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August 10, 2015

Hybrid Vigor℠

The Hillside Convertible Advisory Letter
Volume 2 Issue 32

Teach Your Children Well

Inside

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Investment Ideas

Our Team

Bill Feingold
Managing Principal

George Chuang
Managing Principal

Jeffrey Alton, CFA
Head of Equity Research

Kathy Schick
Head of Credit Research

George Lynch
Senior Analyst

Roman Terekhin, CFA
Senior Analyst

Curt Peters
Senior Analyst

John Anderson
Director of Business Development

Sue Wu
Associate

Last week seemed particularly challenging for the convertible issuers of the world. Most of the funds we observe were down between 1% and 2%, taking a number of body blows in a tough market. Our dogs in the fight, the various flavors of our applied HOCS methodology, took it on the chin as well.

We couldn't help noticing that the benchmark we often view, the CWB exchange-traded fund, trounced virtually every convertible measure we look at. It actually had a positive week after giving effect to its monthly dividend. How could that be?

For one thing, a nice little chunk of change, over $40 million, came into CWB in the latter part of the week. It pushed the fund, which had been trading at a small discount to net asset value, to a premium of 44 basis points at Thursday's close and 25 at Friday's. Still, that only accounts for a portion of the non-decline.

Maybe it was a blue-chip thing of sorts. Nvidia, one of CWB's biggest holdings, was up big in a down week, and most of the week's other casualties were probably somewhat further down CWB's holdings list than most other convertible players.

We've viewed CWB with a mix of awe—at its growth in the last couple of years—and skepticism. We continue to think there is room for a better, truer convertible exchange-traded fund. Others have been trying this year, but their backers haven't seemed willing to provide the necessary support and education.

Ah, education. They say that if you think education is expensive, try ignorance. That pithy phrase seems particularly relevant to the convertibles world. When we take the time to educate the people whose time and money we need, we usually get the desired result. When we throw up our hands in frustration and blame the asset class for being too quirky, we get what we deserve.

Bill
bill@hillsideadvisors.com

Hillside Advisors, LLC
400 Columbus Ave., Suite 240E
Valhalla, NY 10595
+ 1 (646) 712-9289
www.hillsideadvisors.com

Contact us:
info@hillsideadvisors.com

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HILLSIDE ADVISORS LLC

August 10, 2015

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Bill Feingold
bill@hillsideadvisors.com

Curt Peters
curtp@hillsideadvisors.com

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.

Near unchanged, aka nunched, is this week's headline news. Average HARP increased by a whopping 0.01 to 9.86. That doesn't mean markets were tame. Average stock and bond prices fell by 1.3% and one point, respectively. And yet averages are only one descriptor of a data set. Below the surface, the Ugly 20 boiled with turmoil as earnings season took its toll on many and rewarded few. The prior week's rank order was certainly disturbed, though the general grouping remains familiar.

Hidden beneath that average were some mighty big HARP gains – Priceline 0.35% of 2020 being the biggest with a move of 1.17 to end at 11.52. Something this big requires more than an ordinary move in the bond-stock relationship. The stock did provide the fuel with a 5.93% increase, but the bond responded with a five-point increase – for a bond which was priced in the mid-teens with a 23% premium, it was rather heady. And considering that parity just crossed par, this type of exuberance should be on the wane. Nevertheless, the optimism of bond investors has moved the PCLN bond up from 8th to 5th on the Ugly 20.

Both Jazz Pharmaceuticals 1.875% of 2021 and Medidata Solutions 1% of 2018 had a rough week on price decreases of 4 and 3 points, respectively. With both stocks declining and neither bond reacting out of proportion to delta, one would guess that HARP would have been nunched. But no, it wasn't. Both these bonds had prices near 120 (122 for JAZZ and 119 for MDSO), which means that parity most likely wasn't above par (it wasn't), and so any bond price decrease translates directly into a HARP decrease (-0.64 and -0.62 respectively). Par is where HARP looks to for a bottom to its risk calculation.

Clovis Oncology 2.5% of 2021 joined us – just barely – the week prior powered by gaining too much relative to its stock. This week the disagreement continued with the stock falling by 4.61%, and the bond answering with only a 4½ point loss. On what was a 156½ dollar price bond, that wasn't enough of a fall in the bond, and so premium nudged out yet again with the resultant HARP increase by 0.74 to 8.95. Currently with a price of 152 and a premium of 16.7%, the bond sits firmly in the Ugly 20 at 14th, up from 19th.

What really skewed the average stock and bond price changes this week on the Ugly 20 was the presence of NVIDIA 1% of 2018. The stock put in a stellar performance of 15.19% on the back of fantastic revenue growth, driving the bond up by 9½ points. The mid-teenage bond grew into a twenty-something (124¼ to be precise), shedding a lot premium in the process (from 16.1% to 9.1%). All of this contributed to a HARP decline of 0.27 to end at 8.80. From 12th to now 16th, the bond just might make it through to adulthood.

Of course, what's an Ugly 20 without a mention of the Illuminated duo? Both bonds gave up a little HARP – 0.50 on the B's and 0.65 on the A's – as the stock dropped 4.01% and the bonds did their delta neutral thing. Both these bonds have parity at 82¾, so delta neutral is less important to HARP than you might think, as any drop in bond price is good news for absolute risk.

The one new entrant of the week was Trinity Industries 3.875% of 2026. TRN is a perpetual new entrant, on one week off the next. This time around the bond leaped from 30th to 20th powered by a sizable stock loss of 8.34% - translating in a seven-point bond contraction. Sliding backwards into the multi-dimensional risk zone from 134¼ to 127¼ only served to increase HARP-style risk with parity still well above par. HARP bumped up 0.83 to 7.68, just enough to make the cut for the Ugly 20.

Despite the pseudo new entrant TRN, there was nearly an actual new entrant in the form of Brookdale Senior Living 2.75% of 2018. Well, it was actually a charter member of the Ugly 20, but it hadn't been there for a while. More recently the bond had been of those well behaved types, passing through the multi-dimensional risk zone with only a modest amount of premium to burn. Last week, after reaching 126½, the bond fell backwards to 117¼. The stock was at fault course with a 12.1% loss on disappointing earnings and guidance, but the bond didn't answer according to plan. Holding itself to only a 9¼ point decline, the bond blew out its premium from 12% to 18%. Now this sort of behavior happens in the teens all the time. Why? Because parity crossed below par, and so par is now providing the lift effect to keep the bond afloat. It's a textbook case of HARP analysis. And as a result the bond just about made to the Ugly 20 in one fell swoop – landing at 21st up from 40th with a HARP gain of 1.31 to 7.36.

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Hillside Ugly 20 List (Prices as of August 7, 2015)

	Convertible	Price	Stock	Premium (%)	Premium (pts)	HARP
1	Illumina Tranche B 0.5% 2021-06-15	120.75	210.50	45.8	37.93	13.53
2	Lam Research Tranche B 1.25% 2018-05-15	132.00	72.42	13.3	15.50	11.96
3	Red Hat 0.25% 2019-10-01	124.25	77.59	17.6	18.60	11.67
4	RPM International 2.25% 2020-12-15	113.50	46.36	29.6	25.92	11.57
5	Priceline.com 0.35% 2020-06-15	121.50	1317.35	21.3	21.34	11.52
6	Emergent BioSolutions 2.875% 2021-01-15	126.75	34.43	19.2	20.42	10.70
7	Illumina Tranche A 0% 2019-06-15	115.00	210.50	38.8	32.15	10.60
8	Jazz Pharmaceuticals 1.875% 2021-08-15	118.00	181.79	29.8	27.09	10.00
9	Salesforce.com 0.25% 2018-04-01	123.00	70.41	16.0	16.97	9.63
10	SanDisk 1.5% 2017-08-15	131.25	59.41	12.5	14.58	9.49
11	Euronet Worldwide 1.5% 2044-10-01	117.75	68.77	23.5	22.41	9.24
12	Medidata Solutions 1% 2018-08-01	116.00	51.07	32.0	28.12	9.19
13	ServiceNow 0% 2018-11-01	121.00	76.95	16.1	16.78	9.03
14	Clovis Oncology 2.5% 2021-09-15	152.00	80.54	16.7	21.75	8.95
15	Workday Tranche 2 1.5% 2020-07-15	122.75	82.51	21.7	21.89	8.81
16	NVIDIA 1% 2018-12-01	124.25	22.98	9.1	10.36	8.80
17	Workday Tranche 1 0.75% 2018-07-15	118.25	82.51	19.3	19.13	8.71
18	Rambus 1.125% 2018-08-15	126.75	13.48	13.5	15.08	8.06
19	Synchronoss Tech 0.75% 2019-08-15	114.50	47.12	29.1	25.81	8.06
20	Trinity Industries 3.875% 2036-06-01	127.25	26.82	18.7	20.05	7.68

Sources: Bloomberg, Kynex

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August 10, 2015

HOCS℠ 20

Bill Feingold
bill@hillsideadvisors.com

Another tough week in HOCS and convertland, as well as in the markets in general. A nasty tape.

The traditional (insofar as anything less than a year old can be called as much) HOCS 20 had one of its worst weeks, dropping 1.20%. Indeed, the median convertible fell by a bit more than the average, and if not for a huge (nearly 8.5%) week from Herbalife, of all names, things would have been even worse. Some of the main offenders were Invensense 1.75% (down over 5%), both hybrid Tesla bonds (down 4% and 3%), and Zillow/Trulia (off nearly 5%).

The market didn't seem to like most things convertible last week—high growth, energy, you name it. Actually, the China-free version of HOCS 20 did substantially worse than the traditional version. China-free dropped 2.03%. China, as it seems to do every other week, actually provided a stabilizing influence. Ctrip in particular performed well, coming in with a strong upside earnings surprise and boosting its 1.99% and 1% recent issues by over 2% and 3%, respectively, with the underlying shares up almost 5.5%.

Tesla's report was probably easier for stockholders than bondholders to like. If you believe the company, demand is not an issue, but production is. Some media talking heads tried to minimize the production questions, which we found a somewhat odd response. That said, the company appears likely to do some kind of equity-based capital raise before long: management did not discourage that notion on the call. Given that overhang, and the company's previous history of convertible issuance, current holders are surely thinking about where a new deal or pair of deals might be priced.

Jeff Alton has discussed Zillow/Trulia at some length recently. The stock's ephemeral jump after its earnings announcement smacked of short-covering, and management has not necessarily resolved its credibility issues. Borrow continues to be difficult, making the convertible a good alternative for Zillow stock bulls wherever they may be hiding.

Speaking of credibility, Herbalife is in the driver's seat for the time being after a solid earnings report and strong guidance. Are they all that meets the eye? Hard to say, but the bond continues to score well on HOCS as the equity base grows underneath a bond with moderate premium at a great price point.

For this week, Isis Pharmaceuticals rises to lead the China-free HOCS 20 and run second only to Qihoo 0.50% on the traditional list. Chartists will be wary of ISIS, whose shares closed last week just below a critical Fibonacci support level. But HOCS is a happily countercyclical measure, and it gives ISIS a big endorsement with a rare above-80 overall score. If you like to dig in with out-of-favor names, this is a good HOCS week for you.

The broader HOCS 100 index also struggled, though not as much as either flavor of the 20. The HOCS 100 gave up 84 basis points last week, seeing its return for the year decline to 2.51%. Its lead over CWB, which held up relatively well in a flattish week, has shrunk, as CWB is now up 1.98% for the year after a flattish week. (Last week's Hybrid Vigor had an incorrect CWB performance, as we erroneously reported an annualized number. We always say, be wary of people who give annualized returns midway through the year. Physician, heal thyself).

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August 10, 2015

Hillside HOCS 20 List

	Description	Convert	Stock	HOCS Overall	HOCS Growth	HOCS Safety	Yield	Premium
1	QIHOO 0.50% 2020-08-15	90.50	64.39	81.56	76.41	91.85	5.56%	76.2%
2	ISIS PHARMACEUTICALS INC 1.00% 2021-11-15	101.50	49.74	80.29	82.11	76.64	0.75%	36.3%
3	QIHOO 2.50% 2018-09-15	97.00	64.39	79.72	74.75	89.65	5.36%	67.2%
4	CTRIP.COM INTER LTD. 1.99% 2025-07-01	97.00	75.48	78.58	90.46	54.82	2.65%	37.4%
5	QIHOO 1.75% 2021-08-15	89.25	64.39	77.94	79.18	75.47	4.73%	67.4%
6	WEB.COM 1.00% 2018-08-15	97.50	23.81	74.52	79.09	65.37	1.86%	43.3%
7	IGI 3.50% 2019-12-15	93.75	8.13	74.45	82.18	58.99	5.12%	30.2%
8	FIREEYE 1.63% 2035-06-01	101.50	43.58	73.79	84.61	52.17	1.39%	41.5%
9	RESTORATION 0.00% 2020-07-15	100.75	99.56	73.33	70.04	79.90	-0.15%	19.5%
10	E-HOUSE 2.75% 2018-12-15	94.00	6.59	73.18	64.90	89.76	7.53%	114.9%
11	LINKEDIN 0.50% 2019-11-01	98.00	190.03	72.13	66.73	82.93	0.99%	51.9%
12	CTRIP.COM INTER LTD. 1.00% 2020-07-01	98.00	75.48	72.08	80.85	54.54	1.71%	41.2%
13	ENVESTNET 1.75% 2019-12-15	101.00	44.07	71.43	69.02	76.24	1.51%	44.1%
14	ECHO 2.50% 2020-05-01	95.50	25.18	71.16	75.60	62.28	3.54%	48.5%
15	HERBALIFE 2.00% 2019-08-15	93.25	59.68	71.13	72.13	69.15	3.83%	34.8%
16	ANI 3.00% 2019-12-01	107.00	54.34	70.73	81.70	48.78	1.32%	36.8%
17	INVENSENSE 1.75% 2018-11-01	92.25	11.13	69.77	71.46	66.38	4.36%	81.4%
18	51JOB 3.25% 2019-04-15	97.75	30.46	69.72	60.56	88.04	4.66%	37.2%
19	CALAMP 1.63% 2020-05-15	91.75	16.37	69.72	73.40	62.36	3.52%	54.7%
20	TESLA 1.25% 2021-03-01	93.75	242.51	68.81	75.40	55.62	2.46%	39.1%

Sources: Bloomberg, Kynex

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Hillside HOCS 20 List ex China

	Description	Convert	Stock	HOCS Overall	HOCS Growth	HOCS Safety	Yield	Premium
1	ISIS PHARMACEUTICALS INC 1.00% 2021-11-15	101.50	49.74	80.3	82.1	76.6	0.75%	36.3%
2	WEB.COM 1.00% 2018-08-15	97.50	23.81	74.5	79.1	65.4	1.86%	43.3%
3	IGI 3.50% 2019-12-15	93.75	8.13	74.5	82.2	59.0	5.12%	30.2%
4	FIREEYE 1.63% 2035-06-01	101.50	43.58	73.8	84.6	52.2	1.39%	41.5%
5	LINKEDIN 0.50% 2019-11-01	98.00	190.03	72.1	66.7	82.9	0.99%	51.9%
6	RESTORATION 0.00% 2020-07-15	100.75	99.56	73.3	70.0	79.9	-0.15%	19.5%
7	HERBALIFE 2.00% 2019-08-15	93.25	59.68	71.1	72.1	69.2	3.83%	34.8%
8	ECHO 2.50% 2020-05-01	95.50	25.18	71.2	75.6	62.3	3.54%	48.5%
9	ENVESTNET 1.75% 2019-12-15	101.00	44.07	71.4	69.0	76.2	1.51%	44.1%
10	INVENSENSE 1.75% 2018-11-01	92.25	11.13	69.8	71.5	66.4	4.36%	81.4%
11	CALAMP 1.63% 2020-05-15	91.75	16.37	69.7	73.4	62.4	3.52%	54.7%
12	TESLA 1.25% 2021-03-01	93.75	242.51	68.8	75.4	55.6	2.46%	39.1%
13	ANI 3.00% 2019-12-01	107.00	54.34	70.7	81.7	48.8	1.32%	36.8%
14	FIREEYE 1.00% 2035-06-01	102.25	43.58	67.6	75.5	52.0	0.52%	42.6%
15	GOGO INC 3.75% 2020-03-01	94.00	16.68	67.3	80.6	40.7	5.25%	34.4%
16	RENEWABLE 2.75% 2019-06-15	97.25	9.77	65.8	70.8	56.0	3.52%	32.0%
17	TESLA 0.25% 2019-03-01	95.50	242.51	67.3	71.5	58.8	1.56%	41.7%
18	HOMEAWAY 0.13% 2019-04-01	95.50	30.77	65.8	58.6	80.1	1.40%	61.9%
19	INSULET 2.00% 2019-06-15	100.50	33.89	65.2	73.7	48.3	1.86%	37.9%
20	CORNERSTONE 1.50% 2018-07-01	102.50	36.39	57.7	64.3	44.4	0.62%	52.2%

Sources: Bloomberg, Kynex

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August 10, 2015

Euro Gang of 20

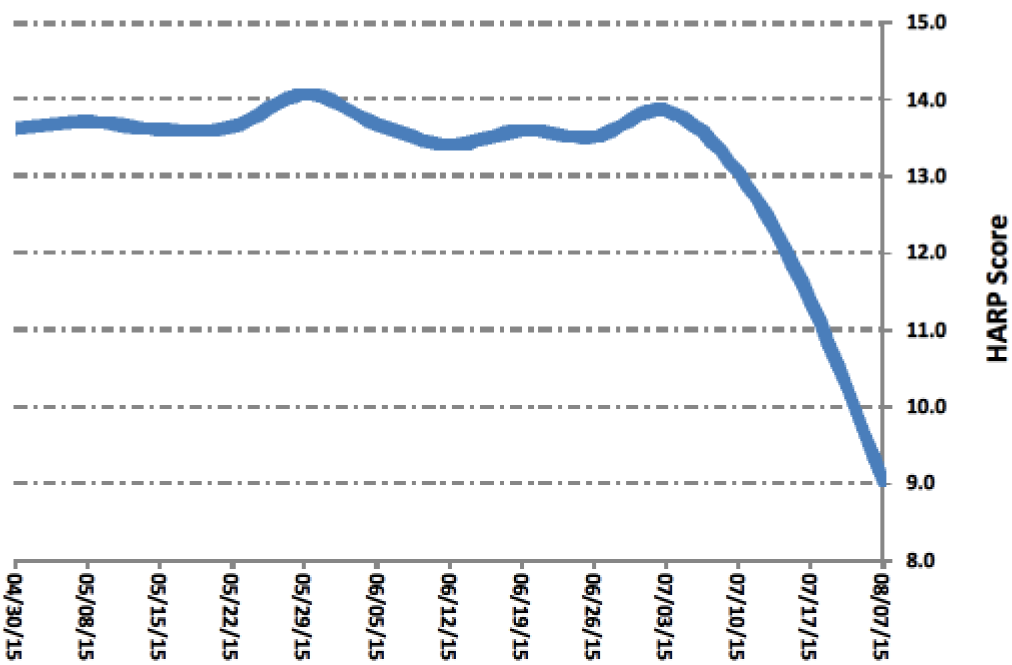
Roman Terekhin, CFA
roman@hillsideadvisors.com

A Picture Is Worth a Few HARP Points

Over the last week, the broad European equity markets indices advanced – DAX by 1.6% and CAC 40 by 1.4%. All that despite Friday's sell-off which was apparently triggered by the unexpected decline in German industrial production and an okay US jobs number. The average stock underlying the twenty Euro-denominated convertibles with highest HARP scores inched out a 0.4% increase. The average HARP score for the Euro Gang of 20 at just above 10 remains essentially the same as last week. And yes, as far as the list's composition it's déjà vu all over again. For that reason we won't dwell on it but rather look at a couple of specific issues.

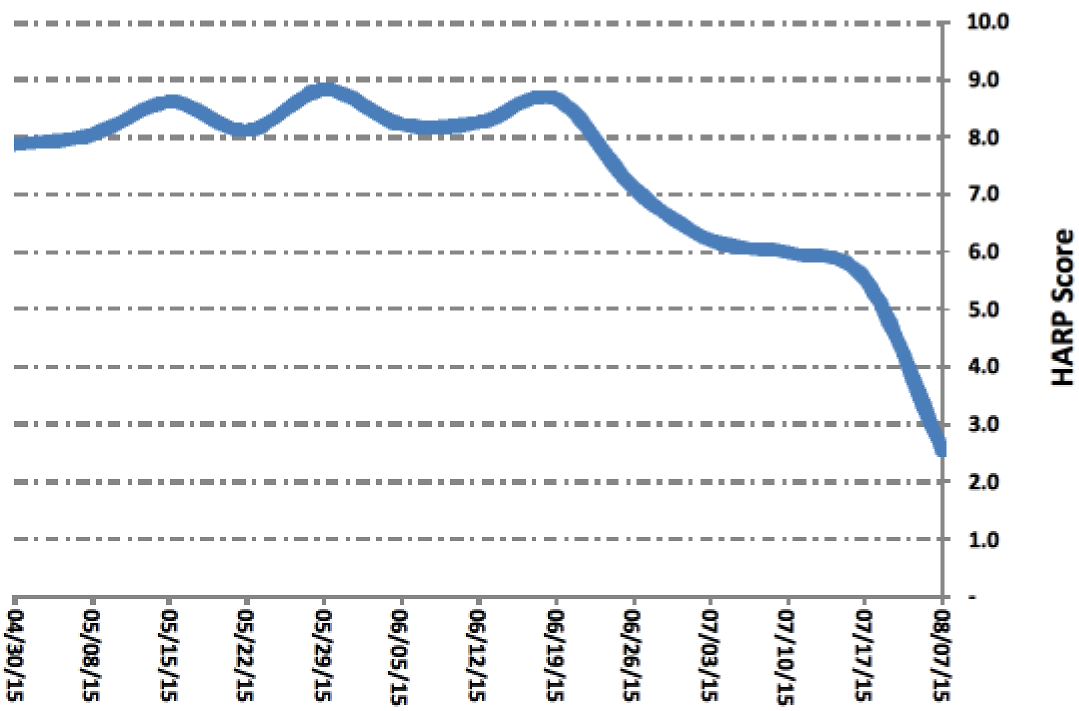
After we highlighted the richness of Cap Gemini 0% of 2019 in last week's Hybrid Vigor, the bond's HARP score declined by over two points to around nine. While the stock declined a mere 1.6%, the bonds lost 4.7 points moving down on a delta of over 200%. The chart below illustrates the cheapening process that occurred over the past few weeks. Pretty dramatic, huh? Please note that at nine, the HARP score is still far from the average for the subset of the European convertible universe that we track, which currently stands at around four.

Cap Gemini 0% of 2019 Historical HARP Score



Average HARP score for the universe may not be such a bad "HARP target" and Astaldi SPA 4.5% of 2019 is a case in point. Last week, it was in the 20th place on our register of the most expensive converts with a score of 5.8. This week, its HARP collapsed to under three (2.6 to be exact) as the stock price increased 11.6% after company's earnings beat estimates. In the meantime, the premium decreased from around nine to just over four points as the bond went up nine points or around 7%. While this is the proverbial two thirds of the stock's upside, we think that the bonds should have participated more in the equity move at this price point. The decrease in the HARP score started few weeks ago as the chart below shows and we think the bonds under-delivered in terms of performance over this period. The good news is that the risk/reward profile of the instrument is actually much better now, although the remaining call protection of only half a year is quite short.

Astaldi SPA 4.5% 2019 Historical HARP Score



The bond that replaced Astaldi's convertible on the list is Nexans SA 2.5% of 2019, which checked in with a 5.7 HARP score.

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Euro HARP 20 (Prices as of August 7, 2015)

	Convertible	Price	Stock	Premium (%)	Premium (pts)	HARP
1	Rag-Stiftung 0% 2021	121.18	37.06	20.4	20.57	14.96
2	Suez Environnement 0% 2020	21.94	17.33	26.6	4.61	13.10
3	Fresenius Medical Care A 1.125% 2020	122.91	75.57	19.8	20.28	13.08
4	Rag-Stiftung 0% 2018	118.34	37.06	20.5	20.14	12.76
5	Buzzi Unicem SPA 1.375% 2019	125.72	15.90	26.4	26.25	12.11
6	Nexity SA 0.625% 2020	50.49	40.44	18.6	7.91	11.83
7	SAF-Holland Group 1% 2020	128.26	13.94	13.4	15.19	11.32
8	Adidas AG 0.25% 2019	115.39	73.57	28.6	25.67	10.44
9	Fresenius Se & Co KGAA 0% 2019	136.45	63.57	6.6	8.45	10.22
10	ACS Actividades Finance 2.625% 2018	122.72	6.39	9.3	10.49	9.41
11	ACS Actividades Fin 2 1.625% 2019	113.67	6.39	12.8	12.94	9.31
12	Prysmian SPA 1.25% 2018	116.25	21.84	18.8	18.38	9.13
13	Cap Gemini Sogeti 0% 2019	91.50	85.68	6.8	5.82	9.04
14	Deutsche Post AG 0.6% 2019	133.93	26.93	2.6	3.43	8.89
15	NH Hotel Group SA 4% 2018	128.51	5.46	15.9	17.61	8.84
16	OCI NV 3.875% 2018	123.75	29.48	19.5	20.20	8.60
17	Acciona S.A. 3% 2019	130.16	72.68	9.6	11.42	8.30
18	Parpublica 5.25% 2017	108.94	10.23	60.8	41.19	7.09
19	Societa Iniz Autostradal 2.625% 2017	113.29	10.80	10.1	10.44	6.42
20	Nexans SA 2.5% 2019	78.03	39.44	75.9	33.67	5.70

Sources: Bloomberg

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Iconix Brand Group, Inc. (ICON): Lost and Leaderless

Jeffrey Alton, CFA
jeffrey@hillsideadvisors.com

Iconix shares plummeted almost 25% on Friday after Founder and CEO Neil Cole announced his resignation without any real explanation. The stock is down another 6% to $14/share in early trading today. This follows the resignation of the CFO and COO in the spring.

In addition to the defections, the company has been criticized for pumping up financial results by manipulating earnings attributed to its licensing sales to international licensees and transactions related to its joint venture partners. For the details, please refer to our April 27, 2015 article "Iconix Brand Group, Inc. (ICON): Some 'Splainin to Do". We wrote conservatively about Iconix at that time and suggested investors wait until things played out further before pulling the trigger.

As if all of the above was not enough for investors to swallow, Iconix announced earnings this morning that missed expectations. Adjusted earnings per share were $0.45 versus expectations of $0.70. Revenue was also a big miss at $98.5 million versus expectations of $113 million.

The timing of the CEO's departure is even more disheartening because the company is due to release its Peanuts feature animated movie before the end of the year. The release was to mark a new chapter of growth for the company in the entertainment business. While interim CEO Peter Cuneo previously served as President and CEO of Marvel Entertainment, the timing of Mr. Cole's departure is just too big an event to overlook before the release of the new Peanuts movie.

This tale of woe is just too large to ignore and we would continue to advise investors to take a wait and see position until investors get the full story here. We recognize that the convertibles are in something of a free-fall and that the 2.5% in particular are eye-catching with a 20-something yield to next year's maturity, and we can understand why investors might find that too attractive to resist, recognizing that such prices are unlikely to be available if information flow improves. But we've advised caution to this point and must continue to do so on the basis of what we see—and do not see.

On Friday's closing levels of 87.25 (2.5% of 2016) and 79 (1.5% of 2018), the respective HOCS slash lines were **59/53/73** for the shorter-dated 2.5% and **56/57/54** for the 1.5%. Mediocre HOCS scores helped us urge caution in April, and while the scores are considerably higher now they are not at levels that would get us to put aside our concerns. That said, HOCS are generally designed for longer-dates, less idiosyncratic convertibles, so we will leave it to our readers for now.

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August 10, 2015

SunEdison (SUNE): Total Eclipse of the Sun

Jeffrey Alton, CFA
jeffrey@hillsideadvisors.com

Crushed. Face-Plant. Smoked. There really are not enough adjectives to describe what happened to SunEdison's stock over the last few weeks. Since reaching $33.45/share on July 20th, it has been a one-way ride down for shareholders. The selling peaked last Thursday and Friday after the company issued earnings of a loss of ($0.93). That missed consensus estimates by $0.38, and the stock finally settled at $14.96 when the market closed on Friday.

In baseball terms:

Strike 1: Oil prices plunged. Solar firms and analysts love to tell you that the price of oil has no effect on solar installations. One is a transportation fuel and the other is a power plant fuel to create electricity (something Tesla hopes to change). The market, however, seems to think lower energy prices mean less solar projects on the margin and when oil drops, so do solar stocks.

Strike 2: SunEdison announced the acquisition of residential solar installer Vivint for $2.2 billion. Vivint is the number 2 domestic installer behind SolarCity. That made investors skittish because US solar incentives are set to be cut in 2016.

Strike 3: TerraForm Global, Inc. (GLBL), SunEdison's new international Yieldco, has traded below its IPO price since it came public on July 31. Amidst an abundance of Yieldco paper floated in the market recently, SUNE originally planned to sell 56.6 million shares for $19 - $21/shares, but settled for 45 million shares at $15. That stock closed at $11.58 on Friday.

To summarize, SunEdison became an extremely complicated company in less than a month. With two Yieldcos, additional "warehouses" within the parent company to incubate projects and now an acquisition to enter the US residential solar market, investors' heads are spinning. We'll call the earnings miss "the last straw" for investors.

However, SunEdison does continue to execute in its core business. The company delivered 404 MW in Q2 versus guidance of 300 - 340 MW and up 186 MW year-over-year. Because solar revenues are back-ended versus most of the costs upfront, the large megawatt installation beat actually adds to the quarterly loss. Penalized for success.

The point is that management is executing as planned, despite the curveball thrown investors with the numerous corporate changes in the last 30 days. While we have never been good at catching falling knives, the plentiful SunEdison convertible bonds outstanding offer investors a way to take a position on the more conservative side.

HOCS may help as a guide in sorting through the wreckage:

$ million

	HOCS						
	Overall	Growth	Safety	Price	YTM/C	Premium	Size
SUNE 2.375% 2022/04/15	50	67	17	85.25	5.00%	43.9%	$460
SUNE 3.375% 2025/06/01	48	64	15	73.25	7.19%	89.9%	$450
SUNE 0.25% 2020/01/15	48	63	18	80.75	5.18%	45.0%	$600
SUNE 2.75% 2021/01/01	48	67	10	122.00	-1.19%	19.3%	$300
SUNE 2.625% 2023/06/01	46	61	16	74.00	7.01%	91.2%	$450
SUNE 2.0% 2018/10/01	36	49	11	121.00	-4.20%	18.3%	$300

The low safety scores are due in part to the nature of the solar industry which requires significant debt for construction. SunEdison is a developer, not a solar panel manufacturer, so its business is more of a project-finance model. Expenditures are made upfront and then the project is dropped down into one of its Yieldcos. Because SunEdison is expanding rapidly, so is its debt pile and that is reflected in the HOCS safety scores.

Where to start in looking at the convertible bonds?

The top-rated SUNE 2.375% 2022/04/15 convertible bonds offer something for everyone. The 5.00% yield pays investors to wait and the 25.25 conversion price is below the stock's opening price only two weeks ago. A balance between yield and growth.

For growth-oriented investors looking for more of an equity punch, the in-the-money SUNE 2.75% 2021/01/01 offers a top growth score and high delta to participate in any snapback on the stock. Yield-oriented investors can look to the SUNE 3.375% 2025/06/01 with a yield-to-maturity of 7.19%. As a bonus, the 38.654 conversion price is not out of reach over the five-year life of the bond, especially when one considers the stock was at $31/share just a few weeks ago.

While many questions hang over SunEdison, any bounceback in oil prices and a few quarters of meeting guidance without any major acquisitions could have the company shining for investors again. HOCS can help investors find the bond most suitable for their portfolios.

HILLSIDE ADVISORS LLC

August 10, 2015

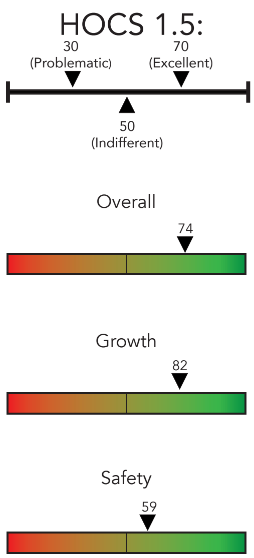
IGI Laboratories (IG): Nothing if not Volatile

Kathy Schick
kathy@hillsideadvisors.com

IG

3.75% 2019/12/15
Price (Bond) = 93.75
Stock = $8.13
YTM = 5.12%
Premium = 30.2%
HOCS-Overall = 74
HOCS-Growth = 82
HOCS-Safety = 59

As of August 7, 2015



IGI Laboratories (IG) stock has been nothing if not volatile since it first appeared on the HOCS 20 in late March. The stock fell nearly by half after the first quarter earnings announcement and then proceeded to gain most of the lost ground back after the second quarter earnings announcement in late July. The 3.75% convertible notes of 2019 went along for the ride, though the convert has lagged on the upside. The converts receive a HOCS slash line of 74 Overall / 82 Growth / 59 Safety which compares to 70/82/44 when we first discussed the name in late March. The growth score has not deviated much as the story remains intact. The Safety score has improved on the lower convert price, which has also bolstered the overall score. We expect the stock to remain volatile as the company works through its growth initiatives and awaits FDA approvals on a long list of pending ANDAs (abbreviated new drug applications). At the current level of 93.75 versus $8.13 on the stock, investors get in with a 5.12% yield-to-maturity, not a bad yield these days.

Second Quarter 2015 Results

IG reported second quarter results on July 23. Revenue for the quarter was $8.9 million, above than management's earlier guidance of $7 million to $8 million. Better-than-expected sales of Econazole Nitrate (antifungal topical cream) were a key driver in the higher sales number, as the company was able to add new customers. Management acknowledged that market conditions across the portfolio stabilized in the second half of the quarter and are optimistic about the rest of the year.

Revenue from IGI labeled products was $6.7 million for the quarter, up from $3.4 million in the year earlier quarter. The increase was driven by Econazole Nitrate, which accounted for 51% of the total. Contract manufacturing sales declined 25% to $2.0 million compared to the second quarter 2014. The decline was attributed to the timing of orders for two pharmaceutical customers, as well as the absence of a large cosmetics customer this year which is in line with the companies plans to transition the customer base to more pharmaceutical partners.

Management reiterated its prior revenue guidance of $35 to $40 million for the full year. However, it should be noted that guidance was lowered earlier in the year from the original guidance of $55 million to $57 million, leading to the steep decline in the share price in late April. The company expects to see a sequential improvement in gross margins for the remainder of the year with the full year being in a range of 45% to 50%. Management expects operating margins to approach break even in the fourth quarter and expects continued improvement in 2016.

The company has filed six new ANDAs for the year, bringing the total number of ANDAs pending FDA approval to 28. Management estimates the total addressable market for those ANDAs is $1.2 billion. The company maintains it is on track to file up to twenty ANDAs for the full year, which could be viewed as a bit lighter than the prior guidance to file at least 20 for the full year.

During the quarter, IG filed its first Prior Approval Supplement for an injectable product.

The filing is for a product acquired as part of the AstraZeneca injectable portfolio acquisition in September 2014. Management has a target of launching the product in late 2015. The company hired its first injectable R&D scientist during the quarter and expects to begin adding injectable ANDA submissions to the pipeline in 2016. IG is also planning to expand the existing Buena, New Jersey facility to add injectable capabilities. The company is well on the way to entering the injectable generics market.

While IG has not acquired any additional products this year, management remains focused on finding additional offerings to continue its expansion beyond the topical market to include injectable, complex, and ophthalmic products. It is likely we will see additional acquisitions in the not-too-distant future.

Liquidity

Management did a great job of raising funds in 2014 to get the company into a solid liquidity situation today. In mid-year a secondary stock offering raised net proceeds of nearly $25 million. Later in the year the company entered into an asset-based revolving credit facility. The facility provides up to $10 million of funding and currently has $3.2 million drawn. The biggest boost was the convertible bond offering in December, which generated gross proceeds of $143.75 million.

As of June 30 the cash balances totaled $150 million, slightly more than the total debt of $147 million. The company is burning cash but at a modest rate. For full year 2014 total cash burn was less than $5 million. We do expect the company to continue making acquisitions to support its diversification into injectable, complex, and ophthalmic generic markets. The cash balance provides a lot of dry powder to fund the business through break-even.

The Convert

The 3.75% senior convertible notes due 2019 receive a HOCS slash line of 74 Overall / 82 Growth / 59 Safety as we discussed above. The score remains weighted toward growth, but 59 is a pretty good safety score for a small biotech. The significant cash goes a long way toward boosting that number along with a convert price in the middle-90s. Of course IG remains a small company that has not found break-even as yet, so risks remain. But growth prospects are good, the company has sufficient liquidity to carry on for quite some time, and in the meantime you get to collect a 5.12% yield-to-maturity - not a bad package.

Company Description

IG Laboratories was historically a contract manufacturing company focused on topical applications for the generic pharmaceutical market as well as the over-the-counter and cosmetics industries. In 2010 management made the decision to begin transitioning to a specialty generics pharmaceutical company with a portfolio of topical treatments. In September 2010 the company submitted its first amended new drug application (ANDA), its first step toward becoming a specialty pharmaceutical company. Through early 2015, cumulative ANDA filings now total 28, with 6 of those filed in 2015 to date. Management has guided that the company will file up to 20 topical product ANDAs with the FDA in 2015.

In March 2014 IG received it first approval from the FDA, with a second approval coming later in the year. The company now has six marketed products, all topical treatments, with a seventh scheduled to launch this year.

IG has its own manufacturing facility to produce creams, ointments, lotions, gels, and solutions. Capacity utilization at the facility is currently about 70%. Management estimates the current facility will meet its needs into 2017, with modest capital expenditures along the way. IG also completed an R&D lab expansion in June 2014. For the topical business, the company is well positioned for at least the next couple of years.

HILLSIDE ADVISORS LLC

August 10, 2015

Credit Waterfall

IGI Laboratories, Inc (IG) (Dollars in Millions)	30-Jun-15	Total Debt (Cum. Bal.)	Adj. EBITDA Multiple	Net Debt (Cum. Bal.)	Adj. EBITDA Multiple
Current Share Price	$8.13				
Shares Out. (Millions)	52.8				
Latest Twelve Months:					
EBITDA (Adj.)	5				
Free Cash Flow	NA				
Cash & Cash Equivalents	150				
Senior Secured Debt					
Cap Leases and Bank Borrowings	3	3	0.6x	(147)	NA
Senior Unsecured Debt					
3.75% Senior Cvt. Notes due 2021 (1)	144	147	28.3x	-3	NA
Total Debt	147	147	28.3x	-3	NA
Equity Market Cap.	430	---	---	---	---
Enterprise Value	426	---	---	---	82.0x

(1) Reflects principal amount of convertible securities outstanding, unadjusted for unamortized debt discount.

Sources: Bloomberg, Company Filings

Financial Summary

IG (Dollars in Millions)	Fiscal Years Ended 31-Dec-12	Fiscal Years Ended 31-Dec-13	Fiscal Years Ended 31-Dec-14	LTM 30-Jun-14	LTM 30-Jun-15	Quarter Ended 30-Jun-14	Quarter Ended 30-Jun-15
Revenues	9	18	34	24	40	6	9
Y / Y Change	9.7%	112.8%	85.1%	----	66.1%	----	37.2%
Gross Profit	3	6	17	10	20	3	4
Operating Profit	(3)	(0)	4	0	3	(0)	(2)
EBITDA (Adj.)	(3)	1	6	1	5	0	(1)
Interest Expense	1	0	1	0	6	0	2
Income Tax Expense	(0)	(0)	0	(0)	0	0	0
Capital Expenditures	0	0	1	0	NA	0	NA
% Revenues	4.0%	1.6%	2.5%	1.9%		3.8%	
Free Cash Flow	(3)	(1)	(5)	(2)		(2)	
Total Debt (1)	1	3	104	3	107	3	107
% Total Debt	265.9%	29.9%	4.6%	60.5%		66.9%	
Gross Margin	32.4%	33.7%	49.8%	40.1%	50.8%	44.8%	41.2%
Operating Margin	NM	NM	11.6%	1.9%	7.9%	NM	NM
EBITDA (Adj.) Margin	NM	2.2%	13.1%	3.8%	13.7%	NM	NM
EBITDA (Adj.) / Interest	NM	2.0x	5.7x	3.9x	1.0x	NM	0.0x
EBITDA (Adj.) - Capex / Interest	NM	0.5x	4.6x	2.0x		NM	

(1) Reflects carrying amount of convertible securities outstanding, net of unamortized debt discount.

Sources: Bloomberg, Company Filings

HILLSIDE
ADVISORS
LLC

August 10, 2015

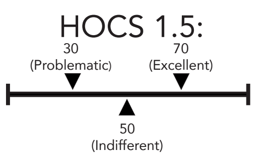
Rovi Corporation (ROVI): Where From Here?

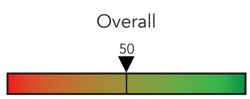
George Lynch
glynch@hillsideadvisors.com

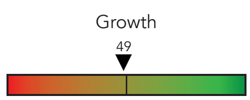
ROVI

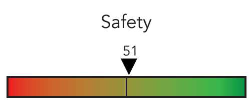
0.5% 2020/03/01
Price (Bond) = 80.75
Stock = $10.90
YTM = 5.32%
Premium = 114.2%
HOCS-Overall = 50
HOCS-Growth = 49
HOCS-Safety = 51

As of August 7, 2015









Introduction

Here we go again. Once again, ROVI has announced quarterly earnings. And, while revenues and earnings met consensus expectations, the company's stock continues its long and excruciatingly painful slide. The company's convertible issue has taken quite a shot as well. At $10.90 per share, the common has tumbled more than 50% year. As for the bond, after having been priced at par in late February, it is now quoted at 80.75. So, what's behind the stock and bond downward spiral?

On July 15, Judge Phyllis Hamilton, United States District Court - Northern District of California, issued a ruling granting NFLX's motion for summary judgement on five patents at issue in a long-running suit (Netflix, Inc. v. Rovi Corporation, et al). We believe that this decision puts ROVI's overall business model, which relies overwhelmingly on the licensing of its patent portfolio and software to electronics manufactures and internet service providers, in jeopardy. Not surprisingly, the company's stock was down 24% immediately following this decision.

Let's be blunt. The ROVI story is all about intellectual property and the licensing of various patents. The company's very existence depends upon the ability to argue the merits of its vast patent portfolio. These will continue to be tested and challenged. The Netflix decision was a major blow. As a result, we need to monitor the progress of the still-pending Big-Four service provider contract discussions especially closely.

Investment Recommendation

Our HOCS slash line now measures 50 Overall / 49 Growth / 51 Safety. The lowly overall and growth scores continue to reflect ROVI's dismal revenue growth. In addition, the safety score remains weighed down by the company's total debt leverage and the weak market capitalization/leverage relationship. While progress continues to be recorded on the leverage front, far more work remains to be done. Yet, it's clear that ROVI faces a far greater obstacle. The company's business model is open to question. Yes, several recent as well as potential developments could drive revenues higher in the 2016/17 timeframe. Unfortunately, we've seen this movie before. We and the market will insist on some form of proof. For now, investors would be wise to continue to navigate away from the convert issue.

Netflix and Big-Four Service Providers ... The Major Catalysts

NFLX's suit pertained to several interactive TV Guide software licensing patents. Specifically, the newly validated patents dealt with tracking the viewing history of digital video users, organizing content catalogs into categories, and bookmarking favorite videos. NFLX claimed that these patents were simply computerized versions of bog-standard business practices, and therefore, not patentable. Needless to say, ROVI respectfully disagreed. However, Judge Hamilton sided with NFLX. Citing the important Alice Corp. v. CLS Bank International case argued before and decided by the U.S. Supreme Court, she found all five patents invalid for lacking any patent-worthy innovation. Now, that's a troubling conclusion. With respect to the Big-Four contract renewal process, discussions with Internet service providers Comcast, DISH, DIRECTV and Time Warner Cable are still underway. Renewal discussions should prove challenging, especially on the heels of the aforementioned court decision. As a result, several (if not all) of the negotiations could go down to the wire. In fact, management has indicated its willingness to possibly allow the existing contracts to expire, and litigate if necessary. A bold statement. But, does the company have that kind of muscle? We don't believe so.

Looking ahead, ROVI's patent portfolio may come under increasing attack. That's not meant to suggest that the company's patents are worthless, nor is it meant to suggest that the company lacks a viable "core" business. However, a soft underbelly has been exposed and clients, either existing or potential, will increasingly challenge the value or validity of the company's patent portfolio. In the short run, we expect that the client selling process will suffer. Thus, it will take more time and effort for the company to negotiate and close a deal. However, the worst-case scenario involves a loss of contracts and an even greater decline in revenues. Time will tell.

Credit Waterfall

Rovi Corporation (Dollars in Millions)	30-Jun-15	Total Debt (Cum. Bal.)	Adj. EBITDA Multiple	Net Debt (Cum. Bal.)	Adj. EBITDA Multiple
Current Share Price	$10.90				
Shares Out. (Millions)	86.9				
Latest Twelve Months:					
EBITDA	172				
EBITDA (Adj.)	217				
Free Cash Flow	149				
Cash & S-T Marketable Secs.	217				
L-T Marketable Secs.	165				
Senior Secured Debt					
Rev. Credit Fac. (Commit. = $175mm / Expiry: 2019)	0				
Term Loan "A" (Expiry: 2019)	75				
Term Loan "B" (Expiry: 2021)	693				
Other Secured Debt	0				
Total Secured Debt	768	768	3.5x	551	2.5x
Senior Unsecured Debt					
0.5% Cvt. Senior Notes due 2020 (1)	345				
Other Debt	0				
Total Unsecured Debt	345	1,113	5.1x	896	4.1x
Total Debt (1)	1,113	1,113	5.1x	896	4.1x
Equity Market Cap.	947	---	---	---	---
Enterprise Value	1,843	---	---	---	8.5x

(1) Reflects principal amount of convertible securities outstanding (i.e., unadjusted for unamortized debt discount).
Sources: Company Filings, Bloomberg LLC, and Hillside Advisors LLC

Most Recent Results

Q2 2015 results met consensus expectations. Revenues totaled $128 million, down 7% in the year-over-year comparison. However, the decline is overwhelmingly due to the fact that last year's results benefited from one-time Samsung revenues. By segment, Intellectual Property (IP) Licensing Revenues and Product Revenues declined 4% and 10%, respectively, in the same timeframe. Adjusted EBITDA declined to $50 million, in contrast to last year's $58 million. A reasonable outcome in the scheme of things.

So, how about a little good news? It's important to point out that free cash flow generation remains solid both in the absolute and relative to total debt leverage, measuring $149 million and 14% for the latest twelve month period, respectively. In addition, ROVI boasts $217 million in cash and equivalents and short-term marketable securities, plus $165 million in long-term marketable securities. Furthermore, the company faces minimal calls on cash with its negligible near-term debt amortization schedule. Overall, liquidity remains solid.

Finally, despite ROVI's many challenges, there were several positive business-related developments during the quarter. Charter Communications, the nation's fourth largest cable operator, signed a new multi-year IP license during the just-completed quarter. VIZIO, a leading TV manufacturer, renewed a multi-year patent license agreement. Funai, a leading consumer electronics manufacturer, extended its product and entertainment discovery paper license agreement with the company. Finally, SK Broadband, a leading Korean provider of TV Everywhere and Video on Demand, signed an entertainment discovery patent license agreement with the company. Reasonably good headlines notwithstanding the IP-related difficulties.

Financial Summary

Rovi Corporation	Fiscal Years Ended			3 Mos. Ended					LTM
(Dollars in Millions)	31-Dec-12	31-Dec-13	31-Dec-14	30-Jun-14	30-Sep-14	31-Dec-14	31-Mar-15	30-Jun-15	30-Jun-15
Revenues	526	537	542	137	129	134	134	127	524
Y / Y Change	----	2.1%	0.9%	----	----	----	----	-7.3%	----
Q / Q Change	----	----	----	-3.8%	-6.2%	4.4%	-0.1%	-5.2%	----
Gross Profit	424	442	435	111	106	109	106	102	423
Operating Profit	64	83	84	17	20	22	14	12	68
Interest Expense	62	62	55	13	14	14	12	12	52
EBITDA	163	165	172	45	48	49	39	36	172
EBITDA (Adj.)	216	239	233	58	58	57	52	50	217
Cash Interest	(46)	(44)	(37)	(9)	(10)	(10)	(9)	(8)	(37)
Cash Taxes	(3)	(18)	(19)	(5)	(3)	(5)	(4)	(1)	(13)
Capital Expenditures	(15)	(19)	(23)	(3)	(4)	(10)	(2)	(3)	(19)
Free Cash Flow	152	158	154	40	41	34	36	38	149
Total Debt (1)	1,480	1,187	1,107	1,144	1,105	1,107	1,102	1,105	1,105
FCF % Total Debt	10.3%	13.3%	13.9%	----	----	----	----	----	13.5%
Gross Margin	80.7%	82.2%	80.2%	81.0%	82.7%	81.2%	79.0%	80.4%	80.8%
Operating Margin	12.2%	15.5%	15.4%	12.6%	15.5%	16.6%	10.4%	9.5%	13.1%
EBITDA Margin	31.0%	30.8%	31.7%	32.5%	37.5%	36.6%	29.4%	28.0%	32.9%
EBITDA (Adj.) Margin	41.1%	44.5%	43.0%	42.2%	45.0%	42.8%	38.7%	39.5%	41.5%
EBITDA (Adj.) / Cash Interest	4.7x	5.4x	6.2x	6.6x	6.0x	5.9x	5.8x	6.1x	6.0x
EBITDA (Adj.) - Capex / Cash Interest	4.4x	5.0x	5.6x	6.2x	5.6x	4.9x	5.6x	5.8x	5.4x

(1) Reflects carrying amount of convertible securities outstanding (i.e., principal amount net of unamortized debt discount).
Sources: Company Filings, Bloomberg LLC, and Hillside Advisors LLC

Business Description

ROVI's products and services are all about helping consumers get the most out of their various entertainment media choices. The company is focused on enabling entertainment media content discovery and personalization through technology and intellectual property, across multiple platforms. It provides a broad set of solutions, connecting consumers with entertainment. Solutions include interactive program guides, search and recommendations, cloud data services and an extensive database of metadata (i.e., descriptive information, promotional images or other content relating to television shows, videos, movies, music, books, games or other entertainment content).

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