Investors Alley

September 2015 Vol. 2 Issue 3

The Turnaround Stock Report

Insiders Still Love This Beaten Down Play

Fellow Investor,

The market has behaved better since equities hit their recent bottom on August 25th and stocks are slowly recovering some of their losses after the worst month for performance in several years. Now that we have put all the "will they or won't they chatter" behind us on whether the Federal Reserve will raise interest rates for first time since 2006, hopefully we can get past this recent bout of volatility and look forward to more robust economic growth in back half of the year. Provided, of course, we can avoid some of the fallout from our dysfunctional political system and another possible government shutdown in the months ahead.

In This Issue

The outlook for the rest of the world is not nearly as sanguine. S&P placed a minor downgrade on Japan's debt this week, a blow to Abenomics and a testament of how the large debt to GDP ratio is slowing growth is in this demographically challenged country. Recently, credit rating agencies have also downgraded Brazil's debt to junk status over the past week as the collapse in commodity and energy prices take their toll on South America's largest economy.

Meanwhile, Europe races to restructure Greece's banking system before new rules kick in that could wipe out corporate deposits and result in disastrous effects for the country's economy. We are starting to see better industrial production and auto registrations out of the continent as the impacts of their central bank's quantitative easing program take hold. Let's hope this latest hiccup in Greece can be resolved before becoming a real concern.

China remains one of the key worries for investors right now. The markets in the Middle Kingdom continue to produce huge daily moves on every new intervention by authorities as well as economic readings showing the economy is growing significantly slower than the "official" seven percent GDP target.

The impacts of a slowdown in China continue to be major factor for the big declines in crude oil, copper, iron and about every other major commodity over the past year. This continues to be a major headwind to commodity export led economies like Canada, Australia, Russia, Indonesia and Brazil. Reduced growth in the country also has impacted some of the picks in our portfolio such as **Yahoo (NASDAQ: YHOO)** and **General Motors (NYSE:GM).**

Obviously the slowest global growth since 2009 is not a good backdrop for "turnaround" plays as these sort of equities tend to rely on improving not decelerating economic conditions. On the bright side, our turnaround picks within the biotech sector continue to perform very well overall. In this month's edition, we go back to the well for a recommendation of a stock that was pasted by a poor Phase II trial result. However, the shares have started to recover on what was an overreaction to the news. If things start to fall right for the company, the shares could have a major turnaround.

I'm always here for you. If you have any questions about the strategy or the stocks in the portfolio please feel free to email me at bret.jensen@investorsalley.com.

Bret Jensen
Editor
The Turnaround Stock Report

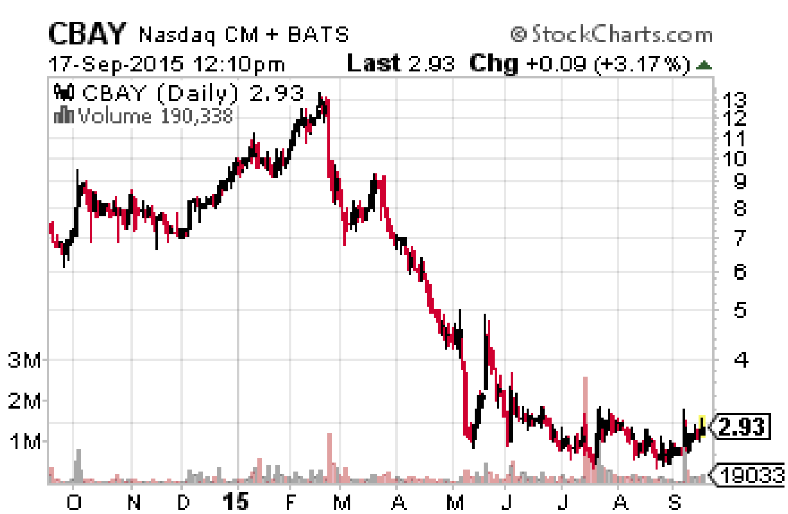
P.S. I have just released my video presentation of my **6 Secrets for Consistently Finding Biotech Takeover Targets**. In this exclusive video I will reveal the six criteria that I look for in these speculative small cap investments that have consistenly led me to triple and even quadruple digit returns in the biotech sector.

Click here to access the video.

Cymabay Therapeutics: Insiders Still Love It

The biotech and biopharma sectors have by far provided our best recommendations since the Turnaround Stock Report launched last year. Some of the significant winners from these sectors within our portfolio include **Dynavax Technologies (NASDAQ: DVAX**), **Halozyme Therapeutics (NASDAQ: HALO)** and **Zogenix (NASDAQ: ZGNX).** Stellar performance from several of these picks within this sector has not been a coincidence.

This actually makes logical sense for myriad reasons. First, these sectors are relatively immune from macro conditions including the poor state of global growth. Tepid worldwide demand and the strong dollar has hampered some of the other picks including those from technology and industrial sectors which have been hurt by an anemic global economy. Second, negative news or a change in sentiment can have an outsized impact on stocks in these sectors and can easily lead to oversold conditions. Finally, companies with multiple "shots on goal" can easily erase the declines triggered by poor results in one trial with superior data from other trials in the future.



Going back to the well that has been so good to our portfolio, we take a look at a small biotech concern that has given up three quarters of its value recently due to one poor trial result but whose shares have stabilized recently. The company has several upcoming possible catalysts that may erase the sting of that negative result and cause the stock to recapture a good portion of recent losses leading to substantial returns for new investors.

Cymabay Therapeutics (NASDAQ: CBAY) is a small California based biotech concern. The stock currently has a market capitalization of approximately $65 million and its shares go for just under $3.00 apiece at the present time. I recently picked up some shares after the stock tumbled over 75% after a disappointing Phase IIb trial for its main drug candidate Arhalofenate.

Arhalofenate:

Arhalofenate is geared to treat gout by lowering the serum uric acid levels and thus reducing the painful flare-ups associated with this disease. In gout, uric acid levels get elevated in the blood, and needle-like crystals precipitate in joints. This can cause inflammation, pain during flare-ups, and eventual damage to surrounding tissue. Anyone who has a relative with this affliction knows exactly how painful it can be.

I purchased a small stake in Cymabay this week and may add to it at current levels as I believe investors are overreacting to one disappointing trial result. I also take heart that the stock seems to have formed a strong technical base that the chart showed above clearly shows. Any investor that was going to sell due to one poor trial outcome has had time to do so and I do not see any more selling pressure due to that event. In addition, previous early stage trials showed Arhalofenate in combination with an existing gout treatment "Febuxostat" showed good success in lowering serum uric acid levels.

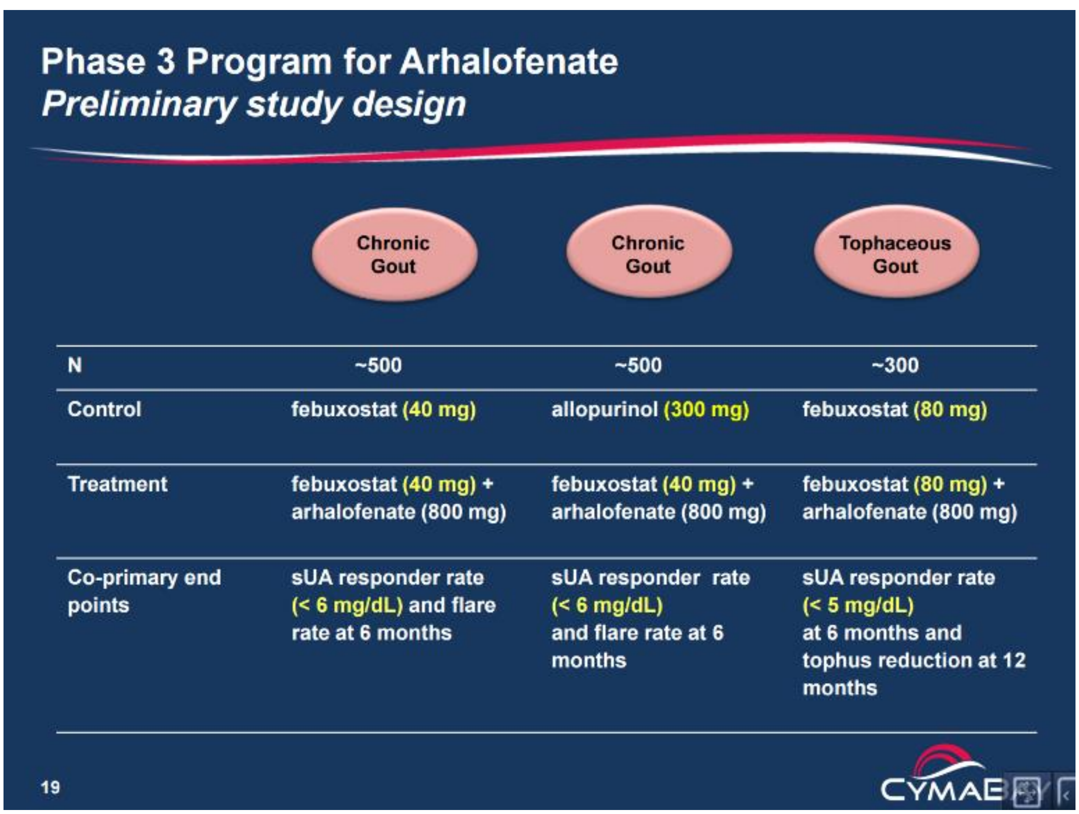
Gout impacts some six million people annually in the United States, about half of these get treatments to help contain the effects of this disease. A compound called "Allopurinol" available in generic form is the prescribed treatment in the vast majority of these afflicted individuals with Febuxostat accounting for most of the rest. Arhalofenate is aimed at the roughly two million people, roughly two thirds of people receiving treatment, in the United States who suffer from periodic bouts with gout and are underserved by current treatment regimens. The drug has shown some success in lowering the uric acid build up that causes this condition in various other phase II tests giving it an advantage over competing drugs should it make it to commercialization.

The company is setting up a couple of Phase III tests for Arhalofenate in combination with Febuxostat which as mentioned earlier has shown more success in Phase II trials. Given a large patient population which is undeserved by existing therapies, I would not be surprised if Cymabay is successful in entering a partnership to help develop this compound and help defray development costs. In addition, Allopurinol causes too many flares early in therapy, discouraging compliance even though it would remain a cheaper treatment than what Arhalofenate would be priced at. Even a small portion of the gout population in the United States could yield significant revenue opportunities.

MBX-8025 & MBX-2982:

MBX-8025 is a selective agonist for the peroxisome proliferator-activated receptor delta, a nuclear receptor that regulates genes involved in lipid storage and transport (particularly in fatty acid oxidation) and insulin signalling and sensitivity. Five Phase 1 clinical studies and one Phase 2 clinical study with MBX-8025 have been completed.

The company has decided to redirect the development of MBX-8025 toward serious rare and orphan diseases



	Chronic Gout	Chronic Gout	Tophaceous Gout
N	~500	~500	~300
Control	febuxostat (40 mg)	allopurinol (300 mg)	febuxostat (80 mg)
Treatment	febuxostat (40 mg) + arhalofenate (800 mg)	febuxostat (40 mg) + arhalofenate (800 mg)	febuxostat (80 mg) + arhalofenate (800 mg)
Co-primary end points	sUA responder rate (< 6 mg/dL) and flare rate at 6 months	sUA responder rate (< 6 mg/dL) and flare rate at 6 months	sUA responder rate (< 5 mg/dL) at 6 months and tophus reduction at 12 months

or more prevalent diseases with higher unmet medical need. The compound recently received Orphan Drug status from the FDA for the treatment of hyperlipoproteinemia types I or V as well as for homozygous familial hypercholesterolemia, a rare and life-threatening, genetic disease. This would seem early validation of this new approach.

MBX-2982 is a potential treatment for type 2 diabetes that targets G protein-coupled receptor 119 (GPR119), a receptor that interacts with bioactive lipids known to stimulate glucose-dependent insulin secretion. MBX-2982 has completed four Phase 1 studies and one Phase 2 study.

Although these two compounds represent some potential future “shots on goal”, the near term prospects of Cymabay will be driven by the success or failure of Arhalofenate.

Balance Sheet & Outlook:

After recently raising equity, the company has some $40 million in cash on hand which should fund trials for at least another year. Given Cymabay has a market capitalization of just $65 million, most of the value investors are currently placing on the firm is actually represented by the current cash on hand.

Analysts are starting to notice Cymabay with Piper Jaffray initiating the shares as a “Buy” with a $4.00 a share price target on the stock over the summer. H.C. Wainwright is even more bullish as a five star rated analyst there initiated the shares as a Buy with a whopping $12.00 a share price on September 8th. He believes “That positive FDA guidance on potential labeling for Arhalofenate should allow for a collaboration agreement by the end of the year.”

Finally, there has been a string of insider purchases of stock in recent months which is always encouraging. The stock hit a high of over $13.00 a share in the first quarter of this year before that trial setback cratered the stock. This shows what positive developments with its potential superior treatment of gout could do for the shares if things fall into place.

Positive near term catalysts could be positive Phase III trial developments for Arhalofenate, an announced collaboration deal with a larger industry player or additional upgrades or positive comments from analysts. We may not see $13.00 a share again in the medium term, but it does seem highly likely that there will be positive developments on the horizon that could help Cymabay recapture a good portion of its losses over the prior six months.

Recommendation: Buy CBAY up $3.50 a share.

Position: Long CBAY

Portfolio Update

The market has had a better September so far than the dismal performance equity indices posted in August. The Federal Reserve put off once again raising interest rates for the first time in almost a decade when they met today.

Although the domestic equity market has stabilized, global growth looks like it will come in for 2015 at the lowest levels since 2009. China continues to be my key watch out item for the markets and the significant slowdown there is definitely providing some headwinds to some of our portfolio picks. **General Motors (NYSE: GM)** is being impacted by falling year-over-year auto sales in the Middle Kingdom even as it is seeing robust demand in the domestic market led by higher margin trucks and SUVs. The company just settled with the Department of Justice over their ignition switch recall debacle and should soon have a new UAW contract in hand as well. At seven times forward earnings and yielding nearly five percent, it is hard to find many cheaper stocks in this market.

Yahoo (NASDAQ: YHOO) is also being impacted by the problems in China as the value of its stake in **Alibaba (NASDAQ: BABA)** has declined substantially in recent months as their stock market continues to be mired in a bear market. The company's spinoff of its stake has also ran into to some objections from the IRS over the tax free nature of the proposed transaction. I have added a few shares to my core stake as I believe the current price of the stock is below the sum of the parts valuation of its various assets.

Luckily our other industrial & construction plays have little to no exposure to China or slow growing Europe for that matter. I am hopeful we start seeing better performance from **Chicago Bridge & Iron (NYSE: CBI), United Rentals (NYSE: URI), HD Supply Holdings (NYSE: HDS)** and **Greenbrier Companies (NYSE: GBX).** All are very attractive from a longer term valuation perspective.

Ending on a bright note, **Halozyme Therapeutics (NASDAQ: HALO)** managed to come through August's "hiccup" for the biotech sector in solid shape and has roughly doubled since being added to the portfolio. The stock still has upside provided things continue to fall right for the company. **Dynavax Technologies (NASDAQ: DVAX)** is another biotech that has provided strong performance since its inclusion into our portfolio. We also should see results from a critical 8,200 subject Phase 3 hepatitis B trial within six months that could result in its HEPLISAV – B vaccine being on its way to approval.

This month we pick another beaten down pick from the biotech sector that has treated our portfolio well overall. This concern has substantial upside as it gets past a recent disappointment that the market overreacted to with the recent decline of the stock.

Current Portfolio

Company	Entry Date	Entry Price	Recent Price	Buy Up To	Target Price	Returns
Cymabay Therapeutics (CBAY)	09/17/15	$2.91	$2.91	$3.50		N/A
Tri Pointe Homes (TPH)	08/18/15	$15.49	$14.56	$16.00	$21.00	-6.0%
GTx (GTXI)	07/17/15	$1.37	$0.83	$1.50		-39.4%
Aratana (PETX)	06/22/15	$14.71	$19.79	$16.00		34.5%
Digital Turbine (APPS)	06/22/15	$3.36	$2.15	$3.50	$7.00	-36.0%
Yahoo! (YHOO)	05/22/15	$43.49	$30.93	$47.00	$60.00	-28.9%
Delta Airlines (DAL)	05/22/15	$43.18	$47.49	$47.00	$60.00	10.0%
United Rentals (URI)	04/22/15	$97.90	$69.60	$105.00		-28.9%
HD Supply (HDS)	04/22/15	$33.14	$33.43	$34.00		0.9%
Michael Kors (KORS)	03/26/15	$66.97	$44.35	$75.00	$100.00	-33.8%
VEREIT (VER)	03/26/15	$9.90	$8.22	$10.75	$14.00	-17.0%
FelCor Lodging Trust (FCH)	02/20/15	$10.78	$8.49	$11.50		-21.2%
Cytori Therapeutics (CYTX)	02/20/15	$0.55	$0.40	$0.75		-27.3%
Sequential Brands (SQBG)	01/21/15	$11.09	$16.36	$12.00	$17.00	47.5%
Chicago Bridge & Iron (CBI)	01/21/15	$40.31	$43.41	$45.00	$60.00	7.7%
Greenbrier Cos. (GBX)	12/17/14	$46.51	$39.01	$50.00	$80.00	-16.1%
Halozyme Thera. (HALO)	12/17/14	$8.65	$19.31	$10.00	$18.00	123.2%
Zogenix (ZGNX)	11/18/14	$1.24	$19.09			92.4%
General Motors (GM)	11/18/14	$32.27	$31.31	$34.00	$47.50	-3.0%
Dynavax Technologies (DVAX)*	10/15/14	$14.30	$30.84	$17.50	$30.00	115.7%
AEGON N. V. (AEG)	08/14/14	$7.74	$6.23	$9.00	$15.00	-19.5%

Closed Positions

Company	Entry Date	Entry Price	Close Price	Close Date	Returns
Chesapeake Energy (CHK)	09/15/14	$25.05	$7.76	08/18/15	-69.0%
Warren Resources (WRES)	10/15/14	$3.40	$0.52	06/22/15	-84.7%
Hercules Offshore (HERO)	07/18/14	$4.01	$0.45	03/26/15	-88.6%
Emerald Oil (EOX)	07/18/14	$7.56	$0.86	03/26/15	-84.8%

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: 09/17/15. 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.
** Zogenix did a 1/8 split on 06/01/15 thus the old buy up to and target prices have been removed.

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