Please refer to Appendix - Important Disclosures and Analyst Certification.

Click headline below for a note summary. 
Click headline within summary for the full note.

Consumer / Retail
DRI: Darden Restaurants, Inc.: Reaffirms F2015 Guidance and Provides Quarterly Perspective
Softline & Department Store Retail: Q2 Department Store Preview
Hardline & Broadline Retail: Home Improvement 2Q Preview: Expect Solid Results and Firm Outlooks
WMT: Wal-Mart Stores, Inc.: 2Q Preview: Expect Sluggish Sales, but Relatively In-Line EPS

Energy
HASI: Hannon Armstrong Sustainable Infrastructure Capital: Q2 Shows Strong Execution
HE: Hawaiian Electric Industries: Successful Cost Containment and Investment Recovery Fuel 2Q14 EPS Beat
Plains All American Pipeline (PAA/PAGP): 50 in a Row.. Capped Off with Another Beat
SFY: Swift Energy Company: Strategic Concerns Linger; Risks Remain Elevated

Financial Institutions
GARS: Garrison Capital Inc.: Incrementally Positive Following Encouraging 2Q14 Results
MRCC: Monroe Capital Corporation: Reaches Milestone of Dividend Coverage

Health Care / Life Sciences
DNDN: Dendreon Corporation: Q214 Report Does Little to Change Our Thesis
ENTA: Enanta Pharmaceuticals, Inc.: Quiet 3Q14 Earnings as Approval/Launch Looms
EXAS: Exact Sciences Corporation: Cologuard Wins FDA Nod, Proposed CMS National Coverage
TECH: TECHNE Corp.: FY4Q Shows Strategic Plan Working, End Markets Improving
RARE: Ultragenyx Pharmaceutical Inc.: Q214 Print Uneventful; Catalyst Setup Over Next Few Months Anything But

Industrial
Diversified Industrial & Machinery: Large Ag Equipment Retail Sales Declines Continue in July
LABL: Multi-Color Corp.: Top-line Stable—Margin Expansion Underway—Reiterate Outperform Rating
PLL: Pall Corporation: Remain Buyers, Tuning FY15 Forecasts for Macro
RRTS: Roadrunner Transportation Systems, Inc.: Largest To-Date Acquisition Expands Expedited Services Footprint

Real Estate
AHP: Ashford Hospitality Prime, Inc.: 2Q14 Recap: Still on the Sidelines Despite Easier Comps in 2H14
DRH: DiamondRock Hospitality Co.: 2Q14 Recap: NYC Ahead of Expectations; Growth to Accelerate in 2H14
SHO: Sunstone Hotel Investors, Inc.: 2Q14 Recap: Near-Term Growth Muted as Leverage Target Attained
Technology & Services

Information & Education Solutions: Information Solutions Tidbits
Information & Education Solutions: Education Tidbits
ARMK: ARAMARK: Thesis Well On Track, Guidance Screens Conservatively
CVG: Convergys Corporation: Initial Comments on Q2 Results
FCS: Fairchild Semiconductor Int'l, Inc.: 2Q14 Quarterly Filing Key Takeaways
Diversified Industrial & Machinery
Large Ag Equipment Retail Sales Declines Continue in July

US and Canada large ag equipment retail sales declines continued in July, with 4WD tractor sales down 20.8% year/year (down 24.1% last month) and combine sales down 30.1% (down 25.0% last month). Inventory levels rose year/year across all equipment categories except combines, with continued risk for inventory destocking in 2014/15 given projected sales declines.

- **US and Canada large tractor and combine retail sales decreased 10% year/year in July**, improving from the 19% decrease in June.
  - US sales decreased 7% year/year; Canadian sales decreased 23%.
- **Combine retail sales fell**, posting a 30.1% year/year decrease in July following a 25.0% decrease in June. L3M sales declined 26.9% on a year/year basis following a 20.2% L3M decrease last month.
  - US combine inventories were 1.2% lower year/year in absolute terms in June (versus up 0.2% last month); days-sales (71) was up from last year (65).
  - July is typically an above-average month for combine sales, accounting for 11.5% of annual sales over the last five years.
- **Row crop tractor sales increased**, posting 1.8% year/year growth, up from the 16.1% decrease observed in June; L3M sales decreased 10.3%.
  - US row crop tractor inventories increased 10.9% year/year in June versus a 2.0% increase in May. On a days-sales basis, inventories were higher year/year at 121 days-sales (versus 109 days-sales in June 2013).
  - July is typically a below-average month for row crop tractor sales, accounting for 7.3% of annual sales over the last five years.
- **4WD tractor sales declined**, down 20.8% year/year in July vs. a 24.1% decrease in June.
  - US dealer inventories of 4WD tractors increased 8.6% year/year in June, while days-sales of inventory was 93 compared to 78 in the prior year.
- **Mid-range tractor sales rose in July**, up 7.2% year/year after a 2.8% increase last month. Compact tractor sales increased 4.7% year/year, down from the 12.9% increase last month.
- **The August WASDE report will be released tomorrow.**
Information & Education Solutions

Information Solutions Tidbits

Our information solutions news summaries provide information, insight, and analysis on recent news across the industry. In addition to recent industry news, we focus on macro data points and demand drivers affecting the target end markets of our covered companies, including the Auto, Consumer, Energy, Healthcare, IT, Patent and SME verticals.

■ Highlights from VRSK investor meetings. Verisk Analytics remains our top idea following investor meetings with management, and we recommend investors use LTM/YTD underperformance to buy what we view as a core long-term holding. (Link to our note with takeaways from our meetings)

■ Info Solutions companies reported solid Q2 results.
  - Gartner (IT) reported strong Q2 results, with the beat aided by timing factors, but underlying performance also strong and better-than-expected. (Link to our full note)
  - Dun & Bradstreet (DNB) also reported a solid quarter as the company’s turnaround plan appears to be gaining underlying traction. (Link to our full note)

■ Improving underlying loan trends could gain an additional boost, with announced changes at FICO (FICO; not covered) expected to potentially add up to 25 points to some borrowers’ credit scores.

■ Solid advertising trends drive growth for leading media companies.
  - CBS Corporation (CBS; not covered) exec Leslie Moonves also discussed strong digital trends (incl. VOD, and SVOD) on the company’s Q2 earnings conference call, and notably also highlighted an increased focus on C7 ratings, which reportedly played a “major part of upfront negotiations, including a number of breakthrough deals with key agencies.”
  - AOL (AOL; not covered) reported strong Q2 results, with a 12% y/y increase in revenue and 20% y/y increase in global advertising (incl. acquisitions).

■ Mortgage applications increase slightly. Mortgage Bankers’ Association (MBA) weekly applications increased 1.6% w/w (-35% y/y vs. -36% y/y last week), driven by refi app improvement (+4% w/w) with purchase applications down 1% w/w.

■ Samsung and Apple end international patent fight. Following years of litigation, the tech giants called an abrupt end to their international patent fight, although both companies still plan to pursue cases within the U.S. (Reuters)

■ Sector performance: Information Solutions companies increased 1.6% (market-cap weighted) for the week, and outperformed relative to an S&P 500 gain of 0.3%.

■ Please click on the link to our PDF to access the full report.

INDUSTRY UPDATE

Prices as of 8/8/14

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Baird covered companies

August 12, 2014

Morning Report

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Information & Education Solutions

Education Tidbits

Our education news summaries provide information, insight, and analysis on recent announcements across the for-profit and non-profit education sectors, including companies within K-12 education, post-secondary education, e-learning & training, and international education.

- **Education stocks post mixed C2Q results.**
  - DeVry Education Group (DV) once again reported results that were very mixed by segment, with the company’s Medical & Healthcare segment continuing to perform exceptionally well, but BTM/DVU still struggling to find its footing. ([Link to our note](#))
  - Bright Horizons (BFAM) posted solid, roughly in-line Q2 results, with slightly better-than-expected revenue, roughly in-line adj. EPS, and maintained 2014 guidance (albeit with puts and takes by quarter). ([Link to our note](#))
  - Rosetta Stone (RST) reported mixed Q2 results, in our view, with EBITDA near the midpoint of management’s guidance range and consensus (albeit roughly break-even), but continued pronounced weakness in consumer language learning. ([Link to our full note](#))

- **Agora Cyber Charter school RFP update.** Agora Cyber Charter School (~14% of LRN’s F’13 revenue) last week voted at its monthly board meeting to move several managed services in-house, effective July, 2015, after previously announcing that it planned to pursue an RFP process. While the scope is expected to be reduced, significant questions also remain, including what services LRN will ultimately provide and at what price/margin.
  - [Link to our note with additional highlights](#), as well as our previous thoughts on the announced RFP.

- **Edmodo, K-12’s largest social learning network, raises $30 million in Series D financing** (bringing total capital raised to ~$87 million). The company, which was founded in 2008, has now grown to include more than 36 million teachers and 220,000+ schools. ([edSurge](#))

- **Improving state budgets aid a rebound in job force training initiatives.** Louisiana announced a new $40 million investment in workforce-related academic programs. ([Inside Higher ED](#))

- **Sector performance:** Education stocks underperformed for the week, with post-secondary companies down 1.8%, and other ed companies down 2.8% (both market-cap weighted), compared to an S&P 500 gain of 0.3%.

Please click on the link to our PDF to access the full report.

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**INDUSTRY UPDATE**

Prices as of 8/8/14

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Price</th>
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</tbody>
</table>

Baird covered companies

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Ashford Hospitality Prime, Inc. (AHP)

2Q14 Recap: Still on the Sidelines Despite Easier Comps in 2H14

Maintaining Neutral rating, lowering price target to $19 (-$1). Shares continue to trade at a significant discount to our NAV estimate, and we do not expect the discount to narrow in the near term given a dearth of upcoming catalysts. Additionally, despite an expected acceleration in growth in 2H14, exposure to Chicago, Washington D.C., and Philadelphia should hold back the portfolio’s longer-term growth profile. If its cost of capital remains elevated, we expect Prime to remain focused on organically delevering.

- **Growth acceleration expected but upside potentially capped due to geographic exposure.** While we expect Prime’s outsized exposure to underperforming markets (Washington D.C., Philadelphia, and Chicago) to continue weighing on growth, improving citywide calendars and limited renovation activity should drive an acceleration of growth in 2H14 (July RevPAR +11.4%). Additionally, flow-through should improve as increased incentive management fees (predominately at the Courtyard San Francisco Downtown) and property taxes anniversary during 3Q14 and 4Q14, respectively.

- **Cost of capital remains challenged but pipeline active.** While Prime continues to actively pursue deals, management noted competition for assets in gateway markets has increased, especially internationally, and it expects to remain extremely selective given its elevated cost of capital. However, Trust’s recent debt refinancing likely increases Prime’s available pipeline as three right of first offer assets were unlocked that Prime could potentially acquire (Hyatt Regency Coral Gables, the One Ocean hotel in Jacksonville, and the Crowne Plaza Beverly Hills). However, Prime is unlikely to acquire the Crowne Plaza until the conversion to a Marriott is completed in 1H15, in our opinion.

- **Valuation attractive but catalysts elusive.** At 12.5x 2015E EBITDA, Prime continues to trade at a 0.5x-2.0x discount to peers, and Prime’s public market valuation remains discounted relative to private market transactions. However, given Prime’s high cost of capital we believe management is currently focused on organically delevering toward its 5.0x net-debt-to-EBITDA target instead of external growth, which could continue to constrain the stock in the near-term, in our opinion; leverage was 6.25x at the end of 2Q14. However, as Trust becomes increasingly active in the transaction market, optionality could increase for Prime to creatively source deals in conjunction with Trust.
ARAMARK (ARMK)
Thesis Well On Track, Guidance Screens Conservatively

Reiterate Outperform rating. Revenue and adjusted operating income/EBITDA were in line, with a lower tax rate/interest expense driving an adjusted EPS beat and supporting a raise to full-year guidance. New business wins remain solid with ARMK arguably outperforming its peers in international markets and benefiting from heavier North American exposure. We see F4Q14 guidance remaining conservative with multi-year growth parameters forming the basis for F2015 expectations, with additional SG&A cost opportunity providing additional margin support.

- Adjusted EPS beats on tax/interest expense; operations in line. Revenue of $3.620 billion was up 4% organically and squarely in line with consensus estimates, with adjusted EBIT/EBITDA ($192.4MM / $288.7MM) generally matching our estimates and showing 20 bps of YOY margin expansion, management's target. A lower-than-expected tax rate and interest expense drove adjusted EPS to $0.32 (+14% YOY), above our/consensus $0.27/$0.26 estimate.

- Guidance raised, benefits from "conservative" non-operating items. Citing YTD results, management raised full-year adjusted EPS guidance to $1.45-1.50 (from $1.35-1.45), compared to the $1.42 consensus.
  - Implied F4Q14 guidance of $0.30-0.35 compares to the $0.36 consensus though screens excessively conservative when balanced by recent savings from refinancings and a lower-estimated tax rate.
  - With underlying business healthy (as good or better than expected), we remain well above the guidance range, noting management guidance has thus far proven to be conservative, post-IPO.
  - Importantly, F2015 may find support from additional (incremental) SG&A-led cost saving initiatives, with non-operating items also a source of longer-term upside, relative to consensus expectations.

- Operating top-line results appear generally in line with expectations. Organic revenue grew +4% YOY overall, with Food and Support Services -- North America +4% (versus our +3.8% estimate), Food and Support Services -- International +6% (versus our +5.0% estimate) and Uniform and Career Apparel +3% (versus our +3.5% estimate). Adjusted EBIT margins improved to 5.3%, +20 bps YOY, matching our expectation and management's annual targets.
  - On balance, we see ARMK outperforming peers Internationally, supported by a steady North American base business underpinning with several solid new wins. Uniform performance, while lagging competitors' growth rates, offers longer-term opportunity, in our view.

- Bottom line. With low-double-digit EPS growth and steady cash flow-led deleveraging driving equity returns, we see ARMK remaining an attractive multi-year holding within an otherwise choppy market, with valuation still reasonable.
Convergys Corporation (CVG)
Initial Comments on Q2 Results

We expect the stock to be flat to down slightly today as full-year revenue guidance was reduced; risk/reward remains balanced, in our view, given ongoing execution/integration risk. Q2 revenue/EPS results were slightly above Street estimates, but the reduced revenue outlook is now below our/consensus estimates (EPS guidance intact). The stock trades at a 24% discount to the S&P NTM P/E (a three-year relative low) which should provide nice downside support; we would warm to the stock more below $19.

- Q2 operating results were above Street estimates.
  - Adjusted EPS of $0.34 was in line with our estimate (consensus $0.32).
  - Revenue of $736 million reflected -4% yoy organic growth (below our $756 million estimate, but above consensus $733 million).
  - FCF/share was $0.42, above adjusted EPS of $0.34.
  - Cash usage: CVG repurchased 0.5 million shares during Q2 for $11 million. Thus far in Q3, CVG has repurchased 0.2 million shares for $4 million. $118 million remains on its existing authorization.

- Management lowered full-year revenue guidance; EPS guidance intact.
  - Revenue of at least $2.85 billion (previously $2.90 billion+; we were $2.91 billion, consensus $2.92 billion).
  - Adjusted EBITDA of $350-360 million (unchanged).
  - Adjusted effective tax rate of approximately 23% (unchanged).
  - Diluted share count of approximately 107 million (previously 108 million; we were 107.8 million).
  - Adjusted EPS of $1.45-1.50 (unchanged).
  - Sequential increases in Q3 and Q4 results compared to Q2 results.

- Our revenue estimates for 2014 are likely biased lower; EPS estimate will likely not change much.

- We look to the call for more details on:
  - Stream's contribution to Q2 revenue and any color on the integration and segment breakdown.
  - Margin progression going forward given all the moving parts with the Stream integration.
  - Industry demand trends.
  - Additional details on the lower-than-anticipated volumes from some of the largest communications clients (the Communications segment contributes ~55% of CVG total revenue).

- Consider risk/reward to be generally balanced at ~6.0X NTM EBITDA (including Stream); improving risk/reward below $19.
  - While we like the good historical execution and solid FCF generation, we are content to remain on the sidelines given the added execution risk from the Stream acquisition and the additional leverage that came with it. We note that historical call center takeouts have been 5.5-7.0X NTM EBITDA.

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Dendreon Corporation (DNDN)
Q214 Report Does Little to Change Our Thesis

Reiterate cautious outlook following DNDN’s Q214 report. Bottom line, despite continued management reshuffling and cost-cutting initiatives, these moves do nothing for addressing the two key issues facing DNDN: establishing sustained, increasing Provenge demand, and a looming convertible debt wall approaching in January 2016. With zero visibility into how the company plans to address either problem, our price target stays unchanged at $3 and we remain firmly on the sidelines.

- **Q214 beats, but doesn’t matter much in bigger picture.** In a 10-Q published last night, DNDN reported net Provenge revenue of $82.2M (+19% Q-Q; Q114: $68.8M), which beat both consensus $72.5M, RWB $73.1M. Three points:
  - Broader Provenge demand remains a fundamental question. Q214 guidance called for a revenue bounce-back similar to 2013 pattern, and while reported figures were quite positive (19% Q-Q growth in Q214 vs. 8% Q-Q growth in Q213), but a more sustained turnaround is necessary before getting constructive. This becomes more significant particularly with continued competitive headwinds from Zytiga and Xtandi.
  - Convertible debt just as important. DNDN has $620M convertible notes due January 2016, yet just ~$127M cash on hand. Management continues to indicate addressing this debt remains a top priority; however, still no specific visibility provided as to how this will be accomplished. Updated language in the DNDN filing now acknowledges that the company may be unable to repay or refinance this debt, which could pose significant risk to investors.
  - EU launch seems to be on, but timing unclear. Prior guidance indicated the first EU commercial patient would be treated Q414. While DNDN still indicates launch will commence once automation is on-line, it’s unclear if this is still meant to occur in the Q414 period. No changes to our estimates, which already incorporate this launch.

- **Remain firmly on the sidelines.** Continued cost-cutting is necessary, but with Provenge’s trajectory persisting below break-even levels, and profitability unlikely to materialize before 2016, we think the debt will likely weigh on shares until a viable plan is in place. Price target stays unchanged at $3 while our cautious outlook on DNDN shares also remains unchanged.
DiamondRock Hospitality Co. (DRH)

2Q14 Recap: NYC Ahead of Expectations; Growth to Accelerate in 2H14

**Maintaining Neutral rating, $14 price target following 2Q14 earnings.** Estimates for 2H14 are moving higher as we have increased confidence that the portfolio will perform at or above the midpoint of the full-year guidance ranges, which was previously a concern for us and other investors given back-half-weighted guidance. We believe the investment community will remain focused on the company’s acquisition pursuits, and the balance sheet supports a modest amount of external growth with no near-term equity needs.

- **2Q14 results exceed expectations on NYC performance; 2H14 guidance implies strong growth.** Performance matched the higher end of management’s expectations, and as a result, full-year guidance was increased; the litigation settlement and associated G&A savings were previously included in guidance. Trends are expected to accelerate in the second half of the year--RevPAR growth is expected to be 8.5%-12.3% and margins are expected to expand ~350 bps; additionally, the company continues to expect $5 million of EBITDA contribution from the Hilton Garden Inn Times Square (slightly later opening offset by cost savings).

- **Acquisition strategy tightened a bit, still aggressively pursuing deals though.** Management estimates it will end the year with approximately $185 million of cash, which is currently a drag on earnings growth and capital return metrics; DiamondRock is actively pursuing acquisition opportunities with the following focus: (1) deal size of $50-$150 million; (2) urban and resort locations; and (3) under-exposed markets such as the West Coast, South Florida, and select destination markets. The company reiterated that the acquisition environment is extremely competitive; if no deals are consummated in the next 6-9 months, we believe DiamondRock will re-evaluate its strategy and potentially focus on increasing its dividend or repaying debt (approximately $230 million matures next year).

- **Asset management initiatives should continue to add value.** DiamondRock is planning to add 41 rooms at the Hilton Boston this winter, which should create $15 million of value, according to management’s estimates. Also, 12,500 SF of additional meeting space at the Boston Westin should be completed later this fall. The company is currently evaluating opportunities to add rooms at several different hotels.

- **2014 estimates increasing; 2015 estimates essentially unchanged.** Estimates for 2H14 are moving higher, which reflects our increased confidence that the portfolio will perform at or above the midpoint of the full-year guidance ranges.

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**ESTIMATE CHANGE**

1-Year Price Chart

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Chart/Table Sources: Bloomberg and Baird Data

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Darden Restaurants, Inc. (DRI)
Reaffirms F2015 Guidance and Provides Quarterly Perspective

Maintaining Neutral rating. DRI reaffirmed F2015 comps/EPS guidance, although additional perspective on expected targets by quarter indicate the full-year plan is more back-weighted than we had envisioned. Our thesis on DRI is unchanged: we think recent strategic actions (including previously announced CEO transition) can help to support investor sentiment in the short run, but we believe the stock could remain range bound until DRI demonstrates better core operating performance and shows ability to meet financial targets.

- **F2015 guidance reaffirmed.** DRI reaffirmed prior targets for comps (Olive Garden +0-1%, LongHorn +1-2%, Specialty Restaurants +2%) and pro-forma EPS ($2.22-2.30 excluding Red Lobster and other items vs. comparable $1.71; consensus $2.23). Management also clarified the impacts from the recent debt retirement ($1 billion expected to be completed, reducing annualized interest expense by $49 million, including $38 million in FQ2-Q4) and the accelerated share repurchase (including $400 million closing in October) related to the use of proceeds from the recent Red Lobster sale that closed in July.

- **Updated quarterly projections.** Based on the expected debt retirement/share repurchase and quarter-to-quarter seasonality (post the Red Lobster split), DRI now anticipates the following quarterly pro-forma EPS:
  - **Q1 (August quarter-end):** $0.28-0.30 (vs. $0.37; modeled $0.50; consensus $0.47), including a tax credit (not quantified, not in prior estimates) and no benefits from lower interest/sharecount.
  - **Q2 (November):** $0.24-0.28 (vs. $0.11; modeled $0.15; consensus $0.22), with lower interest/sharecount representing $0.08.
  - **Q3 (February):** $0.80-0.84 (vs. $0.69; modeled $0.86; consensus $0.81), with lower interest/sharecount contributing $0.14.
  - **Q4 (May):** $0.87-0.91 (vs. $0.53; modeled $0.74; consensus $0.74), with lower interest/sharecount totaling $0.15.

- **Low FQ1 outlook.** Softer-than-anticipated FQ1-15 EPS guidance ($0.20-0.22 below prior estimate) appears to reflect higher interest expense (about $0.08 vs. prior estimate; had mis-modeled the timing of savings), a higher sharecount ($0.01), and much lower operating profit (implied 20%+ below our previous estimate and down meaningfully year-over-year amid elevated food costs). Although DRI did not provide a comps update, management noted that full-year guidance assumes trends improve in FQ2-Q4 relative to FQ1.

- **Revised estimates.** Maintaining F2015E EPS of $2.23, while adjusting quarterly projections. Our confidence level in DRI's ability to achieve full-year estimates/guidance remains fairly low at this stage, given limited visibility into DRI's ability to drive positive comps and accelerated profit growth in FQ2-FQ4.
Enanta Pharmaceuticals, Inc. (ENTA)
Quiet 3Q14 Earnings as Approval/Launch Looms

No change to view post 3Q14 earnings print. Enanta press released its 3Q14 earnings report with no surprises as the company anxiously awaits the approval of AbbVie’s HCV treatment regimen. The report has not changed our view on Enanta as we haven’t seen any more meaningful progress from the proprietary pipeline.

- **3Q14 bottom-line earnings beat estimates.** Enanta came through with a bottom-line beat raking in diluted earnings of $2.61 per share compared to ours/consensus estimates of $1.79/$1.68 per share. Revenues were in line with estimates due to the $40 million milestone related to the regulatory filings made earlier in the quarter. The bottom-line beat was attributable to the recognition of some deferred tax assets that resulted in a $15.3 million tax benefit. The company ended the quarter with cash and cash equivalents of $137.6 million, an amount it believes will last through the next 24 months.

- **Approval/launch on the near-term horizon.** With the regulatory submissions made earlier this year, we continue to expect that AbbVie’s 3DAA treatment will gain approval from the FDA and EMA by the end of 2014 and beginning of 2015, respectively. We have not seen anything as of late to believe that either of these timelines will be meaningfully impacted and expect the review processes to progress smoothly.

- **Other assets remain in development.** Outside of the 3DAA, Enanta gave incremental updates about its other assets. Earlier last week, Enanta announced that its NS5A inhibitor EDP-239, partnered with Novartis, advanced to combination studies with alisporivir. Enanta will be entitled to a $15.0 million milestone when EDP-239 advances to Phase 2 studies. Additionally, EDP-788, Enanta’s bicyclolide antibiotic for MRSA, began a Phase 1b multiple ascending dose study in healthy volunteers. We continue to attribute little value to these assets due to their premature stages.

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Robert W. Baird & Co.
Exact Sciences Corporation (EXAS)
Cologuard Wins FDA Nod, Proposed CMS National Coverage

Reiterate Outperform rating. FDA and CMS issued positive decisions for EXAS’ Cologuard test. FDA approved Cologuard for use as a screening test by average-risk individuals aged 50+, and the labeling is also favorable to the wording discussed during the March panel. CMS issued a proposed NCD with a three-year interval and no MEDCAC restrictions, which reduces a source of investor uncertainty. Final CMS NCD and reimbursement are expected in November. We remain bullish on EXAS shares.

- **FDA approves Cologuard; new testing paradigm begins.**
  - Tonight, the FDA approved Cologuard, the first non-invasive DNA screening test for colorectal cancer (CRC). Cologuard is indicated for people aged 50+ who are at average risk for CRC, which is consistent with our expectations.
  - The label wording was improved since the March FDA panel. Importantly, we believe the approval language clearly positions Cologuard as a primary screening option, rather than a secondary option (e.g., for use only if colonoscopy is refused).
  - The label also mentions that a positive Cologuard test may indicate colorectal cancer or advanced adenoma.
  - With FDA approval in-hand, we believe EXAS can begin formally marketing Cologuard.

- **Simultaneously, CMS issues proposed national coverage decision (NCD), showing the benefits of EXAS’ parallel review.**
  - CMS proposed a three-year testing interval for asymptomatic, average-risk beneficiaries aged 50-85. This is consistent with our expectations; however, we believe other testing intervals were considered. In the proposed NCD, CMS indicated that it will reevaluate the testing interval after EXAS completes its post-approval study, which is designed to help evaluate a three-year interval.
  - The proposed NCD is now subject to a 30-day comment period (through September 10), and the expected coverage application completion date is November 9, per CMS.
  - We continue to expect a preliminary CMS reimbursement decision in 3Q (early September per CMS’ website) and a final decision in 4Q (early November per CMS’ website).
  - Contrary to some investor concerns, the Medicare Evidence Development and Coverage Advisory Committee (MEDCAC) was not convened for Cologuard.
Fairchild Semiconductor Int'l, Inc. (FCS)
2Q14 Quarterly Filing Key Takeaways

Fairchild filed its 2Q14 quarterly report in a 10-Q last Friday. Fairchild exited 2Q14 with channel inventories of approximately nine weeks, down QoQ, below its target range of 10-11 weeks. YoY, Korea revenue declined an estimated 26% while China and Europe increased 40% and 15%, respectively. Other takeaways follow. Outperform-rated.

- China accounted for 40% of revenue in 2Q14, up an estimated 16% YoY, mainly driven by strong demand from mobile customers.
- Europe accounted for 15% of 2Q14 sales, up an estimated 12% YoY.
- Korea accounted for 5% of 2Q14 revenue, down an estimated 26% YoY.
- MCCC revenue was up 9% YoY in 2Q14, due to higher power-management product sales into the computing and mobile end-markets.
- PCIA revenue was up 2% YoY, primarily driven by automotive but also industrial and appliances.
- The 430bp YoY increase in gross margin was driven by higher factory loading and improved manufacturing execution, partially offset by the annual merit increase.
- Fairchild exited 2Q14 with channel inventories of approximately nine weeks, down QoQ, below its target range of 10-11 weeks.
- Cash flow from operations was $84.8 million, or $0.68 per share in 2Q14.
  - Free cash flow was $69.6 million, or $0.56 per share in 2Q14.
- On May 7, the company’s board of directors authorized the repurchase of up to $100 million of Fairchild’s common stock, in addition to the previously authorized $100 million disclosed in December 2013.
  - In 2Q14, there were $68.6 million of common stock repurchased.
- Reiterating our $18 price target and Outperform rating on FCS shares.

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Robert W. Baird & Co.
Garrison Capital Inc. (GARS)
Incrementally Positive Following Encouraging 2Q14 Results

Maintain Neutral rating, $15 target price. Trading ~92% of NAV/share with a 9.7% dividend yield and a projected earnings stream that should continue covering the dividend going forward, we are positively disposed to GARS’ risk/reward. We would recommend that income-oriented investors continue to hold the stock and look for buying opportunities on incremental weakness.

- GARS reported 2Q14 NII/share of $0.36, two pennies ahead of our $0.34/share estimate and a penny above the $0.35/share quarterly dividend.
  - Driven by higher repayment fees, stronger aggregate yields on the investment portfolio and Y/Y portfolio growth, 2Q14 total investment income of $12.8 million increased 14% Q/Q and 69% Y/Y. Management indicated 2Q14 results included ~$1 million in prepayment fees.
  - Net realized gains of ~$800K and unrealized appreciation of $2.3 million drove a $0.54/share increase in net assets for the quarter.
  - NAV/share increased $0.19 Q/Q to $15.64 at June 30.

- Active portfolio origination and rotation activity continues.
  - 2Q14 core portfolio investments totaled $104.1 million and carried a weighted average yield of 12.8%. Core repayments for the quarter approximated $61.5 million and carried a 12.3% yield.
  - Transitory investments of $12.5 million (yield of 7.2%) for the quarter were more than offset by $78.3 million in repayments (8.4% yield) in that portfolio.
  - 2Q14 core investments included an opportunistic purchase of $46.1 million in middle market loans as well as $25.2 million of growth in the GLC consumer loan portfolio.
  - Reflecting net portfolio growth of ~$13 million since quarter end, the portfolio is now comprised of ~87% core investments and carries a 10.5% weighted average yield vs. 10.0% for 1Q14 and 8.8% for 2Q13.

- Balance sheet positioning.
  - Consisting of the ~$70 million transitory investment portfolio coupled with cash and equivalents, aggregate balance sheet liquidity approximated $122 million at June 30.
  - On July 18, GARS completed a $39.2 million term debt securitization collateralized by the GLC consumer loan portfolio; proceeds from the transaction were used to refinance the company’s revolving credit facility.
  - The SBA recently accepted GARS’ application to operate a SBIC license.

- Reflecting a moderately larger than previously expected investment portfolio, we are increasing our 2015 NII/share estimate two pennies to $1.50.
Hannon Armstrong Sustainable Infrastructure Capital (HASI)
Q2 Shows Strong Execution

We reiterate our Outperform rating and $17 price target. HASI exceeded our estimates on the top and a bottom line, closed over $200M in transactions, reaffirmed its Q4 core EPS guidance, and continues to have a strong pipeline exceeding $2B. We continue to believe HASI is well positioned to effectively deploy capital and to benefit from the announced $2B increase in Federal spending on energy efficiency upgrades. We remain buyers at current levels.

- **HASI beat our estimates on the top and bottom lines.** HASI reported net revenue of $7.6M vs. our/consensus estimates $7.0M/$7.9M. Core earnings were $4.7M vs. $4.5M/$4.1M and core EPS was $0.22 vs. $0.21/$0.20, respectively. HASI benefited from strong gains on securitizations during the quarter which contributed $4.27M to net revenue.

- **Solid Q2 transactions exceeded $200M and pipeline remains strong at >$2B.** Additionally, HASI believes increased Federal spending on energy efficiency projects and proposed EPS regulations to cut carbon emissions should benefit the company in the intermediate term. We believe HASI is well positioned to capture a portion of these projects given its long history of working with the Federal Government.

- **2014 guidance reaffirmed.** HASI reaffirmed its intention to grow core EPS 13%-15% from Q4:13 to Q4:14. We estimate Q3 core EPS of $0.22 and Q4 core EPS $0.25.

- **Portfolio remains strong with ~97% of projects with investment grade rated obligors.** This includes 45.6% of projects with federal, state, or municipal governments and institution, 11.1% of externally rated commercial projects, 40.4% of internally rated commercial projects, and 2.9% of unrated projects. Importantly, ~$16.6M of the ~$17.4M of non-investment grade projects is senior debt for a wind project owned by NRG Energy, Inc. We think NRG’s size and large number of successful wind projects helps to reduce project risk.

- **Maintain $17 price target.** Our price target is based on a P/E multiple of ~19x of our 2014 core earnings estimate of $0.92/share. While a discount to its comps (~24x), we believe it is warranted given it is a first-of-kind entity. We think this discount will narrow as management continues to execute on its plan.
Hawaiian Electric Industries (HE)
Successful Cost Containment and Investment Recovery Fuel 2Q14 EPS Beat

Recovery of accelerated infrastructure investment more than offsets ASB pressured margin, fueling 2Q EPS beat; regulatory uncertainties keeps near-term EPS growth flattish, likely keeping HE’s stock trading at current levels. In the long term, solid ASB income, an attractive dividend yield and a 5-7% long-term utility EPS growth CAGR should drive attractive total returns. Regulatory uncertainties have slowed capital investment opportunities limiting near-term EPS upside potential, and stubbornly high customer bills likely keeps headline risk elevated. Maintain Neutral rating.

- **2Q14 EPS was $0.41,** flat from $0.41 in 2Q13, beating our consensus matching $0.39 estimate.

- **Utility income jumps 19% Y/Y (+$0.06/share) reflecting increased infrastructure investment (+$0.08/sh) and 2Q13 Maui rate refund (+$0.04/sh).** These positives were partially offset by increased O&M reflecting installation of smart grid, higher depreciation expense (-$0.02/sh) attributed to increasing investments, and higher interest expense (-$0.01/sh) due to new debt issue in 4Q13.

  - **Abbreviated rate case filing made June 30;** if approved would delay full rate case until 2H2016, potentially providing time for stakeholders to address and resolve key issues raised by regulators in the past 12 months.

  - See our [note](#) published July 1 for more details.

- **ASB 2Q14 fundamental trends in line with recent trends.** ASB reported $11.7 million of net income for 2Q14 compared to $15.9 million in 2Q13 and our $12.3 million estimate. Earnings declined compared to 2Q13 due to lower interchange fees, lower gain on sale of securities, and higher provision for loan losses. We calculate pretax, pre-provision earnings (core income) of $17.2 million for 2Q14, down 21% Y/Y and down 10% Q/Q. ASB produced a pre-provision return on assets of 133 bps for 2Q14 vs. 179 bps for 2Q13.

- **HEI affirms 2014 EPS guidance of $1.57-$1.67, flat from 2013 midpoint.** Utility - $1.28-$1.33 (midpoint +6% YOY); ASB - $0.47-$0.52 (midpoint -14% YOY).

- **Revising 2015 and 2016 estimates lower to reflect slightly lower earned utility ROEs and additional ASB margin compression.**

- **In April, Hawaii PUC rejected HECO’s resource planning proposals,** returning them to HE for modification. Consistent with our thesis, until resolved we expect pending regulatory uncertainties to keep HE trading at current levels.

- **Valuation.** Our price target of $27 is 15x our 2016 EPS estimate, a discount to regulated peers when fully valued (15x-16x 2016 EPS estimates) reflecting regulatory/capex uncertainties.
Softline & Department Store Retail
Q2 Department Store Preview

Expect in-line Q2 reports. We anticipate department store earnings to meet expectations, with sequentially improved trends supported by better weather. We believe a cautious stance is still warranted as a major demand catalyst remains elusive, but note risk/reward is improving given the sell-off YTD (S&P Softlines -5% vs. S&P500 +5%).

Looking ahead, we like the setup for KSS (low expectations, new management) and would look to get more bullish on JWN (multi-year growth plan, upper-income consumer) on a pullback.

- **KSS (reports 8/14).** We expect Q2E EPS near consensus and our estimate of $1.07, with comp near consensus of -1%. Sequential improvement from Q1 (comp -3.4%) should be supported by better traffic trends (transactions/store -4.5% in Q1) and gradual merchandising/marketing improvements, with greater improvement weighted to 2H14 as new national brands and loyalty enhancements take hold. As discussed in our recent Management Meeting Recap, we believe Kohl’s is in the early stages of benefiting from reenergized marketing, better merchandising and assortment, and a stronger e-commerce platform that have the potential to drive sales growth. While initiatives will take time to unfold, we believe shares offer good value for patient investors (12x NTM EPS, 9-10% FCF yield).

- **JWN (8/14).** We expect Q2 EPS near consensus of $0.95 (vs. $0.93). We believe the Anniversary Sales performed in line with expectations (modeling total comp +3%, matching consensus). We like the company’s exposure to upper-income consumers, forward-thinking e-commerce strategy, and unit growth opportunity; however, with above-average valuation (17x NTM P/E) and investments limiting earnings upside, we prefer to wait for a better entry point.

- **JCP (8/14).** We expect Q2 adjusted EPS near our estimate of a $0.81 loss (consensus $0.92), reflecting a +6% comp (consensus +6%; guidance up mid single digits) and 425bp of gross margin improvement (consensus 500bp). Signs of stabilization in the business and the improving cash flow and liquidity picture have fueled better sentiment. However, the longer-term cash flow picture remains uncertain (macro pressures persist, eventual need for higher capex) making a compelling valuation case difficult to justify at current levels.

- **GMAN (late August).** We are modeling Q2 EPS of a $0.16 loss (consensus $0.15), at the low end of guidance for ($0.16)-($0.13), reflecting a -2% comp (consensus -2.6%; negative low-single-digit guidance). We remain on the sidelines as the difficult comp environment, elevated aged inventory, and costs to support growth initiatives limit near-term upside, while management turnover adds to near-term uncertainty (CEO and CMO hires outstanding).

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Markets as of 08/08/14

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Sources: Bloomberg and Baird Data
Multi-Color Corp. (LABL)

Top-line Stable—Margin Expansion Underway—Reiterate Outperform Rating

Raise price target to $48. We continue to believe that the investment profile for LABL is attractive at current levels, with the company at the cusp of a margin improvement cycle compounded by top-line stability that should combine for valuation multiple expansion from our perspective.

- **Margin improvement encouraging.** Following a heavy acquisition period for the company, the subsequent focus on asset optimization and emerging top-line stability should combine for margin expansion on a sustainable basis following a mixed few quarters.

- **Acquisitions contributing.** Specifically, the Di-Na-Cal transaction has been a recent success story for LABL given the strong market share position subsequent to the acquisition in addition to cross sales leverage.

- **Consistency key.** Further, with the company focused on debt pay-down and increasing balance sheet capacity, the noise factor related to margin compression (post transactions) should diminish over the next 2 – 3 quarters, cementing investor confidence on the margin expansion element to our thesis.

- **Customer product activity increasing.** Also, while the end-markets for the company have been sluggish overall (particularly the consumer staples channels), higher levels of new product activity and product "refreshes" are generally positive for the top-line/margin outlook as each tends to drive higher label activity as well.

- **Reiterate Outperform rating.** Overall, we continue to believe that the shares are attractively valued at current levels, with LABL a structurally attractive franchise within the still-fragmented converted labels niche. Our raised $48 price target is based on 9.0x FY15E EV:EBITDA.

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Robert W. Baird & Co.
Expect solid 2Q results. We expect a recovery in seasonal categories to drive comp acceleration relative to 1Q. While housing metrics have been mixed YTD, we believe HD/LOW will stand out as stable ports in today’s choppy consumer/retail environment. Maintenance/repair categories seem to have remained strong, the Pro continues to recover, and homeowners are still investing in indoor/outdoor projects. With valuation at more attractive levels and our confidence in sector fundamentals intact, we continue to recommend exposure to both stocks.

- **Sales should recover from softer 1Q levels.** We anticipate stronger seasonal sales (lawn/garden, live goods) to drive comp acceleration relative to 1Q. Outside of seasonal products, we expect the balance of the store was generally stable sequentially. While the snapback in repair/remodel activity was more gradual than expected (per MAS/FBHS), demand did improve from a softer 1Q. We were also encouraged by SMG’s commentary (record July against double-digit comps, with momentum carrying into August), which suggests another extended spring/summer selling season.

- **Sticking with our initial 2Q comp estimates.** 1Q’s top-line shortfall was concentrated in the North/NE (delayed spring). Recall HD/LOW noted a strong start to 2Q, with May tracking to +MSD% against steep DD% compares. Certain headwinds from 1Q reversed (commodity deflation) or eased (Sandy-related compares), so we’re sticking with our comp estimates (HD US/total 5.0%/4.5% vs. 1Q’s 3.3%/2.6%; LOW 4.0% vs. 1Q’s 0.9%).

- **HD reports Tuesday (8/19).** Our $1.45E (+17%) matches the Street. GM was planned lower y/y due to mix (we model -5bps), though opex leverage should produce healthy EBIT margin expansion (modeling 55bps).

- **LOW follows Wednesday (8/20).** Our $1.03E (+18%) is in-line with consensus. While mix will likely work against GM, ongoing benefits from value improvement seem sufficient to allow for modest gains (modeling +20bps). When combined with opex leverage, we forecast EBIT margins rising 55bps.

- **Thoughts on 2H14 outlook.** While housing metrics have been mixed YTD, we believe the homecenters will stand out as attractively stable ports in today’s choppy environment. Maintenance/repair categories seem to have remained strong, the Pro continues to recover, and homeowners are still investing in indoor/outdoor projects. Bottom line: we expect HD/LOW to reaffirm FY14 sales/EPS guidance.

- **Remain buyers of HD and LOW.** Trading at ~17x NTM EPS, valuation looks attractive relative to mid/high-teens (or better) EPS growth we see at both chains over the next few years. At current prices, our work suggests the market is discounting ~3%/~2% comps at HD/LOW across FY14-FY16, levels we believe both will exceed.

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**Prices as of 08/11/14**

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Sources: Bloomberg and Baird Data

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Robert W. Baird & Co.
Monroe Capital Corporation (MRCC) Reaches Milestone of Dividend Coverage

**Maintain Neutral rating and $14 target price.** Risk/reward skewed to reward with MRCC trading at 96% of book value and with a 10.1% dividend yield. We believe the stock should trade to or above book value ~$14/share if MRCC continues to execute by covering its dividend with NII and by growing NII/share.

- **MRCC reported 2Q14 adjusted NII/share of $0.35, outpacing our $0.33/share estimate and the $0.34/share dividend.**
  - Primarily reflecting meaningful growth in the investment portfolio, 2Q14 investment income of $7.0 million increased 8% Q/Q and 88% Y/Y.

- **MRCC focused on optimizing the investment portfolio to drive per share growth in NII.**
  - The weighted-average yield on the investment portfolio improved to 11.1% for 2Q14 from 10.8% for 1Q14. The portfolio included 42 companies with a fair value of $237.7 million.
  - In 2Q14, the weighted average effective yield on new portfolio investments approximated 11.6% while the weighted average yield of investments from which MRCC exited was 7.5%.
  - MRCC indicated it can further optimize the portfolio by rotating out of its portfolio of junior debt investments (~$24 million with weighted average yield of 9.6%) and certain senior secured investments yielding less than 9%, which aggregate ~$20 million.
  - During 2Q14, MRCC invested $34.6 million in six new portfolio companies and $0.5 million in an existing investment; repayments approximated $21.5 million.

- **Share repurchase activity continues.**
  - In 2Q14, MRCC repurchased ~97K shares for $1.3 million; since inception of the $7.5 million repurchase plan in 4Q13, MRCC has bought back ~444K shares at a cost of $5.7 million.
  - Based on the share count on the first page of the 2Q14 10-Q, MRCC has repurchased another ~41K shares subsequent to 2Q14 end.

- **MRCC draws on commitment from SBA.**
  - In 2Q14, Monroe's SBIC subsidiary drew $8 million of the $20 million SBA commitment.
  - Monroe anticipates having a total of $40 million of SBA debenture capacity within the BDC.
  - There were $20 million of assets within the SBIC as of June 30.

- **Estimates move incrementally higher.**
  - We are increasing 2014E NII/share to $1.42 from $1.38.
  - We are adjusting 2015E NII/share to $1.50 from $1.48.

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**Stock Data**

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Robert W. Baird & Co.
Plains All American Pipeline (PAA/PAGP)
50 in a Row... Capped Off with Another Beat

Robust as always. In its 50th straight guidance meeting or beating performance, PAA posted 2Q14 results in line with our estimates and 13% above guidance. We update our estimates to align with revised guidance which produces marginal changes to 3Q and 2014 numbers. Based on this stellar performance and updated comps, we become more aggressive on valuation which raises our PAA target price to $66 and PAGP to $32. Reiterate Outperform rating on the ever "anti-fragile" PAA. Maintain Neutral rating on PAGP.

■ Another beat... In another guidance beating performance, PAA posted EBITDA of $512MM, 2% above our $501MM estimate and 13% above the midpoint of guidance. Segment performance was largely in line with our expectations apart from Facilities, which missed our estimate by 14% on lower rail volumes and higher transit times ($133MM act. vs $141MM estimate). The delta vs. our EBITDA estimate stemmed from comparability items which produced a larger addback.

■ 2014 guidance boosted slightly. For the full year, management increased EBITDA and DCF guidance by 1% to $2.175B and $1.6B respectively, as system volumes are expected to pick up somewhat in the last half of the year, although rail is still expected to be sub-optimal due to ongoing congestion. Guided Supply & Logistics margins ($1.14/bbl) are again conservative this quarter and would be the lowest figure since 2010 should realizations match expectations. As such, we view this as another source of potential upside for 3Q given the still-growing volumes bound for Houston. Additionally, PAA also raised 2014 capex guidance by $100MM to $1.95B at the midpoint.

■ Model updates. We nudge our 3Q14 and 2014 EBITDA estimates 1% higher, which drives no change to our 3Q DCF/unit estimate of $0.71/unit (1.05x coverage), or our 2014 DCF/unit forecast of $3.01 (1.13x coverage). Our 2015 EBITDA estimate rises 3% to $2.75B on the extrapolation of this volumetric outlook and incorporation of management's increased capex guidance for this year. We model a conservative $1.5B in capex for 2015 assuming ratable equity issuance of 2MM units/quarter under PAA's ATM program.

■ Raising price targets. We raise our PAA price target to $66 on more aggressive valuation metrics (see page 5) and bump our PAGP target price to $32 as we remove the Treasury Spread approach from our valuation framework on subdued relevance in the current trading environment. All in, we continue to believe PAA is one of the best positioned MLPs to capitalize on any midstream operating environment that materializes over the next 12-18 months.
Pall Corporation (PLL)
Remain Buyers, Tuning FY15 Forecasts for Macro

Maintain Outperform rating. Shares have pulled back 15% from their six-month high and, in our opinion, appear attractive. The global macro-environment has not accelerated through June as anticipated. We have attempted to capture this short-term flattening (Global/Industrial) trend in our fine-tuned IH/FY15 PI estimates. In addition, FX has shifted to a headwind. We have not attempted to offset these short-term dynamics with any mitigating actions which management may budget into its FY15 guidance. Price target remains $89.

- We are fine-tuning our FY15E Sales/EPS forecasts to attempt to capture FX and the trailing six-month flattening in the Global PMI. We are adjusting our FY15 estimates to $2.96B/$3.82 from our previous $3.0B/$3.91.

- Pall Industrial (PI) correlation to the Global PMI. PI Y/Y rate of change in sales correlates to the Global PMI with a six-month lag (R2=.62). We note that the Global PMI has flattened out YTD in CY14, actually declined modestly in CYQ2. This trend or lack of acceleration, has primarily been a result of the Eurozone PMI. We believe this modest deceleration from CQ1/14 to CQ2/14 will have an impact on the growth rate of PI for the first-half of FY15. We adjusted our PI revenue assumption lower by -$25M (-$0.03 EPS). Projected core/LC growth for FY15E now +2.5%, with 2H/F15E remaining +5%-6% Y/Y.

- Pall Lifesciences (PLS) sales forecast for FY15E remains unchanged, with core/LC growth of +7%.

- FX a modest incremental headwind for FY15. We estimate FY15E FX headwind has degraded -$0.06-0.07 since PLL's F3Q report (late-May), with translational FX moving from neutral to -50bps sales headwind (-$0.01-0.02) and the remainder transational FX (caveat: transactional difficult to estimate, FX pairs of relevance include USD, Euro, Yen, GBP; PLL's increased financial/natural hedges (Slovakia, Japan) could disrupt historical FX patterns).

- Our FY14/FQ4 estimates remain unchanged. PLL is scheduled to report FQ4/14 results on Thursday, August 28. RWB/consensus expectations for sales and EPS are; $774M/ $768M and $1.05/$1.06(range; $1.04-$1.12). Implied EPS guidance; $1.02-$1.12. PLS core/LC sales are forecast +4.8%, plus revenue contribution from the Medistad and ATMI acquisitions. PI core/LC sales are estimated +1% Y/Y, plus the revenue contribution for the FSI acquisition closed May 1.
Ultragenyx Pharmaceutical Inc. (RARE)
Q214 Print Uneventful; Catalyst Setup Over Next Few Months Anything But

Reiterate Outperform rating, $64 price target. Continue to recommend purchase of RARE shares with significant value-enhancing data catalysts over the next 12-18 months. We believe RARE holds an impressive mix of a solid, proven management team paired with a broad and evolving pipeline that now encompasses four agents in five different clinical indications, with more likely to come. Like the setup and chances for near- and long-term upside. Remain buyers into the mid-$60s.

- **RARE reports Q214 EPS; uneventful, as expected.** RARE reported EPS of ($0.45), which was roughly in line with consensus ($0.42) and RWB ($0.37). Given its pre-commercial status, RARE shares trade primarily on pipeline developments rather than EPS updates. On the pipeline front, most important, all programs remain on track with several data catalysts approaching in the near term. Three points:
  - **Interim data for rhGUS coming soon.** RARE anticipates interim 12-week and ongoing data from the Phase 1/2 trial in MPS VII patients to be presented at the upcoming SSIEM symposium (9/3). Based on the prior published data and symposium abstract, we anticipate this should be a positive update.
  - **Extension KRN23 data just around the corner too.** Additional long-term data from the Phase 1/2 trial in adults will be presented at ASBMR (9/14) and highlight the impact of extended KRN23 dosing (12 additional doses). Recall, earlier data showed dosing over four months, but with many patients still titrating up their dosage during the first four months, the long-term data could provide a better look at the drug’s efficacy/safety profile at a more therapeutically relevant dose. Separately, the Phase 2 study in pediatric patients remains on track to report top-line interim data in 2015.
  - **Preliminary SA-ER data not far off either.** Finally, RARE will present interim data from the Phase 2 study in HIBM patients taking a 12gm SA-ER dose at the WMS meeting (10/11), which should better identify an appropriate dose.

- **Remain buyers.** No changes to revenue estimates. Given the upcoming catalyst flow which includes data from three separate programs over the next few months, and advancement of additional pipeline programs, we continue to recommend purchase of RARE shares into the mid-$60s.
Roadrunner Transportation Systems, Inc. (RRTS)
Largest To-Date Acquisition Expands Expedited Services Footprint

**Largest to-date acquisition announced.** RRTS’ purchase of Active Aero Group is its largest to-date acquisition, both in terms of revenue ($265 million on a trailing 12-month basis) and purchase price ($115 million). AAG expands RRTS’ footprint into the expedited services space and deepens its presence in the automotive/heavy machinery vertical. The purchase is expected to be accretive to annual EPS by $0.10-0.15/sh, though we note Active Aero raises RRTS’ capital commitment profile marginally.

- **RRTS announced the acquisition of Active Aero Group (AAG),** a provider of expedited ground and air freight services. AAG serves automotive and heavy equipment manufacturers in the US and Mexican markets. Key details on Active Aero purchase:
  - **Synergy expected through cross-selling.** AAG provides RRTS a new expedited platform offering; RRTS previously brokered out expedited services via its TMS segment. AAG will operate independently and report through RRTS’ TL segment; management expects sales synergy through expanding AAG’s expedited ground revenue (30% of AAG’s LTM revenue of $265 million) and cross-selling AAG’s core customers with RRTS’ existing offerings.
  - **AAG’s CEO Dave Schembri and broader leadership group is joining RRTS,** secured by an employment agreement.
  - **AAG marginally raises model’s capital intensity.** AAG’s annual capex is $5 million (~2% of revenue), above RRTS’ 1.6% 2014E capex (% of revenue). AAG’s equipment fleet also includes 10 aircraft.
  - **Transaction estimated to be $0.10-0.15/sh accretive to annual EPS.** Total purchase price of $115 million (RRTS’ largest acquisition to-date) reflects 6.5x EV/trailing EBITDA (normalizing for a strong 1Q14), paid in cash and financed through RRTS’ credit facility. Transaction to include $0.02/sh in acquisition-related expenses in 3Q14 EPS and to be accretive to 4Q14 EPS. After the purchase, RRTS possesses ~$120 million in borrowing capacity. We await final closing of the transaction (expected by 3Q14-end) before adjusting our EPS estimates.
  - ** Buyers on RRTS’ recent pullback.** RRTS has underperformed the Russell 2000 Index by 6% Q3TD, reflecting the pullback following disappointing 2Q14 results and a below-consensus 3Q14 outlook. Though progress year-to-date in its LTL segment has not yet materialized in results, our fundamental outlook remains unchanged: we expect accelerating EPS growth into 2015 given improving LTL execution in 2H14 and traction from organic growth initiatives; and demonstrated resiliency of its model in an increasingly capacity-constrained environment provides an incremental catalyst.

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**Robert W. Baird & Co.**
Swift Energy Company (SFY)
Strategic Concerns Linger; Risks Remain Elevated

Changing suitability rating to Speculative Risk as additional fundamental and technical headwinds loom. We remain cautious on SFY shares near term as its strategy remains in flux. Once a gas-to-liquids transition story, SFY is becoming increasingly focused on gas at infrastructure-constrained Fasken, weighing on margins and profitability. Lack of a Central Louisiana divestiture to date and potential Eagle Ford acquisitions also increase funding uncertainty, which could be alleviated with equity. We will revisit our stance if shares retreat to $10 technical support.

- Strategic concerns remain; equity raise cannot be ruled out. We reiterate our Neutral rating on Swift due to an ongoing shift in strategic direction that seems to change each quarter. Most notably this quarter is the increased focused on lower-margin gas production at infrastructure-constrained Fasken with potential Eagle Ford transactions also injecting a new level of financial uncertainty. Central Louisiana divestiture commentary tempered, meaning some capital allocation likely near term. Material outspending (~$100MM annually) also a concern given potential equity financing though a deal could bring a fresh reset that enables us and the Market to get more constructive.

- Estimates lower on gassier mix and lower realizations. We scrubbed our model to align with management’s 2014 and early 2015 production guidance that implies ~7% Y/Y growth at midpoints. The biggest change was a shift in production mix with gas up and oil down as strong output from new Fasken wells overwhelms legacy and McMullen County wells. Realizations also lowered on a more conservative pricing outlook to mimic recent trends. 2014 and 2015 production estimates increased 3% and 1% respectively while EBITDAX estimates fell 1% and 13% respectively.

- Changing Suitability rating to Speculative Risk. The combination of an evolving strategic outlook, high leverage at 53% debt/capital, large (and growing) natural gas exposure at ~57% 2014 production (66% in 2015), and the potential for needed equity capital to fund outspend/acquisitions all suggest that risk to SFY shares remains quite elevated for some time. As a result, we are changing our Suitability rating to Speculative Risk from Higher Risk.

- When would we turn more bullish? Our interest would grow as shares retrace towards the $10 March technical support where SFY’s equity looks like a “cheap” call option on its assets (barring further deterioration) or a major restructuring of SFY’s production footprint or leverage.

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Sunstone Hotel Investors, Inc. (SHO)
2Q14 Recap: Near-Term Growth Muted as Leverage Target Attained

**Maintaining Neutral rating, $16 price target.** While we expect continued group momentum to offset disruption from Sunstone's large-scale renovation projects, its growth is likely to underperform peers whose renovation cycles are largely complete. Additionally, we expect future acquisitions to continue being at least partially funded with new equity and management has shown a willingness to acquire hotels with sizeable capex needs. The significant dividend increase is expected to bring Sunstone’s yield and payout ratio more in line with peers.

- **RevPAR growth likely to underperform peers.** While there has been minimal disruption thus far from Sunstone's large-scale renovations, execution risks remain and growth will likely be constrained relative to peers whose renovations are largely complete (July RevPAR of +5.8% was significantly below peers). In addition, the opening of the Marriott Marquis in D.C. is likely to continue negatively impacting the Renaissance D.C. (management expects the hotel to be a 200 bps drag on overall 2014 group pace).
  - Additionally, the Wailea Beach Marriott acquisition and recent equity raise are expected to be a 25 bps drag on 2014 RevPAR growth and $0.03-$0.04 dilutive to FFO/share, but higher expected operating results across the portfolio in 2H14 should offset some of this dilution.

- **Future acquisitions likely to be at least partially funded through new equity.** While Sunstone's deleveraging initiatives are largely complete (the Wailea Beach Marriott acquisition brought leverage below 4.0x), we continue to believe future acquisitions will likely be at least partially funded through new equity. We believe management will remain an opportunistic acquirer and Sunstone has shown a willingness to acquire hotels that require sizeable capex investments. While monetization initiatives (i.e. for the Times Square assets) or additional ground lease buyouts do not appear imminent, we believe they remain on management's radar.

- **Significant dividend increase expected.** As Sunstone's taxable income increases, there is significant upside to the dividend; management is currently guiding toward a $0.50-$0.55/share dividend in 2014 (top end is down $0.05/share from previous guidance, predominantly due to the recent equity raise), with a special dividend expected to be paid in 4Q14 in cash or some combination of cash and stock. We are currently modeling a $0.525/share dividend, which brings Sunstone more in line with peers and represents a ~60% payout ratio based on 2014E AFFO and a 3.7% yield.

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**Stock Data**

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Chart/Table Sources: Bloomberg and Baird Data
TECHNE Corp. (TECH)
FY4Q Shows Strategic Plan Working, End Markets Improving

Maintain Outperform rating, new $102 price target (+$2). FY4Q delivered revenue and EPS upside, despite unfavorable impact from Easter timing-shift and continued academic weakness. End-markets are generally stabilizing/improving, while China growth was exceptional (+37% YY) and margins have not come under the pressure that many feared early in CEO Kummeth’s tenure. Multiple signs and strategic actions point to stronger results ahead, while additional capital deployment will likely drive upside to existing consensus estimates, in our view.

- FY4Q14 recap.
  - Revenue: $92.5M (Street/Baird: $91.8M/$90.4M), grew 2% organic (Baird: 2.1%E), despite continued academic softness and Easter timing. Bionostics and PrimeGene acquisitions added 13%; FX contributed 1%.
  - Adjusted GM%: 73.4% (Baird: 72.5%E), declined 320bps YY, on mix-shift towards Clinical Controls, post-Bionostics acquisition; apples-to-apples GM% were flat YY, per TECH.
  - Adjusted SG&A increased 132bps, to 15.2%, on strategic commercial and infrastructure investments; R&D decreased 78bps, to 8.3%, with the prioritization project paying off (1,600 products launched FY14 had $3.4M revenue; 2,100 products launched FY13 had $2.4M year-one revenue).
  - Non-GAAP EPS: $0.88 (Street: $0.85, Baird: $0.84E), grew 7%; upside was operational, but for $0.01 from taxes.

- Results and strategic actions suggest stronger growth ahead.
  - U.S. industrial/pharmaceutical/biotech: grew 4% organic (Baird: 4.5%E), consistent with recent trends; our checks and industry commentary indicate similar growth likely in FY15.
  - U.S. academic: declined 8% (Baird: -7.5%E), but showed signs of stability; with improved NIH funding, recent fighter-brand launch, and relatively easy comparisons, we expect modestly better FY15 results.
  - Europe: fell 3% (Baird: 0.3%E), hurt by Easter-shift and timing of several large bulk orders (occurred FY4Q last year, FY3Q this year).
  - China: expanded 37% organic (Baird: 17.5%E), with strategic initiatives (e.g., headcount expansion) bearing fruit, after years of under investment; TECH remains confident that those initiatives, combined with recent acquisitions, can drive continued 25%+ organic growth.
  - Pacific Rim: increased 5% (Baird: 5.0%E), as some Japanese orders moved up from FY4Q into FY3Q; expected to grow ~10% going forward.
  - Other initiatives: ProteinSimple acquisition and CyVek investment will provide innovative platforms that can leverage TECH’s core product base and the additional content acquired from Novus; PrimeGene acquisition provides a more affordable brand that won’t dilute TECH’s reputation; Fisher channel contribution doubled QQ (FY3Q was partial quarter), with momentum building.
Wal-Mart Stores, Inc. (WMT)
2Q Preview: Expect Sluggish Sales, but Relatively In-Line EPS

**Thoughts into 2Q.** We see some modest risk to our flat WMT-US comp estimate, though an improved margin performance vs. 1Q should allow WMT to deliver EPS within its $1.15-$1.25 plan. Bottom line: while 2Q is unlikely to represent a positive catalyst, we believe CEO Doug McMillon is taking the appropriate strategic steps to grow the business longer term. As top-line compares ease and FX headwinds moderate, we see the potential for improved fundamentals across 2H14. Maintain Outperform rating.

- **WMT reports 2Q results Thursday (8/14) pre-open.** We see some risk to our flat WMT-US comp estimate given lingering pressures on lower-income consumers. That said, we sensed a more disciplined approach to managing margins during our meetings last month with management, so EPS should be consistent with management’s $1.15-$1.25 plan (Baird/Street at $1.22/$1.21).

- **Sales likely remained sluggish.** WMT-US comps were positive over the final eleven weeks of 1Q, with management noting “encouraging” momentum in the back half. That said, management has recently spoken about continued macro pressures impacting lower-income consumers (stagnant wages, SNAP reductions). When combined with tougher compares, we see some modest risk to 2Q’s "relatively flat" comp plan (vs. 1Q’s -0.1%). We are encouraged by the steps CEO McMillon is taking to reinvigorate WMT’s merchandising mentality, but recognize progress takes time.

- **Expect improved margin performance vs. 1Q (but still lower y/y).** With WMT in transition/investment mode, margins will likely continue to slip some near-term. While GM is likely to decline on continued price investments, we sensed a more "intelligent" approach to future investments (so we wouldn’t expect WMT-US GM to look worse than 1Q’s -17bps). With certain weather-related expense headwinds likely to fade and progress on improving International profitability gaining some traction, we expect consolidated EBIT margin pressure to moderate in 2Q.

- **Outlook.** WMT will update its full-year EPS outlook as is customary post-2Q results. At $5.20E, the Street already anticipates some reduction in WMT’s initial $5.10-$5.45 plan. With food inflation reemerging and FX headwinds having further eased, downside risk to Street numbers seems limited.

- **Maintain Outperform rating.** While fundamentals remain somewhat lackluster, management is taking action to drive improvement longer term, and the stock’s 19% discount to Consumer Staples (vs. three-year average of 16%) holds some appeal for defensively positioned investors.

### RESEARCH UPDATE

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#### Calendar EPS

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August 12, 2014  |  Morning Report
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