1.88	1.76	2.02
Excess Cash/Rev.	15.01%	5.12%	3.26%	2.67%	6.52%	6.01%	23.19%	18.87%
Total Cash /Rev.	15.01%	5.12%	3.26%	2.67%	7.61%	7.59%	32.72%	30.13%

Current Capital Structure

Total debt/market cap	0.28%
Cost of Borrowing	8.97%
Interest Coverage	263.60
Debt Rating	AA
5y Beta	1.03
WACC (based on market value weights)	9.4%

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	1.6%	6.0%	10.8%
Last Quarter-1	2.8%	10.5%	9.2%
Last Quarter -2	1.1%	6.1%	7.7%
Last Quarter -3	-1.1%	-6.3%	-8.6%
Last Quarter -4	-0.1%	2.9%	5.6%

Last Guidance Jan-07-2015 Next earnings date 3/27/2015 Last Earning Call Transcript: www.unifirst.com

UniFirst Corp. announced unaudited consolidated earnings results for first quarter ended November 29, 2014. For the quarter, the company reported revenues of $370,361,000, income from operations of $60,589,000, income before income taxes of $60,834,000, provision for income taxes of $23,421,000, net income of $37,413,000 or $1.85 per diluted share, net cash provided by operating activities of $52,848,000, capital expenditures of $17,453,000 compared to the revenues of $346,704,000, income from operations of $55,640,000, income before income taxes of $56,356,000, provision for income taxes of $21,894,000, net income of $34,462,000 or $1.71 per diluted share, net cash provided by operating activities of $68,642,000, capital expenditures of $22,796,000 for the same quarter a year ago.

The company continue to believe that full year fiscal 2015 revenues will be between $1.450 billion and $1.470 billion and that full year diluted EPS will be between $5.75 and $6.00 per share as communicated in October 2014. The company cautious in outlook as a result of significant presence in energy producing regions in the U.S. and Canada.

Continuing Period Assumptions

Money market rate as of today	0.38%	Risk-Free rate	2.4%	LT Op. Costs/Rev	83.2%
Annual increase (decrease) in interest rates	0.10%	Op. Cash/Rev.	0.00%	LT WACC	10.4%
Yield Spread accelaration	1.2	Op. Cash/Cash	0.0%	LT Term ROIC	15.4%
Marginal Tax Rate	37.5%	LT Growth	3.9%	Growth in PPE	Reverts to Maintenance

LT convergence estimates: weights are either implied from the stability of each time-series"--i.e., median/[max.-min.], or estimated based on the "uniqueness" of its competitive power--i.e., buyers power, suppliers power, competitive rivalry, threat of substitution, and threat of new entries.

	Rev./Capital		LT Imputed Growth		LT Op. Costs/Rev.		Unlevered Beta		Multiples (10Y Historical Median Value)			
	Last	10y Median	Last	10y Median	Last	10y Median	Last	10y Median	TEV/Rev.	TEV/EBITDA	TEV/EBITA	TEV/UFCF
unf	1.18	1.15	2.6%	6.0%	80.9%	83.24%	0.99	0.95	1.0x	6.5x	8.9x	17.5x
Peers	2.00	1.71	5.5%	3.4%	90.0%	89.67%	0.97	0.69	1.0x	10.0x	13.2x	24.3x
Primary Industry	1.34	1.27	7.1%	7.7%	78.4%	78.56%	1.12	0.92	2.3x	11.4x	13.7x	27.6x
Industry	1.64	1.74	6.9%	7.2%	83.1%	83.21%	1.04	0.97	1.8x	11.3x	14.5x	24.6x
Industry Group	1.99	2.38	5.6%	6.4%	84.0%	84.60%	1.07	0.96	1.9x	11.9x	15.9x	24.4x
Sector	1.92	2.13	5.9%	6.9%	84.9%	85.58%	1.13	1.11	1.7x	11.7x	15.5x	28.6x
All U.S. Firms	1.76	2.02	5.9%	6.6%	80.8%	81.45%	0.99	0.96	2.5x	12.4x	16.7x	29.6x
GDP	N/A	N/A	3.9%	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
unf long-run estimate	1.32		3.90%		83.24%		0.99		1.0x	6.5x	8.9x	18.4x

Capitalization

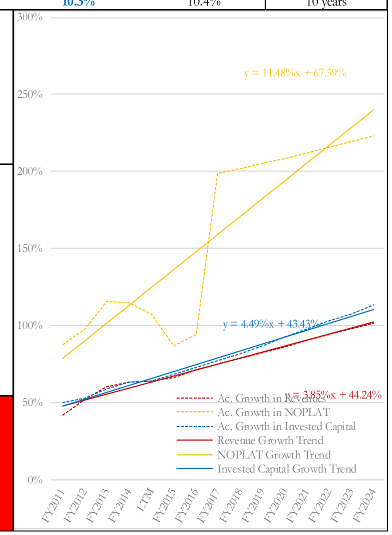
Operating Leases	
100%	
Straightline	
10 years	
R&D Exp.	
100%	
Straightline	
10 years	
Expl./Drilling Exp.	
0%	
Straightline	
10 years	
SG&A	
10%	
Straightline	
10 years	

Explicit Period Assumptions

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	to ∞
Growth	2.9%	3.3%	4.7%	3.7%	3.8%	3.8%	3.8%	3.9%	3.9%	3.9%	3.9%	3.9%
Op.Costs/Rev.	80.9%	86.5%	86.3%	74.9%	75.1%	75.3%	75.5%	75.6%	75.8%	75.9%	76.1%	83.2%
WACC	9.4%	9.5%	9.5%	9.6%	9.7%	9.8%	9.9%	10.0%	10.1%	10.2%	10.3%	10.4%

Valuation

	LTM	LTM+1Y	LTM+2Y	LTM+3Y	LTM+4Y	LTM+5Y	LTM+6Y	LTM+7Y	LTM+8Y	LTM+9Y
NOPLAT	$152.9	$102.4	$136.3	$222.7	$229.7	$237.2	$245.2	$253.9	$263.0	$272.4
Invested capital	$1,077.4	$1,260.6	$1,316.1	$1,376.6	$1,442.7	$1,517.6	$1,604.9	$1,684.8	$1,767.7	$1,856.1
ROIC	12.9%	9.2%	10.7%	16.9%	16.7%	16.4%	16.2%	15.8%	15.6%	15.4%
UFCF	$0.00	$42.27	$80.75	$162.21	$163.62	$162.27	$158.00	$173.94	$180.18	$184.00
EVA	$26.81	-$3.96	$17.34	$100.86	$100.73	$100.83	$100.54	$98.15	$97.48	$96.79
Terminal value										$3,218.86
Enterprise value (mid-year adj.)	$2,283.68	$2,515.62	$2,692.83	$2,863.53	$2,955.76	$3,060.91	$3,182.75	$3,301.68	$3,431.34	$3,573.31
Total Debt	$6.14	$6.14	$6.14	$6.14	$6.14	$6.14	$6.14	$6.14	$6.14	$6.14
Minority Interest	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Preferred Equity	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Capitalized Operating leases	$79.20	$91.99	$95.25	$98.62	$101.97	$109.29	$124.51	$128.23	$130.79	$134.82
PV of Unfunded Pension Plan Liabilities	$21.91	$10.95	$5.48	$2.74	$1.37	$0.68	$0.34	$0.17	$0.09	$0.04
Dilutive impact of options,warrants, and converts	$4.01	$4.90	$6.02	$7.43	$9.24	$11.62	$14.80	$19.04	$0.00	$0.00
Other claims on operating assets	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Non-operating cash and LT investments	$212.97	$212.21	$269.58	$407.94	$549.09	$693.89	$843.22	$997.48	$1,157.50	$1,323.66
Equity value	$2,385.39	$2,613.85	$2,849.54	$3,156.54	$3,386.13	$3,627.08	$3,880.18	$4,145.58	$4,451.82	$4,755.97
Shares outstanding	$20.10	$20.10	$20.10	$20.10	$20.10	$20.10	$20.10	$20.10	$20.10	$20.10
Price per share as of 2/6/2015	$120.80	$132.59	$144.59	$159.14	$170.67	$183.26	$195.43	$209.01	$224.22	$236.58



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Long term Growth	3.90%	N/A	3.2%	7.7%	Triangular
Terminal Value	0%	10.0%	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$120.80	$132.59
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$119.84	$131.84
Current Price	$120.38	
Analysts' median est.		$125.67

CGF