STIFEL

Morning Research Summary

July 16, 2015

Actionable Items

Coverage Initiations

Company	Price	Mkt Cap	Rating	Headline	Target Price	Analyst	Industry
BlackRock Municipal Target Term Trust (BTT)	$20.39	$1B	Buy	Initiating Coverage of the BlackRock Municipal Target Term Trust (BTT) with a Buy Rating		Reiss	Closed-End Funds
Eaton Vance Municipal Income 2028 Term Trust (ETX)	$17.02	$184M	Buy	Initiating Coverage of the Eaton Vance Municipal Income 2028 Term Trust (ETX) with a Buy Rating		Reiss	Closed-End Funds

Upgrades

		Mkt	Rating			Target Price			
Company	Price	Cap	From	To	Headline	From	To	Analyst	Industry
Arc Logistics Partners LP (ARCX)	$17.56	$336M	Hold	Buy	Second Accretive Deal Completed in 2015 with Visibility to Future Growth; Upgrade to Buy	NA	$20.00	Akyol	Energy Infrastructure-MLPs

Target Prices Increased

		Mkt	Rating			Target Price			
Company	Price	Cap	From	To	Headline	From	To	Analyst	Industry
Blackbaud, Inc. (BLKB)	$59.33	$3B	–	Buy	Multi-Year Transition Story Underway: What's NXT For Investors?	$60.00	$67.00	Roderick	Software: Applications
Netflix, Inc. (NFLX)	$98.13	$43B	–	Buy	OTT is the New TV; Target to $128	$104.00	$128.00	Devitt	Internet
On Deck Capital, Inc. (ONDK)	$13.10	$1,000M	–	Buy	Preannouncement Shows Surprising Profitability; Highlights Franchise Value	$22.00	$24.00	Brendler	Financial Technology
WhiteWave Foods Company (The) (WWAV)	$49.63	$9B	–	Buy	Raising Our EPS Estimates and Target Price	$50.00	$55.00	Growe	Food

Estimates Increased

				Earnings Estimates									
		Mkt		*FY2013*		*FY2014*		*FY2015*		Target Price			
Company	Price	Cap	Rating	From	To	From	To	From	To	From	To	Analyst	Industry
* Apple Inc. (AAPL)	$126.82	$739B	Buy	–	6.43A	8.92	9.10	9.45	9.70	–	$150.00	Rakers	Enterprise Hardware/Software & Hard Disk Drives
* GoPro, Inc. (GPRO)	$54.50	$8B	Hold	–	1.32A	1.64	1.69	–	1.93	–	NA	Duffy	Sports and Lifestyle Brands
* Intel Corporation (INTC)	$29.69	$146B	Buy	–	2.33A	2.10	2.25	2.30	2.40	–	$36.00	Cassidy	Semiconductors: Processors & Components
* On Deck Capital, Inc. (ONDK)	$13.10	$1,000M	Buy	–	(0.09)A	(0.19)	0.04	0.70	0.81	$22.00	$24.00	Brendler	Financial Technology
* WhiteWave Foods Company (The) (WWAV)	$49.63	$9B	Buy	–	1.00A	1.14	1.15	1.31	1.37	$50.00	$55.00	Growe	Food

* - Listed earnings are for Fiscal Years 2013, 2014, 2015

Estimates Decreased

				Earnings Estimates									
		Mkt		*FY2013*		*FY2014*		*FY2015*		Target Price			
Company	Price	Cap	Rating	From	To	From	To	From	To	From	To	Analyst	Industry
* Arc Logistics Partners LP (ARCX)	$17.56	$336M	Buy	–	0.10A	0.56	0.45	1.06	0.98	NA	$20.00	Akyol	Energy Infrastructure-MLPs
* Netflix, Inc. (NFLX)	$98.13	$43B	Buy	4.32A	0.62A	1.63	0.24	4.92	0.37	$104.00	$128.00	Devitt	Internet

* - Listed earnings are for Fiscal Years 2013, 2014, 2015

All relevant disclosures and certifications appear on pages 18 - 20 of this report.

In Today's Summary

Company Notes

Company	Price	Mkt Cap	Rating	Headline	Target Price	Analyst	Industry
Anixter International Inc. (AXE)	$63.63	$2B	Hold	AXE: Power Solutions Acquisition to Meaningfully Increase Exposure to the Electric T&D Market, Looks to be Very Accretive	NA	Dilts	Industrial Distributors
Apple Inc. (AAPL)	$126.82	$739B	Buy	Move iPhone Est. Above Consensus (F3Q15 at 50-55M?); A Look at Inst'l Ownership & More	$150.00	Rakers	Enterprise Hardware/Software & Hard Disk Drives
Arc Logistics Partners LP (ARCX)	$17.56	$336M	Buy	Second Accretive Deal Completed in 2015 with Visibility to Future Growth; Upgrade to Buy	$20.00	Akyol	Energy Infrastructure-MLPs
Blackbaud, Inc. (BLKB)	$59.33	$3B	Buy	Multi-Year Transition Story Underway: What's NXT For Investors?	$67.00	Roderick	Software: Applications
BlackRock Municipal Target Term Trust (BTT)	$20.39	$1B	Buy	Initiating Coverage of the BlackRock Municipal Target Term Trust (BTT) with a Buy Rating		Reiss	Closed-End Funds
Eaton Vance Municipal Income 2028 Term Trust (ETX)	$17.02	$184M	Buy	Initiating Coverage of the Eaton Vance Municipal Income 2028 Term Trust (ETX) with a Buy Rating		Reiss	Closed-End Funds
GoPro, Inc. (GPRO)	$54.50	$8B	Hold	Thoughts Ahead of GPRO 2Q	NA	Duffy	Sports and Lifestyle Brands
Intel Corporation (INTC)	$29.69	$146B	Buy	Decent Results; Slowing Process Transitions	$36.00	Cassidy	Semiconductors: Processors & Components
Medidata Solutions, Inc. (MDSO)	$57.00	$3B	Buy	MDSO: 2Q15 Preview; Expect In-line Quarter, as Increased Module Adoption Suggests Strong 2H15; Buy	$65.00	Rubis	Digital Healthcare
Mellanox Technologies, Ltd. (MLNX)	$44.14	$2B	Buy	Expecting Upside Driven by Multiple New Product Introductions	$70.00	Cassidy	Semiconductors: Processors & Components
Netflix, Inc. (NFLX)	$98.13	$43B	Buy	OTT is the New TV; Target to $128	$128.00	Devitt	Internet
On Deck Capital, Inc. (ONDK)	$13.10	$1,000M	Buy	Preannouncement Shows Surprising Profitability; Highlights Franchise Value	$24.00	Brendler	Financial Technology
WhiteWave Foods Company (The) (WWAV)	$49.63	$9B	Buy	Raising Our EPS Estimates and Target Price	$55.00	Growe	Food
Wolverine World Wide, Inc. (WWW)	$29.12	$3B	Hold	Thoughts Ahead of WWW 2Q, We See Near-term Risk to Shares Contained	NA	Duffy	Sports and Lifestyle Brands

Industry Notes

Sector	Subject Companies	Title	Analyst
Healthcare REITs	Alexandria Real Estate Equities (ARE) BioMed Realty Trust, Inc. (BMR) (CHCT) CareTrust REIT, Inc. (CTRE) Physicians Realty Trust (DOC) Health Care REIT, Inc. (HCN) HCP, Inc. (HCP) Healthcare Realty Trust, Inc. (HR) Healthcare Trust of America, Inc. (HTA) LTC Properties, Inc. (LTC) Medical Properties Trust, Inc. (MPW) National Health Investors, Inc. (NHI) Omega Healthcare Investors (OHI) Sabra Health Care REIT, Inc. (SBRA) Senior Housing Properties Trust (SNH) (SNR) (UHT) Ventas Inc. (VTR)	Zoltar Speaks, But Will Investor Wishes For Better 2Q Seniors Housing Results / HCREIT Investment Outlook Be Granted?	Bernstein
Oil & Gas Exploration and Production	Anadarko Petroleum Corporation (APC) Bonanza Creek Energy, Inc. (BCEI) PDC Energy (PDCE) SM Energy Company (SM) Synergy Resources Corporation (SYRG) Whiting Petroleum Corporation (WLL)	Denver Tour Takeaways	Scialla

Research Items

Coverage Initiations

BlackRock Municipal Target Term Trust
BTT, $20.39, Buy

52-Week Range: $22 – $19
Market Cap.($mm): 1,437.6

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Initiating Coverage of the BlackRock Municipal Target Term Trust (BTT) with a Buy Rating

- The BlackRock Municipal Target Term Trust (BTT) seeks to provide current income that is exempt from regular federal income tax by investing in municipal securities using leverage.
- BTT is a term trust which will return its net assets to investors on or about 12/31/30. The trust seeks to return is initial public offering price of $25.00 per share.
- We believe that BTT is particularly well-suited for long-term investors due to the term trust structure, historical credit strength of municipal bonds, and the trust's wide discount.
- As opposed to a traditional perpetual fund, we believe that BTT's term trust structure offers the compelling advantage of purging it of discount risk over the long-run. As the termination date nears, we would expect the trust's share price to trade closely to its NAV as the discount eventually disappears altogether.
- While BTT's short-term value may be impacted by interest rate movements, we believe that the most important long-term performance driver will be the ability of the municipalities in the portfolio to repay their debt. Given the strong historical credit performance of municipal securities, we are attracted to BTT from a fundamental perspective.
- The trust's tax-free distribution rate was 4.71% on a share price basis as of 7/15/15, which is materially higher than what is offered by the average traditional municipal bond alternative. BTT pays monthly. We believe that the Board will likely utilize a conservative payout policy to increase the likelihood of being able to return $25.00 per share upon termination.
- Rising rate fears have caused many investors to shy away from long duration investments, contributing to a widening of municipal fund discounts. Given the long-term credit strength of municipal bonds, we believe that BTT is attractive at an 8.93% discount with the asset class currently out of favor.
- The portfolio had an effective leverage rate of 37.08% as of 6/30/15.

Eaton Vance Municipal Income 2028 Term Trust
ETX, $17.02, Buy

52-Week Range: $19 – $16
Market Cap.($mm): 184.4

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Initiating Coverage of the Eaton Vance Municipal Income 2028 Term Trust (ETX) with a Buy Rating

- The Eaton Vance Municipal Income 2028 Term Trust (ETX) seeks to provide current income that is exempt from regular federal income tax by investing in municipal securities using leverage.
- ETX is a term trust which will return its net assets to investors on or about 6/30/28.
- We believe that ETX is particularly well-suited for long-term investors due to the term trust structure, historical credit strength of municipal bonds, and the trust's wide discount.
- As opposed to a traditional perpetual fund, we believe that ETX's term trust structure offers the compelling advantage of purging it of discount risk over the long-run. As the termination date nears, we would expect the trust's share price to trade closely to its NAV as the discount eventually disappears altogether.
- While ETX's short-term value may be impacted by interest rate movements, we believe that the most important long-term performance driver will be the ability of the municipalities in the portfolio to repay their debt. Given the

strong historical credit performance of municipal securities, we are attracted to ETX from a fundamental perspective.

- The trust's tax-free distribution rate was 4.99% on a share price basis as of 7/15/15, which is materially higher than what is offered by the average traditional municipal bond alternative. ETX pays monthly.
- Rising rate fears have caused many investors to shy away from long duration investments, contributing to a widening of municipal fund discounts. Given the long-term credit strength of municipal bonds, we believe that ETX is attractive at an 11.17% discount with the asset class currently out of favor.
- The portfolio had an effective leverage rate of 37.8% as of 3/31/15.

Upgrades

Arc Logistics Partners LP
ARCX, $17.56, Buy

Target Price: $20.00
Previous Target Price: NA
Dividend: $1.64
Yield: 9.3%
52-Week Range: $27 – $16
Market Cap.($mm): 335.5

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Second Accretive Deal Completed in 2015 with Visibility to Future Growth; Upgrade to Buy

Fiscal Year Dec		F14A	F15E	F16E	2Q15E	3Q15E	2Q14A
Revenue (Net)	Current	—	—	—	—	—	—
	Current	—	—	—	—	—	—
		–	–	–	NM	NM	NM

Arc Logistics Partners LP (ARCX) announced an acquisition of the Pawnee Terminal that supports Niobrara production in Weld County, Colorado from United Energy Trading, LLC ("UET"), a company to which ARCX has long provided logistical and terminaling services, and Hawkeye Midstream, LLC. The acquired assets provide ARCX with fee-based, minimum volume committed cash flow, which complements the partnership's strategic focus. In addition, management believes this deal may support future developments between ARCX and UET. This marks the second successful deal consummated in 2015 and we are upgrading units of ARCX to Buy with a $20.00 target price. We note ARCX is a micro-cap with extremely limited liquidity (6,100 shares traded daily on average over the past 30-days); although we believe the positive trends largely outweigh this liquidity issue.

Investment Thesis/Valuation

Management continues to execute attractive deals with fee-based, volume committed cash flow that we believe positions the partnership for consistent near term distribution growth.

In conjunction with the Joliet Terminal joint venture acquisition, we expect the partnership to grow its distribution by $0.03 or 7.1% in 3Q15, followed by a similar increase in 2016 associated with the Pawnee assets. We would also highlight the equity private placement to fund the Joliet deal was completed at $17.00/unit with units currently trading at only a slight premium, while equity associated with the Pawnee transaction was issued at $18.50.

Following this deal, the partnership has completed transactions with GE Financial Services and UET with options to execute incremental transactions, as well as potential financing support. UET owns a Weld County gathering system supporting the Pawnee Terminal and GE Financial owns 40% interest in the Joliet Terminal, which ARCX has an option on both. Thus, the partnership now potentially has synthetic dropdowns to expand cash flow and distributions in the future. We believe ARCX's balance sheet continues to be reasonably levered at just over 4.0x.

ARCX's current yield of 9.3% is attractive considering 85% of cash flows are backed by take-or-pay commitments and its peer group currently trades at 7.2%. Thus, we are raising our rating to Buy and initiating a target price of $20.00. Our target price is based on a 9.0% targeted yield and our FY16 DPU estimate of $1.82. We believe investors have total return potential of 23.2%, including a 9.3% current yield.

We highlight ARCX is a micro-cap MLP and units are very illiquid with 5,400 units traded on July 15, 2015.

Target Price Methodology/Risks

Our $20.00 target price is based on a targeted yield of 9.0% and our FY16 DPU estimate of $1.82.

Primary risks to an investment in ARCX include a prolonged decline in U.S. demand for refined products and crude oil, an inability to renew existing contracts, delays or regulatory headwinds related to the expansion of crude oil production, potential rising interest rates that tend to reduce demand for yield-bearing securities, such as MLPs, share price in ARCX could be volatile due to small market capitalization and limited float, and restrictions in access to capital via the debt and equity markets to fund growth.

Target Price Increased

Blackbaud, Inc.
BLKB, $59.33, Buy

Target Price: $67.00
Previous Target Price: $60.00
Dividend: $0.48
Yield: 0.8%
52-Week Range: $60 – $34
Market Cap.($mm): 2,739.2

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Multi-Year Transition Story Underway: What's NXT For Investors?

Fiscal Year Dec		F14A	F15E	F16E	2Q15E	3Q15E	2Q14A
Revenue (Net)	Current	—	—	—	—	—	—
EPS	Current	1.28	1.47	1.77	0.35	0.39	0.35
		–	–	–	NM	NM	NM

Blackbaud is scheduled to report 2Q15 earnings results after market close on July 29th and host a conference call the following morning, July 30th, at 8:00AM ET. With shares of BLKB recently touching all-time highs (closing at $59.67 on June 16th and $59.65 on July 14th) and posting gains of +37% YTD, (NASDAQ Composite +7% over the same period), we believe investors have "paid it forward", embracing the model shift to SaaS ahead of the release of the company's NXT product line GA (which occurred July 14th). We think the multi-year financial benefits from the model shift are only just beginning to show up in Street estimates, and we believe the company has been appropriately rewarded to-date for making aggressive investments in the product itself, the sales force AND the underlying IT infrastructure to support the model change. For certain, we do not expect this to be a completely seamless transition, and our early checks suggest that the company is taking a very deliberate approach with respect to how much strain is applied to the model during the NXT shift. However, with ~13,000 Raisers Edge and 5,000 Financial Edge customers now in the queue to evaluate the upgrade, we think the company has a very sizable backlog of potential customers to sell to in the coming years. We maintain our Buy rating and are increasing our 12-month price target to $67.

Now showing at a theatre near you: NXT. Going back to last year's bbCon User Conference in Nashville, TN, Blackbaud customers have eagerly awaited the release of Raisers Edge NXT and Financial Edge NXT. Sales reps from BLKB that we spoke with at the time encouraged customers to expect the GA release of NXT late Q2/early Q3, and here we are with RE NXT generally available as of July 14th, with FE NXT available later this summer. To be clear, we don't expect the GA release to be a magic bullet that achieves nirvana on opening day, but rather, our checks suggest the company will take a deliberate approach to additive functionality, initially introducing a version of NXT that is predominantly a presentation layer.

Internal discipline bodes well for margin profile. While we expect spending associated with NXT will remain elevated for some time, we also believe the company is in the process of displaying margin expansion, as internal synergies have begun to appear following last year's acquisitions of Whipple Hill and MicroEdge. We currently expect operating margins to gradually increase from 17.6% in 1Q15 to 17.7% in 2Q15 and near 19.0% by the end of FY15.

Maintain Buy Rating. We are raising our 12-month price target to $67.

Target Price Methodology/Risks

We have a 12-month target price on shares of BLKB of $67. Our target price is based upon a 4.8x EV/FY16E revenue multiple, assuming FY16 revenue of $700mn. Additionally, we utilize a sum-of-the-parts analysis that assigns what we perceive to be appropriate multiples for each of the key revenue lines at Blackbaud. As a greater proportion of revenue shifts to the more highly valued recurring revenue Subscription line, the higher the multiple that we expect BLKB will be awarded by investors. Risks include increased competition, inability to effectively integrate new and existing products, delayed conversion of current and new customers to a subscription-based product set, and difficulty recruiting high-performing personnel.

Netflix, Inc.
NFLX, $98.13, Buy

Target Price: $128.00
Previous Target Price: $104.00
Dividend: $0.00
52-Week Range: $102 – $45
Market Cap.($mm): 43,402.9

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OTT is the New TV; Target to $128

Fiscal Year Dec		F14A	F15E	F16E	3Q15E	4Q15E	3Q14A
Revenue (Net)	Current	5.5	6.8	8.9	1.7	1.8	1.4
Revenue (Net)	Previous	—	6.8	8.7	—	—	—
EPS	Current	0.62	0.24	0.37	0.08	0.05	0.14
EPS	Previous	4.32	1.63	4.92	0.45	0.50	0.96
P/E		–	–	–	NM	NM	NM

Netflix continues to show strong execution both domestically and internationally, benefiting from its growing portfolio of high-quality original content and broadening global brand recognition. The company handily beat consensus subscriber forecasts in 2Q:15 and nearly doubled its previous high for a seasonally slower 2Q. Guidance for 3Q:15 calls for roughly 300k more net adds than the Street was expecting, and with the upcoming launches into Japan, Italy, Spain, and Portugal in the second half of the year, we believe Netflix's subscriber momentum / strong execution will continue. We reiterate our Buy rating on Netflix shares and raise our Price Target to $128 from an effective $104 previously (adjusting our $725 for the 7-for-1 stock split).

Deepening content portfolio, growing global brand recognition fuel subscriber momentum: Netflix's subscriber growth is seemingly firing on all cylinders as the company benefits from a strong content slate, including an increasing proportion of original / exclusive content, and growing global brand recognition. Netflix posted a meaningful subscriber beat despite a high guidance hurdle, adding nearly double the number of subs (3.28mm) as its next closest 2nd quarter in any prior year (1.69mm). On the Sunday following the launch of Season 3 of *Orange is the New Black*, Netflix members watched a record number of hours despite competition for viewer's time from both the season finale of HBO's *Game of Thrones* and Game 5 of the highly-rated NBA Finals. Profitability was slightly better than expected in 2Q:15 and Netflix expects its first wave of international markets to each be individually profitable next quarter; however, losses for the international segment are expected to deepen 2H:15 / 2016 as Netflix accelerates its pace of international expansion.

2Q:15 Highlights: Netflix's 42.30mm domestic subscribers beat our above-consensus 42.04mm estimate (net adds of 0.90mm vs. 0.65 est.), while its 23.25mm international subscribers topped our Street-high 22.90mm forecast (net adds of 2.37mm vs. 2.02mm est.). GAAP operating income of $75mm beat consensus of $61mm despite Netflix's heightened investments in content and international expansion. Netflix suggested its momentum will continue as it guided to 3.55mm total net adds in 3Q:15, or roughly 300k above consensus.

Raising subscriber forecasts, PT goes to $128: Netflix is solidly executing on its international expansion and plans several key market launches in 2H:15. We expect a Japan launch by September and Italy, Spain, and Portugal are slated to launch in October. Between the 2Q beat / positive 3Q guidance, our 2015 total streaming subscribers rise by 1.8mm. We reiterate our Buy rating on Netflix shares and raise our Price Target to $128, up from an effective $104 after the split.

Target Price Methodology/Risks

Target Price Methodology: We use a DCF approach to arrive at our $128 price target, utilizing a perpetual growth rate of 4.0% and discount rate of 10.5%.

Risks: In addition to general market and macroeconomic risks, for Netflix, the risks include: competition, shifts in subscriber trends, usage-based broadband pricing, and rising content costs.

On Deck Capital, Inc.
ONDK, $13.10, Buy

Target Price: $24.00
Previous Target Price: $22.00
Dividend: $0.00
52-Week Range: $29 – $11
Market Cap.($mm): 999.5

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Preannouncement Shows Surprising Profitability; Highlights Franchise Value

Fiscal Year Dec	F14A	F15E	F16E	2Q15E	3Q15E	2Q14A
Revenue Current (Net)	—	—	—	—	—	—
EPS (Cash) Current	(0.09)	0.04	0.81	0.09	(0.01)	0.03
EPS (Cash) Previous	—	(0.19)	0.70	(0.06)	(0.05)	—
	–	–	–	NM	NM	NM

We view ONDK's preannouncement very favorably as the large loan sale both validates the platform and improves the near-term earnings outlook. While loan sales give up some economics and are lower quality earnings, we applaud the change in strategy as we believe it makes more sense to focus on reducing balance sheet risk. With the stock still oversold on unfounded fears over competition, we reiterate our Buy rating and our target price increases to $24 but remains based on 15x our 2017 adjusted EBITDA estimate.

- Last night after the close, OnDeck preannounced record marketplace sales and updated 2Q15 guidance. Specifically, the company now expects to report 2Q revenue of $62.5-$63.5M, adjusted EBITDA of $8-$9M, and GAAP net income of $4-$5M. The increased guidance is primarily driven by record marketplace loan sales of $143M ($52M to one institutional investor) in 2Q as well as record gain on sale margin. Using reasonable assumptions, we calculate the large sale added roughly $4mm to revenue and another $2mm provision benefit so without this sale, results are more in line.
- Still, we view this sale very positively as it not only drives significantly better profitability, it also firmly validates the platform in our view. We believe the large loan sale was unexpected (19% of sale was held for investment) and likely reflected strong investor demand (record price). With ONDK's marketplace only likely to grow further, we expect this to be recurring and applaud the strategic shift toward more of a marketplace model. While management had previously preferred a balance sheet strategy and loan sales aren't as profitable (holding loans is 2x more profitable), we believe taking an upfront gain and less balance sheet risk is a good idea near term as it will likely be viewed favorably by investors.
- Additionally, selling more loans greatly benefits near-term profitability as it not only creates gains on sale but reduces provision expense. As a result, although our out-year top-line estimates fall slightly despite the higher than previously anticipated gain-on-sale margin, our bottom-line outlook improves

and we now expect the company to be profitable this year. Full details on the changes to our estimates are provided in the table below.

Target Price Methodology/Risks

Target Price Methodology
Our $24 target price is based on 15x our 2017 adjusted EBITDA estimate.

Risks
OnDeck's funding is not guaranteed. The company's funding is provided by banks and the capital markets, which can be can be fickle especially when times are tough. If the company is unable to get funding, OnDeck's financial results and health could be significantly adversely impacted.

SMB credit is volatile and losses could exceed estimates. While it is significantly more profitable to hold the loans on balance sheet and take credit risk, if the economic environment were to worsen, losses could exceed estimates and negatively impact the company's results or in extreme cases the ability to stay in business.

Although OnDeck is not a bank, regulation of SMB lending could change. While it is significantly more attractive to be a non-bank lender today, if the regulatory landscape were to change, OnDeck could be forced to become a bank holding company or at the very least change its practices, which could negatively impact the company.

WhiteWave Foods Company (The)
WWAV, $49.63, Buy

Target Price: $55.00
Previous Target Price: $50.00
Dividend: $0.00
52-Week Range: $51 – $29
Market Cap.($mm): 8,893.7

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Raising Our EPS Estimates and Target Price

Fiscal Year Dec		F14A	F15E	F16E	2Q15E	3Q15E	2Q14A
Revenue (Net)	Current	3.4	3.8	4.2	—	—	—
Revenue (Net)	Previous	—	3.9	4.1	—	—	—
EPS	Current	1.00	1.15	1.37	0.26	0.31	0.23
EPS	Previous	—	1.14	1.31	0.27	—	—
P/E		49.6x	43.2x	36.2x	NM	NM	NM

We are raising our sales and EPS estimates to reflect the pending acquisition of Vega and, in turn, increasing our target price for the shares to $55 per share.

- **The $550 million acquisition of Vega is expected to be completed sometime during 3Q15 and this business adds just $0.01 to our 2015 EPS estimate, but $0.06 to our 2016 EPS estimate which lines up with the company's guidance.** We are raising our estimates to reflect the benefit of the acquisition to $1.15 for FY15 and $1.37 for FY16. Our model assumes a mid-quarter close in 3Q15 and the addition of this $125+ million business which will carry the highest margins within WhiteWave's portfolio.
- **Our increased target price reflects these increased estimates, the benefit of Vega to WhiteWave's growth rate (growing 30%+), and our continued belief that WhiteWave remains an attractive takeover target**. This target price assumes a valuation of just over 18X 2016 EBITDA and reflects an equal weighted mix of two scenarios – a value for the ongoing business that we believe values the shares in the mid-to-high $40 range (16X EBITDA) and a takeover target of roughly $60 per share reflecting 20X EV/EBITDA or 3x EV/Sales.
- **WhiteWave's organic growth outlook remains robust as evidenced by its increase in revenue growth guidance for the year after its very strong 1Q15 results.** The company expects low teens constant FX revenue growth, high teens constant FX operating profit growth, and EPS of

$1.10-$1.14 (+16%-20% constant FX).

- **We believe this momentum will continue into 2Q15 where we now estimate EPS of $0.26 (down $0.01) which stands just ahead of the high end of the company's guidance range for the quarter and reflecting another strong top and bottom line performance.** We estimate 11% revenue growth in the quarter and over 13% growth in constant FX terms. We estimate 20% operating profit growth.
- **Our target price carries a potential takeout, and while we have no knowledge of any M&A negotiations, we believe a takeout of WhiteWave is "a when, not if" scenario.** The most advantaged acquirers, in our view, are multinationals such as Coca-Cola, PepsiCo, Danone, and Nestle all of which have the infrastructure to generate significant cost synergies as well as robust top-line synergies.

Target Price Methodology/Risks

Our $55 target price is based on a 50% possibility of a takeout of the company and we believe the value of the company in a takeout would likely stand in the low $60 range based on a 20X EBITDA multiple or 3X EV/Sales multiple. We derive a fair value for the business, absent any takeout speculation of 16X FY16 EBITDA, or in the mid-to-high $40 range. The risks to achieving this target price include any slowdown in sales momentum including from new products, rising input cost inflation, increased corporate costs to support its growth, and volatile organic milk costs.

Estimates Increased

Apple Inc.
AAPL, $126.82, Buy

Target Price: $150.00
Dividend: $2.08
Yield: 1.6%
52-Week Range: $135 – $93
Market Cap.($mm): 738,726.5

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Move iPhone Est. Above Consensus (F3Q15 at 50-55M?); A Look at Inst'l Ownership & More

Fiscal Year Sep		F14A	F15E	F16E	3Q15E	4Q15E	3Q14A
Revenue (Net)	Current	182.8	233.4	249.2	50.4	50.4	37.4
Revenue (Net)	Previous	—	231.2	251.0	47.2	51.4	—
EPS	Current	6.43	9.10	9.70	1.86	1.85	1.28
EPS	Previous	—	8.92	9.45	1.67	1.86	—
P/E		19.7x	13.9x	13.1x	NM	NM	NM

Conclusion: Positive F3Q15 Results; Focus on China-drive Upside and Sustainability: We increase our F3Q15 iPhone estimates from 43.5M to 50.2M (our analysis / checks leave us to estimate a 50-55M iPhone ship range for F3Q15; we leave forward estimates essentially unchanged). Consistent with our reports throughout the quarter, we expect China-driven iPhone upside potential – again highlighting the 4G/LTE expansion (still only 15.5% mobile sub penetration exiting May 2015) and our belief that Apple has gained / retained share in the China smartphone market, as well as mature markets (see comScore data below). Our analysis leaves us to estimate ~35M million iPhones outside of Greater China and a Greater China contribution toward the high-end of a 15-20M range.

Stifel Estimate Changes: As summarized in the below table, we are increasing our F2Q15 iPhone shipment estimate from 43.5M to 50.2 million – reflective of our supply chain checks and analysis of various data points through the June quarter. We leave our blended iPhone ASP ($/unit) estimates unchanged with F2Q15 at $645 vs. $659 in the March quarter. Our forward iPhone ship estimates remain relatively unchanged – focus on Apple's updated installed base commentary, emerging market momentum (+63% yr/yr in F2Q15), and conservatism ahead of the anticipated iPhone 6S product cycle. To reflect weak PC demand dynamics, albeit offset by Apple's product cycle, we reduce our Mac ship estimate from 5.3M to 4.6M; revenue from $6.59B to $5.54B (flat yr/yr). Our Apple Watch estimates are unchanged at 3.3M units with a $475 blended ASP ($/unit) in F3Q15 - sell-in vs. sell-thru in focus; though again noting that Apple has stated that it would not separately report Apple Watch figures. We continue to model C2015 and C2016 at 11.8M and 25.4M units.

With this, our F2Q15 revenue / EPS estimates move from $47.2B/$1.67 to $50.4B/$1.86 – now reflective of a 39.5% GM%, or the high-end of the company's 38.5%-39.5% guide (including a negative 40bps of seq. FX impact). Apple had guided F2Q15 revenue at $46-$48B – our new estimate reflects +7% upside at the guide midpoint, which compares to Apple reporting +9%, +15%, and +8% upside for the September, December, and March quarters, respectively. Looking forward, we adjust our F2015, F2016, and F2017 estimates from $231.2B/$8.92, $251.0B/$9.45, and $264.5B/$9.70 to $233.4B/$9.10, $249.2B/$9.70, and $263.5B/$10.36, respectively. Our F2016 and F2017 increased EPS estimates most notably reflect a positive revision in our expectations of Apple's ability to sustain a non-GAAP gross margin in the 38%-39% range.

Target Price Methodology/Risks

Our $150 target price reflects a weighted valuation methodology using a 16.2x P/E, ~10x EV/EBITDA, and 12.3x EV/FCF multiples on our calendar 2015 estimates. Risks to our target price include: (1) Reinventing product momentum – can Apple sustain current level of product innovation? (2) Emerging competition for iPad and MacBook Air; (3) Wireless carriers looking to push back on iPhone subsidies; (4) Slowdown in Chinese growth impacting expanding operations in the country; (5) Legal disputes (e.g. Samsung tablet litigation); and (6) Execution missteps.

GoPro, Inc.
GPRO, $54.50, Hold

Dividend: $0.00
52-Week Range: $98 – $37
Market Cap.($mm): 8,098.7

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Thoughts Ahead of GPRO 2Q

Fiscal Year Dec		F14A	F15E	F16E	2Q15E	3Q15E	2Q14A
Revenue (Net)	Current	1.4	1.9	2.3	—	—	—
Revenue (Net)	Previous	—	1.8	—	—	—	—
EPS	Current	1.32	1.69	1.93	0.25	0.20	0.08
EPS	Previous	—	1.64	—	—	0.14	—
		–	–	–	NM	NM	NM

Executive Summary

- **GoPro continues to dominate the action camera category:** GoPro remains the de facto action camera brand and we believe maintaining share in the category while scaled market participants have compromised on price to compete. GoPro is working to position its devices as solutions for documenting everyday life, broadening its reach beyond the core action sports vertical.
- **Product release acceleration to boost 2Q and 3Q:** We see potential for 2Q results and 3Q outlook above our estimates driven by the introduction of two camera products to date (not anticipated in our estimates, compares to no new releases in the prior year period). We believe this may ease the risk of consumers delaying purchases in anticipation of new releases for Holiday (the established historical release pattern).
- **Visibility to holiday 2015 supply and demand dynamic remains key:** Historically, 4Q has been better than 40% of annual revenue and 60% of

annual earnings power. Consumer demand for GoPro products for holiday 2015 following the hugely successful 2014 season will be key to 2016 earnings power and the stock. During 2Q and early 3Q, our checks showed some indications consumer demand for marquee products (HERO4 Black and Silver released in October 2014) may have lagged retailer expectations in certain channels. With this, we are keenly focused on demand for newer products and any additional new releases that can build category momentum into Holiday.

What's happening: GPRO will report 2Q results on Tuesday, July 21st, after market close. We see potential for upside to our 2Q15 revenue and adj. EPS estimates of $393mn and $0.25 (consensus: $395mn and $0.25) driven by domestic channel fill from the $299.99 HERO+ LCD touch-screen camera on June 6th. GoPro launched the HERO+ LCD in international markets and the HERO4 Session camera ($399.99) globally on July 12th (compared to zero launches in the prior year-to-date period), primarily benefitting 3Q15 growth. We expect 280bps y/y of gross margin expansion to 45.0% in 2Q15, and have modeled 300bps y/y of SG&A leverage to 31.9% of sales in 2Q driven by 240bps and 170bps y/y leverage from sales & marketing and G&A costs respectively, partially offset by 100bps y/y deleverage from continued R&D spending growth (+47% y/y in dollars).

Why it matters: We see strong probability GoPro will report upside to 2Q guidance driven by the sell-in of the HERO+ LCD camera to big box channel partners in the U.S. and reorders for the HERO4 Silver camera in the consumer electronics channel ahead of Father's Day and the start to Summer.

Intel Corporation
INTC, $29.69, Buy

Target Price: $36.00
Dividend: $0.96
Yield: 3.2%
52-Week Range: $38 – $29
Market Cap.($mm): 145,748.2

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Decent Results; Slowing Process Transitions

Fiscal Year Dec		F14A	F15E	F16E	3Q15E	4Q15E	3Q14A
Revenue (Net)	Current	—	—	—	—	—	—
EPS	Current	2.33	2.25	2.40	0.60	0.69	0.66
EPS	Previous	—	2.10	2.30	0.56	0.62	—
P/E		12.7x	13.2x	12.4x	NM	NM	NM

Intel delivered very respectable 2Q15 results considering all the negative news around PC and enterprise server markets. Management noted PC inventory has taken longer than expected to deplete, and are now expecting at least a seasonal 2H15. For FY2015, revenue is now expected to decline 1% y/y from prior expectations of flat. Interesting to us is that management decided to delay the transition to 10nm process technology until 2H17 and add a third 14nm product with additional features instead. In our view, this could improve GM and decrease execution risk in the longer term. We maintain our Buy rating and $36 12-month price target.

- **June Quarter (F2Q) Review:** Revenue of $13.195bn was up 3.2% q/q and down 4.6% y/y, above our estimate of $13.0bn and the Street estimate of $13.064bn. Y/y decline in the PC business was partially offset by growth in Data Center and NAND businesses.GAAP GM of 62.5% was above our estimate of 61.5% helped by a 2% q/q average selling price increase. Total OpEx of $5.35bn was above our estimate of $4.9bn. Driven by revenue and GM, partially offset by OpEx, GAAP EPS of $0.55 was above our estimate of $0.51 and the Street's $0.50.
- **Business Commentary:** Management noted lower PC demand in enterprise and emerging markets, and a slight decline in inventory q/q. Interestingly, management also noted caution in enterprise spending drives increased cloud/outsourcing. During Q2 ~40% of revenue and over 70% of operating profit was from Data Center, IoT, and memory businesses.
- **Altera:** The acquisition is expected to close in the next 2-3 quarters. The

financing plan is to issue $7bn-$9bn in new long-term debt, and finance the remainder of the $16.7bn cost with cash and short-term commercial paper.

- **F3Q and 2015 Outlook:** For full year 2015, management expects the PC market to be weaker than previously expected, and continues to forecast robust growth in Data Center, IoT, and NAND businesses which are expected to mostly offset PC decline.
- FY2015 revenue was guided to be down 1%, compared to prior guidance of ~flat. Q3 revenue was guided to $14.3bn +/- $500mn, which compares to our prior estimate of $14.0bn and the Street's $14.101bn. GM was guided to 63%, above our 61% estimate based on lower unit volume expected. Our revised quarterly revenue and GAAP EPS estimates are $14.3bn/$0.60, which compare to our prior estimates of $14.0bn/$0.56 and the Street's $14.101bn/$0.56.
- **Valuation:** Our 12-month target price of $36 is based on 15x our 2016E GAAP EPS.

Target Price Methodology/Risks

Our target price of $36 is based on 15x our 2016E GAAP EPS.

Risks to Target Price:
• Worldwide macroeconomic issues could slow demand for PCs
• Transitions to new architectures and processes have execution risk
• New competition from ARM-based SoCs could slow x86-based market growth

Company Comments

Anixter International Inc.
AXE, $63.63, Hold

Dividend: $0.00
52-Week Range: $98 – $63
Market Cap.($mm): 2,125.2

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AXE: Power Solutions Acquisition to Meaningfully Increase Exposure to the Electric T&D Market, Looks to be Very Accretive

Fiscal Year Dec		F14A	F15E	F16E	2Q15E	3Q15E	2Q14A
Revenue (Net)	Current	5.5	5.8	6.0	1.4	1.5	1.3
EPS	Current	4.97	4.24	4.79	1.02	1.27	1.24
P/E		12.8x	15.0x	13.3x	NM	NM	NM

Anixter announced that it has entered into a definitive agreement to acquire the Power Solutions segment of HD Supply. The acquisition increases Anixter's exposure to the US utility (primarily distribution, transmission, and generation) market and will add approximately 30% to the revenue base.

Purchase price is $825 million (subject to working capital adjustments) and will be financed with cash and additional borrowings. The purchase multiple on the deal is 10.4x 2014 adjusted EBITDA, 10.1x 2015E adjusted EBITDA, or 7.8x 2015E adjusted EBITDA including anticipated run rate synergies.

Anixter's Strategic Rationale: 1) the company will become a leader in North American electrical and utility distribution, 2) it strengthens Anixter's product offering, supplier relationships, and expands customer verticals, 3) it offers revenue and cost savings synergy potential, and 4) it delivers attractive returns.

- Anixter is targeting $25 million in run rate EBITDA synergies by year 3.
- Anixter believes that ROIC will exceed the company's cost of capital by year 2.
- The deal carries a future tax benefit with a net present value of ~$70 million.

Anticipated Accretion. The deal is expected to be accretive in the first year of ownership (exclusive of transaction, one-time integration expenses and incremental amortization of intangible assets). We anticipate 2015 Power

Solutions EBITDA of ~$82 million (4.1% margin) and EBIT of $56 million (2.8% margin). If we assume that the acquisition is financed with $325 million of cash on hand and $500 million of debt at 5.0%-5.5%, incremental interest expense would approximate $25 million.

- Utilizing our current 2015 projected tax rate of 35.6% (until we have a better understanding of the Power Solutions tax benefits) suggests pro forma accretion of $0.55-$0.60, which represents 13%-14% of our current $4.24 forecast for 2015.
- Adding the full $25 million in anticipated run rate synergies to 2015 and subtracting an estimated $7 million of incremental corporate costs that we believe will be necessary to support the business, suggests accretion of $0.89-$0.94, or 21%-22% of our current 2015 forecast.

Balance Sheet. Following the transaction, Anixter estimates pro forma net debt/ LTM 1Q15 Adjusted EBITDA of ~3.6x. Based on our forecast, a late 3Q close would drive projected debt to cap to 59% and net debt to cap to 56%. This compares to our current 3Q forecast for 50% and 37.7%, respectively. Anixter's goal is to return to its long term goal of 40%-50% debt to total capital in the "short-to-medium" term.

Medidata Solutions, Inc.
MDSO, $57.00, Buy

Target Price: $65.00
Dividend: $0.00
52-Week Range: $59 – $37
Market Cap.($mm): 3,181.9

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MDSO: 2Q15 Preview; Expect In-line Quarter, as Increased Module Adoption Suggests Strong 2H15; Buy

Fiscal Year Dec		F14A	F15E	F16E	2Q15E	3Q15E	2Q14A
Revenue (Net)	Current	335.1	401.9	479.6	—	—	—
EPS	Current	0.74	0.86	1.13	0.21	0.23	0.17
P/E		77.0x	66.3x	50.4x	NM	NM	NM

MDSO is scheduled to report 2Q15 financial results on Tuesday, July 21, before the market open. The company will host a conference call to discuss its second quarter results on July 21, at 8 a.m. ET, which can be accessed via webcast at www.mdsol.com. We maintain our Buy rating, as we believe the company continues to benefit from favorable revenue trends (increased product adoption) and less executional risk than in the past (addition of new CFO).

Thoughts. We believe MDSO faces the lowest level of fundamental risk since we launched in June 2014. Our channel checks suggest that CROs continue to increase module usage (see 6/23/15 note titled "**MDSO: CROs Are Adopting More Modules, Likely Driven by Biopharma; Maintain Buy**"), which suggests biopharma is likely using more modules, as well (typically CRO usage is driven by biopharma trial sponsor usage). In our view, positive utilization trends at a minimum bode well for 2H15 performance. We believe investors are positive on the addition of Rouven Bergmann as CFO, given his product background (formerly of SAP North America). We believe Veeva Vault (eTMF, electronic trial master file) remains a key indicator/positive for MDSO. According to Veeva's annual paperless TMF survey, the use of paper and fax to exchange TMF documents declined 1,000 bps from 57% a year ago to 47% in 2015 (see our note "**MDSO: Revisiting eTMFs Positive Impacts on MDSO; VEEV's Annual eTMF Survey; Buy**"). Additionally, mHealth remains strong as the FDA provided supportive commentary at the 2015 DIA meeting. We continue to believe MDSO represents a leader in leveraging mHealth in clinical trials. We believe investors may look for additional insights regarding MDSO's M&A strategy.

Key Metrics. We believe investors should focus on three key metrics: customer growth, product density, and billings (revenue plus change in deferred revenue). We expect to see continued customer growth, as well as multi-module adoption growth. Our expectations are for modest to flat product density, and a book-to-bill at or above 1.0 would be positive.

2Q15 Financials. We estimate Medidata will generate $97.0 million in consolidated revenues (+16.6% y/y, $81.7 million in subscription and $15.3 million in professional services). We estimate the company will report $21.1 million in adjusted EBITDA and $0.21 in cash EPS. FactSet consensus calls for consolidated revenues of $97.2 million (+16.8% y/y, consisting of $82.1 million in subscription and $15.1 million in professional services). FactSet consensus calls for adjusted EBITDA of $21.2 million and cash EPS of $0.20.

Valuation. We maintain our Buy rating on the shares of MDSO.

Target Price Methodology/Risks

We maintain our Buy rating on the shares of Medidata Solutions. Our $65 12-month target price equates to an enterprise value multiple of 7.1x our 2016 revenue estimate of $479.6 million, and an enterprise value multiple of 28.5x our 2016 adjusted EBITDA estimate of $119.5 million.

Risks to Target Price:
- Valuation multiples
- Volatility associated with the switch from quarterly to annual guidance
- Lack of successful product innovation
- Unforeseen customer attrition
- A lack of enterprise platform sales
- A deterioration in the biopharma industry

Mellanox Technologies, Ltd.
MLNX, $44.14, Buy

Target Price: $70.00
Dividend: $0.00
52-Week Range: $53 – $36
Market Cap.($mm): 2,096.6

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Expecting Upside Driven by Multiple New Product Introductions

Fiscal Year Dec		F14A	F15E	F16E	2Q15E	3Q15E	2Q14A
Revenue (Net)	Current	—	—	—	—	—	—
EPS	Current	1.22	2.50	2.80	0.60	0.63	0.15
P/E		36.2x	17.7x	15.8x	NM	NM	NM

We are expecting Mellanox to deliver its fourth sequential beat & raise quarterly earnings report. Mellanox' strong reports have been driven by new product introductions quickly ramping into production. Last month, the company announced three new products that we believe can extend Mellanox' upcycle at least through 2016. In our view, the MLNX shares have been under pressure lately due to concern that Mellanox' growth is only correlated with the Intel server CPU/Grantley upgrade cycle, and that this upgrade cycle is slowing. We see this misperception as an opportunity to own the MLNX shares at a discount.

- **June quarter outlook:** We believe revenues could come in at the higher end of management's $155mn - $160mn guidance, beating our $157.5mn estimate and the Street's $157.8mn. Revenue upside, in our view, could be dependent on Mellanox' ability to ship newly-introduced 25GE and 50GE products. We have been estimating 71.5% GM but again, depending on new product shipments, there may be upside to our GM estimate. Typically new products carry higher GM. These factors have us thinking non-GAAP EPS could also beat our $0.60 non-GAAP EPS estimate and the Street's $0.62.
- New product launches have historically allowed Mellanox to outgrow the networking market. In CY08, Mellanox introduced its (and the industry's) first 40G InfiniBand (IB) products. In CY09, 40G IB represented over 50% of total revenue. In CY11, Mellanox introduced its (and the industry's) first 56G IB products. In CY12. 56G IB represented 50% of total revenue. This year Mellanox has introduced its (and the industry's) first 100G IB and 25G, 50G, 100G Ethernet products, which we expect will drive Mellanox' growth in CY16.
- The MLNX shares have been under pressure coming into earnings based on investors' concerns of a slowing of new server upgrades (i.e.the Intel

Grantley cycle). We believe this is a misperception of what drives Mellanox' growth; HPC and data center networks benefit from higher performance networks without upgrading server CPUs.

- **September quarter outlook:** With the new products ramping into full production, we believe Mellanox' September guidance can beat our $165mn revenue estimate, which is above the Street estimate of $163.3mn. Again, new products can drive higher GM making our 70.5% GM conservative. Higher GM would lead to a beat to our $0.63 non-GAAP EPS estimate, which is $0.01 above the Street's $0.62.
- **Valuation:** Our 12-month target price of $70 is based on 25x our FY16 non-GAAP EPS estimate.

Target Price Methodology/Risks

Our 12-month target price of $70 is based on 25x our FY16 non-GAAP EPS estimate.

Risks to Target Price

• Technology is not adopted by mainstream players

• Larger competitors reducing market prices

• Execution on next generation products

Wolverine World Wide, Inc.
WWW, $29.12, Hold

Dividend: $0.24
Yield: 0.8%
52-Week Range: $35 – $24
Market Cap.($mm): 2,935.3

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Thoughts Ahead of WWW 2Q, We See Near-term Risk to Shares Contained

Fiscal Year Dec		F14A	F15E	F16E	2Q15E	3Q15E	2Q14A
Revenue (Net)	Current	2.8	2.8	3.0	—	—	—
EPS	Current	1.63	1.55	1.78	0.20	0.63	0.31
P/E		17.9x	18.8x	16.4x	NM	NM	NM

Executive Summary

- **3Q visibility should be strong, expect maintained guidance.** We expect an inline 2Q helped by ongoing CAT strength, improvement in DTC, and the benefit of Wolverine and Keds shipments pushed from 1Q. Fall pre-books led by Sperry rain/weather boots provides strong visibility to 3Q. In combination with slightly favorable changes to FX since the last guide, we expect the FY outlook is maintained. We note, however, for 4Q, a 53rd week in 2014 ($7.5mn), weather/reorder dependence, and uninspiring Merrell brand momentum makes visibility more challenging.
- **WWW shares a safe defensive play near-term.** Despite 4Q uncertainty, maintained guidance in combination with ongoing commentary about appetite for an acquisition should be sufficient to support WWW shares at these levels. We see potential that a strong 3Q guide helped by Fall orders eases the burden on 4Q to achieve FY guided results serving as a modest positive catalyst.
- **Beyond 2015, MSD+ revenue growth needed for double digit EPS growth - acquisitions may have to play a role.** Following the step-up in brand investment in 2015, we believe WWW will need to sustain MSD+ revenue growth to leverage expenses and deliver double digit EPS growth in 2016. Growth from Sperry (approaching 20% of sales by our estimate) will need to be complemented by growth from Merrell and other brands. We believe acquisitions might have to play a supporting role and see a deal feasible before year end as the company has lowered net debt/TTM EBITDA to ~2.1x and reportedly has operational capacity to support an acquisition.

What's happening: WWW will report 2Q results July 21st before the market open. We remain comfortable with our inline estimates for $620mn revenue and $0.20 adj. EPS. Guidance calls for 1Q revenue growth of 1% y/y and adj. EPS of $0.18-$0.20 contemplative of approximately $10mn of Keds and Wolverine brand revenue pushed from 1Q to 2Q due to port delays, FX headwinds (2-3ppts.), retail store closures, and the discontinuation of the Patagonia business. Our earnings estimates assume 80bps gross margin compression (mix, FX), and 210bps SG&A deleverage due to incremental pension expense (60bps), brand investments including the kick-off of the Sperry Odysseys Await campaign and DTC initiatives (recall, ~$30mn incremental planned for 2015, 75% to marketing).

Industry Commments

Healthcare REITs

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Zoltar Speaks, But Will Investor Wishes For Better 2Q Seniors Housing Results / HCREIT Investment Outlook Be Granted?

Healthcare REIT earnings season kicks off with Ventas (VTR - $64.30 - Buy) on Friday, July 24 before the market opens. At this point the chief concern relative to 2Q earnings for REIT investors will be seniors housing performance given a tough flu season and industry data showing a tick up in construction starts / new supply. Bottom line: we don't see much reason to expect significant misses or beats resulting from seniors housing exposure given we (and presumably others) have already modeled weak 2Q seniors housing results. However, two longer-term topics are likely to dominate 2Q earnings calls - 1) HCREIT ability to externally grow due to higher capital costs / lower investment spreads and 2) is seniors housing NOI growth near-peak?

Higher Capital Costs Could Impact Investment Spreads – We compute implied cap rates have risen to 6.5% since end of February on share pullback, while debt costs are up about 75 bps. Debt cost double whammied by 5-year and 10-year treasuries rising 50 bps and 73 bps since Jan. 30 lows, and BBB REIT debt cost over treasuries are near 52-week highs - approx 150bps and 195 bps over respective 5-year and 10-year treasuries.

We estimate WACC on 60/40 equity / debt split has risen 50-75bps, while cap rates have not.

But, Will HCREITs Pullback The Investment Throttle or Will HCREITs Shift To A Higher Risk Profile?
Most management indicated at REITWeek in June very robust pipelines and no "pause" to investment propensities. We presume threat of higher cap rates brings out sellers. In our view, increasing capital availability, looser covenants and higher leverage evens the playing field between HCREITs and leveraged private buyers.

However, tighter investment spreads have historically not halted HCREITs overall investment levels, as they simply shift to higher yielding assets (hospitals or skilled nursing rather than MOBs or Seniors Housing), loans/debt investments, and/or construction to maintain adequate returns. HCREITs could also increase balance sheet risk through higher leverage or shorter term debt. We believe this will need to be watched and could be a topic of discussion on HCREIT earnings calls.

Cheaper To Build Than Buy?
NIC-MAP data shows pick in seniors housing starts / overall construction but not hard geography by geography evidence cheaper to build than buy.

Do managements agree its better to build than buy at this point in the real estate cycle?
Are there other healthcare real estate sectors with increasing construction (life science)?

Will Managements Get Creative To Drive Value For Shareholders? – Simply buying more assets (sometimes with questionable quality) at thinner spreads won't generate investor excitement for the space in our view and a majority of HCREITs are trading below NAV / historical multiples. With the exception of Ventas' pending spin-off of skilled nursing assets into a new REIT, HCREITs have taken fewer creative steps than other REIT sectors to drive value. There's been no go private transactions and no HCREITs have announced any share buybacks.

Expect A Weak 2Q Seniors Housing on Flu-Related Seasonality and Many Questions On Future Seniors Housing Fundamentals – NICMAP recently reported industry occupancy down 20bps QoQ, similar to our modeled expectations. With flattish rate growth, investors should listen to management comments on wage inflation more closely, broader industry fundamentals, and management view on seniors housing NOI growth. The level of construction is not destructive to NOI or lease coverages at this point, but it may be enough to lower annual NOI growth below 5% for SHOP portfolios.

Few Near-Term Regulatory Issues of Note – investors should watch for early release (mid/late July) of final FY16 Medicare payment rules for SNFs and hospitals. No major deviation from earlier proposals expected by cut to home health reimbursement may have future impact on tenant fixed charge coverages. CMS also recently proposed changes to skilled nursing oversight and separately proposed a trial bundled payment program for some short-term stay procedures - could add some incremental pressure on SNF growth long-term and may force more consolidation, but no near-term impact on lease coverages.

Oil & Gas Exploration and Production

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Denver Tour Takeaways

We recently met with managements from APC, BCEI, PDCE, SM, SYRG, and WLL

PDCE Energy (PDCE, $48.71, Buy)

Guidance/Financial

The 2016 budget of $500mn to $550mn assumed a 2015 cost reduction of 16% from 4Q14 while costs have actually declined 20% during 2H15. Management does not expect any change to its $450mn credit facility (undrawn as of 3/31/15) during its fall redetermination even though banks are likely to use below NYMEX strip oil price decks (mid-$40s/Bl for 2015 escalated to $70/Bl long-term). The balance sheet should remain strong as debt/TTM EBITDA declines to 1.5x at YE15 from 1.9x at 3/31/15.

The company has been hedging 2017 natural gas prices as management is bearish on the commodity although it has not added 2017 oil hedges at this point. PDCE's bank covenants restrict further hedging to this year's position. Management prefers to hedge with swaps and collars and avoids three-way collars or other exotic positions.

2Q15 Preview

The 2Q15 plan, which contemplated 45 and 50 turn-in-lines, has not changed despite wet weather that caused PDCE to shut-in 120 vertical wells for flooding. The company was able to overcome a one-week delay in early May and has since caught up to plan. This includes 34 new wells at the Chestnut pad in Wattenberg and four wells at the Cole pad in Ohio. On its 1Q15 call, management indicated that it was ahead of plan. Extrapolation from the 1Q15 level, however, is probably too low for the 2015 well count.

Acquisitions/Trades

PDCE is not interested in expanding its footprint outside of Wattenberg Field. The company has likely looked at Encana Corporation's Wattenberg acreage but is concerned that much of it is close to population centers and a significant portion of the 51k net acres are located in Boulder County. The company is engaged in more acreage trading discussions with competitors than it has been in the past.

SM Energy (SM, $40.38, Buy)
Guidance/Financial
Management continues to believe that SM can double its drilling inventory this year without acquisitions while maintaining a strong financial position (debt/TTM EBITDA of 1.7x at 3/31/15 and first debt maturity in 2021). While it does not expect to de-lever the balance sheet by slowing down its spending levels from last year, it remains focused on generating top-quartile returns on a debt-adjusted per share basis and targets a return on capital employed of 15%. Returns have benefited from an early-mover strategy, which led to an Eagle Ford average acreage cost of only $500/acre.

See our full note for additional commentary.

Note: Prices are as of the close of July 15, 2015, unless otherwise noted.

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