Actavis' third quarter 2014 EPS came in at $3.19, beating the Zacks Consensus Estimate of $3.12 per share and increasing 52.6% y-o-y. Revenues jumped 83% to $3.7 billion, beating the Zacks Consensus Estimate of $3.6 billion. In addition to reporting strong results, the company raised its outlook for 2014. We remain optimistic about Actavis’ growth prospects. We are positive on the Forest acquisition which is in line with Actavis' strategy of building its branded product portfolio. Meanwhile, the Durata acquisition has boosted Actavis' infectious disease portfolio. The upcoming Allergan acquisition also looks good to us. We are encouraged by Actavis' focus on building its branded and biosimilars pipeline. We maintain an Outperform recommendation on the stock.
Dublin, Ireland-based Actavis plc is a specialty pharmaceutical company engaged in the development, manufacturing, marketing, sale and distribution of generic, branded generic, brand, biosimilar and over-the-counter (OTC) pharmaceutical products. The company, which was previously known as Watson Pharmaceuticals, Inc., became the third largest generics pharma company in the world following its Oct 2012 acquisition of Actavis Group.

Actavis, which earlier used to operate through three segments -- Actavis Pharma, Actavis Specialty Brands and Anda Distribution -- now has two revenue producing segments -- Actavis Pharma and Anda Distribution.

While Actavis Pharma includes all branded, branded generic, generic and over-the-counter products, Anda Distribution includes revenue from the distribution of third-party products.

In Nov 2014, Actavis confirmed that it will be acquiring Botox maker Allergan in a cash and stock transaction ($129.22 in cash and 0.3683 Actavis shares for each share of Allergan common stock) valued at about $66 billion or $219 per share. With this acquisition, Actavis, which was previously known for its strong presence in the generics market, will find itself in the company of the top 10 pharmaceutical companies across the world based on sales. The acquisition is slated to close in the second quarter of 2015.

In Nov 2014, Actavis acquired Durata Therapeutics, which is focused on the development and commercialization of novel therapeutics for patients with infectious diseases and acute illnesses. With this acquisition, Actavis has boosted its infectious disease portfolio through the addition of Dalvance.

In Jul 2014, Actavis acquired Forest Laboratories for a cash and equity transaction valued at about $28 billion. This acquisition has added Forest's well-established franchises in the central nervous system (CNS), cardiovascular and respiratory markets, as well as R&D programs that address a wide range of health conditions to Actavis' portfolio. Well-known products include Namenda (Alzheimer’s disease) and Bystolic (hypertension). Forest also has a wide range of new products in its portfolio.

In early Oct 2013, Actavis acquired Warner Chilcott plc in a stock-for-stock transaction worth about $8.5 billion. This includes the assumption of Warner Chilcott’s net debt of $3.4 billion. The successful completion of this deal has resulted in the creation of a leading global specialty pharmaceutical company with combined annual revenues of about $11 billion.

Actavis posted sales of $8.7 billion in 2013, up 46.7%.
REASONS TO BUY

- **Maintaining Outperform Recommendation:** Actavis, which has been in acquisition mode over the last few years, has strong growth prospects. We are positive on the Warner Chilcott, Forest and other acquisitions completed by the company over the past few years. These deals have strengthened Actavis’ branded products portfolio and pipeline. The Durata acquisition should also be accretive. We are also positive on the company’s decision to acquire Allergan. Given the company’s promising prospects, we maintain an Outperform recommendation on the stock.

- **Strong Position in Generics Market:** Actavis enjoys a strong position in the generic pharmaceutical market. The company is a front-runner in the development, manufacture and sale of generic pharmaceutical products. We believe Actavis’ strategy of developing products that are difficult to formulate/manufacture or complementary to its existing product lines will help strengthen its position in the market. At the beginning of Nov 2014, the company had 228 abbreviated new drug applications (ANDAs) pending approval with the FDA – this includes 60 first to file applications. New product launches over regular intervals should help drive the generics business. Longer-term, Actavis should benefit from the launches of generic versions of Crestor (second quarter of 2016), Ziana (Jul 2016) and Zyclara (Jan 2019).

  Going forward, increasing awareness about generic products, initiatives taken by various government agencies and privately managed care or insurance programs encouraging the substitution of low-cost generics for brand-name pharmaceuticals bode well for generic companies like Actavis. These factors, together with an aging population and a corresponding increase in health care costs should lead to continued expansion of the generics market. The generic business should also benefit from the U.S. healthcare reform by virtue of which more people will have access to prescription drug benefits.

- **Branded Business Contributing Nicely:** In addition to the generics business, Actavis has a significant and expanding branded pharmaceutical business. The company’s branded product portfolio consists of more than 40 product families including Androderm, Kadian, Crinone, and Generess among others. Meanwhile, Actavis’ focus on growing its urology and female health care product portfolio should bode well for long-term growth. Products like Rapaflo, Gelnique, Trelstar, Generess Fe, the Crinone franchise, the Forest and Uteron acquisition should help drive revenues.

- **Positive on Forest & Durata Acquisitions:** We are positive on Actavis’ acquisition of Forest, which is in line with the company’s strategy of building its branded product portfolio. With a fewer number of blockbuster products slated to lose patent protection in the coming years, quite a few generic companies have been focusing on strengthening their branded products offerings. The Forest
acquisition is expected to push up Actavis’ branded products revenues significantly. The acquisition has led to the creation of a specialty company with sales of more than $15 billion per year, a diversified portfolio and a presence in different geographical areas. The acquisition will also bring about significant synergies and boost earnings and revenues. Actavis expects the acquisition to drive double-digit accretion to earnings in 2015 and 2016. More than $4 billion of free cash flow will be generated in 2015 which will allow the company to de-lever its balance sheet rapidly. The combined company has a $2 billion CNS franchise, a $1 billion gastroenterology franchise, a $1 billion women's health franchise, a $500 million cardiovascular franchise and urology and dermatology/established brand franchises approaching annual sales of $500 million each.

Allergan Deal Looks Good: The Actavis-Allergan combination, slated to close in the second quarter of 2015, looks good to us. With this acquisition, Actavis, which was previously known for its strong presence in the generics market, will find itself in the company of the top 10 pharmaceutical companies across the world based on sales. Allergan and Actavis have complementary product portfolios and ample scope for generating cost synergies. With the Allergan acquisition, Actavis will be able to strengthen its global presence especially in Canada, Europe and Southeast Asia and other high-value growth markets like China, India, the Middle East and Latin America. Meanwhile, the combined U.S. sales force will ensure increased marketing reach. The addition of several blockbuster therapeutic franchises will boost Actavis’ North American Specialty Brands business significantly. Actavis said that, on a pro forma basis for the full year 2015, the combined company will have three blockbuster franchises (ophthalmology, neurosciences/CNS and medical aesthetics/dermatology/plastic surgery) each with annual revenues of more than $3 billion. Meanwhile, the specialty product franchises (gastroenterology, cardiovascular, women's health, urology and infectious disease) will have combined revenues of about $4 billion.

Actavis expects combined pro forma revenues to cross $23 billion in 2015 and the deal to be earnings accretive (double-digit accretion) within a year. Revenues generated by Actavis' brands business as well as international revenues will double with this acquisition. Pro forma international revenues in 2015 are expected to be about $5 billion.

Actavis expects annual synergies of at least $1.8 billion starting from 2016 – this is in addition to the $475 million of annual savings previously announced by Allergan. Actavis intends to invest $1.7 billion every year on R&D. Once the acquisition goes through, Actavis’ pipeline should be boosted by about 15 near- and mid-term projects. The combined company is expected to generate free cash flow of more than $8 billion in 2016 and substantial growth thereafter, which should allow the rapid repayment of debt.

Acquisitions to Drive Growth: Acquisitions form an integral part of Actavis’ expansion strategy as the company completed four major acquisitions (Arrow, Specifar, Actavis Group and Warner Chilcott) apart from the Forest deal in the past few years. We view the Arrow acquisition as a positive move – it has helped Actavis expand its footprint in ex- U.S. territories, especially in countries like Australia, New Zealand, Brazil, Scandinavia, Germany, Central and Eastern Europe, Turkey, Japan and South Africa. It has also boosted Actavis’ product offerings and pipeline.

The acquisition has also provided Actavis with operational expertise and manufacturing capability needed to support its long-term investment in biogenerics. The establishment of a pathway by the U.S. government for the approval of biogenerics should open up a new and highly lucrative area of long-term growth for generic companies.

Actavis enhanced its commercial presence in key European markets and strengthened its foothold in the Greek pharmaceutical market through the May 2011 Specifar acquisition. Meanwhile, the acquisition of Australia-based Ascent Pharmahealth, the Australian and Southeast Asian generic pharmaceutical wing of Strides Arcolab Ltd., helped Actavis gain a foothold in Malaysia, Hong Kong,
Vietnam and Thailand. Moreover, Ascent had a 14% market share in the dermatology and skin care market of Australia, which will help diversify Actavis' portfolio.

The acquisition of Actavis Group is a smart strategic move. This deal has helped the company strengthen its presence in the ex-U.S. generics market and expanded and strengthened its presence and product portfolio. We are also positive on the Warner Chilcott acquisition which makes strategic and financial sense.

- **Biopharmaceuticals/Biosimilars to Boost Revenues:** Biosimilars represent significant opportunity. Therefore, the company is intent on increasing its biosimilars development efforts. As a step in this direction, Actavis acquired Eden in Jan 2010 for $15 million. This acquisition provided Actavis with proven biosimilar development and manufacturing capabilities. Further, in Jul 2010, Actavis entered into a worldwide licensing agreement with Itero Biopharmaceuticals, Inc. for the development and commercialization of Itero's recombinant follicle stimulating hormone (rFSH) candidate.

In Dec 2011, Actavis and Amgen entered into a collaboration agreement for the worldwide development and commercialization of oncology antibody biosimilars. The products developed under the collaboration will be sold under a joint Amgen/Actavis label. Actavis and Amgen are developing a biosimilar (exclusive license obtained from Synthon) of Roche's oncology drug, Herceptin.

We believe that the aforementioned transactions will expand Actavis' presence in the biosimilars space, with products that will complement the company's existing business.

**RISKS**

- **Merger Integration Risks:** Although we are positive on the company's acquisition strategy, integration risks remain. Any hiccups in the integration process could affect the company's performance and have an adverse impact on its stock price.

- **Pipeline Setbacks:** Actavis has been working on expanding its branded business. However, the company suffered a setback with the FDA issuing a CRL for the company's progesterone vaginal gel 8%. With the FDA requiring the company to conduct additional trials, we expect a significant delay in the potential approval and launch of the candidate. We view this development as disappointing, as the progesterone vaginal gel was one of the lead pipeline candidates at Actavis. Actavis also received a CRL for its NDA for a progestin-only transdermal contraceptive patch. More recently, the company's fixed-dose combination (FDC) of Bystolic and Novartis' Diovan (valsartan) for the potential treatment of hypertension got a negative vote from the FDA's advisory panel. Additional pipeline and regulatory setbacks would weigh on the stock.

**RECENT NEWS**

**Actavis' Antibiotic a Step Closer to EU Nod, CHMP Positive – Dec 19**

Actavis' antibiotic, Xydalba, received a positive opinion from the CHMP of the EMA. The company is looking to get Xydalba approved in the EU for the treatment of acute bacterial skin and skin structure infections (ABSSSI) in adults. With the CHMP issuing a positive opinion, chances of gaining EU approval look high. A decision should be out in the first half of 2015.
Xydalba is already marketed in the U.S. under the trade name, Dalvance, for the treatment of adult patients with ABSSSI caused by susceptible Gram-positive bacteria, including methicillin resistant Staphylococcus aureus (MRSA).

Dalvance had gained FDA approval earlier this year – Dalvance was approved as a Qualified Infectious Disease Product (QIDP) which means it will enjoy an additional five years of marketing exclusivity in the U.S. Meanwhile, a single-dose regimen of Dalvance is being studied with a supplemental New Drug Application (sNDA) expected to be filed by mid-2015. Dalvance also has the potential to be studied for additional indications like hospitalized community-acquired pneumonia and pediatric osteomyelitis.

Dalvance became a part of Actavis’ portfolio following the company’s Nov 2014 acquisition of Durata Therapeutics. Actavis has been actively looking to expand its branded product portfolio. The company, which acquired Forest Labs also this year, is currently looking to acquire Botox maker Allergan.

With the $66 billion Allergan acquisition (slated to close in the second quarter of 2015), Actavis, which was previously known for its strong presence in the generics market, will find itself in the company of the top 10 pharmaceutical companies across the world based on sales.

**Actavis to Appeal Ruling Regarding Namenda IR – Dec 15**

Actavis announced its decision to file an emergency appeal to the U.S. Court of Appeals for the Second Circuit for an immediate overturn of the lower court ruling that will require the company to continue selling Namenda immediate release (IR) tablets.

Actavis has taken this decision in response to the preliminary injunction issued on Dec 15 by the U.S. District Court for the Southern District of New York.

We remind investors that in Sep 2014, the Office of the Attorney General of the State of New York had filed a lawsuit accusing the company of attempting to prevent or delay generic competition for Namenda IR based on its commercial plans for Namenda XR. Namenda IR, approved for the treatment of moderate-to-severe dementia of the Alzheimer’s type, is expected to face generic competition starting Jul 2015.

In order to reduce the impact of genericization, Namenda XR, a higher dose and once-daily formulation of Namenda IR, was launched last year. Actavis is looking to convert IR patients to the new formulation ahead of the entry of generics.

The company had said on its third-quarter call that the rate of conversion from Namenda IR to Namenda XR is 38%, in-line with company’s expectations. Actavis expects to achieve nearly 50% conversion rate by the end of 2014. Moreover, the company had planned to stop selling Namenda IR from Jan 2015.

Actavis also has a fixed-dose combination of Namenda XR and Aricept (donepezil) under FDA review currently with approval expected by year end.

Actavis said that even if the court’s decision stands, it does not expect the Namenda franchise to be impacted significantly in 2015.

**Actavis’ Antibiotic Backed for FDA Approval, Response in First Quarter – Dec 5**

Actavis announced that the FDA’s Anti-Infective Drugs Advisory Committee has recommended the approval of the company’s NDA for ceftazidime-avibactam. Actavis is looking to get ceftazidime-avibactam approved for the treatment of hospitalized patients when limited or no treatment options are available for complicated intra-abdominal infections (cIAI) (in combination with metronidazole) and
complicated urinary tract infections (cUTI) (including acute pyelonephritis) caused by gram-negative pathogens.

However, the committee voted against the approval of the combination for hospital-acquired bacterial pneumonia (HABP)/ventilator-associated bacterial pneumonia (VABP) and bacteremia. The company intends to work closely with the FDA regarding the data required that would facilitate approval.

Actavis expects a response from the FDA regarding the approval status of the candidate in the first quarter of 2015.

We note that ceftazidime-avibactam is being developed by Actavis in collaboration with AstraZeneca. While Actavis has commercialization rights in North America, rest of the world commercialization rights are with AstraZeneca.

We are pleased with the panel’s voting in favor of approving ceftazidime-avibactam – chances of gaining approval look high.

**Actavis Strikes $66 Billion Deal for Botox Maker Allergan – Nov 17**

Putting an end to rumors, Actavis confirmed that it will be acquiring Botox maker Allergan in a cash and stock transaction ($129.22 in cash and 0.3683 Actavis shares for each share of Allergan common stock) valued at about $66 billion or $219 per share. Brent Saunders, Actavis’ CEO and President, will lead the combined company. While Allergan’s shares were up 5.31% on the news, Actavis’ shares gained 1.71%.

**How Will Actavis Benefit?**

With the Allergan acquisition, Actavis will be able to strengthen its global presence especially in Canada, Europe and Southeast Asia and other high-value growth markets like China, India, the Middle East and Latin America. Meanwhile, the combined U.S. sales force will ensure increased marketing reach.

The addition of several blockbuster therapeutic franchises will boost Actavis’ North American Specialty Brands business significantly. Actavis said that, on a pro forma basis for the full year 2015, the combined company will have three blockbuster franchises (ophthalmology, neurosciences/CNS and medical aesthetics/dermatology/plastic surgery) each with annual revenues of more than $3 billion.

Meanwhile, the specialty product franchises (gastroenterology, cardiovascular, women’s health, urology and infectious disease) will have combined revenues of about $4 billion.

Actavis expects combined pro forma revenues to cross $23 billion in 2015 and the deal to be earnings accretive (double-digit accretion) within a year. Revenues generated by Actavis’ brands business as well as international revenues will double with this acquisition. Pro forma international revenues in 2015 are expected to be about $5 billion.

Actavis expects annual synergies of at least $1.8 billion starting from 2016 – this is in addition to the $475 million of annual savings previously announced by Allergan. Actavis intends to invest $1.7 billion every year on R&D. Once the acquisition goes through, Actavis’ pipeline should be boosted by about 15 near- and mid-term projects.

The combined company is expected to generate free cash flow of more than $8 billion in 2016 and substantial growth thereafter, which should allow the rapid repayment of debt.
Our Take

The Actavis-Allergan combination looks good to us. With this acquisition, Actavis, which was previously known for its strong presence in the generics market, will find itself in the company of the top 10 pharmaceutical companies across the world based on sales. Allergan and Actavis have complementary product portfolios and ample scope for generating cost synergies.

Actavis’ decision to acquire Allergan is in line with its strategy of boosting its branded product portfolio. Actavis has been on an acquisition spree over the past several quarters and recently concluded deals include the Durata acquisition (to boost its infectious disease portfolio), the Forest Labs acquisition (significantly boosted branded products portfolio), the Furiex Pharmaceuticals, Inc. acquisition (targeting the gastroenterology market), the Warner Chilcott acquisition (led to the shifting of domicile to Ireland along with the expansion of the branded products portfolio) and the Actavis Group acquisition (expanded presence significantly).

The Allergan acquisition, slated to close in the second quarter of 2015, will boost Actavis’ branded segment significantly.

Actavis Beats on Earnings, Guides above Expectations – Nov 5

Actavis plc’s (ACT) third quarter 2014 earnings came in at $3.19 per share, beating the Zacks Consensus Estimate of $3.12 per share and increasing 52.6% from the year-ago period.

Revenues for the reported quarter came in at $3.7 billion, up 83% from the year-ago period, beating the Zacks Consensus Estimate of $3.6 billion.

Results were boosted by the inclusion of products from the Forest Labs and Warner Chilcott acquisitions.

Quarterly Details

Actavis has three revenue producing segments -- North American Brands, North American Generics and International (generic, branded generic, brands outside North America and over-the-counter pharmaceutical products) and Anda Distribution.

North American Brands revenue soared to $1.6 billion (up significantly from $153 million in the year-ago period), driven by the Forest and Warner Chilcott acquisitions. Products like the Namenda franchise ($427.6 million), Bystolic ($138.6 million), Linzess ($80 million), Lo Loestrin Fe ($71.6 million), Estrace Cream ($66.7 million), Daliresp ($30 million) and Tudorza ($28.4 million) all performed well.

Actavis plans to stop selling Namenda IR in Jan 2015 provided it receives a favorable court ruling later this month.

CNS, gastroenterology, women’s health, cardiovascular & respiratory, urology, anti-infectives and dermatology/established brands revenues came in at $554.6 million, $340.9 million, $241.5 million, $197 million, $73.5 million, $20.2 million and $191.6 million, respectively.

North American Generics revenues were $979.9 million. Generic Concerta and Lidoderm sales, however, were impacted by competition.

International revenues increased 15% from the year-ago period to $660.7 million benefiting from the Warner Chilcott and Forest acquisitions and strong growth in key markets including the UK and Russia/CIS.
Net revenues from the Anda Distribution segment increased 38% during the quarter to $423.2 million reflecting higher volume and new launches.

**Ups Outlook for Second Half 2014**

Actavis, which acquired Forest in Jul 2014, raised its outlook for the second half of the year. The company now expects to earn $6.60 - $6.70 per share on total net revenues of about $7.4 billion. Earlier, the company had guided towards earnings of $6.25 - $6.50 per share on total net revenues of about $7 billion. The guidance assumes no additional competition for Actavis’ generic version of Lidoderm, minimal contribution from its generic version of OxyContin, and continued strong sales of key North American brand products, as well as investments in consumer campaigns for Namenda XR and Lo Loestrin.

Meanwhile, full year earnings are now expected in the range of $13.51 - $13.61 per share, well above the previously issued guidance range of $13.02 - $13.32 per share and the pre-earnings Zacks Consensus Estimate of $13.33 per share.

**VALUATION**

Actavis’ third quarter results were once again strong with the company beating on both the top- and bottom-line. Moreover, Actavis raised its outlook for 2014 significantly.

Third quarter 2014 earnings came in at $3.19 per share, beating the Zacks Consensus Estimate of $3.12 per share and increasing 52.6% from the year-ago period. Revenues for the reported quarter came in at $3.7 billion, up 83% from the year-ago period, beating the Zacks Consensus Estimate of $3.6 billion. Results were boosted by the inclusion of products from the Forest Labs and Warner Chilcott acquisitions.

We remain optimistic about Actavis’ growth prospects. We are positive on the company’s decision to acquire Forest. The deal is in line with Actavis’ strategy of building its branded product portfolio. With a fewer number of blockbuster products slated to lose patent protection in the coming years, quite a few generic companies have been focusing on strengthening their branded products offerings. We are encouraged by Actavis’ focus on building its branded and biosimilars pipeline. The Durata and upcoming Allergan acquisition also look good. Based on the company’s improving prospects, we maintain an Outperform recommendation on the stock.

Actavis’ current trailing 12-month earnings multiple is 20, compared to the industry average and S&P 500 multiples of 39.5 and 18.9, respectively. The stock is currently trading at 15.8x our 2015 EPS estimate. Our $318 target price is based on 18.9x our 2015 EPS estimate.
## Key Indicators

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<th>P/E F1</th>
<th>P/E F2</th>
<th>Est. 5-Yr EPS Gr%</th>
<th>P/CF (TTM)</th>
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TTM is trailing 12 months; F1 is 2014 and F2 is 2015, CF is operating cash flow.

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Earnings Surprise and Estimate Revision History

ACTAVIS PLC (A) Price

EPS ($/sh) 2015 Consensus 2014 Consensus

Price ($)

3/12/10 8/27/10 2/1/11 1/13/12 5/31/13 11/15/13 5/2/14

3/5/10 8/20/10 2/4/11 7/29/11 1/13/12 1/24/12 5/24/13 4/25/14

<< 1/19/94

<< 1/3/03

ZACKS

Equity Research

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DISCLOSURES & DEFINITIONS

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Our recommendation for each stock is closely linked to the **Zacks Rank**, which results from a proprietary quantitative model using trends in earnings estimate revisions. This model is proven most effective for judging the timeliness of a stock over the next 1 to 3 months. The model assigns each stock a rank from 1 through 5. Zacks Rank 1 = Strong Buy. Zacks Rank 2 = Buy. Zacks Rank 3 = Hold. Zacks Rank 4 = Sell. Zacks Rank 5 = Strong Sell. We also provide a **Zacks Industry Rank** for each company which provides an idea of the near-term attractiveness of a company's industry group. We have 264 industry groups in total. Thus, the Zacks Industry Rank is a number between 1 and 264. In terms of investment attractiveness, the higher the rank the better. Historically, the top half of the industries has outperformed the general market. In determining **Risk Level**, we rely on a proprietary quantitative model that divides the entire universe of stocks into five groups, based on each stock’s historical price volatility. The first group has stocks with the lowest values and are deemed **Low Risk**, while the 5th group has the highest values and are designated **High Risk**. Designations of **Below-Average Risk**, **Average Risk**, and **Above-Average Risk** correspond to the second, third, and fourth groups of stocks, respectively.