

US Insights

The Holidays--A Time For Ugly Sweaters and Ugly Stock Charts

Key Takeaway

It may be good to be a loser around the holidays, at least if you're a stock. The worst performing quintile of S&P 1500 stocks in Jan-Nov has typically outperformed the market by about 400bps in Dec-Jan. We highlight 31 stocks that have lagged the S&P YTD and that Jefferies US Equity Research believes should outperform over the next 12 months, and where the aforementioned technical factors should also provide a boost.

It's the season for egalitarianism, and the market tends to comply, boosting the stocks that have been the worst performers over the prior 11 months. It's not hard to think of explanations--investors look to rotate their portfolios into what they think could be the next slate of winners, tax loss selling ebbs, and people look to take advantage of what's been a reliable historical phenomenon.

Looking at the numbers more closely, the median outperformance for the bottom 20% of YTD performers in December/January has been 4.2%, while the median outperformance for the bottom 10% has been even better, at 5.4%. Meanwhile, the leading 20% and 10% of S&P 1500 stocks have actually underperformed the index over that period. By the end of May, however, the prior year's laggards give up all but about 1% of that outperformance, and the prior year's leaders re-assert themselves, posting about 2% outperformance.

We would stress that the stocks that we've chosen for this report aren't just "two month trades." This list is comprised of 31 stocks recommended by our analysts to outperform over the next 12 months, but for which the aforementioned technical factors should also provide a boost. We generally looked for stocks that had underperformed the S&P 500 by at least 10% on a total return basis so far this year. The average YTD underperformance for these 31 stocks is 26%.

Our list includes stocks from 9 sectors, and market caps range from \$700mm to \$200B. All of the stocks are rated Buy; in some cases the stocks are recent upgrades, in other cases they've been Buy rated all year, they've just lagged our expectations.

Stocks Included in this Report, Sorted by Sector:

Consumer Discretionary - CBS, FIVE, MW, KORS, NDLS, RRGB, SBUX

Consumer Staples - UNFI

Energy - CJES, HP, NVGS, STNG

Financials - RF, SC, WDR

Healthcare - CTRX, PFE, SGEN

Industrials - BA, NAV, OC, TEX

Information Technology - MXIM, VNTV, ZNGA

Materials - ALB, CBT, JEC, RS

Telecom - RNG, TMUS

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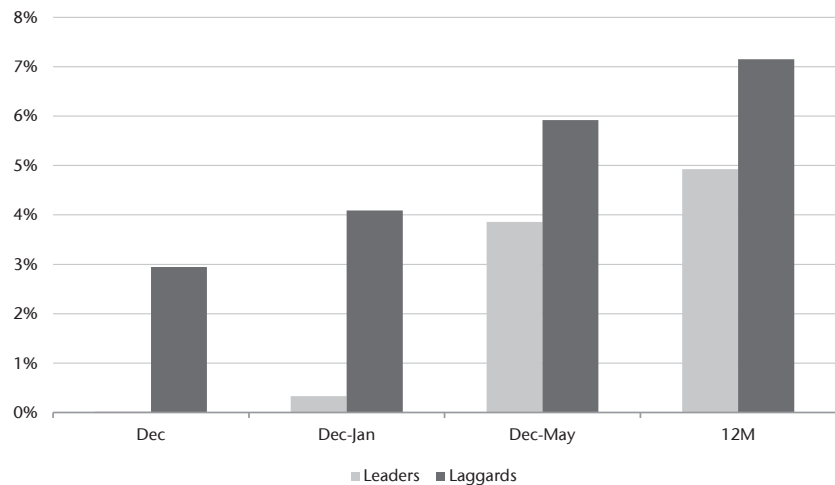
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Average Performance of the Bottom Quintile of S&P 1500 Stocks Is Particularly Good in Dec/Jan

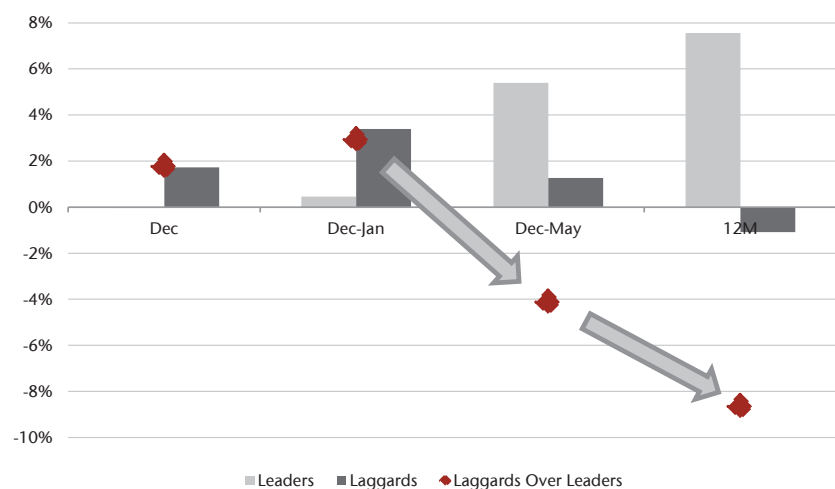
Chart 1: Top/Bottom 20% of Jan-Nov Performers Relative to the S&P 1500 in Subsequent Periods, Last 10 Years



Source: Bloomberg, Jefferies

And Excluding '09, Dec/Jan Outperformance Remains Compelling, Though Prior Year's Momentum Reasserts Itself in the Spring

Chart 2: Top/Bottom 20% of Jan-Nov Performers Relative to the S&P 1500, Last 10 Years, Excluding 2009



Source: Bloomberg, Jefferies

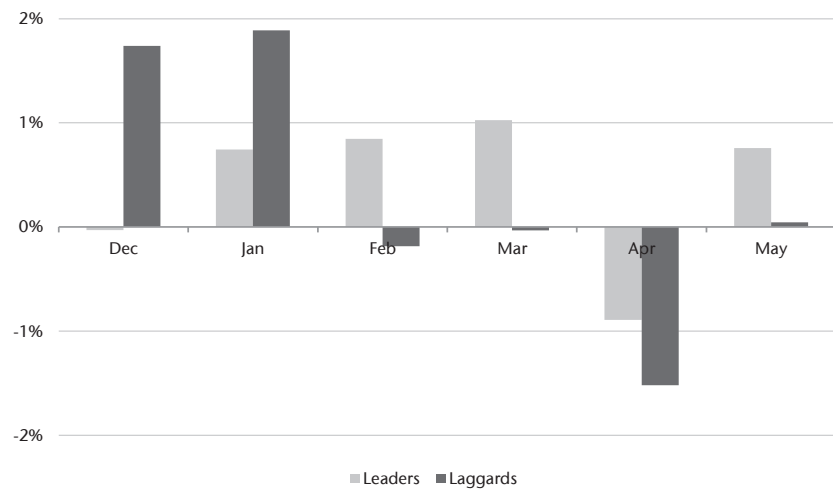
Themes & Tactics

US Insights

December 2, 2014

Average Monthly Performance Through the Winter and Spring Shows Last Year's Leaders Start to Catch Up in Feb-May

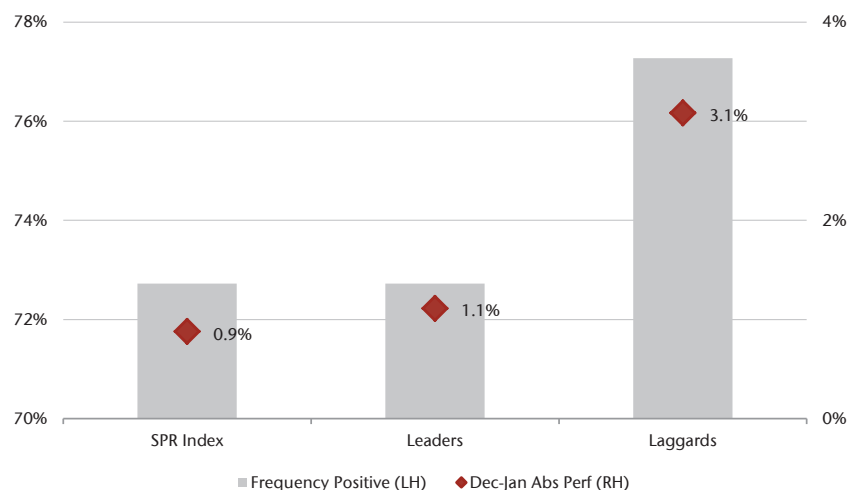
Chart 3: Top/Bottom 20% Relative Performance by Month Excluding 2009



Source: Bloomberg, Jefferies

On Top of the Laggard Outperformance, Dec and Jan Tend to Be Good Months for the Market

Chart 4: Avg Absolute Dec & Jan Performance and Frequency Positive, Last 10 Years



Source: Bloomberg, Jefferies

Themes & Tactics

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December 2, 2014

Companies Mentioned in this Report (all Buy-rated)

Company Name	Ticker	Analyst	YTD Relative Return	2013 Relative Return	Price (\$)	Mkt Cap (\$M)	JEF C15 P/E	GICS Sector
CBS	CBS	John Janedis	-26.9%*	36.6%	54.36	28,358.9	14.7	Discretionary
Five Below	FIVE	Dan Binder	-7.3%	2.5%	45.85	2,489.8	40.6	Discretionary
Men's Wearhouse	MW	Ed Plank	-22.8%	34.6%	45.84	2,202.8	12.8	Discretionary
Michael Kors	KORS	Randy Konik	-23.0%	26.9%	73.40	15,113.9	19.0	Discretionary
Noodles & Co	NDLS	Andy Barish	-46.0%*	N/A	24.23	721.8	50.5	Discretionary
Red Robin	RRGB	Alex Slagle	-19.6%	76.0%	69.00	967.2	22.3	Discretionary
Starbucks	SBUX	Andy Barish	-8.2%	15.8%	81.25	60,799.4	24.9	Discretionary
United Natural Foods	UNFI	Mark Wiltamuth	-14.2%	8.3%	74.84	3,733.5	24.9	Staples
C&J Energy Services	CJES	Brad Handler	-52.5%*	-24.6%	14.07	778.6	10.1	Energy
Helmerich & Payne	HP	Brad Handler	-30.0%*	20.5%	68.23	7,386.3	10.7	Energy
Navigator Holdings	NVGS	Doug Mavrinac	-42.3%*	N/A	19.18	1,061.2	9.1	Energy
Scorpio Tankers	STNG	Doug Mavrinac	-42.2%*	35.5%	8.05	1,385.4	6.6	Energy
Regions Financial	RF	Ken Usdin	-13.0%	8.0%	9.81	13,503.2	11.4	Financials
Santander Consumer	SC	John Hecht	-41.3%*†	N/A	18.40	6,421.3	7.7	Financials
Waddell & Reed	WDR	Dan Fannon	-39.7%*	59.5%	46.97	3,927.4	12.9	Financials
Catamaran	CTRX	Brian Tanquilut	-6.2%	-31.6%	50.92	10,565.1	20.0	Health Care
Pfizer	PFE	Jeff Holford	-7.1%	-6.3%	31.47	198,281.7	14.7	Health Care
Seattle Genetics	SGEN	Thomas Wei	-22.9%	39.6%	36.12	4,475.0	N/A	Health Care
Boeing	BA	Howard Rubel	-14.1%	52.3%	133.23	94,477.5	15.0	Industrials
Jacobs Engineering	JEC	Luke Folta	-40.8%*	15.5%	45.79	5,978.0	12.2	Industrials
Navistar	NAV	Steve Volkmann	-18.3%	43.2%	36.35	2,957.8	8.3	Industrials
Owens Corning	OC	Phil Ng	-26.4%*	-22.3%	35.00	4,114.7	14.8	Industrials
Terex	TEX	Steve Volkmann	-47.1%*	17.3%	27.69	3,001.6	9.2	Industrials
Albemarle	ALB	Laurence Alexander	-20.0%	-28.8%	58.48	4,576.3	14.1	Materials
Cabot	CBT	Laurence Alexander	-28.2%*	-0.8%	43.09	2,759.8	12.7	Materials
Reliance Steel	RS	Luke Folta	-28.9%*	-8.0%	62.85	4,907.1	11.2	Materials
Maxim	MXIM	Mark Lipacis	-4.9%	-34.2%	29.24	8,272.6	17.0	Technology
Vantiv	VNTV	Jason Kupferberg	-10.9%	27.3%	33.43	4,885.1	15.3	Technology
Zynga	ZNGA	Brian Pitz	-46.7%*	28.0%	2.54	2,288.7	253.5	Technology
RingCentral	RNG	Brad Zelnick	-46.3%*	N/A	12.33	839.8	N/A	Telecom
T-Mobile	TMUS	Mike McCormack	-28.7%*	N/A	28.52	23,025.6	60.7	Telecom

Source: Bloomberg, Jefferies

† Indicates since IPO (SC)

* Indicates bottom 20% relative performance YTD

Albemarle (ALB, Buy, PT \$77)

Laurence Alexander

With the Rockwood acquisition likely to close in Q1 following a favorable shareholder vote, the focus shifts to integration, cost synergies, and confirmation the bromine chain is troughing. We estimate a stretch EPS target for 2019E of \$8.20: \$7.25 from our base case; \$0.30 from 5% higher volumes in a cyclical peak; \$0.50 from Br tightness; \$0.15 from productivity and mix. At 18x, a 10% discount to the stretch multiples we use for premium specialty chemical franchises, this would suggest a stretch target of \$148 at the end of 2018. Our benchmark for recession earnings is \$3.50, which would imply downside to \$35 at a trough and a 3.3 reward/risk ratio across the cycle. The near-term rotation could be spurred by the consideration that any of the following factors would support relative outperformance: 1/ favorable newsflow on the integration; 2/ construction and/or consumer electronics recovery (good for flame retardant demand); 3/ cheaper oil spurring the use of more sour, heavier crudes (good for catalysts); or 4/ validation of the FCF thesis that motivated the Rockwood acquisition.

Boeing (BA, Buy, PT \$165)

Howard Rubel

Boeing has seen positive EPS revisions since the start of the year. Orders for the year should clearly top shipments, lifting backlog by more than a double amount vs. the year-end 2013 total of \$423 billion. Cost reduction initiatives progressing as indicated by improving commercial margins. Air traffic has grown by over 5.5 percent, more than enough to support shipments. Repurchase plan sharply higher sooner. We believe that \$12 in EPS is possible by 2017.

Cabot (CBT, Buy, PT \$56)

Laurence Alexander

The tire market is in the throes of a fairly aggressive destock cycle—such cycles typically end within two to three quarters. If destocking ends, Cabot's tire blacks business should rebound, and possibly at the same time as utility mercury removal contracts start to be announced with more frequency—which would improve sentiment on Cabot's activated carbon business. Also, Cabot looks like it could deliver north of \$2.50/share in FCF in 2015, and be able to support a bridge to peak EPS of \$7 (vs. a trough of \$2.30-\$3.00). An attractive risk/reward, favorable regulatory trends, a potential rebound in the tire market, and significant negatives already priced in could make Cabot a good "rotate into the laggard" candidate.

Catamaran (CTRX, Buy, PT \$58)

Brian Tanquilut

CTRX has underperformed its healthcare peer group in the last two years despite management's continued ability to execute on commitments to investors. New contract wins, including two potentially large health plan accounts, are likely to be announced in the next three months in our view, and should drive meaningful revenue and stock upside. We believe CTRX is in a strong position to win these businesses. An acquisition of a relatively large PBM is still likely to occur in the next three to six months and this should be meaningfully accretive to both earnings and the stock. 2015 is the start of the big wave of specialty pharmacy growth for the PBM sector and should re-ignite investor interest in the group, including CTRX.

CBS (CBS, Buy, PT \$65)**John Janedis**

CBS' stock has underperformed the market this year on weaker ad growth, secular concerns, and downward estimate revisions. We think downside to '16 EPS is limited, and come up with a \$4.50 downside EPS case (stock currently trades at 12x that number). Meanwhile, we continue to look for \$4.81 in EPS, and believe there's upside from 1) spectrum sales, and 2) better Showtime distribution, which may be enabled by the OTT offering. Spectrum sales could be worth \$3/4 per share. CBS is a Jefferies Franchise Pick.

C&J (CJES, Buy, PT \$27)**Brad Handler**

We expect successful completion of the acquisition of Nabors' Completion & Production business by early 2015, which we believe removes some uncertainty/overhang for shares. We look for another solid quarter of pricing realization and further logistics efficiencies in 4Q13 results, which should reinforce our investment thesis that CJES is a more competent fracking and completions service provider than many, and can use its newly-acquired assets from Nabors to continue to take market share and to raise the profitability of those assets.

Five Below (FIVE, Buy, PT \$52)**Daniel Binder**

We believe the soft Q4 performance last year was primarily due to weather, which in Five Below's case had an even bigger impact since it did not have a transactional website for customers to shop on those snowy days. We would also add that this Q4 (Jan) will see the bulk of the work that the product development team did on global sourcing. This should benefit FIVE in one or both ways. 1) Management intention is to improve that value proposition as it buys better with scale and direct sourcing. 2) Opportunity to improve product margin rate to help cover the costs of a growing company (i.e., larger buying group and more distribution centers). Our \$52 price target is based on FIVE shares selling at a PEG ratio of 1.5 using FY16 EPS estimate of \$1.15. This reflects strong unit growth and new store productivity with rapid cash payback, healthy SSS and strong returns.

Helmerich & Payne (HP, Buy, PT \$98)**Brad Handler**

Even within our outlook for a falling U.S. rig count for the industry, we think HP is solidly positioned to grow its active fleet and thus take more market share in 2015. The company enters the year with leading contract coverage – ~55% of its existing fleet – and a full the-quarters of its expected newbuilds in 2015 already contracted as well. The company continues to demonstrate a best-in-class cost structure as well. Thus, we expect some renewed interest in energy (in part as oil benefits from heating season and in part as investors focus on opportunities in the sector) to translate to demand for HP shares.

Jacobs Engineering Group (JEC, Buy, PT \$68)

Luke Folta

Jacobs (JEC) is one of the largest and most diversified E&C companies in the world and has predominantly been known for its expertise in the downstream oil & gas market. We have a Buy rating on Jacobs Engineering and see improving upside potential with a favorable/lower risk profile vs. peers. While headwinds are present in certain end markets (incl. government and metals and mining), we think JEC with its low cost structure is best positioned to capture additional market share in these markets, where it continues to grow its backlog despite difficult conditions. While JEC didn't participate in the ethane cracker build out (due to lack of technology and risk profile of the projects), we see JEC actively participating in build out of derivative facilities in US, which should keep the company on a growth trajectory. JEC noted a prospect list of over 20 \$1B-plus project opportunities for which it believes it has high chances of success. A change of course for the company, JEC approved a repurchase authorization last quarter and expects to continue buying back stock into 2015.

Maxim (MXIM, Buy, PT \$34)

Mark Lipacis

MXIM has disappointed the Street for two quarters in a row now, largely as their biggest customer, Samsung, has been drawing down inventories. The stock has tended to perform well in the six-month period starting in October, as the worst of Samsung's inventory drawdowns tend to happen in 4Q. Looking ahead, we believe they're likely to be included in the Galaxy S6 (they've been included in every Galaxy thus far), and we also believe they'll be included in the Apple Watch. Additionally, the valuation is supportive, with the highest dividend yield (4%) in our semiconductor coverage universe.

Men's Wearhouse (MW, Buy, PT \$60)

Edward Plank

Our recent discussions with management left us with greater confidence in the potential to improve the Jos. A. Bank business and realize substantial cost and revenue synergies. Though some of this will take time, margin expansion is likely to come from better inventory management, revenue opportunities (slim fit, big and tall), better merchandising and more rational ad spend. We look for roughly 500 bp of operating margin expansion out to FY'17 off of FY'14's trough of 6.8%. The stock is attractively valued, trading slightly below historical P/E levels and the peer average.

Michael Kors (KORS, Buy, PT \$100)

Randy Konik

We believe the recent pullback has created a compelling buying opportunity for KORS shares. Under a very competent management team, we believe KORS can continue to take market share in the handbag space and we also see a number of catalysts on the horizon that could be additive to KORS' North American business—namely e-commerce growth now that KORS has brought its e-commerce business in house, continued retail store expansion, additional shop-in-shop conversions, and build out of the men's business. Additionally, our store checks and survey work still validate KORS as a top brand, and momentum indicates the company will be a winner during the holiday season.

Navigator Holdings (NVGS, Buy, PT \$34)

Doug Mavrinnac

NVGS is our preferred LPG shipping play and is down ~12% YTD. Industry conditions, though, have never been better for LPG shipping. In short: 1/ NVGS is the leading LPG mid-sized shipping Company and LPG mid-sized shipping charter rates are currently at all-time highs; 2/ LPG shipping conditions should continue to improve in 2015 as five additional US propane export terminals are due for completion which will require ships to facilitate export; 3/ NVGS also likely has company-specific catalysts upcoming including the announcement of as many as three new long-term contracts for ships currently being built speculatively, announcement of additional newbuilding contracts involving ethane-carriers to facilitate the export of Enterprises ethane export terminal due to come online in 2016, and the eventual announcement of an MLP.

Navistar (NAV, Buy, PT \$45)

Steve Volkmann

NAV is a near pure play on pent up demand in the NA truck market, where capacity constraints are resulting in 5-10% pricing power for truckers. NAV's improved cost structure and enhanced operating efficiencies should result in higher incremental margins through upcycle. NAV underperformed in 2014 as investors worried about the longevity of the truck cycle and NAV's potential to recapture share lost during a now-past engine technology issue. 2014 truck orders have remained well above expectations and backlog is building across the industry. With full product availability and engine technology issues settled, we believe NAV can begin to recapture some share and drive earnings growth in a very positive market.

Noodles (NDLS, Buy, PT \$24)

Andy Barish

We think NDLS has made good operating progress after a difficult 1H, with catering & marketing initiatives driving improved SSS and a return to 20-25% EPS growth in '15. New stores are performing in line, and we think the brand's white space opportunity remains intact. We like the consistency in this model, and see the potential for multiple expansion as the market comes to appreciate its differentiated concept & disciplined growth in the high-flying fast casual category. The growth algorithm of 12-13% unit growth, +2.5-3% same-store sales and +30-50 bps of margin improvement should be achievable over time.

Owens Corning (OC, Buy, PT \$43)

Phil Ng

OC is our top pick in Building Products with sentiment overly-negative in our view, as we do not believe the roofing business is structurally impaired. As the industry works down inventory and acts more rationally on price, roofing margins could bounce back, which creates a nice optionality in the stock, which we believe the Street is not baking in. With positive pricing momentum in composites and insulation, earnings should continue to accelerate in both segments.

Pfizer (PFE, Buy, PT \$40)

Jeff Holford

PFE is our Top Global Pick in the large-cap Pharma space with a Price Target of \$40. Whilst the failed bid for AstraZeneca (AZN LN, 4,780p, Buy) has kept the shares in limbo for much of the year, we remain bullish on the potential for the deployment of OUS cash onto accretive M&A, whether as an inversion deal or not. We continue to rate management and their bias towards prioritizing shareholder returns very highly, and remind investors of the following positive catalysts:

- Approval of palbociclib for first line breast cancer (PDUFA 13 April 2015), with peak sales of c\$5bn. According to Pfizer, the FDA was highly supportive of an early filing.
- Early recommendation of Prevnar-13 for adults from the ACIP in time for the 2014/15 flu season,
- Upside to further mid to long term valuation through separation of its Global Established Pharma (GEP) business in 2017 and either a return to AstraZeneca or potential alternative acquisitions utilizing its OUS cash pile, and
- A cheap valuation of just 13.2x 2016E EPS, versus the US Pharma sector multiple of 16.6x, making it the second cheapest US stock after AbbVie (ABBV, \$69.20, Buy).

Red Robin (RRGB, Buy, PT \$80)

Alex Slagle

Despite a strong rally in the stock after announcing a 3Q EPS beat and acceleration in SSS during Sep/Oct, we think RRGB is still being underappreciated. Consensus is targeting only 13% EPS growth in '15 & the valuation remains a discount to peers (8x '15 EBITDA vs. peers at 9-11x). Recall that RRGB EPS is particularly leveraged to SSS gains, with a 1% change in SSS = \$0.30 to EPS or about 11% to EPS growth. With the system likely to see further tailwinds from improved restaurant spending trends and a meaningful traffic lift from its brand transformation remodels (driving a 4-5% traffic lift, but only now starting to ramp & likely remodel half of Co. stores by end of '15), we believe RRGB can deliver notable SSS & EPS upside to our estimates of 2.5% & \$3.10, respectively.

Regions (RF, Buy, PT \$11.50)

Ken Usdin

Regions is one of the most rate-sensitive banks in our universe, given a high proportion of variable-rate loans (64%) and a large, stable deposit base. We see RF as one of the best candidates to increase its capital return payout (dividends and buybacks) in 2015. Its 2014 ask was seen as conservative, but RF has an even higher capital ratio today (11.2% Basel III Tier 1 common vs. 10.3% for peers) and should be able to raise the payout from current levels. We anticipate a total capital return payout of 80% for 2015 vs. 55% in 2014. EPS revisions have been negative this year, but the negative impact from lower payday lending fees and overdraft charges has been less than anticipated. RF's valuation is attractive at 11.6x '15 EPS vs. 13.5x for the group, and trades at 1.25x tangible book value for a modeled 10%-11% return on tangible equity for '15. While the stock has underperformed the broader market by 10%, the larger regional banks as a group have also underperformed by 7.5%, leaving some opportunity for RF to close the gap to both the group and the market.

Reliance Steel & Aluminum (RS, Buy, PT \$77)

Luke Folta

With RS off from recent highs and in line with our view that U.S. metals demand will continue to improve, we see attractive risk-reward and upgraded RS to Buy in late October. RS is one of the steel stocks most levered to non-residential demand, with about one-third of their business exposed to that end market. RS offers attractive/stable margins, consistent FCF generation, and FCF/BS optionality. The risk of lower steel prices is a headwind for RS, though we believe this is largely factored into valuations with greater risk to the upside than down from here.

RingCentral (RNG, Buy, PT \$20)

Brad Zelnick

A first mover with disruptive technology in the huge business communications market, the company leverages predictability and expansive qualities of SaaS and corporate mobility trends (BYOD). We believe RNG offers a lower TCO than legacy PBX systems over the short and long term. The stock isn't cheap at about 3x EV/forward revenues, but we believe their TAM is massive and revenue growth should be impressive at 30%+. Mobile-first solution enables integrated system for all of users' telephony needs; has led to outsized growth that should persist.

Santander Consumer (SC, Buy PT \$24)

John Hecht

The stock trades at 7x FY16 EPS despite an ROE in the mid-20% and earnings growth of more than 50% this year (long term growth is around 10%). Investors have sold the stock over the course of CY14 given emerging concerns regarding credit, and as the investment thesis has migrated in the wake of going public as SC's holding company failed CCAR. That said, we believe that credit metric comparisons will normalize as we enter CY15, causing credit concerns to subside. Further, it is possible that the holding company could pass CCAR in CY15, creating an upside catalyst in the stock. We expect the P/E multiple to normalize (towards 10x) and we see 25%+ upside in the stock.

Starbucks (SBUX, Buy, PT \$88)

Andy Barish

Starbucks remains our favorite pick in large-cap growth. We like the continued innovation at the retail level (beverages & food programs), and see opportunity for the company to expand beyond its core competencies via sub-brands like Teavana (global tea opportunity). We also believe SBUX is well-positioned to unlock digital to capture the shift away from brick-and-mortar retailers. The International business is in good shape following the portfolio optimization efforts in Europe and acquisition of the Japanese JV, the latter of which will allow for accelerated CPG growth in the region. The long-term development opportunity is also healthy, even across the Americas, where new flexible format & drive thru stores are creating differentiated points of distribution. We see mid-to-high teens earnings growth (+16-18% in F15) and the best fundamentals in large cap as the primary drivers for potential multiple expansion in the stock, vs. other large-cap peers MCD and YUM where fundamentals remain challenged and there's little visibility on when margins will stabilize.

Scorpio Tankers (STNG, Buy, PT \$12)

Doug Mavrinnac

Scorpio is our preferred refined products play and is down ~28% YTD. Similar to LPG, however, industry conditions are the strongest for refined products tankers since 2008-2009. In short: 1) STNG is one of the leading refined products tanker companies and refined products tanker charter rates are currently at 5-year highs; 2) Refined products tanker charter rates should continue to improve in 2015 as two additional Middle East refineries (Yanbu and Ruwais) are scheduled to ramp-up requiring ships to facilitate export; 3) STNG also has company-specific catalysts upcoming including the delivery of its massive newbuilding program which could increase the Company's cash flow generation potential into the strengthening charter rate environment. As a result, we expect the Company to announce further dividend increases and further share repurchases.

Seattle Genetics (SGEN, Buy, PT \$53)

Thomas Wei

We are buyers of SGEN because we expect doctors will increase the amount of Adcetris they use to treat blood cancers. We expect longer Adcetris treatment in the near-term, mostly driven by data from ongoing trials that could convince docs to use the drug in early stages of diseases. We also expect Adcetris will soon get approved for new blood cancers. Early data for pipeline compounds look encouraging, in particular SGN-CD33a for acute myeloid leukemia, and we like the prospects for Adcetris combinations with immunotherapies (e.g., PD-1), but these remain upside to our \$53 price target.

Terex (TEX, Buy, PT \$35)

Steve Volkmann

TEX has underperformed our Machinery coverage by ~30% ytd as hoped-for crane recovery has been elusive. The Company has a new margin expansion program based on zero growth, and they've identified projects that could drive \$1.25 in EPS savings by the end of '16. A tax rate reduction program and liquidation of excess working capital could provide additional upside. Consensus estimates don't capture these opportunities, and though our EPS estimates were not changed in conjunction with our 11/18 upgrade, we're now 8% ahead of consensus for '15 as Street estimates have continued to fall. The biggest risk would be additional/continued weakness in the energy sector which would be a headwind for TEX crane.

T-Mobile (TMUS, Buy, PT \$35)

Mike McCormack

While shares have lagged following abandoned M&A discussions with Sprint, we believe that the market is improperly discounting the company's subscriber momentum & inflecting FCF, with underappreciated value assigned to PCS synergies. Our '15 EBITDA is 9% ahead of the Street, and the stock is down 20% from summer highs. We continue to expect strong subscriber momentum; we are comfortable with their consumer credit (but are watching it closely) and believe the company remains an attractive acquisition candidate (though our PT assumes no M+A).

United Natural Foods (UNFI, Buy, PT \$78)

Mark Wiltamuth

Grocery wholesaler United Natural Foods (UNFI) remains our top pick in the natural/organic food chain. While the stock lagged in 2014 due to the collapse of same store sales (from 8% to 3%) at its largest customer Whole Foods, robust sales at conventional and independent grocers kept UNFI's ex-acquisition sales growth at 12-13% all year and we note that the recent stabilization of comps at Whole Foods has led to a bounce in UNFI valuation. UNFI is well positioned to continue robust topline growth as natural/organic food industry growth is running 9-11%, the company is ~3x the size of its closest competitor, and it plans to add 30% to its capacity over the next two years. With investments in multi-temp capacity now in place and the recent Tony's Fine Foods acquisition (meats/cheese/specialty) complete, we believe the company is now poised to start selling perishable product into the perimeter-of-store and we also expect a bigger push into ethnic, specialty and gourmet foods. We view this expansion of the UNFI offering as the biggest opportunity in the next three to five years for the company and one that starts shifting the investment debate away from gross margin erosion caused by growth of conventional grocers in natural/organics. We expect 14-17% EPS growth for UNFI as consumers continue to embrace healthier eating.

Vantiv (VNTV, Buy, PT \$37)

Jason Kupferberg

Management's communication and expectation-setting have been disappointing, but the numbers have not been as bad as the stock would seem to imply, and we believe steadier execution can drive multiple expansion. We see the core Merchant business accelerating; we remain very bullish on the Mercury acquisition, and believe the recently underperforming FI segment should improve in 4Q. The stock trades at a 15-20% discount to its peers on forward P/E multiple, and if execution improves, we believe the company could again earn a premium multiple to the comp group.

Waddell & Reed (WDR, Buy, PT \$55)

Dan Fannon

As short term performance continues to improve at the flagship WASAX fund we anticipate fund outflows will stabilize. While outflows will likely remain elevated in the short term, improving trends within the high yield segment should be a positive offset. In addition, flow trends across the remainder of the franchise (mainly equity) remain solidly positive. Redemption rates across the WDR platform have historically been lower when compared to peers given its captive advisor network and operating margins will positively benefit in the short term from lower gross sales. Lastly, the company's capital return policy should continue to provide some level of downside support.

Zynga (ZNGA, Buy, PT \$4.50)

Brian Pitz/Brian Fitzgerald

We upgraded Zynga on 11/11. The company's fast-growing mobile business now looks large enough to move the needle, offsetting the headwinds around its legacy Facebook / web game business. Size/strength in mobile should enable the company to grow revenues (Y/Y) for the first time in two years this 4Q. The company has a legitimate hit with Words with Friends (No. 3 in the app store; expect upside to 4Q ad revenue), and a number of new mobile games in 2015 should have a positive impact on user metrics including Tiger Woods Golf. With \$1.55 / share in cash, we think the risk / reward looks favorable.

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- Cabot Corp. (CBT: \$43.08, BUY)
- Catamaran Corp. (CTRX: \$50.94, BUY)
- CBS Corporation (CBS: \$54.88, BUY)
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- Helmerich & Payne Inc. (HP: \$69.55, BUY)
- Jacobs Engineering (JEC: \$46.45, BUY)
- Maxim Integrated Products, Inc. (MXIM: \$29.57, BUY)
- Michael Kors Holdings Ltd. (KORS: \$76.71, BUY)
- Navigator Holdings Ltd. (NVGS: \$21.42, BUY)
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- Noodles & Company (NDLS: \$24.48, BUY)
- Owens Corning (OC: \$34.84, BUY)
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- Seattle Genetics (SGEN: \$36.44, BUY)
- Starbucks Corp. (SBUX: \$81.21, BUY)
- Terex Corporation (TEX: \$28.70, BUY)
- The Boeing Company (BA: \$134.36, BUY)
- The Men's Wearhouse, Inc. (MW: \$46.72, BUY)
- T-Mobile US (TMUS: \$29.19, BUY)
- United Natural Foods (UNFI: \$75.19, BUY)
- Vantiv, Inc. (VNTV: \$33.74, BUY)
- Waddell & Reed Financial, Inc. (WDR: \$48.08, BUY)
- Zynga, Inc. (ZNGA: \$2.60, BUY)

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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