

BioDelivery Sciences International (BDSI - \$ 11.99)

Healthcare / Biotechnology

Phase III BEMA Buprenorphine Trial Meets Endpoint

BDSI and partner Endo Pharmaceuticals announced positive top-line data for the opioid-experienced arm of its pivotal Phase III trial of BEMA Buprenorphine and a subsequent \$10 million payment to BDSI. A pre-NDA meeting is scheduled with the FDA for July. We are raising our price target to \$18 from \$15.

Ticker: **BDSI**
Rating: **Buy**
Price Target: ↑ raise **\$ 18.00**

- BEMA Buprenorphine One Step Closer.** BDSI announced positive top-line data from its second pivotal Phase III trial studying treatment of severe chronic pain with BEMA Buprenorphine. The results showed statistically significant pain relief ($p < 0.0001$) compared to placebo in opioid-experienced patients, meeting the primary efficacy endpoint. The database lock resulted in a \$10 million milestone payment from partner Endo Pharmaceuticals. The company announced that a pre-NDA meeting is scheduled for July. The filing of an NDA will result in another \$10 million payment.
- Pipeline Continues De-Risking, Strengthens Outlook.** BDSI has continued to advance multiple product candidates through its pipeline with strong development with Bunavail and Clonidine Topical Gel. Bunavail, which received FDA approval on June 6, 2014, is indicated for opioid maintenance treatment. BDSI plans to outline its commercialization strategy during an analyst day this summer (the company has yet to announce its planned date). The company announced that the first of two pivotal Phase III trials studying Clonidine Topical Gel for the treatment of painful diabetic neuropathy (PDN) completed its enrollment on June 26, 2014. An independent interim analysis of 50% of enrolled patients is expected during 3Q14, a full quarter ahead of schedule, with top-line results expected for the end of 2014. The advancement of multiple product candidates toward potential commercialization has increased the value of BDSI's pipeline and lowered the risk of the company, in our opinion.
- Maintaining BUY Rating, Raising Price Target.** Due to our increased confidence in the approval of BEMA Buprenorphine, we are raising our price target to \$18 from \$15. Our price target is based on the NPV of our probability-adjusted forecasts for Bunavail, BEMA Buprenorphine, Clonidine Topical Gel, and Onsolis.

Trading Data:

| | |
|--------------------------|----------|
| Last Price (07/03/2014) | \$ 11.99 |
| 52-Week High (6/18/2014) | \$ 12.81 |
| 52-Week Low (7/31/2013) | \$ 4.15 |
| Market Cap. (MM) | \$ 581 |
| Shares Out. (MM) | 48 |

Earnings Estimates: (per share)

| (Dec) | 1Q | 2Q | 3Q | 4Q | FY | P/E |
|--------|-------|-------|-------|-------|-------|-----|
| FY_15E | NA | NA | NA | NA | -0.12 | NM |
| FY_14E | 0.00A | -0.15 | -0.03 | -0.20 | -0.38 | NM |
| FY_13A | -0.37 | -0.36 | -0.46 | -0.33 | -1.52 | NM |
| FY_12A | 0.29 | 0.23 | -0.46 | 0.17 | 0.24 | NM |

Edward White

Senior Managing Director/Senior Analyst
(212) 953-4910
ewhite@laidlawltd.com

Christopher Wolpert

Associate Equity Analyst
cwolpert@laidlawltd.com

Source: Laidlaw & Company estimates

FOR ANALYST CERTIFICATION AND DISCLOSURES, PLEASE SEE DISCLOSURES SECTION AT THE END OF THIS REPORT. This report has been prepared by Laidlaw & Co (UK), Ltd. Investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. All prices are those current at the end of the previous trading session unless otherwise indicated. Prices and consensus estimates are sourced from a reliable market source

Figure 1: Catalyst Summary

BEMA Buprenorphine Phase III Data

- Announced strong top-line data from opioid naive patient trial on January 23, 2014. Received \$10 million milestone payment as a result of database lock.
- Positive top-line experienced patient data announced July 7, 2014. Database lock resulted in \$10 million milestone payment from Endo.
- Pre-NDA meeting with FDA scheduled for month of July. NDA filing expected by late 2014 / early 2015. NDA Filing will trigger additional \$10 million milestone payment.

Bunavail Approval, Commercialization

- FDA approved June 6, 2014.
- Commercialization is planned for late 3Q14. BDSI will market in U.S. without a partner and has entered into agreements for sales force, market and trade support. Expect commercialization strategy to be announced at analyst meeting in summer 2014.

Phase III Clonidine Topical Gel Trial (Fast Track Designation)

- Enrollment of first pivotal Phase III completed. Interim Analysis results expected for 3Q14.
- Topline results for the Phase III trial are projected by end of 2014 with the second Phase III trial to be initiated. We expect an NDA filing in 2016 and potential approval in 2017.

Onsolis Re-launch in US

- Working with partner Meda Pharmaceuticals to market the drug in the US by 2H14. Re-launch has been postponed since March 2012.

Source: Company reports; Laidlaw & Company estimates

Risks to Owning the Stock

There are many standard risks for development stage specialty pharmaceutical companies that hold true for the entire industry. There are development risks associated with preclinical and clinical studies, and potential delays in the start of trials. There is regulatory risk that the company will be unable to receive regulatory approvals for drugs or that regulatory approval may be delayed. Manufacturing risks are associated with relying on third parties to formulate and manufacture products and the upgrading of facilities from clinical study production to commercial production. There is also commercial risk for a company to successfully market and sell its drug or drugs. Other risks include: patent infringement risk, financing risk, currency risk, product liability (both clinical and non-clinical), patent protection risk and potential governmental price controls. The stock of small cap specialty pharmaceutical companies, like all publically traded companies, is subject to market volatility and liquidity risks if there are small trading floats. BioDelivery is susceptible to all of these risks.

The value of the stock is hinged on binary events, including the FDA approval of BEMA Buprenorphine. Longer-term value for the company is based on the ultimate market potential and expectations for the company's drugs, and the successful commercialization of BEMA Buprenorphine and the FDA approved Bunavail.

BioDelivery is exposed to litigation by third parties based on claims that its technologies, processes, formulations, methods, or products infringe the intellectual property rights of others or that it has misappropriated the trade secrets of others. On October 29, 2013, Reckitt Benckiser, Inc., RB Pharmaceuticals Limited, and MonoSol RX, LLC filed an action against BioDelivery relating to Bunavail the United States District Court for the Eastern District of North Carolina for alleged patent infringement. The plaintiffs claim that the formulation for Bunavail, which has never been disclosed publicly, infringes its patent (U.S. Patent No. 8,475,832). This action could be in response to a recent decision in which the FDA ruled in favor of BioDelivery's position in two Citizen Petitions filed by the plaintiffs that sought to prevent the FDA from accepting and filing BioDelivery's NDA for Bunavail. The two Citizen Petitions, filed on December 2, 2011 and August 13, 2013, respectively, included requests that the FDA refuse to accept for filing any NDAs submitted using the 505(b)(2) regulatory pathway for buprenorphine/naloxone products consisting of a polymer film for application to the buccal mucosal membranes (such as Bunavail), unless such application references the NDA for Suboxone (buprenorphine/naloxone) sublingual film (and not the Suboxone sublingual tablet NDA).

Figure 2: Income Statement

| BioDelivery Sciences <i>Income Statement (millions, except per share data)</i> | FY 2013 | | | | FY 2014E | | | | FY_11 Dec | FY_12 Dec | FY_13 Dec | FY_14E Dec | FY_15E Dec | FY_16E Dec |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|-----------------|-----------------|---------------|
| | Q1_13 Mar | Q2_13 Jun | Q3_13 Sept | Q4_13 Dec | Q1_14 Mar | Q2_14E Jun | Q3_14E Sept | Q4_14E Dec | | | | | | |
| Product sales | - | - | - | - | - | - | 2.0 | 7.5 | - | - | - | 9.5 | 28.1 | 42.2 |
| Product royalty revenues | - | 0.9 | 0.9 | (0.0) | 1.0 | 1.0 | 0.9 | 0.9 | 2.7 | 1.1 | 1.8 | 3.7 | 8.5 | 13.0 |
| Research revenues | - | - | - | - | - | - | - | - | 0.2 | 0.0 | - | - | - | - |
| Research and development reimbursements | - | - | - | 2.8 | 8.5 | 4.2 | 3.4 | 1.7 | 1.2 | - | 2.8 | 17.7 | 2.0 | - |
| Contract revenues | 1.6 | 1.9 | 2.1 | 1.2 | 11.3 | 2.5 | 11.8 | 1.7 | 0.3 | 53.4 | 6.8 | 27.3 | 37.3 | 50.0 |
| Revenue | 1.6 | 2.8 | 3.0 | 4.0 | 20.7 | 7.7 | 18.1 | 11.8 | 4.5 | 54.5 | 11.4 | 58.3 | 76.0 | 105.1 |
| Cost of product royalties | 0.4 | 0.7 | 0.6 | 0.4 | 0.7 | 0.7 | 0.7 | 0.7 | 1.8 | 1.9 | 2.1 | 2.8 | 6.0 | 9.1 |
| Cost of sales | - | - | - | - | - | - | 1.4 | 3.4 | - | - | - | 4.8 | 8.4 | 10.5 |
| Gross Profit | 1.2 | 2.1 | 2.4 | 3.6 | 20.0 | 7.0 | 16.1 | 7.8 | 2.7 | 52.6 | 9.3 | 50.8 | 61.6 | 94.6 |
| <i>Operating expenses:</i> | | | | | | | | | | | | | | |
| Selling, general and administrative | 2.9 | 3.1 | 3.0 | 3.2 | 4.6 | 6.2 | 11.0 | 11.1 | 7.6 | 10.1 | 12.3 | 32.8 | 44.3 | 46.5 |
| Research and development | 12.0 | 12.8 | 16.4 | 12.1 | 14.6 | 7.3 | 6.2 | 5.8 | 20.8 | 35.4 | 53.3 | 33.9 | 22.4 | 20.0 |
| Related party general and administrative, net | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - | - | - | 0.1 | 0.1 | 0.0 | 0.0 | - | - |
| Other non-GAAP adjustments | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Operating Expenses (ex-COGS) | 15.0 | 15.9 | 19.4 | 15.4 | 19.3 | 13.5 | 17.2 | 16.9 | 28.5 | 45.6 | 65.7 | 66.8 | 66.7 | 66.5 |
| Total Operating Expenses (non-GAAP, ex-COGS) | 15.0 | 15.9 | 19.4 | 15.4 | 19.3 | 13.5 | 17.2 | 16.9 | 28.5 | 45.6 | 65.7 | 66.8 | 66.7 | 66.5 |
| Operating Income/(loss) | (13.7) | (13.8) | (17.1) | (11.8) | 0.7 | (6.5) | (1.1) | (9.1) | (25.8) | 7.1 | (56.4) | (16.0) | (5.1) | 28.1 |
| Operating Income/(loss) non-GAAP | (13.7) | (13.8) | (17.1) | (11.8) | 0.7 | (6.5) | (1.1) | (9.1) | (25.8) | 7.1 | (56.4) | (16.0) | (5.1) | 28.1 |
| <i>Other Income:</i> | | | | | | | | | | | | | | |
| Interest income | 0.1 | 0.1 | (0.5) | (0.6) | (0.6) | (0.3) | (0.2) | (0.1) | 0.2 | 0.3 | (0.9) | (1.2) | (0.7) | (0.2) |
| Derivative gain (loss) | 1.0 | 0.4 | (0.9) | (0.4) | (4.8) | 0.0 | 0.0 | 0.0 | 3.5 | (5.6) | 0.1 | (4.8) | 0.0 | 0.0 |
| Other (expense) income, net | (0.0) | (0.1) | (0.0) | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.2) | 0.0 | 0.0 | 0.0 |
| Income (loss) before provision for income taxes (GAAP) | (12.6) | (13.4) | (18.5) | (12.9) | (4.6) | (6.8) | (1.3) | (9.2) | (22.1) | 1.8 | (57.4) | (22.0) | (5.7) | 27.9 |
| Income (loss) before provision for income taxes (non-GAAP) | (13.7) | (13.8) | (17.6) | (12.5) | 0.2 | (6.8) | (1.3) | (9.2) | (25.6) | 7.4 | (57.5) | (17.1) | (5.7) | 27.9 |
| <i>Tax: (%) non-GAAP</i> | <i>NM</i> | <i>NM</i> | <i>0.0%</i> | <i>0.0%</i> | <i>0.0%</i> | <i>0.0%</i> | <i>0.0%</i> | <i>0.0%</i> | <i>0.0%</i> | <i>1.8%</i> | <i>NM</i> | <i>0.0%</i> | <i>0.0%</i> | <i>0.0%</i> |
| Income tax provision GAAP | 0.1 | 0.0 | - | - | - | - | - | - | - | 0.1 | 0.1 | 0.0 | - | - |
| Non-GAAP tax adjustments | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net income (loss) GAAP | (12.7) | (13.4) | (18.5) | (12.9) | (4.6) | (6.8) | (1.3) | (9.2) | (22.1) | 1.7 | (57.5) | (22.0) | (5.7) | 27.9 |
| Net income (loss) non-GAAP | (13.7) | (13.8) | (17.6) | (12.5) | 0.2 | (6.8) | (1.3) | (9.2) | (25.6) | 7.2 | (57.6) | (17.1) | (5.7) | 27.9 |
| EPS (GAAP) | (\$0.34) | (\$0.35) | (\$0.49) | (\$0.34) | (\$0.11) | (\$0.15) | (\$0.03) | (\$0.20) | (\$0.78) | \$0.05 | (\$1.51) | (\$0.48) | (\$0.12) | \$0.55 |
| EPS (non-GAAP) | (\$0.37) | (\$0.36) | (\$0.46) | (\$0.33) | \$0.00 | (\$0.15) | (\$0.03) | (\$0.20) | (\$0.90) | \$0.24 | (\$1.52) | (\$0.38) | (\$0.12) | \$0.55 |
| Weighted Diluted Shares outstanding (millions) | 37.5 | 38.0 | 38.1 | 38.2 | 44.0 | 44.9 | 45.8 | 46.7 | 28.3 | 30.7 | 37.9 | 45.4 | 47.6 | 50.6 |
| Weighted Diluted Shares YOY change (%) | 26.8% | 22.0% | 26.6% | 24.4% | 17.4% | 18.2% | 20.3% | 22.4% | | 8.4% | 23.6% | 19.6% | 5.0% | 6.1% |

Source: Bloomberg LP; Company reports; Laidlaw & Company estimates

Figure 3: Balance Sheet

| BioDelivery Sciences <i>Balance Sheet (\$ millions, except per share data)</i> | FY 2012 | | | | FY 2013 | | | | FY 2014E | | | | FY_11 Dec | FY_12 Dec | FY_13 Dec | FY_14E Dec | FY_15E Dec |
|---|--------------|--------------|---------------|--------------|--------------|--------------|---------------|--------------|--------------|---------------|----------------|---------------|--------------|--------------|--------------|---------------|---------------|
| | Q1_12 Mar | Q2_12 Jun | Q3_12 Sept | Q4_12 Dec | Q1_13 Mar | Q2_13 Jun | Q3_13 Sept | Q4_13 Dec | Q1_14 Mar | Q2_14E Jun | Q3_14E Sept | Q4_14E Dec | | | | | |
| Assets: | | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | 32.1 | 43.0 | 31.3 | 63.2 | 49.7 | 37.4 | 38.3 | 23.2 | 88.2 | 81.9 | 78.8 | 70.8 | 10.8 | 63.2 | 23.2 | 70.8 | 63.4 |
| Accounts receivable, other | 0.2 | 0.0 | 0.0 | 0.5 | 0.2 | 0.5 | 0.9 | 2.8 | 2.5 | 0.9 | 2.2 | 1.4 | 0.1 | 0.5 | 2.8 | 1.4 | 4.3 |
| Prepaid expenses and other current assets | 0.6 | 0.1 | 0.2 | 0.2 | 0.5 | 0.3 | 0.5 | 0.6 | 0.7 | 0.3 | 0.6 | 0.4 | 0.2 | 0.2 | 0.6 | 0.4 | 0.4 |
| Total Current Assets | 32.9 | 43.2 | 31.6 | 63.9 | 50.4 | 38.2 | 39.6 | 26.6 | 91.4 | 83.1 | 81.7 | 72.6 | 11.1 | 63.9 | 26.6 | 72.6 | 68.1 |
| Equipment, net | 3.2 | 3.1 | 2.9 | 2.8 | 2.7 | 2.6 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 3.3 | 2.8 | 0.2 | 0.3 | 1.2 |
| Idle Equipment, net | - | - | - | - | - | - | - | - | 2.8 | 3.3 | 3.3 | 3.3 | - | - | 2.8 | 3.3 | 3.3 |
| Goodwill | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Total other intangible assets | 6.9 | 6.7 | 6.4 | 6.2 | 5.9 | 5.7 | 2.5 | 5.2 | 5.0 | 5.0 | 5.0 | 5.0 | 6.2 | 6.2 | 5.2 | 5.2 | 5.2 |
| Derivative asset, warrant | 0.7 | 0.4 | 0.2 | 0.1 | 0.0 | - | 5.4 | - | - | - | - | - | 0.4 | 0.1 | - | - | - |
| Other assets | 0.0 | 0.0 | 0.0 | 0.0 | - | - | 0.1 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.0 | 0.0 | 0.5 | 0.5 | 0.5 |
| Total Assets | 46.4 | 56.1 | 43.9 | 75.7 | 61.8 | 49.3 | 50.6 | 38.0 | 103.0 | 94.7 | 93.3 | 84.3 | 23.6 | 75.7 | 38.0 | 84.6 | 81.0 |
| Liabilities & Shareholders' Equity: | | | | | | | | | | | | | | | | | |
| Accounts payable and other accrued liabilities | 5.0 | 5.8 | 7.4 | 10.8 | 9.5 | 12.0 | 11.1 | 10.4 | 8.8 | 6.2 | 7.9 | 7.7 | 5.1 | 10.8 | 10.4 | 7.7 | 7.7 |
| Notes payable, current | - | - | - | - | - | - | 5.3 | 7.3 | 7.3 | 7.3 | 7.3 | 7.3 | - | - | 7.3 | 7.3 | 7.3 |
| Deferred revenue, current | 12.5 | 15.1 | 22.7 | 8.0 | 7.2 | 5.6 | 4.1 | 2.9 | 1.9 | 0.7 | 1.7 | 1.1 | 12.5 | 8.0 | 2.9 | 1.1 | 1.4 |
| Derivative liabilities | 2.4 | 5.6 | 8.9 | 4.5 | 3.5 | 3.0 | 3.9 | 4.3 | 7.5 | 7.5 | 7.5 | 7.5 | 0.3 | 4.5 | 4.3 | 7.5 | 7.5 |
| Total Current Liabilities | 20.0 | 26.5 | 39.1 | 23.2 | 20.2 | 20.6 | 24.4 | 25.0 | 25.6 | 21.7 | 24.4 | 23.6 | 17.9 | 23.2 | 25.0 | 23.6 | 24.0 |
| Note Payable, less current maturities | - | - | - | - | - | - | 13.8 | 11.8 | 9.9 | 7.9 | 5.8 | 3.8 | - | - | 11.8 | 3.8 | 0.0 |
| Deferred revenue, long-term | 1.6 | 1.5 | 4.3 | 2.7 | 1.9 | 1.6 | 1.3 | 1.3 | 2.2 | 0.8 | 2.9 | 1.9 | 1.6 | 2.7 | 1.3 | 1.9 | 2.5 |
| Other long-term liabilities | - | - | - | - | - | - | - | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | - | - | 0.7 | 0.7 | 0.7 |
| Total Liabilities | 21.5 | 28.0 | 43.3 | 26.0 | 22.1 | 22.2 | 39.5 | 38.8 | 38.4 | 31.1 | 33.8 | 30.0 | 19.5 | 26.0 | 38.8 | 30.0 | 27.2 |
| Stockholders' Equity | 24.9 | 28.1 | 0.6 | 49.8 | 39.7 | 27.1 | 11.0 | (0.8) | 64.6 | 27.1 | 59.4 | 54.2 | 4.1 | 49.8 | -0.8 | 54.6 | 53.9 |
| Total Liabilities & Equity | 46.4 | 56.1 | 43.9 | 75.7 | 61.8 | 49.3 | 50.6 | 38.0 | 103.0 | 58.2 | 93.3 | 84.3 | 23.6 | 75.7 | 38.0 | 84.6 | 81.0 |

Source: Bloomberg LP; Company reports; Laidlaw & Company estimate

Figure 4: Cash flow Statement

| BioDelivery Sciences | FY_11 | FY_12 | FY_13 | FY_14E | FY_15E |
|--|---------------|--------------|---------------|---------------|---------------|
| <i>Non-GAAP Cash Flow Cont. Ops. (\$ millions, except per share data)</i> | Dec | Dec | Dec | Dec | Dec |
| Cash flows from operating activities: | | | | | |
| Net income | (22.1) | 1.7 | (57.4) | (22.0) | (5.7) |
| <u>Adjustments to reconcile net income to net cash provided by operating activities:</u> | | | | | |
| Depreciation and amortization | 1.3 | 1.5 | 1.3 | 1.3 | 1.3 |
| Accretion of Discount | - | - | 0.2 | 0.3 | 0.3 |
| Derivative (gain) loss | (3.5) | 5.6 | (0.1) | 4.8 | - |
| Purchase of Arcion license with common stock | - | - | 2.1 | - | - |
| Stock-based compensation expense | 1.2 | 1.6 | 3.3 | 4.6 | 4.6 |
| <u>Changes in assets and liabilities:</u> | | | | | |
| Accounts receivable | 0.5 | (0.4) | (2.3) | 1.4 | (2.8) |
| Prepaid expenses and other assets | 0.0 | 0.0 | (0.1) | 0.2 | - |
| Accounts payable and other accrued expenses | 0.4 | 5.6 | (0.7) | (1.0) | 0.0 |
| Income tax payable | - | 0.1 | - | (1.1) | - |
| Deferred revenue | 0.0 | (3.4) | (6.5) | 0.8 | (0.3) |
| Net cash provided by (used in) operating activities | (22.0) | 12.2 | (60.1) | (10.6) | (2.6) |
| Cash flow from investing activities: | | | | | |
| Purchases of property and equipment | (0.3) | (0.0) | (0.1) | (0.9) | (1.0) |
| Purchases of intangible assets | - | (1.1) | - | - | - |
| Cash provided by investing activities | (0.3) | (1.1) | (0.1) | (0.9) | (1.0) |
| Cash flows from financing activities: | | | | | |
| Proceeds from sale of securities | 14.0 | 38.4 | - | 62.0 | - |
| Proceeds from exercise of stock options | 0.3 | 2.1 | 0.4 | 2.6 | - |
| Proceeds from exercise of common stock warrants | - | - | 0.1 | 2.6 | - |
| Proceeds from notes payable and warrants | - | - | 20.0 | - | - |
| Deferred financing activities | - | - | (0.2) | - | - |
| Repayment of note | - | - | - | (8.2) | (3.8) |
| Return of short swing profits | - | - | - | 0.1 | - |
| Change in amounts due to related parties | 0.0 | (0.0) | - | - | - |
| Other | 1.7 | 0.9 | - | - | - |
| Cash (used in) provided by financing activities | 16.1 | 41.3 | 20.2 | 59.1 | (3.8) |
| Effect of exchange rates on cash | - | - | - | - | - |
| Net (decrease) increase in cash and cash equivalents | (6.2) | 52.4 | (40.0) | 47.6 | (7.4) |
| Cash and cash equivalents at beginning of the period | 18.2 | 10.8 | 63.2 | 23.2 | 70.8 |
| Cash and cash equivalents at end of period | - | 12.0 | 23.2 | 70.8 | 63.4 |

Source: Bloomberg LP; Company reports; Laidlaw & Company estimates

DISCLOSURES:

ANALYST CERTIFICATION

The analyst responsible for the content of this report hereby certifies that the views expressed regarding the company or companies and their securities accurately represent his personal views and that no direct or indirect compensation is to be received by the analyst for any specific recommendation or views contained in this report. Neither the author of this report nor any member of his immediate family or household maintains a position in the securities mentioned in this report.

EQUITY DISCLOSURES

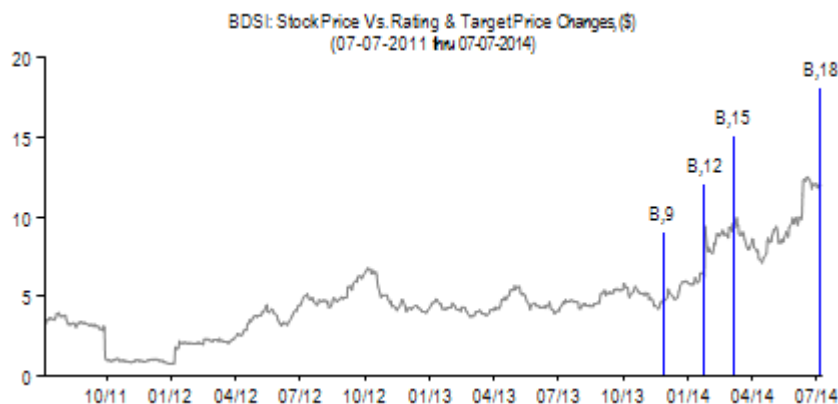
For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell most closely correspond to Buy, Hold and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis against the analyst sector universe of stocks. An analyst's coverage sector is comprised of companies that are engaged in similar business or share similar operating characteristics as the subject company. The analysis sector universe is a sub-sector to the analyst's coverage sector, and is compiled to assist the analyst in determining relative valuations of subject companies. The composition of an analyst's sector universe is subject to change over time as various factors, including changing market conditions occur. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12-months relative to the analyst's sector universe.

Additional information available upon request.

Laidlaw & Co (UK) Ltd. has not provided any investment banking services for the company (ies) mentioned in this report over the last 12 months.

RATINGS INFORMATION

Rating and Price Target Change History



3 Year Rating Change History

| Date | Rating | Closing Price (\$) |
|------------|---------|--------------------|
| 11/26/2013 | Buy (B) | 4.81 |

3 Year Price Change History

| Date | Target Price (\$) | Closing Price, (\$) |
|------------|-------------------|---------------------|
| 11/26/2013 | 9.00 | 4.81 |
| 01/24/2014 | 12.00 | 9.41 |
| 03/05/2014 | 15.00 | 9.60 |
| 07/07/2014 | 18.00 | 11.99* |

* Previous Close 7/3/2014

Source: Laidlaw & Company

Created by: Blue-Compass.net

| Laidlaw & Company Rating System* | | % of Companies Under Coverage With This Rating | % of Companies for which Laidlaw & Company has performed services for in the last 12 months | |
|----------------------------------|---|--|---|-----------|
| | | | Investment Banking | Brokerage |
| Strong Buy (SB) | Expected to significantly outperform the sector over 12 months. | 0.00% | 0.00% | 0.00% |
| Buy (B) | Expected to outperform the sector average over 12 months. | 94.12% | 35.29% | 11.76% |
| Hold (H) | Expected returns to be in line with the sector average over 12 months. | 5.88% | 0.00% | 0.00% |
| Sell (S) | Returns expected to significantly underperform the sector average over 12 months. | 0.00% | 0.00% | 0.00% |

ADDITIONAL COMPANIES MENTIONED

Endo Health Solutions Inc. (ENDP, Not Rated)

ADDITIONAL DISCLOSURES

As of the date of this report, neither the author of this report nor any member of his immediate family or household maintains an ownership position in the securities of the company (ies) mentioned in this report.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Laidlaw & Co (UK), Ltd. recommends that investors independently evaluate particular investments and strategies, and encourages investors to

seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. This report is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy.

Associated persons of Laidlaw & Co (UK), Ltd not involved in the preparation of this report may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned herein and may trade them in ways different from those discussed in this report. While Laidlaw & Co (UK), Ltd., prohibits analysts from receiving any compensation. Bonus or incentive based on specific recommendations for, or view of, a particular company, investors should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

With the exception of information regarding Laidlaw & Co (UK), Ltd. this report is based on public information. Laidlaw & Co (UK), Ltd makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete and it should not be relied upon as such. Any opinions expressed are subject to change and Laidlaw & Co (UK), Ltd disclaims any obligation to advise you of changes in opinions or information or any discontinuation of coverage of a subject company. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Laidlaw & Co (UK), Ltd business areas. Laidlaw & Co (UK), Ltd associated persons conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Any trademarks and service marks contained in this report are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. This report or any portion thereof may not be reprinted, sold or redistributed without the written consent of Laidlaw & Co (UK), Ltd. This report is disseminated and available primarily electronically, and, in some cases, in printed form.

The information and opinions in this report were prepared by Laidlaw & Co (UK), Ltd. For important disclosures, please see Laidlaw & Co (UK), Ltd.'s disclosure website at www.LaidlawLtd.com, or contact your investment representative or Laidlaw & Co (UK), Ltd at 546 Fifth Ave, 5th Floor, New York, NY 10036 USA.

© 2014 Laidlaw & Co. (UK), Ltd.

NOTES: