Investors Alley

February 2015 Vol. 1 Issue 8

The Turnaround Stock Report

Special Situations Will Reward Long Term Investors

Fellow Investor,

Equities have bounced back nicely from the sell-off in January that began 2015. Most of the major indices are now at all-time highs as we publish. Oil has started to stabilize over the last few weeks after plunging to below $45 a barrel earlier in January.

Despite the recent rally, earnings growth has been unimpressive this earnings season. Earnings look like they will be up three to four percent year-over-year for the S&P 500 when all the fourth quarter 2014 quarterly reports are in. Growth is being held back by the energy sector whose earnings declined more than 20% from the same period a year ago. Had it not been for the blowout earnings from **Apple (NASDAQ: AAPL)** and stock buybacks, earnings would have been flat for the S&P 500 in the fourth quarter.

In This Issue

The headwind from plunging energy prices is going to get worse in the first quarter of 2015 as earnings from the energy sector are projected to be down more than 60% from a year ago. Currently, analysts expect S&P 500 to post earnings that are down more than three percent from the same period a year ago in the first quarter. Earnings estimates for most of the sectors in the S&P 500 have come down significantly over the past month and a half.

In addition, the huge plunge in gasoline prices that is giving consumers a substantial “tax cut” is failing so far to bolster retail sales which have posted two pretty dismal monthly reports in a row. Restaurant sales seem to be the one place where consumers feel more comfortable spending additional dollars. My suspicion is that rent increases that are posting their largest increases in many years and higher health care premiums are eating up the majority of that “tax cut”. Perhaps, if gasoline prices stay at these levels, consumers will start to feel lower energy prices are here to stay and feel better about boosting discretionary spending.

On the brighter side, we are getting some better economic readings out of Europe since the European Central Bank initiated their version of quantitative easing with Germany particularly benefiting from a lower Euro and posting their best export numbers in history in 2014. If some sort of amicable deal can be worked out with Greece beyond the recent four month loan extension, maybe Europe can contribute to global growth to a larger extent in 2015.

Although I feel the market is at least fairly valued, U.S. equities remain the best house in a bad neighborhood. I am also encouraged by the recent performance of many of the names within The Turnaround Stock Report outside energy. I also continue to find some “special situations” within the market that merit attention and are attractive on a longer term basis for patient investors.

The next couple of months could be volatile as the Federal Reserve finally gets set to raise interest rates for the first time in nearly a decade, but I look forward to our portfolio continuing to outperforming the overall market.

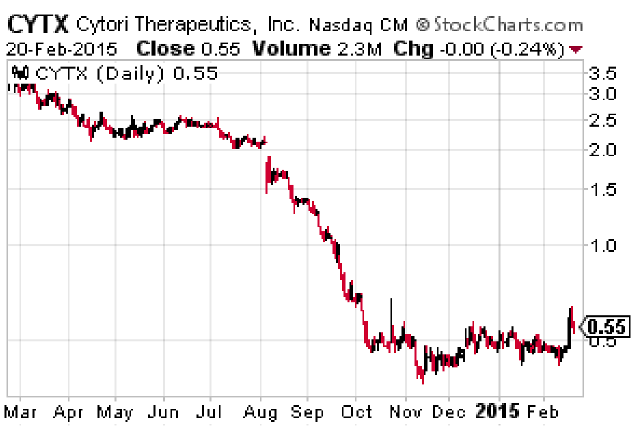
I'm always here for you. If you have a question, compliment, complaint, comment or just want to say "hi" you can reach me at bret.jensen@investorsalley.com.

Bret Jensen
Editor
The Turnaround Stock Report

CYTX: A True Swing for the Fences Stock

Our first turnaround recommendation for this issue is a very high risk/very high reward proposition and not for the faint of heart. It is a swing for the fences selection that one finds often in the small cap biotech sector. It has equal potential to be a “grand slam” or a “strike out”. However, I like the asymmetric risk profile as if things fall right, this broken biotech stock has the potential to be a big “multibagger” winner and I believe the market is overweighting the risk and not embracing the possible reward at these prices.

The name of the company is **Cytori Therapeutics (NASDAQ: CYTX)** and the company has a minuscule enterprise value of approximately $60 million at the present time. As can be seen from the chart below, the stock has seen better times and investors who once saw great promise in the shares have abandoned it in droves.



As a contrarian investor, this total reversal in sentiment piqued my curiosity and after doing some research I have been slowly building a decent sized position in this beaten down equity stock. As stated above, I believe the risk/reward profile is asymmetrical. Before I get into the company’s risk factors and value proposition, let me share with you a snippet from a highly ranked analyst from Maxim Group who had this to say around Cytori last week.

“We see Cytori more focused now on shorter trials that have the potential to provide real proof-of-concept data in late 2015 and early 2016.” Furthermore, “We assume Cytori will be successful in scleroderma and multiple other indications utilizing ADRCs (thermal burns, stress urinary incontinence, and osteoarthritis). We apply a 25% risk cut to our therapeutic model and a 30% discount to financial models for FCFF, discounted-EPS, and SOP to arrive at our new **$7.00 price target.**”

Let’s just say whenever a solidly ranked analyst puts a $7.00 a share price target on a stock trading for around 55 cents apiece, I sit up and take notice and investigate further. This may be seem like an outlandish price target until one considers the stock sold for north of this level in 2011 and some of the potential game changing treatments the company has underway in various trial phases. More on that below.

Company Overview:

Cytori Therapeutics is a cell therapy company that develops cell therapies based on autologous adipose-derived regenerative cells (ADRCs) to treat cardiovascular disease and other medical conditions. Cytori primarily provides the Celution System, a tissue processing system that automates the process of digesting fat tissue, releasing the ADRCs. The company also offers the StemSource Cell Bank, a suite of products to allow hospitals or tissue banks to cryopreserve adipose-derived stem and regenerative cells.

Cytori Cell Therapy™ is under evaluation in the United States for treatment of patients with hand and finger involvement due to the autoimmune condition scleroderma, as well as patients with symptomatic knee osteoarthritis. This technology is approved in many countries around the world, and the company has a number of active global partnerships with academic hospitals, companies and government agencies.

A Bumpy Journey:

The company has had a bumpy road over the past couple of years to say the least. Challenges in 2014 included a steep decline attributable to multiple factors including a clinical enrollment hold placed on its ATHENA and ATHENA II trials (for cardiovascular indications) as well as the need to raise cash to fund trials with additional equity and warrants. However, FDA gave clearance for ATHENA enrollment resumption late in 2014. Along with some new management personnel the company also recently laid out a concrete plan going forward to reduce cash burn and streamline clinical efforts. Management owns over 10% of the outstanding float and made frequent if small purchases throughout 4Q 2014 which is encouraging.

Reasons for Optimism:

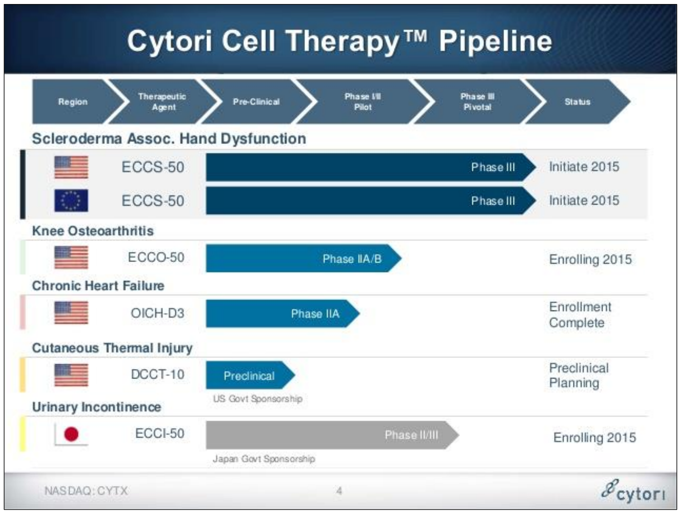
There are plenty of reasons for optimism around Cytori as the company has several potential positive catalysts as well as many "shots on goal". The first of 60 planned patients in an open label study was just treated to assess the safety and efficacy of the company's ECCM-50 adipose-derived regenerative cell therapy in traumatic meniscal injuries in the knee. This is a parallel study to the ongoing trial evaluating Cytori Cell Therapy™ for anterior cruciate ligament (ACL) repair.

ACL and meniscus tears are among the most common sports-related knee injuries, frequently occurring simultaneously. According to the American Academy of Orthopedic Surgeons, there are approximately 200,000 ACL injuries per year with almost half undergoing surgical reconstruction within the United States. Meniscal injuries are more common, requiring about 850,000 surgical procedures per year. Obviously this is potentially a major opportunity.

In addition, in late December the U.S. Department of Health and Human Services' Biomedical Advanced Research and Development Authority (BARDA) and the company amended their contract to fund the continued investigation and development of Cytori Cell Therapy™ for use in thermal burn injuries. The amended option is valued at just over $14 million, which is an increase of $2 million from the original value.

Upon the FDA clearance of the Investigational Device Exemption, BARDA expects to provide an additional $8.3 million to fund an early stage clinical trial. The new contract retains two options to fund a pivotal clinical trial ($45 million) and additional work in thermal burn complicated by radiation exposure ($23 million). There are approximately 450,000 burn injuries in United States on an annual basis, of which some 40,000 require hospitalization. This is another potential game changing opportunity should Cytori's products proved effective.

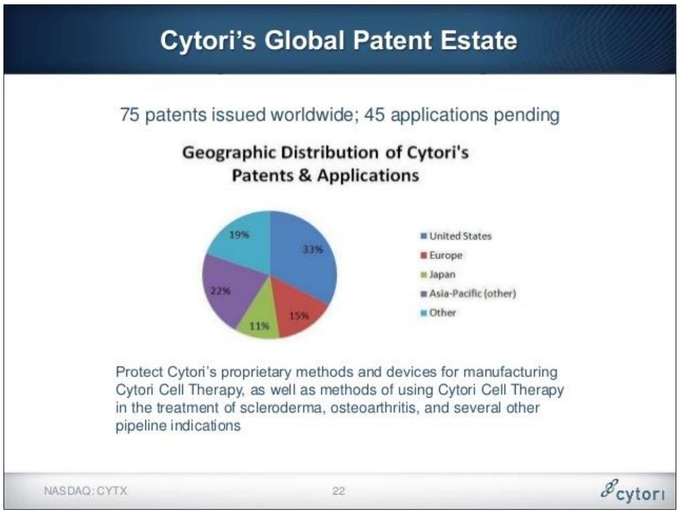
As can be seen from the diagram below, Cytori has a variety of trials currently underway using its trademarked technology to treat various conditions.



In addition, the company has a fairly deep roster of patents that investors are placing little value on at the present time. (See chart, top left of next page.)

Maintaining Analyst Support:

One of the unusual things about Cytori is the stock has been able to maintain solid analyst support despite its big decline. The company has a small cadre (3 to be precise) of analysts following the company. The lowest



price target of the three is $4.00 a share and Roth Capital reiterated its "Buy" rating last week. Usually when a stock plunges like Cytori, analysts abandon it like rats on a sinking ship. I find the continued analyst support encouraging to my own analysis.

Summary:

Cytori is one of the higher risk plays I have in my own portfolio. The company has some promising products and technology balanced against a history of many bumps in the road to being a successful biotech firm. However, sentiment appears overly negative given Cytori's possible catalysts. If sentiment improves just a little or the company starts to deliver on some of its promises, the upside could outright be explosive given the levels the stock has traded in the recent past and potential end markets for any approved treatments.

We are not putting a price target on Cytori but "Jensen's Rules" for biotech investing do apply. This strategy consists of selling 10% of your original stake once a 50% gain has been achieved, 20% if the stock doubles off your entry point and 20% more if the stock triples. This way one books a guaranteed profit while retaining half their original stake and riding on the "house's" money. I have found it to be prudent way to invest in this inherently volatile space.

Recommended Strategy: Buy CYTX up to 75 cents a share, Follow Jensen's Rules if stock moves up significantly.

FCH: The Transformation Continues

If our first turnaround pick for February was on the extreme boundaries of the risk/reward curve, my second portfolio addition is the exact opposite. This second selection is a turnaround story I have been invested in for just over a year and a half. In that time, that investment has returned some 75%.

The transformation story is ongoing and the management of the company continues to execute against its well thought out turnaround strategy that has and will continue to create significant shareholder value.

Company Overview:

FelCor Lodging Trust (NYSE: FCH) is a real estate investment (REIT) that went public in 1994. FelCor owns a diversified portfolio of primarily upper-upscale and luxury hotels that are located in major and resort markets. FelCor partners with leading hotel companies to operate its hotels, which are flagged under globally recognized names and premier independent hotels such as Marriott and Wyndham. FelCor currently owns interests in over 50 hotels with just over 15,000 rooms.

Near Death Experience:

Like a lot of real estate investment trusts in the lodging and commercial property spaces, FelCor was severely impacted by the financial crisis and the freezing of the credit markets back in 2008 and early 2009. As can be seen from the chart below, the shares plunged from over $20 a share to under $2 a share at the depth of the crisis. The REIT was forced to eliminate its dividend completely in order to survive the financial crisis. In

The Turnaround Stock Report

addition to taking on too much debt the company did not have an overall hotel management strategy with hotels at airports, urban centers as well as non-top 25 markets.

New Focus:

The near death experience focused FelCor's management to come up with a compelling strategy that could bring it back from the brink and drive substantial shareholder value as well. The REIT decided to sell 70% of its hotels in non-primary markets as well as 50% of its airport hotels. When done these efforts will leave FelCor with portfolio of premium hotels in primary urban markets (San Francisco, New York City, Boston, etc…), upscale resorts and high traffic airport hotels that will all benefit from increasing business and leisure travel.

When I last highlighted FelCor in the earlier stages of this transformation on SeekingAlpha in June 2013, the REIT had already sold 20 hotels with approximately 5,000 rooms for a cumulative $429 million. At that point in time the REIT was approximately half way through this divestiture effort.

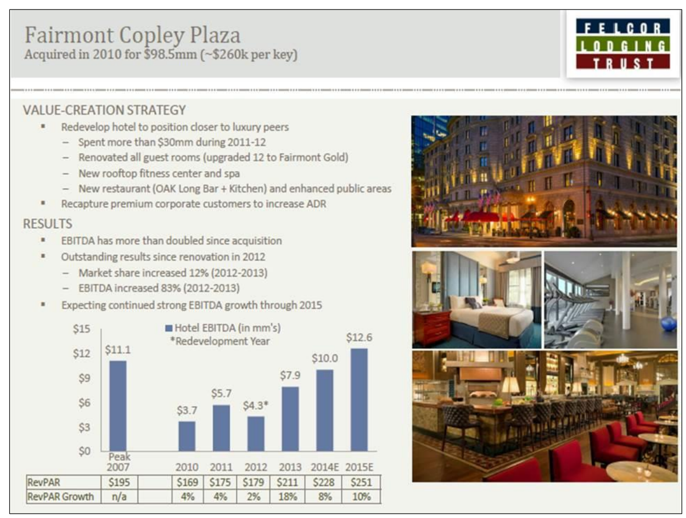
Last week, FelCor announced that it sold its 225-room Embassy Suites Hotel – Raleigh and 536-room Westin – Dallas Park Central for aggregate gross proceeds of $63.6 million in separate transactions. FelCor has also agreed to sell the 261-room Embassy Suites Hotel – San Antonio Airport for $29.5 million. With these latest sales, the company only has a few non-core hotels left to divest and mostly done with the first part of its transformation effort.

Using Sale Proceeds Wisely:

The company has used the proceeds wisely to renovate its remaining primary hotels in core urban markets, reduce and debt and invest in the New Knickerbocker Hotel in New York City which should be FelCor's flagship and be a major factor in growing FFO (Funds from Operations) and its dividend payouts in the years ahead which should unlock further significant shareholder value. Let's take a look at all three of these destinations for the proceeds of FelCor's non-core hotel sales.

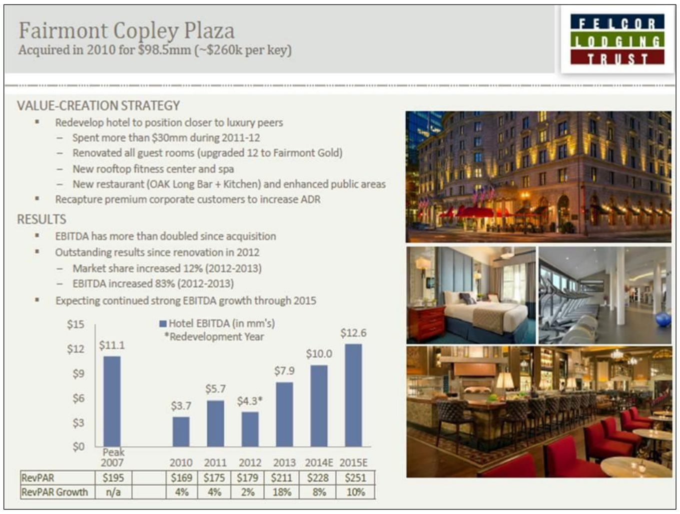
Renovations:

If done correctly, renovations make hotel properties much more valuable. The revamped hotels produce higher occupancy levels, rising RevPARs (Revenue Per Available Room), ADRs (Average Daily Room Rates) and most importantly significantly improve FFO from those facilities. FelCor has executed its renovation strategy extremely well.



This can be seen in renovation of one of its key hotel markets of New York City and Boston. First let's take a look at what the renovations of its property in Union Square has yielded.

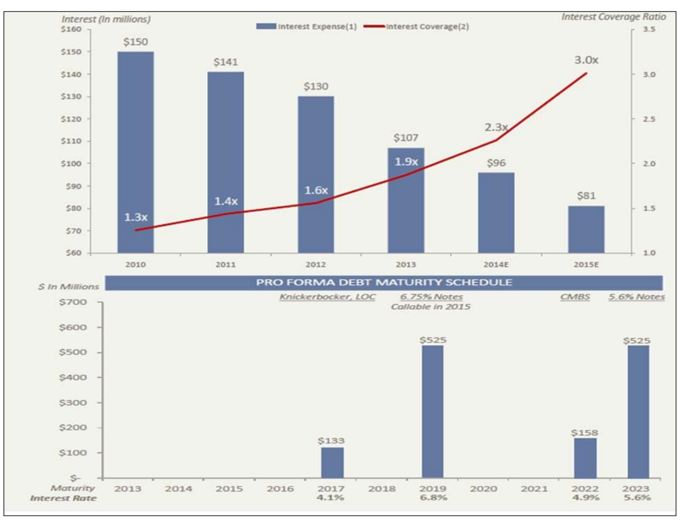
The efforts to remake its facility at Copley Square in Boston has been just as impressive and both examples show that FelCor knows how to increase the value of its



property, create significant shareholder value and bodes well for future renovations and uplifting new acquisitions as well.

Reducing Debt:

The REIT has made substantial progress over the past few years of refinancing high cost debt, staggering its debt maturities, reducing debt overall and most importantly becoming a much less levered company with substantially more interest coverage reducing its risk premium substantially. This also gives the company more financial flexibility to acquire attractive additional hotels in core markets and/or continue to initiate and complete renovations to existing properties to increase FFO.



The Knickerbocker:

In 2011, the company spent $115 million to acquire The Knickerbocker Hotel on one of most desired hotel locations in the world at 42nd & Broadway in New York City. FelCor spent another $240 million redeveloping the property for a total cost of $725,000 per room. Similar hotel construction in the area has come in at over $900,000 a key.

Earlier in the month the company proudly announced the grand re-opening of its new flagship property. The newly redeveloped hotel will 330 spacious and luxurious guest rooms, including 27 Junior Suites and four Tribute Suites, a state-of-the-art fitness center, a 2,200 square-foot event space, upscale food and dining options, and a 7,500 square-foot rooftop bar and terrace with unrivaled views of New York City's effervescent skyline.

The redevelopment of the Knickerbocker obviously took a good portion of FelCor's focus as well as cash flow over the past few years. Combined with the renovations at core properties, deleveraging of its balance sheet, the reopening of the Knickerbocker is going to make major differences to the company's cash flow, FFO, dividend payouts and the way the REIT is perceived over the next 12-18 months.

$ in millions (except per share data)	2010A	2013A	Change	2015E w/Knick Stabilized(1)	Change
Core Adjusted EBITDA(1)	$111	$158	$47	$252	$94
Adjusted FFO	($8)	$49	$57	$125	$76
Adjusted FFO per share	($0.09)	$0.39	$0.48	$1.00	$0.61
FAD (FFO less CapEx Reserve)	($32)	$17	$49	$90	$73
Interest Coverage(2)	1.3x	1.9x	0.6x	3.1x	1.2x

The Best Lies Ahead:

Felcor Lodging Trust was selling for approximately $6 a share when I purchased this REIT just over a year and a half ago. The shares now go for just under $11 a share. I still hold and intend to continue holding these shares for the foreseeable future as the company has kept its promises to investors and executed impressively against its well thought out turnaround strategy which is probably in its sixth or seventh inning.

However, the next year or two is going bring into focus the benefits of all of FelCor's efforts in recent years. FFO is going to increase substantially over the next few years with $1 a share of FFO likely in FY2015 or soon thereafter. This REIT reinstituted its dividend in the second quarter of 2014 and then doubled its dividend payouts to start 2015. The shares now yield 1.5%. Given how much FFO is going to increase over the next year or two, I expect the company to be paying a dividend of at least three to four percent over the next 18-24 months based on the current price of its shares. This would put it in line with peers and easily doable given its projected cash flow increases.

In addition, lodging continues to be one of the strongest parts of the real estate investment trust space. Little if any room construction took place during the financial crisis and in the years afterward. Business travel has returned to peak pre-crisis levels and consumer travel is rapidly recovering. This has resulted in more demand than supply as well as increasing occupancy levels and RevPAR growth in the high single digits annually over the past few years. These trends are expected to continue for at least a couple of more years as new room supply is still growing much slower than pre-crisis levels.

FelCor was selling for north of $20 a share before the crisis. The company has shrunk its room count some 20% to 30% since then, but it is operating in better and more valuable core markets. Over time I think the REIT can achieve its previous levels and investors can expect significant capital appreciation and dividend increases over the next 2-3 years.

Given its growth prospects, paying around 11 times forward FFO is an attractive entry level despite the significant rise in the shares over the past 18 months. Based on a price to sales basis, FelCor is selling at a substantial discount to competitors like **Hospitality Properties Trust (NYSE: HPT)** and **Host Hotels & Resorts (NYSE: HST)**.

Recommendation: Buy FCH up to $11.50 a share; hold as long as company continues to execute well against its transformation plans.

Portfolio Update

It has been a solid month for The Turnaround Stock Report portfolio as it has rallied along with the market. Our energy names continue to go up and down with the price of oil, but have done better so far in February than in January.

Here are some of the highlights within the portfolio over the past month. **General Motors (NYSE: GM)** is up better than 10% since our last update. The company easily surpassed bottom line estimates with its quarterly results and boosted is already substantial dividend by 20% and shares now yield four percent at current levels. Activist investors have targeted the company to push GM to up its stock repurchase program given it now has over $25 billion in cash on its balance sheet. Famed investors Warren Buffett and George Soros have also upped their respective stakes in the firm according to recent filings.

Greenbrier Companies (NYSE: GBX) has also been a strong performer of late and is up almost 15% since our last monthly update. Consensus earnings estimates for both FY2015 and FY2016 have increased substantially over the past two months and I like the prospects for future capital appreciation for this cheap manufacturer.

Halozyme Therapeutics (NASDAQ: HALO) consolidated its huge gains since inclusion into The Turnaround Stock Report and went up more than five percent over the last month**. Zogenix (NASDAQ: ZGNX)** also had a nice month and rose some 10% as the FDA approved its abuse-deterrent formulation of Zohydro which should boost sales substantially in coming quarters. **Dynavax Technologies (NASDAQ: DVAX)** did little during the month as will be mainly driven in 2015 by the results from its huge Phase III trial for its hepatitis B vaccine which should completed with results known in the second half of the year.

Sequential Brands Group **(NASDAQ: SQBG)** declined some during the month but should do better once the West Coast port situation is resolved (currently news sources are reporting a tentative deal between the ports and the dockworkers union) and retailer traffic can start flowing like normal again. Our other newcomer, **Chicago Bridge & Iron (NYSE: CBI**), has been on a rip over the past two weeks as sentiment starts to improve on these cheap shares. In addition, famed value investor David Einhorn just disclosed a significant stake in the shares, a nice vote of confidence.

Finally Netherlands based insurer **AEGON (NYSE: AEG)** has had a strong month. The company is benefiting by the recent quantitative easing measures put in place by the European Central Bank which continues to push the Euro down against the dollar. The firm also posted strong results as we go to press.

Those are the notable moves within the portfolio over the prior month and I remain optimistic this strong performance will continue throughout 2015.

Current Portfolio

Company	Entry Date	Entry Price	Recent Price	Buy Up To	Target Price	Returns
FelCor Lodging Trust (FCH)	02/20/15	$10.78	$10.78	$11.50		N/A
Cytori Therapeutics (CYTX)	02/20/15	$0.55	$0.55	$0.75		N/A
Sequential Brands (SQBG)	01/21/15	$11.09	$10.39	$12.00	$17.00	-6.3%
Chicago Bridge & Iron (CBI)	01/21/15	$40.31	$41.35	$45.00	$60.00	2.6%
Greenbrier Cos. (GBX)	12/17/14	$46.51	$58.65	$50.00	$80.00	26.1%
Halozyme Thera. (HALO)	12/17/14	$8.65	$15.37	$10.00	$18.00	77.7%
Zogenix (ZGNX)	11/18/14	$1.24	$1.55	$1.75	$4.00	25.0%
General Motors (GM)	11/18/14	$32.27	$37.65	$34.00	$47.50	16.7%
Warren Resources (WRES)	10/15/14	$3.37	$1.32	$4.50	$7.00	-61.2%
Dynavax Technologies (DVAX)*	10/15/14	$14.30	$17.75	$17.50	$30.00	24.1%
Chesapeake Energy (CHK)	09/15/14	$25.05	$20.30	$27.00	$33.00	-19.0%
AEGON N. V. (AEG)	08/14/14	$7.74	$7.74	$9.00	$15.00	0.0%
Hercules Offshore (HERO)	07/18/14	$4.01	$0.86	$4.25	$6.00	-78.6%
Emerald Oil (EOX)	07/18/14	$7.56	$1.18	$8.00	$12.00	-84.4%

Notes:

Entry price is determined by the last "Close" price at the closing of the market on the day before publication.

Recent price is determined by the last "Close" price at the closing of the market on the day before publication; most recent update: 02/20/15. Returns data represents share price appreciation or depreciation between entry price and recent price.

* Dynavax did a 1/10 split on 11/05/14 thus the original entry price of $1.43 has been adjusted to $14.30 to reflect current pricing level comparisons.

This is not real-time data and should not be interpreted as such.