Applied Investment Management (AIM) Program

AIM Class of 2015 Equity Fund Reports
Fall 2014

Date: Friday, October 10th   Time: 2:30 pm – 3:15 pm
Road Show Location: RW Baird

Student Presenter	Company Name	Ticker	Price	Page No.
Austin Wilson	Boston Private Financial Holdings	BPFH	$12.63	2
Thomas Desmond	Inventure Foods, Inc.	SNAK	$12.77	5
Jing (Yolanda) Liu	Icon Plc	ICLR	$56.77	8
Alex Ibrahim	Horizon Pharma plc	HZNP	$12.23	11
Thomas Dickinson	The Fresh Market	TFM	$36.14	14

We appreciate the opportunity to take an AIM 'road show' to RW Baird. These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend 4 minutes presenting their formal recommendation, which is then followed by about 5 minutes of Q & A.

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Boston Private Financial Holdings, Inc. (BPFH)
October 10, 2014

Austin Wilson — Financial Services

Boston Private (NASDAQ: BPFH) is a premier wealth management and private banking company that owns affiliates in New England, New York, Los Angeles and the San Francisco Bay Area. The firm positions its affiliates to serve the high net worth marketplace with high quality products and services of unique appeal to private clients. Boston Private generates income from three separate revenue streams including Private Banking (71.9%), Investment Management (13.9%), and Wealth Advisory (14.2%). BPFH is currently seeking to expand its fee-based revenue, with a particular focus on expanding their Wealth Management business and generating banking fees in excess of NII growth. The diversified bank holding company has been able to increase its balance sheet from $182mm in 1990 to $6500mm in 2013 through successful acquisitions and capital appreciation. Boston Private was founded in 1988 and is headquartered in Boston, Massachusetts.

				FY: Dec 31	2013A	2014E	2015E
Price 10/3/14 ($):	12.63	Beta:	1.51	Net Revenue ($M):	310.36	398.15	442.39
Price Target ($):	15.41	Cost of Equity:	12.9%	% Growth:	4.06%	28.3%	11.1%
52 WK L-H ($):	10.62-14.64	M-Term Rev. Gr Rate Est:	14.5%	NIM:	3.23%	3.30%	3.39%
Market Cap (M):	1002	M-Term EPS Gr Rate Est:	17.0%	EPS ($):	0.87	1.17	1.26
Float:	96.25%	Financial Leverage:	8.9x	BVPS ($):	8.18	9.04	9.74
Short Interest:	4.00%	ROA:	1.3%	Est P/B:	1.5x	1.4x	1.3x
Avg. 3 Month Vol:	400,245	ROE:	14.1%	Est P/E:	14.5x	10.8x	10.0x
Dividend ($):	0.32	Tier 1 Capital Ratio:	14.2%	Dividend Per Share ($):	0.32	0.45	0.48
Yield:	2.53%						

Recommendation

Since their founding in 1988, BPFH has been able to consistently grow their private banking balance sheet to over $6.5b, while also successfully managing over $20b of client assets. In 2Q14, BPFH announced revenue growth of 3.7% (15.8% projected annualized organic), while also increasing their NIM by 10 bps from the previous quarter, as well as an increase in overall earning asset yields (+10 bps). BPFH also saw its fees-based revenue streams rise 2.6% overall - with investment management fees increasing by 2.4% and wealth advisory fees increasing by 4.4% respectively. Growth in these revenue streams continued the recent strong historical trend for BPFH given the relatively weak equity markets in the first half of 2014. Additionally, BPFH announced in August its acquisition of Banyan Partners, a $4.3b asset investment advisory firm that will be combined with Boston Private Bank's wealth management operation. Management's intention is not to be a national bank lender, but rather to have an established, national wealth management operation. This transaction augments BPFH's wealth management fee income, which continues to grow as a top strategic priority for the company. Banyan will contribute over $25mm in fees and should increase the overall share of fee income at BPFH to 45.1% compared to 28.1% in 2013. Lastly, the deal is expected to be about 9% accretive immediately to EPS, and BPFH expects to realize meaningful cost savings from the deal as there is significant overlap with the footprints of the two businesses. As a result of BPFH's diversifying acquisition and an expanding loan pipeline, in combination with a favorable valuation, it is recommended that BPFH be added to the AIM Equity Fund with a target price of $15.41, representing over a 22% upside.

Investment Thesis

- **Wealth Advisory Expansion.** BPFH announced an agreement to acquire Banyan Partners LLC, an independent registered investment advisory firm with approximately $4.3 billion in client assets. BPFH will pay $60mm (65% cash and 35% stock), plus additional earn-out opportunities over a two-year period (estimated to be $15-$20mm). Banyan will contribute over $30mm in revenue by 4Q14 (12.5% inorganic) and should increase the overall share of fee income at BPFH to 45.1% from 28.1% annually by 4Q14. The Banyan acquisition represents an avenue for growth that will not only improve and stabilize profitability, but also diversify its three revenue streams.

- **Loan Demand Broadly Rising.** In the most recent Federal Reserve Senior Loan Officer Survey, key metrics displayed broad increases in customer demand across commercial and industrial loans (12.1%), commercial real estate lending (7.3%), and consumer loans (3.8%). With capital at healthy levels and deposits expanding (7.7% YoY), an improving economy will support BPFH's goal for accelerating growth for loans and continuing to diversify their revenue.
- **Improving Mortgage Market.** Mortgage credit has been improving with recovering home prices, which reduce the severity of losses and better employment, which lowers the frequency of loan losses for BPFH. Consensus expects U.S. unemployment to fall in 2014 (6.2%) and 2015 (5.7%) from 2013 (7.4%). The Mortgage Bankers Association forecasts further growth in the median price of existing homes (1.2%) and new homes (2.1%) in 2015, from improvements in 2014 in both existing (3.9%) and new (4.5%) homes. BPFH's loan portfolio consists of over 30% mortgage related loans and will benefit from these credit improvements.

Valuation

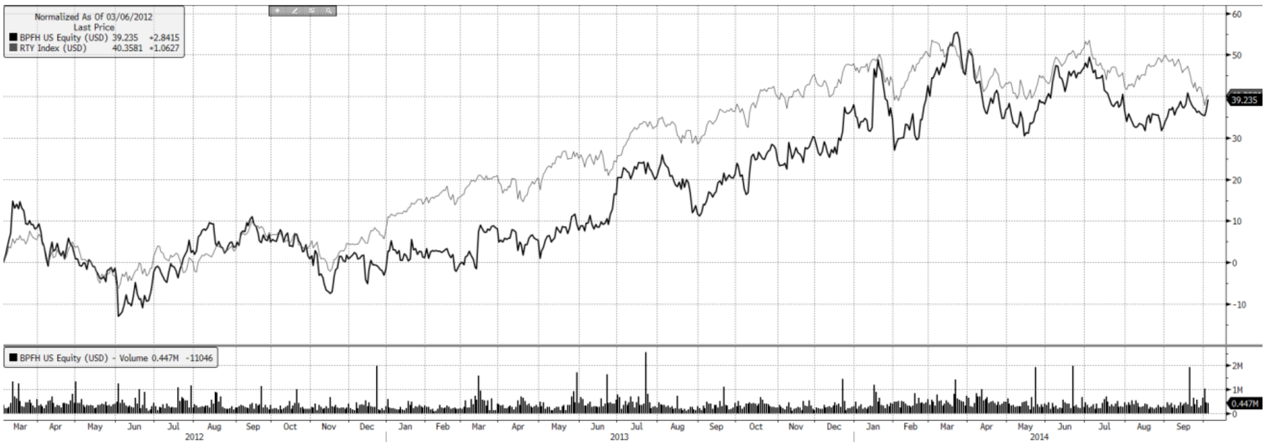
To find the intrinsic value of BPFH, an excess equity model was used, as well as a price-to-book multiple and a dividend discount model. The excess equity approach used a cost of equity of 12.9% and a long term growth rate of 3%, which resulted in an intrinsic value of $16.04. The 5-year average historic price to book for BPFH was 1.52x with the market cap weighted average being 1.20x. Weighting the historic average 60% and the market cap average at 40%, the P/B yielded an intrinsic value of $16.27. Using the same cost of equity, the dividend discount model resulted in an intrinsic value of $13.73. Weighting these valuations 40/30/30 respectively, the final estimated intrinsic value of BPFH is $14.41, which provides an upside of 22.1%. BPFH paid a $.32 dividend/share in 2013.

Risks

- **Highly Regulated Banking Industry.** Because BPFH's business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to BPFH are subject to regular modification and change. It is impossible to predict the competitive impact that any such changes would have on the banking and financial services industry in general or on the business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions.
- **Deterioration in Local, Regional, and National Economies.** The bank primarily serves individuals and smaller businesses located in three geographic regions: New England, San Francisco Bay, and Southern California. The ability of the firm's clients to repay their loans is impacted by the economic conditions in these areas.

Management

Clayton Deutsch is Chief Executive Officer and President of the firm, which he joined in August, 2010. Clayton Deutsch is a member of the firm's Leadership Team and has over 30 years of experience in the financial services industry. He began his career in banking in the 1970's before joining McKinsey & firm in 1980. Most recently, he was a director at McKinsey & firm and served as Global Leader of that firm's Merger Management Practice. During his time at McKinsey, Clayton developed deep experience working with many leading financial institutions, with a particular focus in the private banking, wealth advisory, and wealth management sectors, as he helped establish and build McKinsey's Financial Services practice globally.



Ownership

% of Shares Held by All Insider and 5% Owners:	8%
% of Shares Held by Institutional & Mutual Fund Owners:	77%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
FMR, LLC	7,192,085	8.94
Vanguard Group, Inc. (The)	5,023,746	6.25
State Street Corporation	4,111,368	5.11
BlackRock Fund Advisors	4,063,798	5.05
Bank of New York Mellon Corporation	4,002,097	4.98

Source: Yahoo! Finance

Peer Table

Company (Ticker)	Market Cap	NIM
Bank of America (BAC)	181.82b	2.50%
JP Morgan Chase & CO (JPM)	226.81b	2.12%
Credit Suisse (CS)	43.09b	1.21%
Citi Group (C)	158.62b	2.84%
Royal Bank of Canada (RY)	102.47b	1.88%

Source: Bloomberg

Inventure Foods, Inc. (SNAK)
October 10, 2014

Thomas Desmond — Consumer Staples

Inventure Foods, Inc. (NASDAQ: SNAK) manufactures and markets healthy/natural (80% of revenue) and indulgent specialty snack food (20%) products in the United States. The company operates in two segments: Frozen Products (62%) and Snack Products (38%). The company's healthy/natural food products include Rader Farms frozen berries; Boulder Canyon Natural Foods brand kettle cooked potato chips; Willamette Valley Fruit Company brand frozen berries; Fresh Frozen brand frozen vegetables; Jamba branded blend-and-serve smoothie kits; Seattle's Coffee Frozen Coffee Blends; and private label frozen fruits and healthy/natural snacks. Its indulgent specialty snack food products include snack food under the T.G.I. Fridays, Nathan's Famous, Vidalia, Poore Brothers, Bob's Texas Style and Tato Skins brands. Inventure Foods, Inc. markets its products through grocery, natural, mass merchandisers, drug, club, value, vending, food service, and convenience stores, direct store delivery, distribution centers, and other facilities. The company was formerly known as The Inventure Group, Inc. and changed its name to Inventure Foods, Inc. in May 2010. SNAK was founded in 1986 and is headquartered in Phoenix, Arizona.

Price (10/6/2014)	$12.77	Beta	0.98	FY	2013 (A)	2014 (E)	2015 (E)
Price Target	$15.25	WACC	7.60%	Revenue (mil)	$215.60	$285.40	$325.00
52 WK H-L	14.50-10.10	M-Term Rev Gr Rate Est:	13.00%	% Growth	16.40%	32.30%	13.80%
Market Cap (mil)	$249.40	M-Term EPS Gr Rate Est:	19.00%	Gross Margin	18.04%	19.17%	19.40%
Float (mil)	18.20	Debt/Equity	121.98%	Operating Margin	5.03%	6.84%	7.34%
Short Interest (%)	2.91%	ROA	5.60%	EPS (Cal)	$0.38	$0.53	$0.65
Avg. Daily Vol (K)	146.36	ROE	13.88%	P/E (Cal)	35.65	23.69	19.44
Dividends (Yr)	N/A	ROIC	6.92%	FCF/Share	-0.23	-0.34	0.25
				EV/EBITDA	19.32	12.14	10.67

Recommendation

Inventure Foods (SNAK) is a rapidly growing manufacturer and marketer of a diverse portfolio of healthy and indulgent snack food brands. SNAK has positioned itself well within the healthy, organic sector of the food industry as consumers are continuing to prefer minimally processed foods and beverages. As the economy continues to recover, families find themselves having more disposable income allowing them to turn to more healthy or organic options. In 2006, when CEO Terry McDaniel arrived, the healthy/natural segment of the company represented 4% of annual sales; today, it represents nearly 80%. This transition has been accomplished through internal growth and selective acquisitions of companies that complement or diversify SNAK's existing product portfolio. The two most impactful acquisitions have been frozen fruits and vegetable brands Rader Farms (2007) and Fresh Frozen (2013), which are expected to represent 37% and 21% of revenue in 2014, respectively. With seven manufacturing facilities and a broad supply-chain operation, SNAK has plenty of capacity to continue to expand margins and create new products. In just the past three years, the company successfully introduced over 150 new products to their existing line, proving the innovative nature of their management team. Due to SNAK's integration capabilities and positioning within the natural foods market, their 2014 revenue and EPS are expected to grow 32% and 39% respectively. Double-digit growth is expected to continue as existing products are gaining market share and new products continue to add to profitability. For these reasons, it is recommended that SNAK is added to the AIM Equity Fund with a target price of $15.25, representing a 19% upside.

Investment Thesis

- **Healthy/Natural Market Trend.** All-natural and organic foods continue to be one of the fastest growing segments within the food industry, expected to continue to grow at a double-digit rate on an annual basis. Consumers are continuing to turn to healthy and natural products as over 80% of families recently reported participating in purchasing organic food. Management has completely transformed SNAK's business model to fit this consumer trend and further innovation or expansion will focus on the healthy/natural segment of their business.

- **Innovation Capabilities.** With almost all of SNAK's seven manufacturing facilities operating at capacity levels ranging from just 60% to 75%, and the exception of one operating at 90%, management plans to continue to expand their product portfolio and add to their existing market share. SNAK's management team has proven that they are very skilled at introducing new products, selecting accretive acquisitions, and integrating new brands into their existing product portfolio.
- **Frozen Food Acquisitions.** In late 2013, SNAK finished acquiring Willamette Valley, which manufactures frozen berries, and Fresh Frozen, which manufactures frozen vegetables. These two acquisitions add immediate value to SNAK's frozen segment as Willamette Valley adds freezing capacity and Fresh Frozen is already expected to represent 21% of sales at the end of 2014. SNAK's management is working to expand the customer base for these two brands.

Valuation

In order to reach an intrinsic value for SNAK, a five year discounted cash flow model was conducted. Using a terminal growth rate of 3.0% and a WACC of 7.60% resulted in a valuation of $14.82. A sensitivity analysis on both the terminal growth rate and WACC provided for a range between $12.97 and $17.75. Additionally, P/E and P/S multiples were analyzed. Using four industry competitors and a five year historical average, a P/E multiple of 24.78x was attached to a 2014 expected EPS of $0.53 generating a value of $13.13. An average P/S multiple of 1.25x and an estimated Sales/Share of $14.63 generated a value of $18.24. By weighing the DCF model 50% and the P/E and P/S multiples 25% each, a price target of $15.25 was established, representing a 19% upside. The firm does not pay a dividend.

Risks

- **Concentrated Customer Base**. SNAK's customer base is fairly concentrated, with 35% of revenue coming from Costco in 2013. Specifically, 27% of that revenue comes from the Rader Farms/Kirkland co-branded frozen berries. Any decision by Costco to substantially reduce its purchases or a slowdown in demand for frozen berries could materially affect SNAK's revenue. With that said, no other customer represents more than 10% of sales on an annual basis.
- **Integration Risk.** A major element of SNAK's business strategy is to pursue strategic acquisition opportunities for the purpose of expanding, complementing and diversifying their business. When selecting acquisitions, SNAK risks not being able to integrate acquired companies into their operating structure, retain the acquired company's management team, or operate the acquired company at a profit.
- **Intense Competition.** Competition within the food industry is intense due to a broad range of competitors who have far greater operational and financial resources than SNAK. Competitors are able to market, advertise, and promote their products much more than SNAK has the capability of doing, which remains a threat to the market share that SNAK holds.

Management

Terry McDaniel has served as the CEO of SNAK since 2008, previously serving as the COO. Prior to coming to SNAK, he spent his entire career in the food industry in various management roles. Since becoming CEO, he has transformed SNAK's business model by putting an emphasis on healthy and natural foods, which now represents 80% of annual sales. Steve Weinberger has served as the CFO since 2006. He has been in the food industry for over 40 years and was previously the CFO of Fiera Foods Company.

Ownership		
% of Shares Held by All Insiders and 5% Owners:		27%
% of Shares Held by Institutional & Mutual Fund Owners:		50%
		Source: Yahoo Finance
Top 5 Share Holders		
Holder	Shares	% Out
First Wilshire Securities Management Inc.	990,540	5.07%
Lyon Street Capital, LLC	846,666	4.34%
BlackRock Institutional Trust Company	793,885	4.07%
Wall Street Associates	457,100	2.34%
Vanguard Group, Inc.	434,177	2.22%
		Source: YahooFinance

Icon Plc (ICLR)
October 10, 2014

Jing (Yolanda) Liu   International Health Care

Icon Plc (NASDAQ: ICLR) is one of the top five largest providers of Phase I-IV clinical trials with integrated central laboratory, staffing, and information technology offerings. In May 2014, this contract research organization (CRO) completed the acquisition of Aptiv Solutions. Icon provides globally outsourced development services to the pharmaceutical, biotechnology, and medical industries. The company specializes in the development, management, and analysis of programs that support all stages of the clinical development process. Icon's revenue in 2013 were generated through two business segments: clinical research (93%) and central laboratory (7%). The company's revenue geographic segments in 2013 were United States (44%), Rest of Europe (25%), Ireland (20%), and other (11%). Icon has more than 10,300 employers in 38 countries and is headquartered in Dublin, Ireland.

Price ($): (10/02/14)	56.88	Beta:	0.63	FY: Dec. 31	2013A	2014E	2015E
Price Target ($):	66.70	WACC	8.77%	Revenue (Mil)	$1,336	$1,516	$1,690
52 WK H-L ($):	57.98-35.33	M-Term Rev. Gr Rate Est:	10.59%	% Growth	19.83%	13.44%	11.50%
Market Cap ($)(Mil):	3,503.10	M-Term EPS Gr Rate Est:	25.27%	Gross Margin	36.72%	39.30%	40.02%
Float (Mil):	57.9	Debt/Equity	0.8%	Operating Margin	9.75%	13.00%	14.00%
Short Interest (%):	1.78%	ROA:	8.83%	EPS (Cal) ($):	1.65	2.64	3.17
Avg. 3M Vol:	441,848	ROE:	13.88%	FCF/Share ($):	3.21	3.22	3.55
Dividend ($):	0.00			P/E (Cal) ($):	19.90	21.55	17.96
Yield (%):	0.00%			EV/EBITDA	10.8x	13.1x	11.1x

Recommendation

Icon's focus on late-stage drug development (Phase III and Phase IV), which represents 70% of its clinical research revenue, makes it a well-positioned global CRO. Due to the company's strong partnership, heavy investment in technology, operating leverage, and favorable tax rate, the growth rate (5.08%, 17.90%, 19.83%), gross margin (35.30%, 35.63%, 36.72%), operating margin (2.08%, 6.61%, 9.75%), and net margin (2.42%, 4.97%, 7.70%) have experienced upwarding trends during 2011, 2012, and 2013, respectively. Combining Icon's wide economic moat on late-stage drug development, good reputation as a global CRO, and its strong partnership with the favorable environment for biopharmaceutical R&D and an increasing willingness of drug developers to outsource clinical trials, Icon is estimated to continue its revenue momentum with an annual revenue growth of 10.59% from 2014 to 2018. In addition, the company is shifting its clinical trials to the emerging markets through tuck-in acquisitions, which will help Icon reduce its clinical trial cost (the geographic trial cost for CROs are: India: 0.5x; China: 0.6x; Canada: 1.0x, U.S.: 1.1x; and Japan: 1.5x) in the long term. Emerging markets consist of 70% of the world's population, generate 30% of GDP and will account for 30% of global pharmaceutical spending by 2016. The substantial growth of biopharmacuitical needs in the emerging markets can also increase Icon's market share. Moreover, Icon's Irish domicile has kept its tax rate at approximately 16% during the past three years, which is more attractive than its peers (about 25%). Because of Icon's differentiation in the breadth of services, global presence, investment in informatics, low tax rates and a favorable valuation, it is recommended that ICLR be added to the AIM International Equity Fund with a target price of $66.70, which offers a potential upside of 17.27%. ICLR does not pay dividend.

Investment Thesis

- **Increased Outsourcing Trend with Strong Partnership with Large Global Biopharm Firms.** The recent trend shows biopharmaceutical firms, such as Eli Lilly (Quintiles, Covance, and Thermo) and Shire (Parexe, Covance, and Sangamo), prefer to reduce their oversight costs and improve their efficiency through "strategic partnerships." Icon's reputation for consistent execution has been successful in winning relationships with large global biopharmaceutical firms.

The solid partnerships Icon has with its top five clients represents approximately 53% of its 2Q14 revenues. Icon's largest customer, Pfizer, contributes 26% of its revenues. Pfizer's recent commentary suggests optimistic flow of clinical trials planned in the upcoming years. In addition, CROs that are deeper into a sponsor's drug development process create a 'sticker environment' for retaining contracts. Moreover, Icon is increasingly booking business outside of its top five clients.

- **Increased EPS Guidance through Improved Revenue and Margins.** Icon's strong 14Q2 earnings results beat analyst's expectations and the firm has recently updated its EPS guidance in July from the range of $2.30-$2.40 to $2.62-$2.68. During recent years, Icon has invested heavily in informatics that address patient recruiting, investigator monitoring, and adaptive clinical trials, which helps the company reduce its clinical trials cost by 30% and accelerate its study times by 10% while ensuring patient safety. Such efforts should help Icon reach its 13%-16% operating margin goal. Moreover, Icon announced $100 M share buyback program primed to boost EPS, which is likely to take place during 2015 and 2016.
- **Broader Business Capacities and Geographic Presences through Tuck-In Acquisition.** Icon adds capacities and broader geographic positions through smart acquisitions, and its solid financial status ($175 M of net cash and a low 0.8% Debt/Equity ratio) ensures the implementation of its strategic acquisions. During the past three years, Icon added new capacities such as outcomes consultancy, clinical trial software, market access research, and clinical staffing through acquisitions. In 2012, Icon accquired a full-service CRO, Beijing Wits Medical Consulting, to broader its presence in China. In May 2014, Icon completed its acquisition of Aptiv Solutions for $143.5 million in cash (1.2x revenues), which doubled its presence in Japan and improved its ability to execute adaptive clinicals while using a proprietary software, Addplan.

Valuation

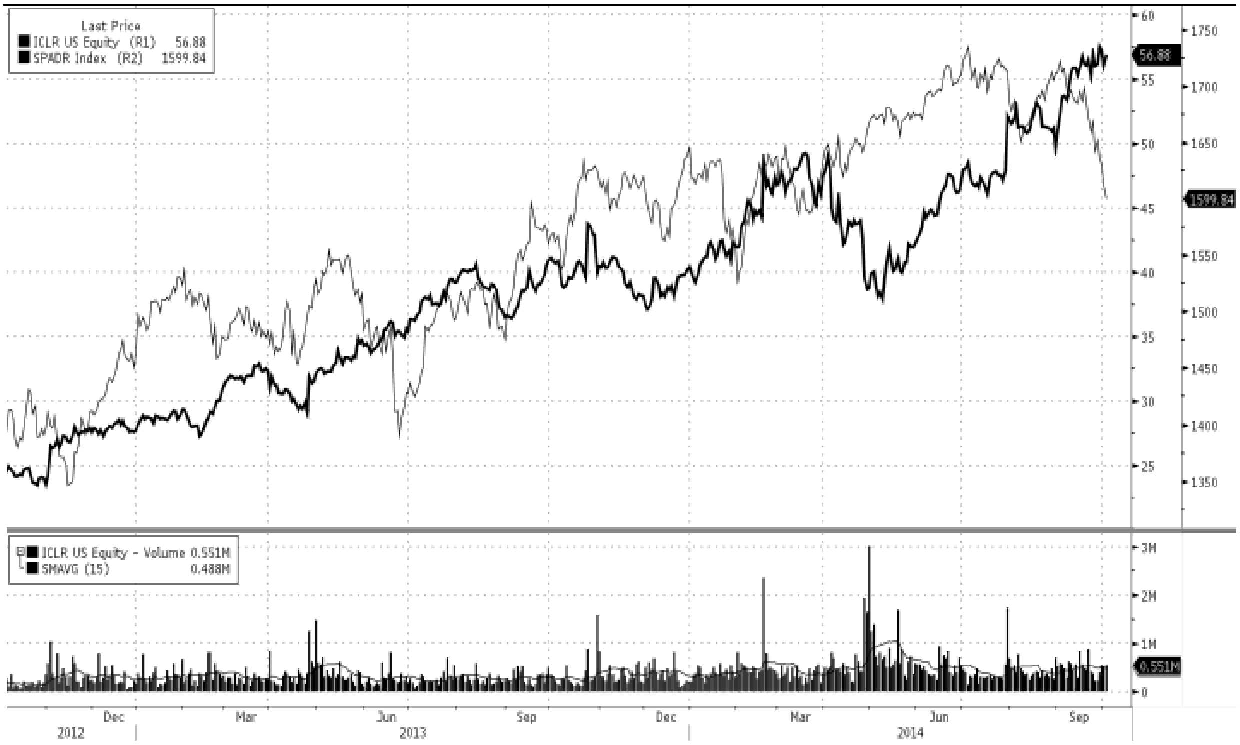
In order to reach an intrinsic value for ICLR, a five year discounted cash flow model was conducted. Using a terminal growth rate of 2.00% and a WACC of 8.77%, the DCF resulted in a valuation of $71.13. The sensitivity analysis on both the terminal growth rate and WACC provided for a range between $65.58 and $77.79. In addition, an EV/EBITDA comparison valuation was done for ICLR. Weighting the historical average of 11.04x (60%) and the peer mean of 12.96x (40%), the blend came up to be 12.19x, resulting in a valuation of $62.28. By weighing the FCF model and the EV/EBITDA multiple evenly, a price target of $66.70 was established, which represents a potential upside of 17.27%. ICLR does not pay dividend.

Risks

- **Unsure Global R&D Rates and Outsourcing Decisions Future.** The whole CRO industry is exposed to changes in the global R&D spending rates and pharmaceutical and biotech firms' preferences of outsourcing decisions. The pharmaceutical firms' change of outsourcing strategies and R&D spending rates can influence ICLR's performance.
- **Overly Conservative Balance Sheet.** ICLR's Debt/Equity Ratio is approximately 0% during the past ten years, and its current net cash is $321 M. The company does not have any dividend issuing news or bolt-on acquisitions recently. This might create potential risks for investors to pursue higher return opportunities.

Management

Ciaran Murray has served as the Chief Executive Officer since October 2011, and was the Chief Financial Office since 2005. Brendan Brennan has served as the Chief Financial Officer sincec 2012, and he was the Acting Chief Financial Officer since 2011. Dr. Steven Cutler was appointed as the Group President of the Clinical Research Services since 2011. Prior to joining Icon, Mr. Cutler was the Chief Executive Officer of Kendle.



Ownership		
% of Shares Held by All Insider & 5% Owners:		8.22%
% of Shares Held by Institutional & Mutual Fund Owners:		80.90%
		Source: Yahoo Finance

Top 5 Shareholders		
Holder	Shares	%Out
Earnest Partners LLC	5,586,000	9.07%
Neuberger Berman Group LLC	5,501,398	8.93%
Wasatch Advisors Inc	2,852,956	4.63%
Boston Partners	2,301,021	3.74%
Legg Mason Inc	1,984,670	3.22%

Peer Group	
Name	EV/EBITDA
Covance Inc.	12.8x
Parexel International Corporation	12.4x
Charles River Laboratories	13.8x
Quintiles Transnational Hold	12.8x
	Source: Bloomberg

Horizon Pharma plc (HZNP)
October 10, 2014

Alex Ibrahim — Domestic Health Care

Horizon Pharma plc (NASDAQ: HZNP), a specialty pharmaceutical company, through its subsidiaries, develops and commercializes medicines for the treatment of arthritis, pain, and inflammatory diseases. The firm currently has a portfolio of four drugs targeting unmet therapeutic needs in primary care, and orphan diseases. It offers ACTIMMUNE for the treatment of granulomatous disease (GD) and Severe Malignant Osteoporosis (SMO); DUEXIS, a proprietary tablet for the treatment of rheumatoid arthritis (RA) and osteoarthritis (OA) pain while decreasing the risk for developing gastrointestinal ulcers; VIMOVO, a proprietary fixed-dose multi-layer delayed-release tablet for the relief of OA, RA, and ankylosing spondylitis (AS); and RAYOS, a proprietary delayed-release formulation of low-dose prednisone for the treatment of RA, AS, asthma, and various other conditions. Horizon Pharma was founded in 2005 in Palo Alto, CA, and relocated in 2008 to Deerfield, Illinois; however, based on a recent acquisition, the firm has relocated its tax domicile to Dublin, Ireland as of September 2014.

Price ($) (10/06/2014)	12.23	Beta:	1.04	FY: December	LTM	2014E	2015E
Price Target ($):	22.91	WACC:	11.2%	Revenue (Mil)	$ 174.3	$ 278.9	$ 376.5
52WK Range ($):	3.50-18.30	M-Term Rev. Gr Rate Est:	36.0%	% Growth	135.5%	60.0%	35.0%
Market Cap:	914.4M	M-Term EPS Gr Rate Est:	56.1%	Gross Margin	75.3%	75.3%	75.3%
Float :	66.1M	Debt/Equity:	142.3%	Operating Margin	-8.0%	12.3%	18.0%
Short Interest (%):	22.0%	ROA:	-140.7%	EPS (Cal)	-$5.11A	-$2.11	$ 0.41
Avg. Daily Vol:	2.86M	ROE:	-453.6%	FCF/Share	$ 0.96	$ 0.59	$ 0.93
Dividend ($):	-			P/E (Cal)	NM	NM	30.20x
Yield (%):	-			EV/EBITDA	635.74x	16.23x	9.12x

Recommendation

Since its founding in 2005, Horizon has positioned itself for continued success through strategic acquisitions, partnerships, and product development. The firm's focus on targeting unmet therapeutic needs in primary care and orphan drugs can be seen in its current product portfolio. Although HZNP has posted negative earnings throughout its history, its recent acquisition of Vidara Therapeutics International plc further accelerates Horizon's transformation into a profitable specialty biopharmaceutical company. This recent transaction provides a strong operating and financial platform for future growth by reducing the firm's tax rate (through a maneuver known as a tax inversion) and utilizing the existing sales force to expand distribution of acquired drugs. This scalable business model will position the firm to continue down a path of accretive acquisitions as well as organic growth. With the Vidara Therapeutics International plc acquisition complete, the firm now has access to Actimmune which has an above average growth profile due to its versatile nature and price elasticity. Actimmune currently has orphan drug status issued for the treatment of GD, SMO, and for the possible treatment of Friedreich's Ataxia (FA). Actimmune's orphan status for the treatment of GD, SMO, and FA allows the firm to sell the drug with no competition for seven years, allows for pricing power, and enables the firm to claim various tax incentives related to product development. Duexis, Vimovo, and Rayos have patent protection lasting until 2023, 2024, and 2022, respectively. Based on the above factors as well as a favorable valuation, it is recommended that HZNP be added to the AIM Equity Fund with a price target of $22.91. This valuation represents a potential upside of 87.32%; the firm does not pay a dividend.

Investment Thesis

Potential Actimmune Expansion Opportunities. HZNP is scheduled to host an Investor Day on October 13, 2014 to discuss the opportunity for Actimmune to treat FA. The firm will attempt to expand into this space should Phase 2 data from its trial show favorable results. Actimmune currently will grow to contribute ~$130MM in annual sales by 2021; however, with this expansion, Actimmune sales could add up to $500MM in revenue annually. With patents lasting until 2022 and orphan drug designation granted to Actimmune, the gross margin is currently near 90%. The firm believes they can successfully maintain this margin through any growth opportunity by leveraging the existing sales force to market the drug to new end users.

- **Actimmune Pricing Power.** Horizon recently increased the price for Actimmune from $280K to $308K on an annual basis per patient. However, there is still significant growth potential in pricing. Other orphan drugs on the market sell in the range of $500-600K per year. On HZNP's earnings call, management said "As we move forward with integration activities, including the addition of Actimmune to our commercial portfolio, we are finalizing our growth strategy for Actimmune. Our focus includes determining optimal pricing."
- **Vimovo and Duexis Address an Unmet Medical Need.** NSAID induced GI toxicity results in 107k hospitalizations and 17k deaths annually. Prescription strength NSAIDs taken alone result in approximately 50% of users experiencing a GI intolerance related incident. Vimovo and Duexis are both formulated by combining NSAIDs, Naproxen and Ibuprofen, respectively, with gastrointestinal protectants. Clinical trials show approximately 14% of users experiencing a GI intolerance related incident when prescribed Vimovo or Duexis. These drugs are both protected by patents until 2023 and 2024.

Valuation

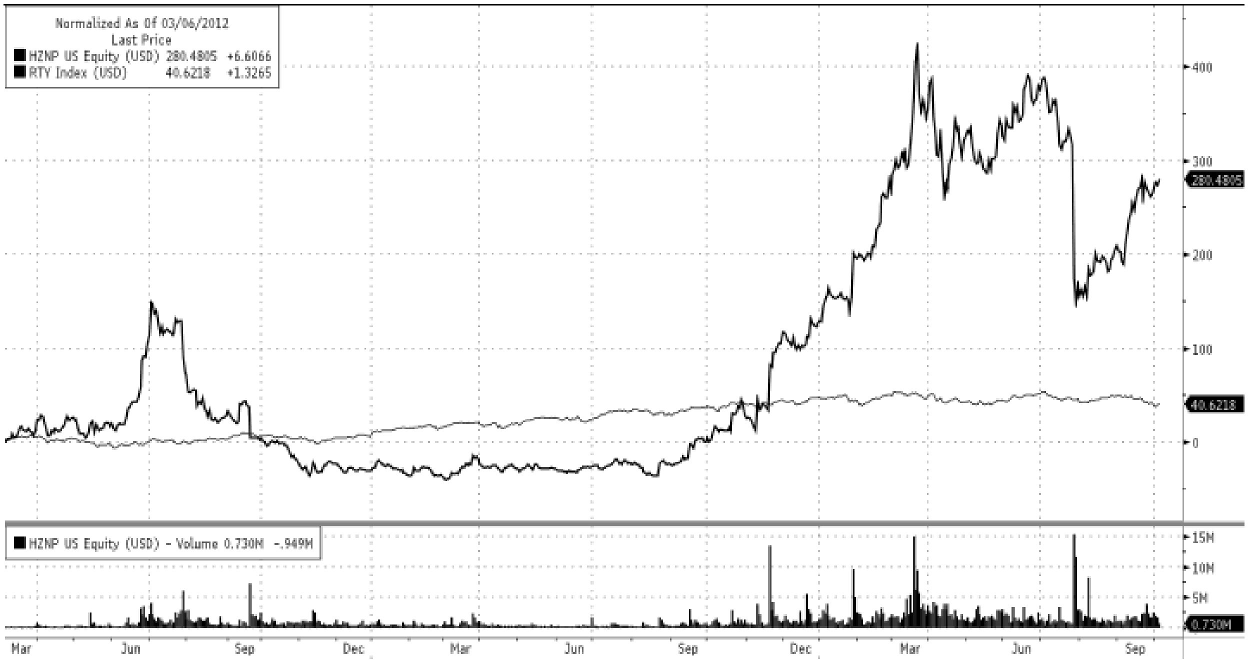
In order to reach an intrinsic value for Horizon Pharma, a 10 year DCF model was conducted. Using a terminal growth rate of 2.5% and a WACC of 11.24% resulted in a valuation of $19.74. Sensitivity analysis on both the WACC and terminal growth rate provided a price range of $16.98-$23.65. Additionally, a Price to Sales analysis was conducted. Using the industry P/S multiple of 10.9x and a current P/S multiple of 4.82x, a value of $27.66 was obtained. By weighing the DCF model 60%, the P/S multiple 40%, a price target of $22.91 was established. HZNP does not currently pay a dividend.

Risks

- **CVS Caremark and Express Scripts Formulary Decisions.** In August 2014, Horizon was verbally notified that CVS Caremark and Express Scripts plan to remove Duexis and Vimovo from their formularies. Based on analyst expectations and firm management, short term revenues are not expected to decline more than 15% as a result of the firm's "Prescription Made Easy" program. Many of these revenue declines can also be offset through a price increase in Actimmune.
- **Tax inversion legislation.** Although the shift in tax domicile has already occurred, there is a chance that the U.S. Government may retroactively outlaw the practice of tax inversions. Should this occur, Horizon's future tax rate may increase significantly. For this purpose, the tax rate utilized in the DCF model is more in line with a U.S. domiciled firm.

Management

Timothy Walbert has served as the CEO of Horizon Pharma since June 2008. Prior to serving as the CEO of Horizon, he held the position of CEO at IDM Pharma, Inc., which was acquired by Takeda America Holdings, Inc. Mr. Walbert received his B.A. in Business from Muhlenberg College. Paul Hoelscher has been serving as the CFO since June 2014. Prior to assuming the role of CFO, Mr. Hoelscher was the VP of Finance-Treasury at OfficeMax, Inc. Jeffrey Sherman, M.D. has been serving as CMO since June 2009. Prior to joining Horizon as CMO, he was the CMO at IDM Pharma, Inc. Dr. Sherman received his medical degree from the Rosalind Franklin University/Chicago Medical School.



Ownership	
% of Shares Held by All Insider and 5% Owners:	31%
% of Shares Held by Institutional and Mutual Fund Owners:	45%

Top 5 Shareholders		
Holder	**Shares**	**% Out**
Essex Woodlands Health Ventures	5,815,940	7.78%
FMR, LLC	4,425,068	5.92%
Broadfin Capital, LLC	4,353,214	5.82%
Fidelity Select Portfolios - Biotechnology	3,387,446	4.53%
State Street Corporation	3,070,378	4.11%

Public Comps		
Company	**P/S (LTM)**	**Market Cap ($)**
Pozen, Inc.	11.12x	253.20M
Progenics Pharmaceuticals	42.91x	342.20M
Sucampo Pharmaceuticals	3.23x	307.80M
Epirus Biopharmaceuticals	2.43x	86.50M
Amgen, Inc.	5.35x	104.53B
Biogen Idec, Inc.	9.22x	76.76B
Sunesis Pharmaceuticals, Inc.	10.16x	88.20M
SciClone Pharmaceuticals, Inc.	2.80x	346.30M

The Fresh Market (TFM)

October 10, 2014

Thomas Dickinson | Consumer Staples

The Fresh Market (NASDAQ: TFM) is a fast-growing specialty grocery retailer based in the southeastern region of the United States. The company, which opened its first store in 1982 in Greensboro N.C, focuses on creating an extraordinary shopping experience. TFM looks to create a unique shopping trip by offering high-quality food products with an emphasis on fresh, small portion, premium perishables. TFM attempts to offer a convenient shopping environment with a commitment to superb customer service. The company currently operates 160 stores which are located in 26 different states - with their greatest concentration in Florida, where they operate 38 stores. The company uses replicable store formats featuring an aesthetically pleasing environment, which lowers costs and allows the customer to feel familiar with a TFM store, no matter where they are shopping. The store focuses on a high-margin small-box format, emphasizing perishables (meat, seafood, produce, and dairy) (65.4% rev). The Fresh Market had sales of $1.5B for FY 2013, an increase of 13.7% Y/Y.

Price (10/6/14)	$36.14	Beta	0.66	FY	2013 (A)	2014 (E)	2015 (E)
Price Target	$49.51	WACC	8.82%	Revenue (mil)	$1,511.66	$1,687.15	$1,887.07
52 WK H-L	28.6-53.76	M-Term Rev Gr Rate E	11.61%	% Growth	13.73%	11.61%	11.85%
Market Cap (mil)	1.76B	M-Term EPS Gr Rate E	16.76%	Gross Margin	34.09%	34.42%	34.89%
Float (mil)	40.1	Debt/Equity	9.64%	Operating Margin	5.52%	7.66%	8.68%
Short Interest (%)	27.00%	ROA	18.10%	EPS (Cal)	$1.05	$2.43	$3.12
Avg. Daily Vol (K)	61.83	ROE	39.49%	FCF/Share	$0.25	$1.90	$2.03
Dividends (Yr)	$0.00	ROIC	28.83%	P/E (Cal)	35.68	43.63	23.01
Yield (%)	0.00%			EV/EBITDA	12.69	9.31	8.02

Recommendation

The Fresh Market operates in the rapidly expanding 'specialty' sub-sector of the retail grocery industry. Specialty retailers, especially those with an emphasis on healthy fresh food, have had an advantage in moving SKU's over large retailers. TFM had inventory turnover of 21.5x (16.9 days) vs. grocery retail average of 16.2x (25.4 days). This improved measure is the result of an improved economy, increasing disposable income (FL avg. income has risen over 1.10% YoY), and industry trends (i.e. natural and organic product sales have grown 10.9% YoY while total grocery sales have grown 1.3%). TFM has grown their revenues by a CAGR of 11.9% ($861.9mm to $1511.6mm) over the last five years. More importantly, they are poised to continue this growth. Due to the firm's unique product/service offering, which focuses on premium perishable foods with an emphasis on customer service, they have produced higher than industry average operating margins (5.52% vs. 3.03%). TFM has been able to generate positive FCF consistently since going public in 2009, despite investing heavily in their rapid expansion (8.6% CAGR store growth rate over 5 yrs., 100 to 151 stores). While the firm expects to continue with its strategy of store expansion, it also expects to improve its margins as it experiences improved economies of scale with only minimal leverage. TFM closed four unprofitable stores in 2013 which lead to earnings misses for 4Q13 and 1Q14, resulting in the stock dropping to near its 52 week low. This overreaction by the market has created an opportunity for an attractive entry price for the AIM Fund. For these reasons it recommend that TFM be added at a price target of $49.51, offering a potential upside of over 35%.

Investment Thesis

- **Expanded Store Base:** The firm recently hired a real estate consulting firm to conduct a whitespace analysis which indicated that the goal of 500 total stores is achievable, but more importantly that the southeastern region has enough whitespace to double the current number of stores (104). Existing stores generate ~$10mm per store and the doubling of stores in the SE region should generate additional annual revenue of over $100mm and NI of $70mm. Total store square footage is 3,200,000 ($472/Sq. Ft) and is expected to grow ~13.5% per year or $204mm of additional revenue without margin expansion. TFM also has significant opportunity to move into the NE and MW regions, although have stated this is not as large of a focus as the SE at this time.

- **Margin Expansion:** Due to the emphasis on perishable goods, distribution plays a large role in the cost structure at TFM. With the constant need for fresh products, high emphasis is placed on the distribution network. Store expansion, especially within the existing geographic target markets, will allow them to benefit from economies of scale in sourcing products, as well as allowing leverage on purchasing and supply chain costs. Similarly, as store expansion takes place, corporate can leverage existing infrastructure, corporate overhead, and labor expenses. All of these factors are expected to improve TFM's operating margins. Management does not expect margins to improve substantially in any given year as they will invest boosted operating profits into deleveraging leases and increasing sales with promotional activity.
- **Industry Expansion Trends:** As the economy continues to improve consumers have begun shifting their focus on groceries from the lowest cost goods to improved product quality and shopping experience. Through marketing studies, TFM has found that customers do not shop purely at one grocery store. Shopping at TFM is a positive experience despite the slightly higher costs than found in a traditional supermarket. Management does not feel that they exclude any substantial demographic segment with their pricing structure. TFM's products are gaining market share and sentiment from consumers, while their commitment to service differentiates them from other natural and organic food retailers.

Valuation

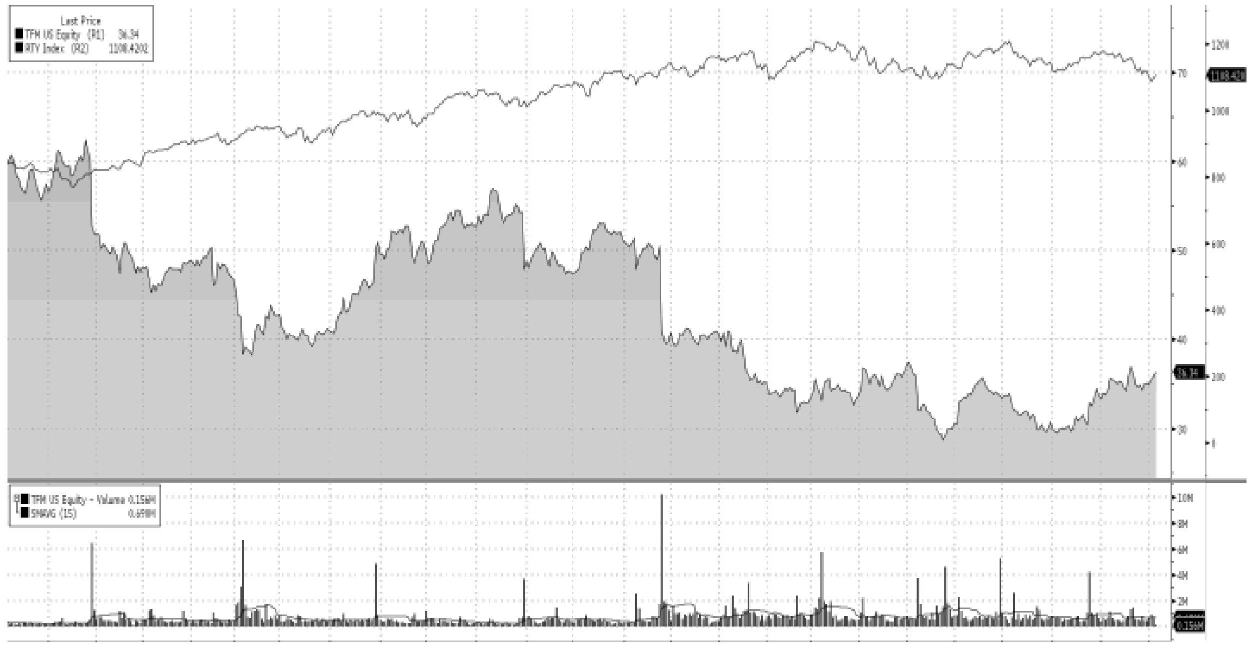
In order to determine a target price for TFM, a DCF model and an EV/EBITDA model were utilized. A WACC discount rate of 8.82% and terminal growth rate of 2.25% yielded an intrinsic value of $48.33. A sensitivity analysis varying the WACC ±1% and terminal growth rate ±.5% resulted in a valuation spread of $44.62 to $53.37. For the EV/EBITDA valuation, a 5 year future EV to EBITDA simulation was run resulting in a price target of $51.28. Weighting the DCF slightly higher than the EV/EBITDA valuation yielded a final target price of $49.51, offering an upside of 35.8%.

Risks

- **New Stores May Not Be Able to Open in Timely or Profitable Manner:** While management has done the leg work in modeling out a business plan to increase property and stores in a profitable manner, success is not guaranteed. The company opened stores in California and Texas in 2012/2013, but had to close two of them due to unprofitable nature. This could happen again.
- **Increasing Industry Competition:** Food retailing is a fragmented competitive industry and there are other grocery retailers operating in TFM's markets. Competitors compete on product selection, quality, customer service, store format, location and price. While the number of natural and organic competitors rises, TFM feels that they have differentiated themselves in enough ways to protect against margin pressure, which is the largest downside to competition.
- **Reliance on Distribution:** With such a strong weighting towards premium perishable goods, there is risk in the distribution channel. TFM, and all grocers for that matter, rely on having products in stock and not perished. While the firm has not had any trouble with their distribution networks before, if a breakdown were to happen it would be very costly to not only top and bottom line but also brand reputation.

Management

Craig Carlock has served as the President and CEO of TFM since 2009 – he joined the firm in 1999 as the Director of Marketing. He previously worked at P&G and holds his M.B.A. from the University of Virginia. Since 2013 Jeff Ackerman has served as the CFO. He previously served as the CFO of Sealy Corporation. Mr. Ackerman holds his M.B.A from the University of Texas.



Ownership	
% of Shares Held by All Insiders and 5% Owners:	21%
% of Shares Held by Institutional & Mutual Fund Owners:	80%

Source: Yahoo Finance

Top 5 Share Holders		
Holder	Shares	% Out
Scopia Capital Management	3,804,813	7.86%
Columbia Wanger Asset Mngt	2,753,400	5.69%
Vanguard Group	2,383,179	4.92%
Global Thematic Partners	2,356,031	4.87%
Taube Hodson Stonex Partners	2,193,102	4.40%

Source: Yahoo Finance