

Date: 4/8/2013

Analyst Name: Joseph Brendel

## CIF Stock Recommendation Report (Spring 2013)

Company Name and Ticker: Actavis Inc (ACT)

### Section (A) Summary

Recommendation Buy: Yes <b>No</b>		Target Price: N/A	Stop-Loss Price: N/A
Sector: Health Care	Industry: Drug Manufacturers – Specialty & Generic	Market Cap (in Billions): \$12.416	# of Shrs. O/S (in Millions): 127.75
Current Price: \$97.19	52 WK Hi: \$98.37	52 WK Low: \$65.70	EBO Valuation: \$166.14
Morningstar (MS) Fair Value Est.: \$86.00	MS FV Uncertainty: High	MS Consider Buying: \$51.60	MS Consider Selling: \$133.30
EPS (TTM): 0.75	EPS (FY1): 8.07	EPS (FY2): 9.04	MS Star Rating: 3-Stars
Next Fiscal Yr. End "Year": 2013 "Month": December	Last Fiscal Qtr. End: Less Than 8 WK: <b>Y</b> N	If Less Than 8 WK, next Earnings Ann. Date: May 2, 2013	Analyst Consensus Recommendation: Outperform
Forward P/E: 10.76	Mean LT Growth: 14.06	PEG: 0.77	Beta: 0.35
% Inst. Ownership: 86.46%	Inst. Ownership- Net Buy: Y <b>N</b>	Short Interest Ratio: 1.10	Short as % of Float: 1.10%
<b><u>Ratio Analysis</u></b>	<b><u>Company</u></b>	<b><u>Industry</u></b>	<b><u>Sector</u></b>
P/E (TTM)	129.62	28.00	27.41
P/S (TTM)	2.10	4.26	17.28
P/B (MRQ)	3.24	1.85	2.19
P/CF (TTM)	18.34	16.99	16.60
Dividend Yield	0.00	1.74	1.62
Total Debt/Equity (MRQ)	167.80	17.02	30.01
Net Profit Margin (TTM)	1.66	9.54	-58.90
ROA (TTM)	0.95	4.46	4.39
ROE (TTM)	2.63	7.63	7.44

<p><b><u>Investment Thesis:</u></b></p> <p><b><u>Pros:</u></b></p> <ul style="list-style-type: none"> <li>• Low R&amp;D costs</li> <li>• Large product diversification</li> <li>• Low-cost manufacturing</li> </ul> <p><b><u>Cons:</u></b></p> <ul style="list-style-type: none"> <li>• Very dependent on US-market due to weak international presence</li> <li>• Limited life of generic Lipitor drug (until 2014)</li> <li>• High competition</li> </ul> <p>After all of my research on the company I recommend that we should not invest in Actavis Inc (ACT). There are several reasons for this; the first is that I do not believe it has the ability to sustain its current growth pattern. The stock has increased by over 200% over the past 5 years. However, I am concerned by the company's weak internationally presence. Currently, the company has a negative net income from its international business segments and is too reliant on the U.S. market for its growth. Another factor is the concerning dip in their earnings from 2011 to 2012. While a large factor in this was their acquisitions, it is difficult to determine the company's performance during 2012. Additionally, after 2014 the company will run into several things that will limit its growth. The first is the expiration of their contract to be able</p>	<p><b><u>Summary</u></b></p> <p>Provide brief summary of your analysis in each section that follows</p> <p><b><u>Company Profile:</u></b> The company is the world's third largest generic drug manufacturer. Generic drug sales account for over 3/4ths of the company's total revenue. The company has been involved in a recent legal battle that has caused the stock's price to jump.</p> <p><b><u>Fundamental Valuation:</u></b> The EBO valuation gave an implied price of \$166.14 when using a 2-year above normal growth period. A major reason for the high value was due to the stock's low beta.</p> <p><b><u>Relative Valuation:</u></b> The relative valuation seemed to suggest that the stock might be undervalued. However, relative valuation is not the best tool to estimate the value of a drug manufacturing company.</p> <p><b><u>Revenue and Earnings Estimates:</u></b> The revenue and earnings estimates are up significantly from 1-year ago, but have not changed much recently. I believe most of the change is already reflected in the stock's price.</p> <p><b><u>Analyst Recommendations:</u></b> For the most part the analysts' recommendations are slightly bullish, with Reuters saying it will outperform. The stock's price is over 10% above Morningstar's Fair Value price.</p> <p><b><u>Institutional Ownership:</u></b> The company has a significant portion of institutional ownership, and only has to (&gt;5%) owners. The number of positions has decreased, however it has not been by much.</p> <p><b><u>Short Interest:</u></b> The short interest section had bullish indicators with the decreasing days to cover &amp; bearish indicators with an increase in short shares. It is hard to get a good indication on the stock from this section.</p> <p><b><u>Stock Price Chart:</u></b> The stock has experienced great growth over all of the relevant time frames. Additionally, both technical charts most recently had a golden cross. RSI is up around 80.</p>
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<p>to manufacture and sell their generic version of Lipitor. Also, after 2014, there will be significantly fewer drug patents expiring which will limit the amount of new products that they can introduce. The second main reason why I am recommending a no-buy is because I believe that the stock is currently over-priced. Due to recent events, the stock has increased by 6.38% over the past week in anticipation of a judicial ruling. This has oversaturated what I believe to have already been a stock price that was too high. The stock is now trading for \$12 more than its Morningstar FV price. Additionally, RSI indicates that the stock is currently overbought. RSI is hovering just below 80 right now, which suggests that the stock is overbought. While the stock might be appealing due to the low R&amp;D costs, low-cost manufacturing and the large product diversification, these positives are not enough to overcome the downsides that I see in the stock. For these reasons, I believe that now would be a bad time to invest in this stock and I am recommending that we do not buy it.</p>	
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## **Section (B) Company Profile (two pages maximum)**

### **Company Summary**

Actavis Inc. (ACT) is a drug manufacturing company that specializes in the development, manufacturing and sale of generic and Over-The-Counter drugs. The company is trading in the S&P 500 in the Health-Care Sector (XLV). The company is what was formerly Watson Pharmaceuticals Inc and had the ticker symbol WPI. On January 23, 2013 the company was renamed to its current name, Actavis Inc. The company has operations in 60 different countries but has most of its revenues coming from the U.S. at around 75% of total revenue.

The company has acquired several companies over the past couple of years. On January 23, 2013 Actavis acquired Uteron Pharma SA, a company based out of Belgium, for \$150 million cash and \$155 million worth of future payments. Through this acquisition, the company was able to expand its Specialty Brands product line to include more Women's health products. The two major products from this acquisition were both contraceptive drugs. In addition to this acquisition, the company also acquired Actavis Group on October 31, 2012 for \$5.5 billion worth of cash and through the issuance of 5.5 million new shares. Through this acquisition, the company became the third largest generic drug company in the world. Another recent acquisition was that of the company Ascent Pharmahealth Ltd., an Australian company, on January 24, 2012. This acquisition cost \$392.6 million in cash and helped to expand the company's presence in Australia and gave it the ability to break into the Southeast Asian market. Finally, the company also acquired the company Specifar Pharmaceuticals, a Greece based company, on May 25, 2011. This acquisition was made for \$559.5 million worth of cash and enhanced the company's presence in the European market, especially Greece.

In 2012, the company came out with two major new drug products. The company was able to begin manufacturing and selling their own generic versions of the drugs Concerta (ADHD) and Lipitor (cholesterol). The patents for both of these products just recently expired, giving Actavis the opportunity to produce and sell their own version of these drugs. During the 2012 year, the sale of these two generic drugs accounted for 20.8% of the company's overall revenue. However the contract for the Lipitor generic drug will expire after 2014.

In recent news, Actavis Inc is trying to capitalize on the fact that a judge recently ruled that AstraZeneca's patent is insufficient to protect its asthma drug, Pulmicort Rapsules. This ruling would allow for generic versions of the drug to be produced and sold. This asthma drug generated \$1.2 billion in revenue in the past year alone. Actavis currently has a version of this drug, but it is being temporarily blocked from being sold due to an April 3<sup>rd</sup> ruling. This

temporary block will be in effect until April 12<sup>th</sup>, during which time, AstraZeneca plans to appeal to original ruling. It is currently unclear whether or not Actavis Inc will be eventually allowed to sell this drug, but until then it is a good idea to keep an eye on it. On the day the patent ruling was announced, the stock price shot up \$4.00. While on the day that the temporary block was announced, the stock price dropped by \$1.50. Overall, the stock price has increased by just under \$6 (6.38%) since the patent ruling was first announced. This whole chain of events has caused a large increase in the trading of this stock. It would be expected that on April 12<sup>th</sup>, when the temporary block has ended that the stock will either go up or go down depending on whether anything else has been decided about the patent.

-More recent news was that on April 3, 2013 the company announced that they would be the exclusive marketer and distributor as well as co-promoter of Valeant Pharmaceuticals International Inc's Zovirax Ointment, which is used to treat cold sores. Additionally, Valeant has been granted the permission to co-promote Actavis' Cordran Tape, a drug that reduces inflammation and itching. The agreement should help both companies as Zovirax generated nearly \$400 million in revenue in 2012.

### **Business Model, Competition, Environment and Strategy**

The company relies very heavily on the manufacturing and sales of generic drugs, which accounted for 57% of their product revenues for 2012. They face heavy competition, because they are specifically producing generic products of drugs that already exist, in order to gain revenue they have to compete with the already established products. They only have a very limited number of products that are exclusive to Actavis Inc and therefore have to deal with direct competition with other drugs for a large percentage of their business (~75% of overall revenue). The company is mostly focused on the U.S. market, but through recent acquisitions has been trying to increase its international presence. Another factor that increases its competition is the large variety in products that it offers. With over 250 products being sold worldwide, Actavis Inc faces strong competition from a large number of competing drug manufacturers.

The company has three business segments: Actavis Pharma, Actavis Specialty Brands and Anda Distribution. Actavis Pharma is the company's generic drug segment and it is by far the company's largest business segment. The Actavis Specialty Brands business segment is focused on the manufacturing and selling of new and unique products that the company has the exclusive rights to sell. Anda Distribution is focused on the distribution of their products to pharmacies and physicians.

### **Revenue Breakdown:**

#### By Business Segment:

Segment	Actavis Pharma	Actavis Specialty Brands	Anda Distribution
Revenue (in millions)	\$4,385.2	\$411.6	\$986.4
Percent of Total	75.83%	7.12%	17.05%

#### Net Income By Region:

Segment	U.S.	Foreign
Net income before taxes (in millions)	\$730.6	-\$485.5

-The company's 10-k states that about 75% of their total revenue comes from the U.S. market, with about 25% coming from foreign markets. However, they did not include exact number for the revenue breakdown by region. Therefore, I decided to use the information that they gave for the net income by region in order to compare their domestic and foreign business operations.

### **Revenue and Earnings History**

This information is available in *Reuters.com*, "**Financials**" tab. Copy/paste the quarterly revenue and earnings per share numbers for the most recent three years. Add the numbers over four fiscal quarters to get annual revenue and earnings. For the current fiscal year, go ahead add up as many quarters as are available. **NOTE:** revenue numbers are "*in millions*".

### **REVENUE**

Periods	2011	2012
March	876.5	1524.3
June	1081.7	1355.2

September	1081.6	1285.2
December	1544.6	1750.2

Note: Units in Millions of U.S. Dollars

## EARNINGS PER SHARE

Periods	2011	2012
March	0.36038	0.43082
June	0.41693	-0.49444
September	0.53664	0.59922
December	0.74646	0.21423

Note: Units in U.S. Dollars

**Discuss any pattern in revenue and earnings (e.g., increasing year over year; seasonal; etc.)**

-There is not too much of a pattern in either revenue or earnings. During 2011, both revenue and earnings saw a steady increase throughout the year. However, in 2012, both EPS and revenue slumped during the June quarter. Earnings picked back up again in September, before dropping again in December. Revenue on the other hand struggled again in September before picking up again in December. Do the struggling numbers in 2012, I see this as a bearish indicator for the stock's future.

**Copy/paste completed Fundamental Valuation (EBO) Spreadsheet**

8



Book value / share:	30.02
Dividend payout ratio:	0.00
Next fiscal year end:	2013
Current fiscal month:	4
Target ROE:	7.63%

## Output

Above normal growth period chosen: 2 years

EBO valuation (Implied price from the spreadsheet): 166.14

- 2-year above normal growth period was chosen, because this is how long I expect the current conditions of the health care sector to remain the same as they are currently. After 2014, more provisions of the ACA will kick in bringing with them several negative effects for generic drug companies. Additionally, the company has several business contracts that will expire at the end of 2014, so this makes it a good year to choose for the above normal growth period.

## Sensitivity Analysis

EBO valuation would be (you can include more than one scenario in each of the following):

195.08 if changing above normal growth period to 2016

166.14 if changing growth rate from mean (consensus) to the highest estimate 19.50%

166.14 if changing growth rate from mean (consensus) to the lowest estimate 6.00%

107.42 if changing discount rate to 8.00%

166.14 if changing target ROE to 5

-In my sensitivity analysis, I changed the growth period to 2016, because this is double the above normal growth period I originally chose. I decided to do this in order to determine the effect a longer above normal growth period would have on the fundamental valuation. The growth-rate mean adjustments were done according to the table from Reuters. I decided to change the discount rate to 8.00% because this is around what the discount rate would be if the stock's beta was double what Reuter's currently has it listed at, which is 0.35. I decided to do this sensitivity calculation; because I was worried that the stock's low beta was the main reason behind the high fundamental value given by the spreadsheet.

-Values used for the discount rate:

Risk-free rate (Rf): 2.71%

Expected return on market [E(Rm)]: 10%

Beta: 0.35

## Section (D) Relative Valuation

Copy/paste your completed relative valuation spreadsheet here

Cougar Investment Fund Relative Valuation Template												
Please download and save this template to your own storage device You only need to input values to cells highlighted in "yellow" The rest of the spreadsheet is calculated automatically Please read "Stock Recommendation Guidelines" document carefully												
ACT												
Ticker	Name	Mkt Cap	Current Price	Mean FY2 Earnings Estimate (next fiscal year)	Forward P/E	Mean LT Growth Rate	PEG	P/B (MRQ)	ROE 5 yr ave	Value Ratio	P/S TTM	P/CF TTM
TEVA	Teva Pharmaceutical Industries	\$ 37,550.02	\$ 38.95	\$ 5.47	7.12	7.29%	0.98	1.48	10.88%	0.14	1.85	10.0
VRX	Valeant Pharmaceutical International Inc	\$ 21,904.19	\$ 71.67	\$ 6.48	11.06	12.25%	0.90	5.87	1.52%	3.86	6.18	25.0
AGN	Allergan Inc	\$ 33,493.16	\$ 111.92	\$ 5.44	20.57	13.27%	1.55	5.79	19.70%	0.29	5.77	24.0
TKPHF	Takeda Pharmaceutical Co Ltd	\$ 39,758.74	\$ 52.20	\$ 1.87	27.91	7.40%	3.77	1.91	11.75%	0.16	2.50	10.0
ACT	Actavis Inc	\$ 12,416.01	\$ 97.25	\$ 9.04	10.76	14.06%	0.77	3.24	6.77%	0.48	2.10	18.0
Implied Price based on:					P/E		PEG	P/B		Value	P/S	P/CF
TEVA	Teva Pharmaceutical Industries				\$64.37		\$124.15	\$44.42		\$27.64	\$85.67	\$54.46
VRX	Valeant Pharmaceutical International Inc				\$99.98		\$114.76	\$176.19		\$784.74	\$286.19	\$133.4
AGN	Allergan Inc				\$185.98		\$197.06	\$173.79		\$59.72	\$267.21	\$127.5
TKPHF	Takeda Pharmaceutical Co Ltd				\$252.35		\$479.46	\$57.33		\$33.03	\$115.77	\$55.19
	High				\$252.35		\$479.46	\$176.19		\$784.74	\$286.19	\$133.4
	Low				\$64.37		\$114.76	\$44.42		\$27.64	\$85.67	\$54.46
	Median				\$142.98		\$160.60	\$115.56		\$46.38	\$191.49	\$91.36
*Takeda is a Japanese based company, so Market Cap had to be converted from yen to USD												

### From the top panel

Discuss whether your stock and its competitors have very different multiples. Point out if any of the five stocks have multiple that is far off from the others. Make an attempt to explain why (you would want to read analyst research report in **Morningstar Direct**; you should also look for comments from other financial sites). **The discussions should address all of the following valuation metrics: forward P/E, PEG, P/B (MRQ), P/S (TTM), and P/CF (TTM).**

Compare the implied prices derived from various valuation metrics. Also compare those implied price to the stock's current price, and 52-week high and low.

-For the most part, Actavis's multiples are pretty much around the average of their other competitors, with some falling below Actavis' multiples and some above for pretty much every one of the multiples. ACT's forward P/E is on the lower end of the spectrum when compared to its competitors, with two of its competitors being over double its forward P/E. This is favorable for the company, as a lower P/E is better. The company's PEG is lower than all of its other competitors, with the next closest being at 0.90. This again is another multiple that is favorable for Actavis in comparison to its competition. Actavis' P/B ratio falls right in between two of its competitors, so this multiple is a pretty reasonable average. The company's P/S multiple is again lower than most of its competitors, which is a good thing for the company. The company's P/CF multiple falls right in the middle of its competitors, with two being significantly higher and two being significantly lower. This multiple being right in the middle suggest how average the company's multiple is compared to its competition.

### **From the bottom panel**

Discuss the various implied prices of your stock derived from competitors' ("comparables") multiples. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain why (**HINT**: is that because that particular valuation metrics is not very relevant for the industry? Do you best to provide convincing arguments).

For each valuation metrics, Compare the current price and 52-week high /low of your stock to the High-low range derived from multiples of its competitors.

Among the valuation metrics analyzed, **which ones do you think are most relevant as a valuation tool for your stock?**

-For the most part, the implied prices based off of the competitors are greater than the current stock price. Additionally, many of the implied values are greater than the 52-week high of the stock, indicating that the stock might be undervalued in comparison to its competition. The multiple that produced the most extreme implied prices was the value ratio. The low implied price was \$27.64, the high was \$784.74 and the median price was \$46.38. These numbers differ so drastically from one another, that I do not believe that they will provide a good comparison point for the stock's price. Since P/S is a good indicator to use for health care companies, I chose to look at the implied prices from these numbers more than I did for the other multiples. The resulting prices were actually quite favorable, with only one implied price falling within the company's trading range, while the remaining prices were all significantly above the current price. Other important things to note are that only 9 out of 24 of the implied

prices were below the stocks current price, which is just over one-third of the overall implied prices that were calculated. Overall, the relative valuation gives a good indication that the stock might be currently undervalued. However, relative valuation is not the best measurement tool to use when comparing drug-manufacturing companies because a lot of the value for these companies is derived from their individual products. For this reason, it would not be the best idea to try to determine the value of the company just through the comparison of its multiples to other companies. The relative valuation does not really hold all that much weight in being able to determine the fair value of a drug manufacturing company, so there are not many conclusions that can be drawn other than the stock might be undervalued. In order to determine whether it is truly undervalued, information will need to be drawn from other places.

-I chose Teva Pharmaceutical Industries (TEVA) as a competitor, because they are the largest generic drug manufacturer in the world. This naturally makes them a good comparison because Actavis Inc also specializes in the manufacturing and sale of generic drugs. Additionally, Valeant Pharmaceutical International Inc (VRX) was chosen because although it tends to research and develop its own line of drugs, it has a similar market and diversity of products as Actavis Inc. This makes it a good comparison, as both have a lot of different products currently on the market and I wanted a company with a similar market cap to compare Actavis with. Allergan Inc was selected because it was another drug company of a similar size that had similar products that compete with Actavis. Allergan specializes in producing dermatology, ophthalmic and neurological drug products. The final company, Takeda Pharmaceutical co Ltd was chosen because it is a large pharmaceutical company that competes directly with Actavis in several drug fields. Takeda is based out of Japan but still has operations worldwide. The company specializes in metabolic, gastrointestinal, neurology and several other types of drugs. This company was mostly chosen because there needs to be four competitors for the relative valuation. The fact that the company does not trade in the U.S. and that the financial statements used only Yen as a currency made it difficult to compare to the other companies.

## Section (E) Revenue and Earnings Estimates

Copy/Paste the “Historical Surprises” Table from *Reuters.com*, “*Analysts*” tab (include both revenue and earnings; make note that revenues might be in “millions”)

### HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
<b>SALES (in millions)</b>				
Quarter Ending Dec-12	1,740.73	1,750.20	9.47	0.54
Quarter Ending Sep-12	1,268.23	1,285.20	16.97	1.34
Quarter Ending Jun-12	1,346.85	1,355.20	8.35	0.62
Quarter Ending Mar-12	1,477.68	1,524.30	46.62	3.15
Quarter Ending Dec-11	1,537.40	1,544.60	7.20	0.47
<b>Earnings (per share)</b>				
Quarter Ending Dec-12	1.53	1.59	0.06	3.96
Quarter Ending Sep-12	1.28	1.35	0.07	5.17
Quarter Ending Jun-12	1.38	1.42	0.04	2.90
Quarter Ending Mar-12	1.60	1.64	0.04	2.50
Quarter Ending Dec-11	1.76	1.77	0.01	0.76

Review recent trends in company’s reported revenue and earnings, and discuss whether (1) the company has a pattern of “surprising” the market with numbers different from analysts’ estimates; (2) Were they positive(actual greater than estimate) or negative (actual less than estimate) surprises? (3) Were surprises more notable for revenue or earnings? (4) Look up the

stock chart to see how the stock price reacted to the “surprises. **NOTE:** Reuters does not put the sign on the surprise. **You need to put a “negative” sign when it is a negative surprise.**

(1) The company has continually surprised analysts, but has only achieved a surprise of over 4% once, when they had a surprise of 5.17%.

(2) The company has continually been able to achieve positive surprises for both sales and revenue; getting only positive surprises for all of the previous five quarters.

(3) The surprises were about the same for both revenue and earnings, with neither generating any drastic surprises.

(4) The stock only experienced small spikes in price after earnings were announced for the quarters, but never had any spikes that really stood out from the rest of the stock charts.

**Copy/paste the “Consensus Estimates Analysis” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)**

### **CONSENSUS ESTIMATES ANALYSIS**

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

	# of Estimates	Mean	High	Low	1 Year Ago
<b>SALES (in millions)</b>					
Quarter Ending Jun-13	16	1,991.96	2,037.00	1,906.20	1,356.70
Quarter Ending Sep-13	16	2,039.50	2,096.00	1,952.00	1,379.65
Year Ending Dec-13	20	8,099.80	8,286.00	7,956.70	5,341.96
Year Ending Dec-14	20	8,475.56	9,024.80	7,893.00	5,505.28

### **Earnings (per share)**

Quarter Ending Jun-13	19	1.94	2.02	1.76	1.50
Quarter Ending Sep-13	19	2.05	2.16	1.85	1.54
Year Ending Dec-13	21	8.07	8.37	7.90	6.05
Year Ending Dec-14	21	9.04	9.62	8.48	6.51
LT Growth Rate (%)	7	14.06	19.50	6.00	10.57

Review the range and the consensus of analysts' estimates. (1) Calculate the % difference of the "high" estimate from the consensus (mean); (2) Calculate the % (negative) difference of the "low" estimate from the consensus; (3) Are the divergent more notable for the current or out-quarter, FY1 or FY2, revenue or earnings? (4) Note the number of analysts providing LT growth rate estimate. Is that roughly the same as the number of analysts providing revenue and earnings estimates?

(1)

<b>Sales</b>	Difference (%) High to Mean
Quarter Ending Jun-13	2.26%
Quarter Ending Sep-13	2.77%
Year Ending Dec-13	2.30%
Year Ending Dec-14	6.48%
<b>Earnings (Per Share)</b>	
Quarter Ending Jun-13	4.12%
Quarter Ending Sep-13	5.37%
Year Ending Dec-13	3.72%
Year Ending Dec-14	6.42%
LT Growth Rate	38.69%

(2)

<b>Sales</b>	Difference (%) Low to Mean
Quarter Ending Jun-13	-4.31%
Quarter Ending Sep-13	-4.29%

Year Ending Dec-13	-1.77%
Year Ending Dec-14	-6.87%
<b>Earnings (Per Share)</b>	
Quarter Ending Jun-13	-9.28%
Quarter Ending Sep-13	-9.76%
Year Ending Dec-13	-2.11%
Year Ending Dec-14	-6.19%
LT Growth Rate	-57.33%

(3)

There is not much difference between the percentage differences for the current and out- quarters. However, there is a much larger variance in estimates for FY2 than there are for FY1, which should be expected because since it is further away, it has more uncertainty.

(4)

Only one-third the amount of analysts that provided estimates for earnings and revenue provide an estimate for LT-growth. For this reason, there is significantly more variance in the estimates for LT-growth than there are for any of the other estimates.

-I believe LT-growth may be an over-estimate because there is going to be a large decrease in the number of patents expiring after the end of 2014.

**Copy/paste the “Consensus Estimates Trend” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)**

### **CONSENSUS ESTIMATES TREND**

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

	<b>Current</b>	<b>1 Week Ago</b>	<b>1 Month Ago</b>	<b>2 Month Ago</b>	<b>1 Year Ago</b>
<b>SALES (in millions)</b>					
Quarter Ending Jun-13	1,991.96	1,989.45	1,987.49	1,993.68	1,356.70



Quarter Ending Sep-13	2,039.50	2,038.73	2,036.76	2,048.59	1,379.65
Year Ending Dec-13	8,099.80	8,091.76	8,088.22	8,111.12	5,341.96
Year Ending Dec-14	8,475.56	8,466.92	8,445.26	8,531.58	5,505.28

### **Earnings (per share)**

Quarter Ending Jun-13	1.94	1.93	1.92	1.93	1.50
Quarter Ending Sep-13	2.05	2.03	2.03	2.05	1.54
Year Ending Dec-13	8.07	8.03	7.99	8.01	6.05
Year Ending Dec-14	9.04	8.99	8.97	9.08	6.51

Review recent trend of analysts' consensus (mean) estimates on revenue and earnings. (1) Are the consensus estimates trending up, down, or stay the same? (2) Is the trend more notable for the near- or out- quarter, FY1 or FY2, revenue or earnings?

(1) The estimates are trending up versus 1-year ago, but since 3-months ago, the estimates have not really seen any changes.

(2) This trend is consistent across both quarters and FY1 & FY2, so the change seems to be of the company's outlook overall and not just for specific time periods.

-Additionally, I believe that since there has not been much recent change in the estimates that the increases versus a year ago have all already been priced into the stock. Since the stock has had very strong growth recently, I believe these changes have already been accounted for by the market.

**Copy/paste the "Estimates Revisions Summary" Table from *Reuters.com*, "Analysts" tab (include both revenue and earnings)**

## ESTIMATES REVISIONS SUMMARY

	Last Week		Last 4 Weeks	
Number Of Revisions:	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Jun-13	2	0	3	2
Quarter Ending Sep-13	2	0	4	1
Year Ending Dec-13	4	0	7	2
Year Ending Dec-14	4	1	8	2
<b>Earnings</b>				
Quarter Ending Jun-13	4	0	6	1
Quarter Ending Sep-13	4	0	6	0
Year Ending Dec-13	5	0	8	1
Year Ending Dec-14	5	0	7	1

Review the number of analysts revising up or down their estimates (both revenue and earnings) **in the last and last four weeks**. (1) Note whether there are more up or down revisions; (2) are the revisions predominantly one directional? (3) Any notable difference last week versus last four weeks, revenue versus earnings?

(1) There are far more upwards revisions on estimates than there are downwards revisions.

- (2) For the most part, yes these revisions seem to be one directional, however there have still been a few down revisions mixed in as well.
- (3) The past week has seen more upwards revisions than the past 4-weeks, but revenue and earnings have witnessed about the same number of revisions.

You will need to incorporate what you see here with Morningstar's analyst research report (you can access ***Morningstar Direct at the Financial Markets Lab.***) and other readings/analysis you found from various on-line financial sites. Discuss whether you think the company has a good chance of making or beating analyst consensus estimate, and why. Based on how the stock has been trading lately, do you think market has already anticipated strong or lackluster financial outlook from the company?

-Based off of how the stock has been trading recently, I believe that the market expects that the stock will perform favorably in the near future. This is because the stock has seen a lot of recent growth over the past couple of months. However this growth has happened so rapidly that I believe the stock may be currently overvalued as the stock has grown quickly, while analysts' estimates have grown very slowly during this time frame. I believe that the stock does have a good chance of meeting the analysts' estimates, however I do not believe that they will be able to beat estimates by very much if they are even able to do so.

## Section (F) Analysts' Recommendations

Copy/paste the “Analyst Recommendations and Revisions” Table from *Reuters.com*, “*Analysts*” tab. NOTE: Make sure you copy the entire table including the “Mean Rating” at the bottom of the table.

### ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	9	10	10	10
(2) OUTPERFORM	7	7	7	8
(3) HOLD	6	5	5	4
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	1.86	1.77	1.77	1.73

**Review the trend of analyst recommendations over the last three months. Is there a notable change of analyst opinions, turning more bullish or bearish? How many different ratings out of the five possible ones did the company receive currently, one, two, and three months ago? Is there a notable trend of opinion convergence or divergence? Is what you see here consistent to comments in Morningstar analyst's research report as well as various online financial sites you had researched on?**

**NOTE:** On a Five-point scale, Reuters assigns "1" to "Buy", the most bullish recommendation, and "5" to "Sell", the most bearish recommendation. **Some other online sites have opposite scale**, with their "1" being the most bearish and "5" being the most bullish recommendations.

-Over the past month and also over the past three months, analysts recommendations are becoming slightly more bearish as the consensus rating has gone from 1.73 3-months ago to 1.86 which is its current rating. This is not too much of a concern for the stock though, because this change is only due to two analysts downgrading their recommendation of the stock during this timeframe. These recommendations are fairly consistent with Morningstar's rating, which gives the stock a three-star recommendation, or a middle of the road outlook. Since Reuter's recommendations seems to be heading more away from buy and more towards hold and outperform, these ratings seem to be very consistent with one another. Overall, this suggest to me that analysts are expecting the stock's growth to slow down in the coming months.

Revision Date	Upgrade or Downgrade	Current Recommendation	Previous Recommendation	Firm	Last Revision
The most recent revision date					
The earliest revision date in the last two months					

-There were no upgrades or downgrades on cnbc.com for Actavis Inc during the past 2 months.

## **Section (G) Institutional Ownership**

Copy/paste the completed ***“CIF Institutional Ownership” spreadsheet*** here.

# Cougar Investment Fund Institutional Ownership Template

Please download and save this template to your own storage device

You only need to input values to cells highlighted in "yellow"

The rest of the spreadsheet is calculated automatically

Please read "Stock Recommendation Guidelines" document carefully

ACT

Ownership Activity	# of Holders	% Beg. Holders	Shares	% Shares
Shares Outstanding			127,754,608	100.00%
# of Holders/Tot Shares Held	632	99.84%	110,456,634	86.46%
# New Positions	6	0.95%		
# Closed Positions	7	1.11%		
# Increased Positions	24	3.79%		
# Decreased Positions	23	3.63%		
Beg. Total Inst. Positions	633	100.00%	110,509,886	86.50%
# Net Buyers/3 Mo. Net Chg	1	51.06%	-53,252	-0.04%

Ownership Information	% Outstanding
Top 10 Institutions % Ownership	35.50%
Mutual Fund % Ownership	1.54%
Float %	0.00%

**> 5% Ownership**

Holder Name	% Outstanding	Report Date
The Vanguard Group, Inc.	6.2	12/31/12
Fidelity Management & Research Company	5.5	12/31/12

**Combine information provided in all three sections to discuss whether (1) institutions, on net basis, have been increasing or decreasing ownership and how significant, (2) the stock has sizable institution interests and support, (3) the extent of the (> 5%) owners, and (4) this could be a bullish or bearish indication of future stock price movement.**

(1) On a net basis, institutions have been decreasing their ownership of the stock, but the overall decrease is not a very significant amount. There is only one less position than previously and only 0.04% less shares than before, so this probably is not too much of a bearish indicator.

(2) The stock does have a fairly significant amount of institutional support as over 5/6ths of the overall shares are held by institutions. This is a good sign for the stock, because it shows that institutions have faith in the company’s ability to perform well.

(3) There are two (>5%) owners in the Vanguard Group (6.2%) & Fidelity Management & Research Company (5.5%). Both of these institutions are outsiders that are also large mutual funds. However, the company only has a top 10 institutions % ownership of 35.5%, so most of there shares are held by a large number of different institutions because the overall institutional ownership is at 86.46%.

(4) Overall, I think that this table shows a somewhat neutral outlook on the stock’s future price movement. There are not that many institutions that are heavily invested into the stock, but at the same time, they do have a good overall percentage of institutional ownership.



## Section (H) Short Interest (two pages)

From <http://www.nasdaq.com/> (NASDAQ's website)

Copy/paste or enter the data in the following table. You also need to copy/paste the chart to the right.

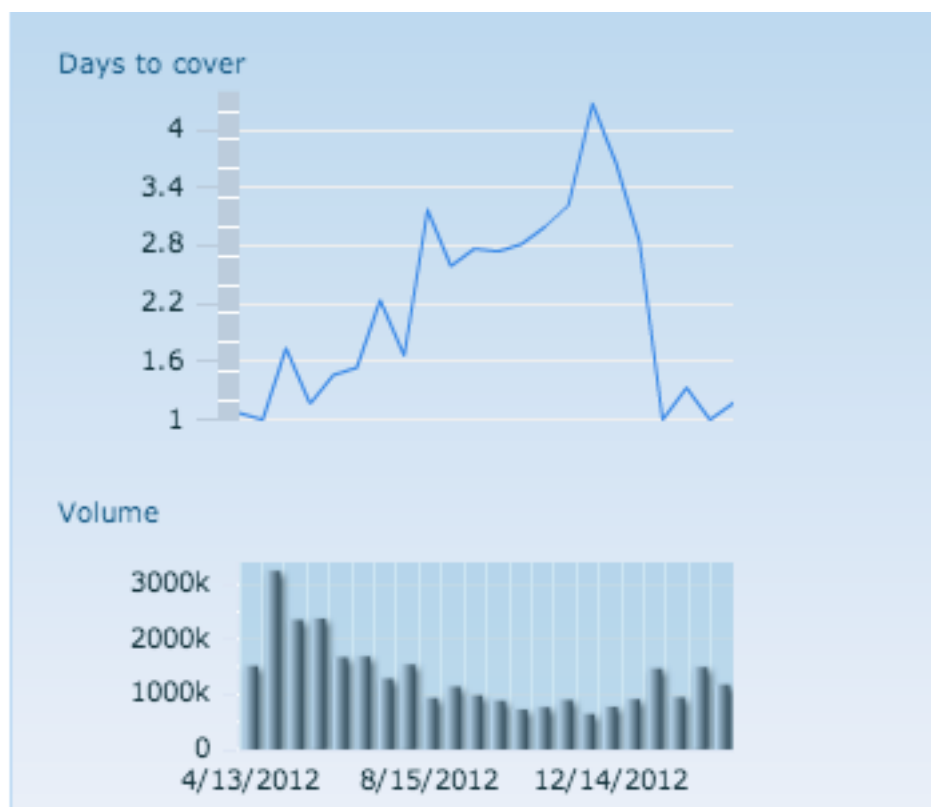
**Copy/paste or type the information from “short interest” table. You will start from the most recent release date, and go back for a year (some stocks may not have data go back for a year)**

**Copy/paste the chart to the right of the “short interest” table, immediately follow the table below**

**NOTE:** You are encouraged to look at the short interest information for two of the companies' closest competitors. This will help gauge whether the sentiment indicated in the short interest statistics is company specific or industry-wide.

Settlement Date	Short Interest	Average Daily Shares Volume	# of Days to cover
-----------------	----------------	--------------------------------	-----------------------

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
3/15/2013	1,381,300	1,177,588	1.172991
2/28/2013	1,158,862	1,487,229	1.000000
2/15/2013	1,259,712	945,829	1.331860
1/31/2013	1,170,380	1,467,201	1.000000
12/31/2012	2,610,232	911,394	2.864000
12/14/2012	2,830,383	772,747	3.662755
11/30/2012	2,762,469	646,191	4.275004
11/15/2012	2,893,045	898,304	3.220563
10/31/2012	2,280,178	759,526	3.002107
10/15/2012	2,063,757	731,471	2.821379
9/28/2012	2,423,062	882,017	2.747183
9/14/2012	2,708,413	977,884	2.769667
8/31/2012	2,948,821	1,135,901	2.596019
8/15/2012	2,981,879	939,535	3.173782
7/31/2012	2,554,127	1,535,209	1.663700
7/13/2012	2,880,940	1,285,707	2.240744
6/29/2012	2,609,603	1,692,563	1.541806
6/15/2012	2,456,799	1,675,464	1.466339
5/31/2012	2,769,633	2,373,391	1.166952
5/15/2012	4,092,355	2,352,811	1.739347
4/30/2012	2,666,859	3,243,979	1.000000
4/13/2012	1,617,637	1,514,997	1.067749



Competitor Short Interest: Teva Pharmaceutical Industries (TEVA)

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
3/15/2013	3,360,373	5,020,942	1.000000
2/28/2013	3,025,054	4,046,036	1.000000
2/15/2013	2,488,491	5,775,353	1.000000
1/31/2013	2,971,480	4,901,776	1.000000
1/15/2013	4,323,009	4,682,344	1.000000
12/31/2012	3,879,694	4,880,604	1.000000
12/14/2012	6,911,905	8,158,702	1.000000
11/30/2012	5,789,303	3,693,703	1.567344
11/15/2012	6,070,444	3,104,983	1.955065
10/31/2012	7,341,247	3,552,759	2.066351
10/15/2012	6,832,030	2,504,052	2.728390
9/28/2012	6,813,905	3,222,053	2.114771
9/14/2012	5,169,171	2,713,597	1.904915
8/31/2012	3,493,496	2,128,026	1.641660
8/15/2012	3,810,127	3,703,556	1.028775
7/31/2012	3,984,014	2,789,193	1.428375
7/13/2012	3,376,314	3,122,148	1.081407
6/29/2012	3,332,980	6,180,462	1.000000
6/15/2012	3,749,303	4,028,902	1.000000
5/31/2012	9,743,154	7,921,904	1.229901

Competitor Short Interest: Allergen Inc (AGN)

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
3/15/2013	4,738,674	1,294,915	3.659448
2/28/2013	4,771,303	1,388,239	3.436946
2/15/2013	4,960,482	1,504,548	3.296992
1/31/2013	5,458,971	1,776,033	3.073688
1/15/2013	3,998,505	2,218,325	1.802488
12/31/2012	2,985,678	1,206,777	2.474093
12/14/2012	3,490,284	1,133,188	3.080057
11/30/2012	3,809,329	1,171,251	3.252359
11/15/2012	4,602,716	1,314,659	3.501072
10/31/2012	3,692,595	2,070,482	1.783447
10/15/2012	3,352,895	1,436,519	2.334042
9/28/2012	3,162,033	1,926,750	1.641123
9/14/2012	3,242,132	1,772,744	1.828878
8/31/2012	2,790,648	1,689,061	1.652189
8/15/2012	2,912,600	2,379,123	1.224233
7/31/2012	3,295,374	2,932,218	1.123850
7/13/2012	4,265,081	1,584,396	2.691929
6/29/2012	4,570,034	1,445,012	3.162627
6/15/2012	4,484,983	1,543,798	2.905162
5/31/2012	4,986,806	1,536,874	3.244772
5/15/2012	5,026,642	1,982,843	2.535068
4/30/2012	3,929,656	1,265,654	3.104842
4/13/2012	3,787,614	1,422,899	2.661899

From <http://finance.yahoo.com/>

Complete the following table with information from the *“share statistics” table*.

Avg Vol (3 month)	Avg Vol (10 day)	Shares Outstanding	Float
1,226,550	1,140,350	127.83M	126.70M
Shares Short (Most recent date)	Short Ratio (Most recent date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
1.38M	1.10	1.10%	1.16M

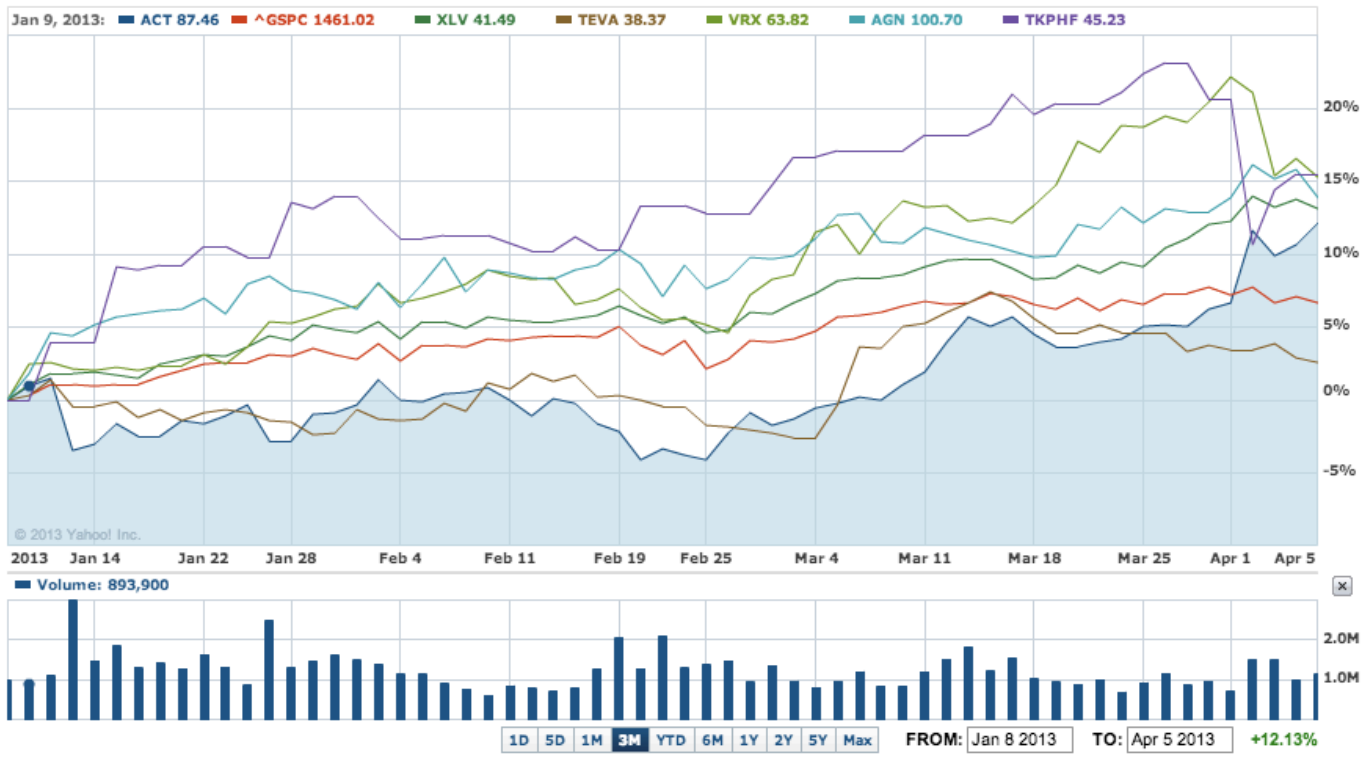
**Based on the short interest statistics and its recent trend, how is the market sentiment on the stock? Has the sentiment turned more bullish or bearish over the last year? How about in more recent month and why?**

- Based off of these statistics, the market seem to be bullish on the stock but are trending towards becoming more bearish as the overall number of shares short have increased from two weeks ago. The stock has been also experiencing an overall decrease in days to cover since around October of last year. This is a bullish indicator, suggesting the stock might continue its growth. Overall, I believe that the short interest statistics show that the market has a somewhat bullish opinion on the future growth of the stock, however it is inconclusive whether or not the market is becoming more bullish or bearish about the stock. The reason for the inconclusiveness is due to the shares short and days to cover moving in two opposite directions. The days-to-cover is behaving very similarly for ACT as it is for its competitor TEVA. I do not know if this similar behavior is coincidental, but it may indicate that the market is growing more bullish for the industry as a whole.

## Section (I) Stock Charts

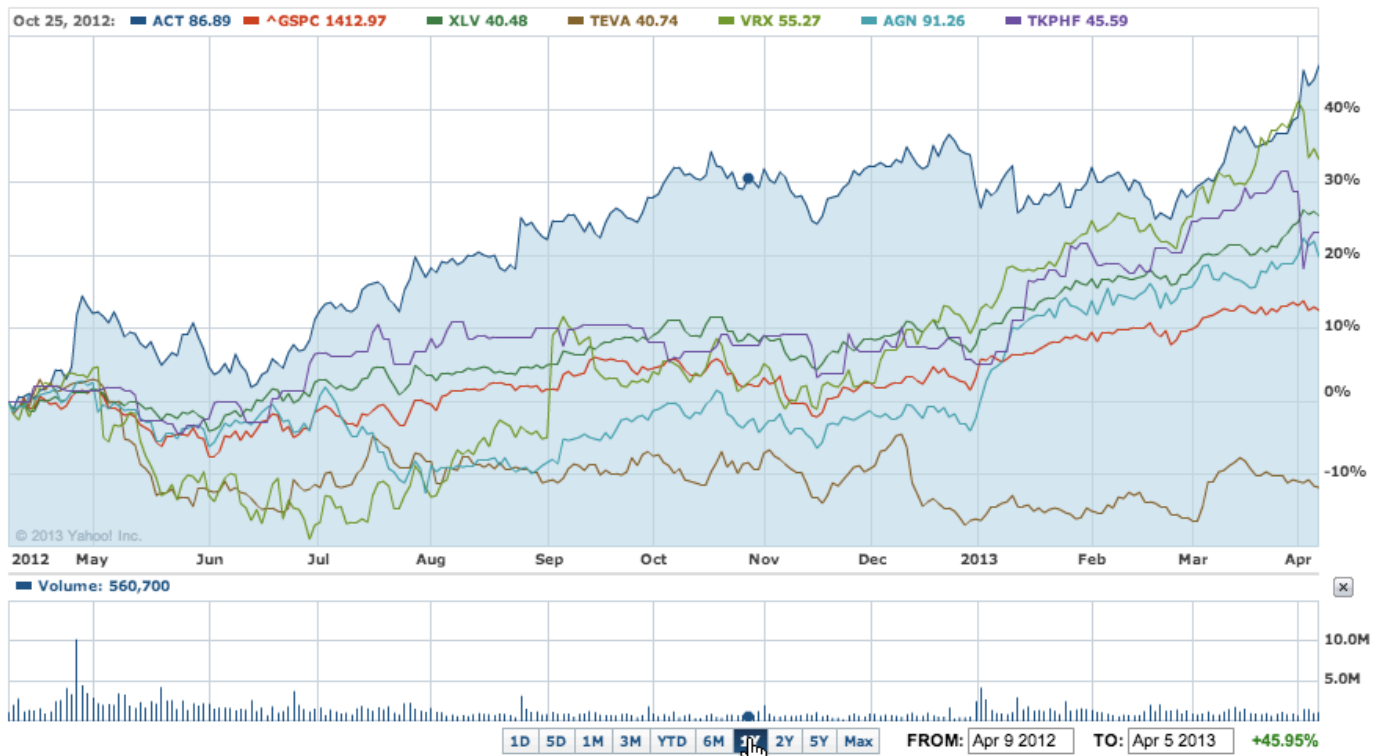
### A three months price chart

Copy/paste the "3 Mos." stock chart here



### A one year price chart

Copy/paste the "1 Yr" stock chart here



### A five year price chart

Copy/paste the "5 Yrs." stock chart here





### Additional price chart

If you have other stock charts, feel free to copy/paste here

# Actavis, Inc. Common Stock

■ ACT

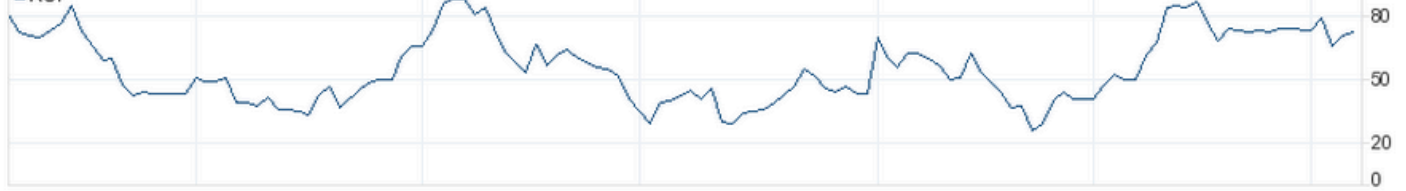
■ 10-day MA

■ 50-day MA

Apr 05, 2013



■ RSI



### Actavis, Inc. Common Stock

■ ACT



**Discuss what you observe from the stock charts. This should include comparing your stock to competitors, sector, and SP500 over the three different time horizons.**

-From these stock charts, it can be concluded that the stock has been performing well over all of the relevant time frames. For the 3-month stock chart, the stock has outperformed both the sector and the S&P 500, but has been outperformed by all of its competitors. This is a positive sign for the company because although they did not perform quite as well as their competition, they still experienced solid growth during the period. Over the past year, the stock has performed greatly, outperforming all of its competitor as well as the sector and the S&P 500. Its returns of over 40% over the past year are very good returns to get for a full year and show just how strongly the company performed. Over the past 5-years, the company has also managed to be very successful, out performing all but one of its competitors while achieving gains of over 200%. When broken down by yearly gains, this again comes out to be just above 40% per year, which is spectacular to achieve over half a decade. The downside to all of this rapid growth is that the stock price could have increased faster than the value of the company increased, making the stock overpriced. Due to the strong gains, the stock might not have as much room to grow in the near future, because they have been generating far above normal returns for such a long period of time.

-In the first technical chart, the company undergoes several crosses, and experienced two death crosses as well as two golden crosses, with the most recent cross being a golden cross about a month ago. The time between the first golden cross and the next death cross was just a little bit over a month. Therefore if this pattern were to repeat itself, the next death cross would occur in the next couple of weeks. However, it seems unlikely that this will occur any time soon, as the stock has increased by just about 15% over the past month, so it will take longer for the lagging leading average to surpass the leading one. In the second technical chart, the stock experiences two crosses, the first of which is a death cross, which was followed by a golden cross almost exactly 3-months later. The stock experienced a dip around Jan-12 that took them two months to get out of. These technical charts suggest that the stock undergoes periods where the stock's growth is stalled and takes anywhere from a couple of weeks to a couple of months to get above the price it had been stuck at. For this reason, I believe that the stock will soon undergo a period of stalled growth now that it has reached another new price level. The RSI chart is hovering just under 80, where it has been around for the better part of the last month. An RSI this high indicates that the stock is currently overbought, which is a bearish indicator about the stock being a good buy right now. These technical charts seem to indicate that the stock might not continue its growth in the near future.

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