HILLSIDE ADVISORS LLC

May 11, 2015

Hybrid Vigor℠

The Hillside Convertible Advisory Letter

Volume 2 Issue 19

Hybrid Vigor Turns 50

Inside

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Well, not exactly. But today marks the 50th time we have gone to press since we began publishing last July.

We started with the Ugly 20, to which we have recently added a European counterpart. Our timing was fortuitous, as the market hit pretty much its 2014 richness peak when the first issue came out. (One reader who likes to "reverse hedge" told us he was short 12 of the 20 names). The median HARP on the Ugly 20 was 10.2 then versus 9.5 now, though the general trend has been higher of late.

We added the HOCS 20 a few months later in response to readers wanting help finding attractive names in addition to bloated ones. HOCS has been a particularly useful tool in evaluating new issues. Hopefully it will get plenty of workouts measuring new deals in the months ahead.

It's been a great experience bringing together an exceptional team here at Hillside and producing a letter we hope is worthy of an underappreciated market. We continue to strive to make ***Hybrid Vigor*** the voice of convertibles. Between ***Hybrid Vigor*** and our intermittent ***Hillside Alerts (HA's)*** we hope to keep bringing worthwhile insights to our readers' attention.

Here is just a sample of things to come in the weeks and months ahead:

- A more formal presentation of our HOCS 100 Index, which we expect will become a key benchmark for true outright convertible performance
- More articles featuring HOCS sub-groups for investors with specific interests
- European HOCS, to go along with the European HARP we now feature
- Reviews of critical tax and accounting issues involving convertibles

As we mark our 50th issue, we thank our readers and friends for all your support and encouragement.

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Stealth

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A quick refresher. HARP, or Hillside Adjusted Risk Points, is best thought of as a warning measure for bonds exposed to a blend of absolute price decline and premium decay. The higher the HARP, the more dangerous the bond. HARP tends to be highest for bonds in the 120-130 "death trap" range.

Not a busy week on the Ugly 20 at all. Seems like the prior week walked, not ran, straight into this week. Average HARP decreased by a whopping 0.02 points to 9.82 HARP. Only one new entrant on the top 20. Only one new entrant on the top ten, and it was only a bond which was ranked 11th the week prior. Paint drying was a better use of time. A quick glance at the average price moves backs up what we see in HARP-land. Average stocks were down 0.1% and average bonds were down a ¼ point. Within that sea of average, there is the odd story. Thankfully, or this paragraph would be the end.

The second largest HARP mover of the week was Priceline.com 0.35% of 2020. Stock was down 4.42%, putting the bond down 3½ points. Don't let that one slip past ya. 80 delta? No, this is a mid 50's delta at best. So the PCLN bond was a full point droopy more than dollar neutral. In terms of HARP, that's got to be a good thing. And it was. The bond dropped 1.08 HARPs to settle at 10.38 HARP for the week. We know, we know, you want risk reduction, but you prefer it happen without the bond dropping in price as well. With a bond price of 115¾, it is going to be very difficult to get the risk down as the bond is near the most dangerous part of the price curve. Parity is at 91¾. That's a lot of room to grow to make it whole. With five years of life left in this debt, the current price can make you a reservation at the 'I just lost 14 points' club if the volatility can't get it up. And what volatility you may ask? Mid 20's. Could happen, there are five years after all. Looking back at the past five years, PCLN did deliver on the top line and bottom line growth in a big way. But there is no getting around the risk. Best we can report this week is that the bond is now ranked 6th instead of 4th on the Ugly 20.

New ugly alert! Alon USA Energy 3% of 2018 returned to the Ugly 20 at lucky 13th, up from 35th. That's a 1.69 HARP increase, for those wondering, to settle at 9.04 HARP and 127¾ points of price. The stock of course is the culprit, but what exactly and where were the details of the mess? The bond lost one point due to a 1.54% stock decline, exactly dollar neutral so what happened? The problem is that premium expanded. In terms of premium points, it was a ¾ point increase. Doesn't sound like much does it? It's not. But for a bond with just slightly more than two years of life before it meets its maker, any premium increase is a crisis. The clock is ticking loudly, and this stock is not exactly cooperating. The summary is that buy it now and you could lose 6¾ points after accounting for coupons if the stock flatlines. Dividend? Yes, a big one. Toss it in, and the loss is 15½. Eyeballing, these bonds don't look bad. The closer you look, the worse they look.

What about Salesforce.com? Tricky. If you believe that the company is about to be taken out—and we don't—you're on the hook for some pretty big leakage. A cash takeout with a conventional premium and timeframe looks like about a five-point hickey for arbs, though a modest gain, replete with relative underperformance, for outrights. But there's all manner of risk for outrights if you are skeptical—and we are—of the sources of the rumors that have been driving the stock. Let's not forget that the company's business model is in big trouble without a steadily rising stock price. Hint, hint, nudge, nudge. In fairness, as friends know, we've been wrong about this name for quite a few years now, so take our comments in that context.

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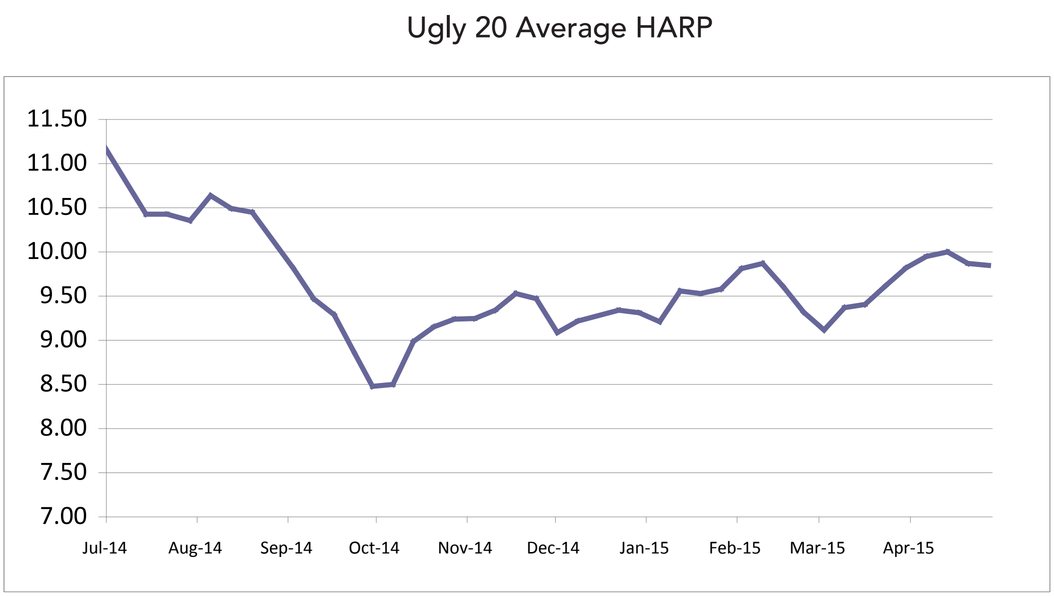
We've had a creeper on the Ugly 20 for a few weeks now. Slowly climbing up the rankings every week, one or two rungs at a go. Moving so slowly, it can't be seen. It's time to expose this stealthy operator. Emergent Biosolutions (EBS) 2.875% of 2021, you've been spotted. At number five on the Ugly 20, bring on the paparazzi. This week's climb of 0.22 HARP is similar to previous, so there is no sense analyzing the change. But the bond is a time bomb. Similar to Alon, EBS has a very loud clock ticking. There are 1.7 years of call protection left on a bond with a 119¾ price and parity at 95½. With every week that passes, that day of recognizing is coming closer. Sporting a high 20's volatility, there doesn't seem to be much hope the stock can close the gap in time. Get in now, and you get to lose 14¾ points after munching on coupons. HARP is 10.65, not for the faint of heart.

Not officially on the Ugly 20, but close enough for government work, is Array Biopharma 3% of 2020 at number 22. A large stock increase of 18.35% translated into a 12½ point bond move from 115½ to 128. It's quite an effort to jump the multi-dimensional risk zone in a single week, and Array Biopharma came quite close. Hence the tip of the hat. When the bond actually makes it onto the Ugly 20, we will give it the roasting it will deserve, but until then we remain sheathed.

Disclaimer: A principal of Hillside Advisors has a position in Salesforce.com securities.



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May 11, 2015

Hillside Ugly 20 List (Prices as of May 8, 2015)

	Convertible	Price	Stock	Premium (%)	Premium (pts)	HARP
1	RPM International 2.25% 2020-12-15	116.50	48.20	28.0	25.48	13.40
2	Illumina 0.5% 2021-06-15	117.50	191.23	56.2	42.28	12.14
3	Red Hat 0.25% 2019-10-01	122.75	75.36	19.7	20.20	11.86
4	Priceline.com 0.35% 2020-06-15	119.25	1260.43	24.5	23.47	11.46
5	Lam Research 1.25% 2018-05-15	138.00	77.23	11.5	14.23	10.89
6	Jazz Pharmaceuticals 1.875% 2021-08-15	120.50	180.74	33.1	29.97	10.64
7	Emergent BioSolutions 2.875% 2021-01-15	120.25	30.74	26.8	25.42	10.43
8	BioMarin Pharma 0.75% 2018-10-15	139.75	115.92	13.6	16.73	10.04
9	Illumina 0% 2019-06-15	112.50	191.23	49.7	37.35	9.45
10	BioMarin Pharma 1.5% 2020-10-15	143.75	115.92	16.7	20.57	9.30
11	NVIDIA Corp 1% 2018-12-01	123.75	22.75	9.7	10.94	9.24
12	Salesforce.com 0.25% 2018-04-01	126.00	73.36	14.0	15.47	9.16
13	ServiceNow 0% 2018-11-01	119.25	73.75	19.4	19.38	8.90
14	Medidata Solutions 1% 2018-08-01	118.75	54.66	26.0	24.50	8.83
15	Synchronoss Tech 0.75% 2019-08-15	115.50	45.82	34.1	29.37	8.82
16	Workday 0.75% 2018-07-15	124.25	89.50	15.7	16.86	8.68
17	Akamai Technologies 0% 2019-02-15	110.00	74.66	32.0	26.67	8.55
18	SanDisk Corp 1.5% 2017-08-15	145.00	68.47	7.8	10.49	8.42
19	US Steel 2.75% 2019-04-01	118.75	23.26	29.0	26.70	8.39
20	Workday 1.5% 2020-07-15	129.25	89.50	18.1	19.81	8.16

Sources: Bloomberg, Kynex

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HOCS℠ 20: Scuffling

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A quick refresher. HOCS, or Hillside Overall Convertible Score, measures the attractiveness of a bond, taking into account both upside potential and downside protection. HOCS is not a theoretical model but a rating system that assigns points to a number of different characteristics of each convertible. HOCS can theoretically lie anywhere from 0 to 100. In practice the average score for a broad group of convertibles is typically around 50. 60 is a good score, 70 is excellent, and 80 is exceptional.

When a baseball player struggles at bat, they say he is "scuffling." Even Keith Hernandez scuffled. Well, the convertible market scuffled last week, feeling the pressure of the upward trend in rates. Nobody should be complaining—this could be the beginning of the move that will spur a lot more new issuance, which the convertible market needs the way California needs water. But it means that performance last week lagged the bounceback in stocks.

The HOCS 20 lost 15 basis points on the week, a ho-hum performance belying some of the overall fireworks. Three names dropped off the list, including EnerNOC, which Jeff Alton profiled in last week's ***Hybrid Vigor***. Investors worried that they missed their chance to get into the name amidst the Tesla-linked hullaballoo need fear no longer, as EnerNOC took care of them with a disappointing earnings report on Thursday. The stock got EnerNOCK'd down over 14% as a result, with the convertibles quoted down about 5% (no trades printed on Friday). The EnerNOC 2.25% got a HOCS double whammy, losing points for both growth and safety. Still, the overall HOCS is 61, so it's far from a writeoff. Do you even know what a writeoff is? And who are the ones writing it off anyway?

Also slipping from the list was Renewable Energy Group 2.75%. The trade-by-appointment, closely held bonds are quoted about 5% higher than they were the last time the stock was this low. We're skeptical of the current 93-ish price quote and would advise holders to test bids in that neighborhood. When a bond trades as infrequently as this one, it becomes fair to question the master of its domain. In any event, the bonds just missed this week's cut, as did American Realty 3.75%.

Rejoining the HOCS 20 party this week were three old friends—ANI Pharma 3%. Envestnet 1.75% and the "other" Twitter, the little 0.25%. The former are now much closer to a paid-to-wait sweet spot, after hitting the Street's earnings consensus but missing on revenues. We still don't like the bonds as much as we did when they were first issued—the overall HOCS is in the mid-60's, not the high-70's, signifying a lot of expansion. But they are one of the more attractive names around now.

For the first time, Invensense 1.75% tops the list, aided by expensive borrow and a so-so earnings report. George Lynch profiles the name in this issue.

Broadening our scope, the HOCS 100 lost 36 basis points last week, lagging its rival CWB, which managed to eke out 8 basis points. Can you use one of those tip calculators to do basis points? HOCS 100 is clinging to a narrow year-to-date lead over the more equity-sensitive CWB, 4.45% to 4.36%.

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Hillside HOCS 20 List

	Description	Convert	Stock	HOCS Overall	HOCS Growth	HOCS Safety	Yield	Premium
1	INVENSENSE 1.75% 2018-11-01	95.50	14.52	80.4	79.9	81.4	3.13%	44.0%
2	QIHOO 360 TECH 0.50% 2020-08-15	88.25	57.00	79.1	73.5	90.2	6.17%	94.0%
3	QIHOO 360 TECH 2.50% 2018-09-15	96.75	57.00	78.9	71.2	94.1	5.04%	88.3%
4	QIHOO 360 TECH 1.75% 2021-08-15	83.50	57.00	74.9	76.9	70.8	6.22%	76.9%
5	CALAMP 1.63% 2020-05-15	100.50	19.56	73.2	78.5	62.6	1.52%	41.8%
6	WEB.COM GROUP 1.00% 2018-08-15	97.50	22.73	73.0	77.0	64.9	1.79%	50.1%
7	LINKEDIN 0.50% 2019-11-01	100.25	198.72	71.5	66.6	81.4	0.44%	48.6%
8	ANI PHARMA 3.00% 2019-12-01	105.75	52.93	71.2	82.0	49.6	1.68%	38.8%
9	ECHO GLOBAL 3.00% 2020-05-01	102.50	30.56	70.2	79.2	52.4	2.46%	30.0%
10	TESLA MOTORS 1.25% 2021-03-01	94.25	236.61	69.7	75.9	57.2	2.32%	43.3%
11	SOLARCITY 1.63% 2019-11-01	98.75	61.21	69.0	82.0	43.0	1.92%	34.8%
12	TESLA MOTORS 0.25% 2019-03-01	95.00	236.61	68.0	71.6	60.9	1.61%	44.5%
13	IGI LABS 3.50% 2019-12-15	84.50	5.03	67.8	75.5	52.5	7.56%	89.7%
14	HERBALIFE 2.00% 2019-08-15	86.75	47.56	67.7	68.4	66.2	5.54%	57.4%
15	RESTORATION HARDWARE 0.00% 2019-06-15	101.50	89.28	66.9	61.4	77.9	-0.36%	32.0%
16	TWITTER 1.00% 2021-09-15	90.25	37.59	66.2	71.8	54.9	2.68%	86.4%
17	ENVESTNET 1.75% 2019-12-15	105.50	48.82	65.4	67.0	62.2	0.53%	35.9%
18	HELIX ENERGY 3.25% 2032-03-15	103.50	16.89	64.7	60.6	73.0	1.97%	53.3%
19	SHUTTERFLY 0.25% 2018-05-15	99.25	45.19	64.6	56.4	81.1	0.50%	40.9%
20	TWITTER 0.25% 2019-09-15	91.00	37.59	64.3	67.8	57.2	2.45%	88.0%

Sources: Bloomberg, Kynex

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HARP in the 21st Century

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A spectre is haunting Europe — the spectre of HARP. To be more precise, a particular part of the European convertible market is haunted – bonds trading at a price point that we at Hillside refer to as the "danger zone" (please refer to the description of our methodology for more details). As we compiled an updated list of the 20 highest HARP names as of last Friday's European close, we noted that its richness relative to the US market remained intact.

Some may say: yes, the European convertible market is dear and we already knew that. Why beat a dead horse? Why rub it in? Well, our objective here is twofold. First, we would like to confirm that HARP methodology is scalable across regions (yes, we will eventually get to the Asian market as well). Second, we wanted to identify particular instruments which are the most at risk of premium contraction and bring them to your attention. Thus, we think that having a list of the 20 highest HARP names handy is beneficial for investors.

As regular readers of ***Hybrid Vigor*** know, the methodology has proven itself in the US market quite well. It worked in cases of both wide market sell offs in which multiple names were affected, as well as in the cases of individual securities such as when an issuer had a negative earnings surprise. As the empirical evidence shows, high HARP names can bleed premium regardless of the direction of the stock price. So for all those in love with the underlying equity stories – beware of the high HARP and look out below.

After we reran our numbers for the European universe, the average HARP of the top 20 list increased 0.2 points to 12.23. There was minimal turnover with two names leaving the list (OCI NV 3.875% 2018 and ABENGOA SA 6.25% 2019) and two joining (ALCATEL-LUCENT 0% 2019 and PRYSMIAN SPA 1.25% 2018). The top two spots are still occupied by DRILLISCH AG 0.75% 2018 and SUEZ ENVIRONNEMENT 0% 2020. The DRILLISCH AG 0.75% 2018 bonds actually increased in risk, gaining just over 1 point on the HARP scale.

We also saw two names that advanced in their ranking on the list substantially - ALCATEL-LUCENT 4.25% 2018 and ADIDAS AG 0.25% 2019. In case of the ALCATEL-LUCENT 4.25% 2018, HARP increased 1.5 points to near 15 putting the issue into the third spot on the list. The other ALCATEL bond, the 0.125% of 2020, saw its HARP increase by 1.9 and its rank change from 20 to 17. Thus, we now have all three ALCATEL convertibles on the list.

To be fair, several bonds saw their ranking decline compared to last week, but none had a significant decline in their HARP score. Instead, more richly priced securities simply took their places.

We hope that the list will set outright investors thinking about the amount of exposure they want to have to a particular HARP name. Same is true for arbitrageurs unless they are of the more adventurous type and actually want to set up reverse hedges in some of these names.

In the age of all sorts of inequalities, we use HARP scores to find convertibles that really stand out in terms of valuation in relation to their peers. While we understand that not all convertibles are created equal, we also don't think that continuous overvaluation is their unalienable right. Even in Europe.

Euro HARP 20 (Prices as of May 8, 2015)

	Convertible	Price	Stock	Premium (%)	Premium (pts)	HARP
1	DRILLISCH AG 0.75% 2018	196.93	42.35	6.26	11.59	18.79
2	SUEZ ENVIRONNEMENT 0% 2020	23.02	18.73	22.91	4.29	15.47
3	ALCATEL-LUCENT 4.25% 2018	4.10	3.43	12.60	0.46	14.94
4	CAP GEMINI SOGETI 0% 2019	91.74	80.71	13.67	11.03	13.71
5	RAG-STIFTUNG 0% 2021	115.33	33.20	31.93	27.91	13.24
6	ADIDAS AG 0.25% 2019	119.50	73.63	33.99	30.31	13.08
7	FRESENIUS SE & CO KGAA 0% 2019	124.69	55.00	12.73	14.08	12.69
8	ORPEA 1.75% 2020	68.55	60.83	9.30	5.83	12.67
9	NEXITY SA 0.625% 2020	49.63	38.35	29.41	11.28	12.27
10	FRESENIUS MEDICAL CARE A 1.125% 2020	121.34	76.49	16.84	17.49	12.01
11	ACS ACTIVIDADES FIN 2 1.625% 2019	113.76	6.09	19.95	18.92	11.70
12	ACS ACTIVIDADES FINANCE 2.625% 2018	120.66	6.09	12.85	13.74	11.63
13	BUZZI UNICEM SPA 1.375% 2019	120.39	14.49	32.82	29.74	11.60
14	SAF-HOLLAND GROUP 1% 2020	128.40	14.09	12.39	14.16	11.21
15	PARPUBLICA 5.25% 2017	115.75	11.63	50.35	38.76	11.19
16	RAG-STIFTUNG 0% 2018	112.75	33.20	32.13	27.42	11.10
17	ALCATEL-LUCENT 0.125% 2020	4.75	3.43	38.47	1.32	10.01
18	ACCIONA S.A. 3% 2019	127.58	71.54	12.39	14.06	9.42
19	ALCATEL-LUCENT 0% 2019	4.75	3.43	38.48	1.32	9.02
20	PRYSMIAN SPA 1.25% 2018	112.89	19.84	26.97	23.98	8.80

Sources: Bloomberg

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InvenSense: Encouraging Q4 Results... With More to Come?

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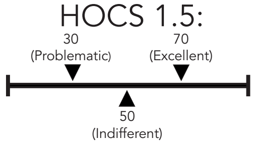
INVN

1.75% 2018/11/01
Price (Bond) = 95.50
Price = $14.52
YTM = 3.13%
Premium = 44.0%
HOCS-Overall = 80
HOCS-Growth = 80
HOCS-Safety = 81

As of May 8, 2015

HOCS 1.5:



Overall

Growth

Safety

(For a broader introduction, we refer you to Jeffrey Alton's commentary entitled "Another Rotten Apple? HOCS Says Probably Not" in the November 24, 2014 edition of Hybrid Vigor)

Investment Conclusions

InvenSense, Inc. (INVN) is the world's leading provider of intelligent sensor solutions for consumer electronic devices. The company's technology can be found in consumer electronic products including smartphones, tablets, wearables, gaming devices, optical image stabilization (OIS), and remote controls for Smart TVs. Most importantly, we see the company continuing to distinguish itself vis-à-vis well-established performance, power efficiency, and package size advantages.

INVN continues to post impressive results, despite several distinct challenges. The company's fundamental prospects, centered on revenue and cash flow generation, remain quite solid. While the precise contribution of smartphone content (to include on the China front), OIS, new software and acquisition opportunities are challenging to predict, continued revenue, earnings, and cash flow gains are increasingly likely, in our opinion. However, investors have every reason to question the magnitude and timing of contribution(s) of the company's myriad opportunities. As a result, the company's long term value proposition could prove interesting for patient investors.

The company's 1.75% Convertibles Senior Notes due 2018 are quoted at 95.50, versus $14.52 on the common. At these levels, the HOCS slash line measures a chart-topping 80 Overall / 80 Growth / 81 Safety. The scores reflect an impressive growth history, solid balance, and a robust market capitalization/leverage relationship. In addition, the company's common equity trades just off the bottom of its 52-week range ($13.19-26.78).

We understand that the bonds' undisputed attractiveness comes in part from the unavailability of stock to borrow. Nevertheless, this creates an opportunity for outright holders with a long-term horizon, especially because of the attractively defensive price point. Furthermore, combined with limited near-term technology risks, we view the refinancing prospects of the convert (with only three years remaining to maturity) to be extremely good. As a result, combined with a 3.13% yield-to-maturity and relatively modest conversion premium, we consider the potential downside associated with the company's 1.75s due '18 to be limited.

Q4 2015 Highlights (FYE: March 31)

Revenues grew a solid 68% in the Q4 year-over-year comparison, besting "Street" consensus estimates. The improvement doesn't surprise us given the continued strength of smartphone sales, especially those recently reported by Samsung and Apple (INVN's two largest customers). As a result, FY 2015 revenues set an all-around company record, driven by market share gains and several high-profile, large-volume customer wins.

However, standing in stark contrast to the overwhelmingly positive revenues news is the fact that net income still managed to come in below expectations. So, what's going on? Let's begin by tackling the revenue highlights.

Smartphone and tablet revenues were up 41% in the year-over-year comparison, largely due to Apple's relatively recent entry onto INVN's customer roster. Despite challenges on the Chinese market front, mid-to-high-end smartphones are beginning to meet with growing acceptance. As a result, the company's gyroscope attachment rate should continue to result in revenue and margin gains. OIS revenues also posted significant growth thanks to inclusion of this technologically advanced photo-enhancing product onto the Samsung Galaxy S6, as well as other premium smartphones. In addition, we expect the OIS attachment rate to potentially double (to as much as 20% of all smartphones) in the coming year. As a result, the company's OIS product should continue to drive revenue growth over the near term. But, what about margins?

INVN's gross margin continues to come under assault as a result of the recent addition of Apple and Samsung (32% and 29%, respectively, of Q4 revenues) to the company's customer roster. Specifically, the company's Q4 gross margin totaled 43%, as compared to last year's 46% (and the 50%+ peak of a few years ago). Frankly, the pressure shouldn't come as a surprise given the market dominance enjoyed by and the immense bargaining power exercised by the twin behemoths. Still, in the volume/margin trade off, we believe that the company's technological advantage (over competitors the likes of STMicroelectronics) and likely product attachment gains will result in further revenue gains, and eventually, margin improvement as well.

INVN's balance sheet and liquidity remain in good shape. Total debt stands at $143 million ($175 million before netting out the unamortized note discount) and cash & equivalents total $216 million. Moreover, the company remains comfortably cash flow positive, with free cash flow as a percentage of total debt measuring 26% in the latest twelve month period. Furthermore, INVN's only debt is the aforementioned convertible issue. Hence, with a stated maturity of 2018, the company's scheduled debt amortization requirements appear to be extremely manageable at present time, especially in light of our near and longer term cash flow outlooks.

Looking Ahead

INVN's product enhancement and development efforts are likely to further fuel revenue growth over the coming years. Recent sensor algorithm and software product additions suggest sizeable revenue growth potential. They also enhance customer "stickiness". (The latter aspect is crucial when dealing with competitive threats). Furthermore, while the smartphone market is more mature in many corners of the world, continued Chinese product adoption should further boost revenues. Moreover, smartphone content enhancements (e.g., gyroscope additions) are another potential driver. Finally, INVN stands to benefit from the so-called Internet of Things (IoT) and wearables market, primarily as a result of the company's strength in the sensor market. More broadly, the IoT opportunity is seen as including smartwatches, consumer drones, gaming controllers, and various head-mounted displays for gaming and virtual reality. Revenues and margins should likely benefit.

Credit Waterfall

InvenSense, Inc. (Dollars in Millions)	31-Mar-15	Total Debt (Cum. Bal.)	Adj. EBITDA Multiple	Net Debt (Cum. Bal.)	Adj. EBITDA Multiple
Current Share Price	$14.52				
Shares Out. (Millions)	90.3				
Latest Twelve Months:					
EBITDA	23				
EBITDA (Adj.)	54				
Free Cash Flow	20				
Cash & Cash Equivalents	216				
Senior Secured Debt					
Bank Debt	0				
Other Secured Debt	0				
Total Secured Debt	0	0	0.0x	(216)	-4.0x
Senior Unsecured Debt					
1.75% Cvt. Senior Notes due 2018	175				
Total Unsecured Debt	175	175	3.3x	(41)	-0.8x
Total Debt	175	175	3.3x	(41)	-0.8x
Equity Market Cap.	1,311	---	---	---	---
Enterprise Value	1,271	---	---	---	23.7x

Sources: Bloomberg, Company Filings

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Financial Summary

InvenSense, Inc.

(Dollars in Millions)	Fiscal Years Ended 31-Mar-13	Fiscal Years Ended 30-Mar-14	Fiscal Years Ended 29-Mar-15	3 Mos. Ended 30-Mar-14	3 Mos. Ended 29-Mar-15	LTM 29-Mar-15
Revenues	209	253	372	59	99	372
Y / Y Change	----	21.0%	47.3%	----	68.3%	----
Gross Profit	111	125	156	27	43	156
Operating Profit	57	10	6	(4)	2	6
Interest Expense	0	4	11	4	3	11
EBITDA	59	32	23	(1)	7	23
EBITDA (Adj.)	67	48	54	4	15	54
Cash Interest	0	(1)	(3)	(3)	(1)	(3)
Cash Taxes	(6)	(2)	(3)	(1)	0	(3)
Change in Net Working Capital	(27)	(41)	18	(26)	37	18
Capital Expenditures	(5)	(17)	(27)	(3)	(2)	(27)
Free Cash Flow	30	(14)	38	(28)	49	38
Total Debt (Net of Unamort. Note Discount)	0	136	143	136	143	143
FCF % Total Debt	NM	-10.1%	26.4%	----	----	26.4%
Gross Margin	53.1%	49.4%	41.9%	46.3%	43.3%	41.9%
Operating Margin	27.2%	4.0%	1.6%	-7.2%	2.4%	1.6%
EBITDA Margin	28.1%	12.5%	6.2%	-1.6%	7.4%	6.2%
EBITDA (Adj.) Margin	32.2%	18.9%	14.4%	7.1%	15.0%	14.4%
EBITDA (Adj.) / Cash Interest	NM	41.1x	17.5x	1.7x	20.3x	17.5x
EBITDA (Adj.) - Capex / Cash Interest	NM	26.3x	8.6x	0.7x	17.5x	8.6x

NM Not Meaningful

Sources: Bloomberg, Company Filings

Clean Energy Fuels Corp. (CLNE): Can the Momentum Continue?

Jeffrey Alton, CFA
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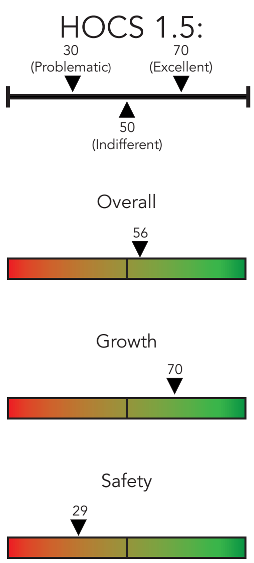
CLNE

5.25% 2018/10/01
Price (Bond) = 84.25
Stock = $8.82
YTM = 10.93%
Premium = 49.0%
HOCS-Overall = 56
HOCS-Growth = 70
HOCS-Safety = 29

As of May 8, 2015



Clean Energy Fuels, Corp. would be happy if I ran the United States. That's because I would mandate the use of natural gas as a transportation fuel. With one stroke of my pen,

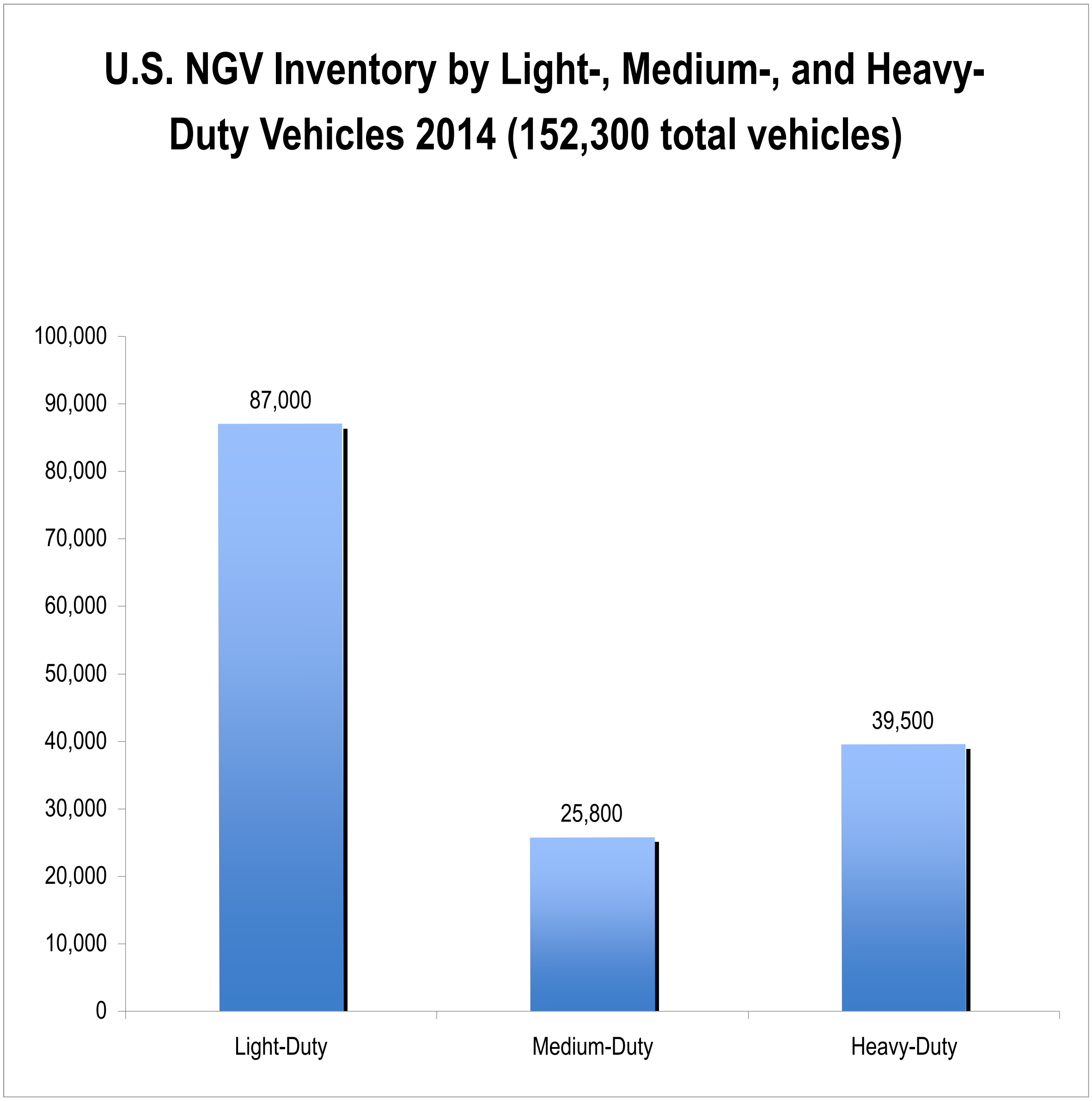
1. transportation emissions would be cut by about 25% to 40% versus gasoline and diesel
2. citizens would save money over the long-term because natural gas is cheaper than either gasoline or diesel fuel
3. the economy would be boosted because natural gas is produced domestically

Clean Energy Fuels stock would soar as revenue spikes. The equation for CLNE is pretty simple. The more vehicles that run on natural gas, the more natural gas Clean Energy can sell through its distribution system of company owned and operated natural gas filling stations.

Unfortunately for Clean Energy Fuels, however, I am not running the United States. Not even running my own household really. So it's market forces that will have to push for the adoption of natural gas as a widely used transportation fuel.

There are some barriers. Cost is the major one. Upgrading a heavy-duty truck to run on natural gas can run over $40,000. When oil prices were higher, the payback period for converting a truck to natural gas could run as little as under two years. However, now that the natural gas/diesel price spread has contracted to closer to 50 cents, the payback period has increased to several years. That is a problem for Clean Energy Fuels because it is a growing disincentive for fleets to adopt natural gas.

Even when oil was expensive and natural gas prices crashed, conversion to natural gas was limited. Natural Gas for America reports that total natural gas vehicle (NGV) production in 2014 was only 18,000 vehicles, up 1,250 vehicles over 2013. Light-duty natural gas orders actually fell because many utilities met their NGV deployment quotas and, as the workhorse in the oil and gas industry, light vehicle demand in the shale plays fell with the price of oil. The medium-duty NGV market was driven by continued commercial vehicle adoption, such as UPS, and the heavy-duty market by buses, garbage trucks and dual-fuel systems in 2014.

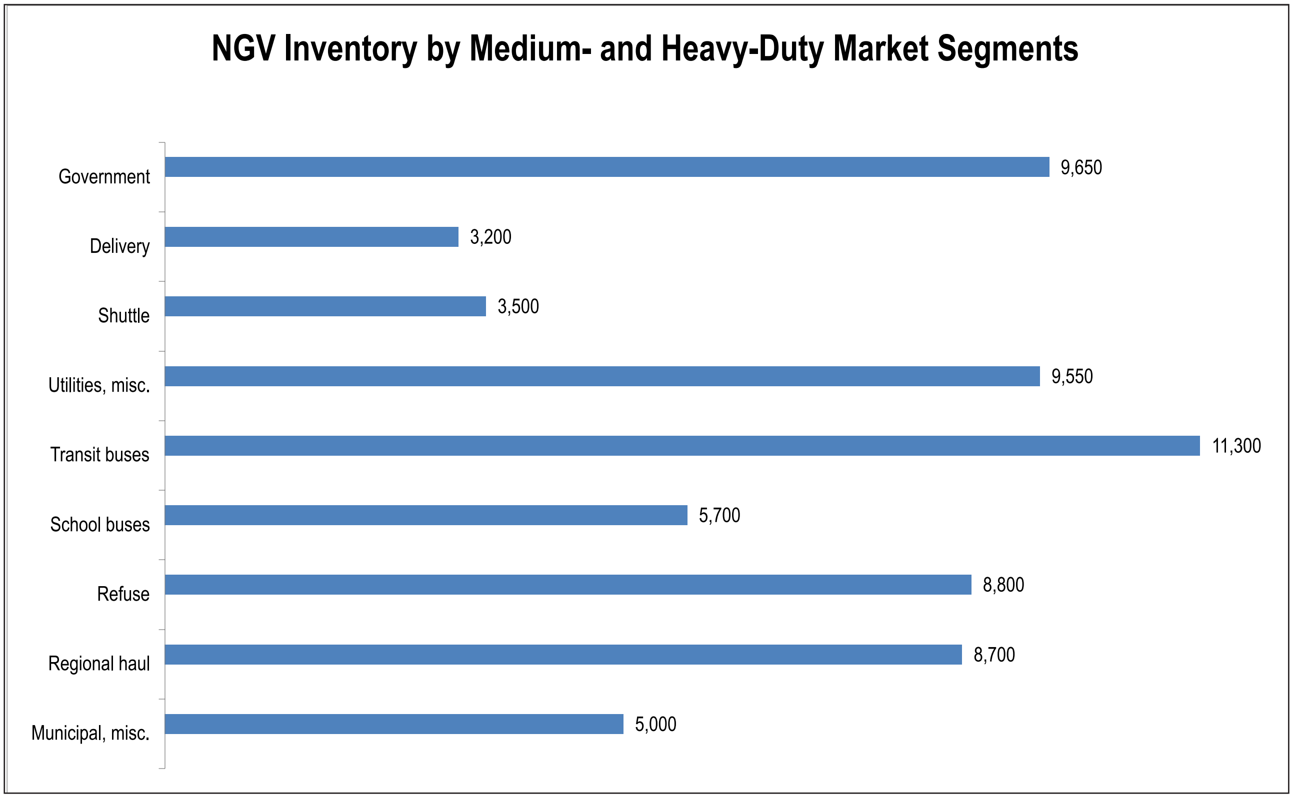


Source: Natural Gas for America

These numbers are skimpy when one considers that there are 3.2 million class 8 trucks on America's highways according to Clean Energy Fuels.

Garbage trucks are actually the biggest natural gas star with 60% of garbage trucks sold in 2013 and 2014 running on natural gas. Garbage trucks run a predictable mileage day after day and can be fueled overnight without the need for more expensive fast fueling equipment.

Natural gas vehicle inventory by industry is:



Source: Natural Gas for America

Because the number of natural gas vehicles has been less than exploding on the scene, it has been an uphill battle for Clean Energy Fuels, which has lost over $300 million cumulatively in the last five years. At the same time, the company has burned through over $600 million in cash.

What have investors gotten for their money? A total of 203 public filling stations across the United States. 165 are compressed natural gas (CNG), 23 are liquefied natural gas (LNG) and 15 are both. Many of the new filling stations that the company is building will be at Pilot Flying J truck stop locations.

To improve driving range, natural gas can be compressed under pressure or liquefied at very cold temperatures. Neither alternative is perfect. CNG tanks take longer to fill without enhanced technology and do not empty entirely as pressure decreases when the natural gas is released from the tank. LNG has an energy density closer to diesel, but the system cost is greater because of the cooling process.

Initially, Clean Energy was focused on LNG as it envisioned a nationwide network of LNG stations for long haul trucks. Now, however, the company is gradually conceding that fast-fill CNG is gaining in popularity and CLNE is adding the option to its existing LNG stations. For those technophiles able to recall, this is kind of a Betamax versus VHS scenario.

So, Clean Energy Fuels is in a business that

- requires large capital expenditures
- is in the midst of a mild technology skirmish
- has a growing adoption rate (of natural gas as a transportation fuel), but off a very low base
- suffers when the price of oil falls

Clearly not a recipe for success and yet, out of the blue, the company reported an adjusted net income of $10 million and an adjusted EBITDA of $37.1 million in the last quarter. Revenue exploded to $132 million from $85 million in the fourth quarter of 2013 . More recently, a series of client announcements in combination with the price of oil touching $60 per barrel has boosted the stock. Since the last quarter earnings announcement when it languished at a 5-handle, CLNE stock popped to $10 in early May before settling at $8.82 last Friday. Has Clean Energy reached a tipping point?

Not entirely. The adjusted quarterly numbers included $28.4 million in excise tax credits for alternative fuel vehicles, commonly known as the VETC, and another $12 million in one-time gains from the sale of a subsidiary. The VETC expired on December 31, 2014, so those revenues will dry up over the course of 2015 as the final tax credits are claimed. Take out the VETC revenues and the one-time subsidiary sale and the company is back to a substantial cash burn. Even with the VETC and sale gain, free cash flow was a negative ($31 million) and negative ($162 million) for the fourth quarter 2014 and the full 2014 year, respectively. Capex was $11 million in Q4 and $86 million for the full 2014.

Even though Clean Fuels expects to reduce capital expenditures to $58 million in 2015, making up for the loss of the VETC will be hard work to avoid another heavy cash burn in 2015. That could spell danger, or at least dilution, for equity holders as the company is bumping up against a $145 million convertible note due in 2016. With only $213 million in cash currently, that puts Clean Energy in a tight spot.

If Clean Energy Fuels defaults, would convertible bond holders feel the pain? Probably not intense pain as long as natural gas adoption continues to move forward, even at the current slow pace. Clean Fuels hopes to put up positive EBITDA as 2015 progresses and the elimination of $44 million in annual interest payments under default would go a long way toward positive cash flow. As the ultimate backstop, Clean Fuels lists a net $514 million in property, plant and equipment at the end of 2014. On the downside, convertible bondholders could find themselves behind GE which established a $200 million credit agreement for Clean Energy to build two new LNG plants. The credit agreement terminates if CLNE has not begun construction by the end of 2016.

Given the risks, we believe that the 5.25% 2018 convertible security is the superior way to invest in CLNE.

T. Boone Pickens and Leonard Green Partners hold the full $145 million of the 7.5% convertible bonds due in 2018, 2019 and 2020, and the 7.25% bond due August 30, 2016 are closely held by the original three institutional buyers. That leaves the 5.25% issue due October 1, 2018 for investors to consider.

The HOCS score for the 5.25% 2018 bond is 56 overall/70 growth/29 safety highlighting the obvious risk in the longer term bond. The 5.25% bonds also have a soft call beginning in October 2016. Trading at 84.25, the deep out-of-money 5.25% bonds trade at a yield-to-maturity of 10.9% and a yield-to-call of 18.6%.

Despite the difficulties the Clean Energy Fuels faces, the convertible bonds may be suitable for aggressive investors, particularly those bullish on a continued rebound in oil. HOCS gives the nod to the shorter-term maturity as the cash-on-hand increases the probability of a successful redemption.

What are investors hoping for when the company announces Q1 2015 results today after the market close? Consensus analyst estimates are a loss of ($0.26)/share on $100 million in revenue. Investors want to see 30% year-over-year growth in natural gas pumped and lower operating expenses as the company battles to increase cash flow.

Credit Waterfall

Clean Energy Fuels Corp. (Dollars in Millions)	31-Dec-14	Total Debt (Cum. Bal.)	EBITDA Multiple	Net Debt (Cum. Bal.)	EBITDA Multiple
Current Share Price	$8.59				
Shares Out. (Millions)	90.2				
Latest Twelve Months:					
EBITDA	(5)				
Free Cash Flow	(162)				
Cash & Cash Equivalents	215				
Senior Unsecured Debt					
7.50% Senior Cvt. Notes due 2016	150				
7.50% Senior Cvt. Notes due 2018, 19, 20	150				
5.25% Senior Cvt. Notes due 2018	250	550	-3.4x	335	-63.1x
Non-Recourse Debt					
6.60% Municipal Bonds 2022	12				
Capital Lease & Other	14				
Total Debt	576	576	-108.5x	361	-68.0x
Equity Market Cap.	775	---	---	---	---
Enterprise Value	1,135	---	---	1,135	-214.0x

HILLSIDE ADVISORS LLC

May 11, 2015

Financial Summary

CLNE	Fiscal Years Ended					Quarter Ended	
(Dollars in Millions)	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14	31-Dec-13	31-Dec-14
Revenues	212	293	334	352	429	85	132
Y / Y Change	----	38.2%	14.1%	5.5%	21.7%	----	55.4%
Gross Profit	47	46	44	85	71	17	39
Operating Profit	(6)	(39)	(71)	(52)	(54)	(19)	4
EBITDA	17	(8)	(34)	(9)	(5)	(9)	17
Interest Expense	(1)	(10)	(16)	(29)	(44)	11	14
Income Tax Expense	(1)	(1)	1	4	1	1	(1)
Capital Expenditures	(51)	(67)	(193)	(87)	(86)	(27)	(11)
% Revenues	-23.9%	-22.8%	-57.8%	-24.6%	-20.1%	-31.4%	-8.4%
Free Cash Flow	(55)	(94)	(213)	(91)	(162)	(29)	(31)
Total Debt	64	289	331	620	571	620	571
% Total Debt	-84.7%	-32.4%	-64.2%	-14.7%	-28.4%	-4.7%	-5.4%
Gross Margin	22.4%	15.6%	13.2%	24.2%	16.6%	20.3%	29.2%
Operating Margin	-2.6%	-13.2%	-21.1%	-14.7%	-12.7%	-22.5%	2.9%
EBITDA (Adj.) Margin	8.0%	-2.8%	-10.3%	-2.7%	-1.2%	-10.2%	13.2%
EBITDA/ Interest	-14.1x	0.9x	2.1x	0.3x	0.1x	-0.8x	1.2x
EBITDA - Capex / Interest	-56.2x	-6.1x	-9.9x	-2.6x	-1.8x	1.7x	2.0x

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