

Mar 15, 2013

## This Morning's Highlights

**ARO:** ARO Falls Face First But Has A Plan To Relieve The Pain - ( Estimate Change )**CPE:** First Look: Disappointing Well Results And Guidance - ( No changes )**BCEI:** First Look: Beats Estimates And Good Well Results - ( No changes )**MACK:** MACK: 4Q Results; ASCO Looks Lighter Than We Expected With More Data in 2H13 - ( Estimate Change )**SNTA:** SNTA: 4Q Results; Key Overall Survival Update for GALAXY 1 Expected at ASCO - ( Estimate Change )**Cable, Satellite & Interactive Media:** February NPD Retail Video Game Industry Sales Continue to Decline

## Upcoming Events:

## Conference(s):

05/20 Global Resources & Infrastructure Conference  
New York, NY

## Non-Deal Roadshow(s):

03/15 Tetra Tech (TTEK) Management Meetings  
Miami, FL

## Analyst Marketing:

03/15 Todd Mitchell, Digital Media Analyst  
Montreal, Canada  
03/15 Lucas Pipes, Coal Analyst  
Boston, MA

## ESTIMATE CHANGES

## Aeropostale, Inc.

## ARO Falls Face First But Has A Plan To Relieve The Pain

ARO \$14.51

Hold/Target Price:NA

Eric Beder, (212) 702-6619

[EBeder@breancapital.com](mailto:EBeder@breancapital.com)

Danielle McCoy, (212) 702-6688

[DMcCoy@breancapital.com](mailto:DMcCoy@breancapital.com)

EPS	FY12A	Prior12A	FY13A	Prior13A	FY14E	Prior14E
Apr	\$0.20	--	\$0.13	--	--	--
July	--	--	\$0.00	--	--	--
Oct	\$0.30	--	\$0.31	--	\$0.24	--
Jan	\$0.44	--	\$0.24	\$0.18	\$0.40	--
FY (Jan)	\$0.91	--	\$0.68	\$0.62	\$0.37	\$0.83
		--		--		--
Revenue (\$M)	FY12A	Prior12A	FY13A	Prior13A	FY14E	Prior14E
FY (Jan)	\$2,342.3	--	\$2,386.2	--	\$2,332.6	--
		--		--		--

Price	\$14.51
52-Week High/Low	\$23.05-\$11.76
Shares Out (mm)	78.3
Market Cap (mm)	\$1,136
Avg. Daily Vol (000)	2,328,730
Short Interest	9.7%
Cash (mm)	NA
EV (mm)	NA
Book Value / Share	NA

## Investment Summary

ACTIONS
We are reiterating our Hold rating.
We are materially reducing our FY14 EPS to \$0.37 (from \$0.83) and rolling-out our FY15 EPS of \$0.64.
<i>We prefer to remain on the sidelines until initiatives begin to positively impact results.</i>

Despite a \$0.02 beat to 4Q EPS Street estimates, macro-economic headwinds and reduced traffic patterns were reflected in Aeropostale's disappointing, to say the least, 1QFY14 guidance that assumed material merchandise margin deterioration driven by an aggressive promotional stance to liquidate inventory overhang from 4Q. That said, the company has laid out a detailed road map on how to improve the business model and rejuvenate the Aeropostale brand which includes: 1) increasing the fashion content of the assortment to become more relevant to the new demands of the teen; 2) make a deeper emotional connection through a powerful multi-media and consistent marketing approach; 3) develop a sturdy infrastructure to create efficiencies within the operating processes; and 4) make investments in platforms of the future including e-commerce and mobile. While we believe these are necessary actions, we do not expect to witness any upside until 3QFY14, at best. In addition, after a somewhat weak overall FY13 performance, we believe management will have to work hard to regain Street credibility and we prefer to remain on the sidelines as this unfolds.

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**Merrimack Pharmaceuticals****MACK \$6.15****MACK: 4Q Results; ASCO Looks Lighter Than We Expected With More Data in 2H13****Buy/Target Price:\$14.00****Gene Mack**, (212) 702-6616[GMack@breancapital.com](mailto:GMack@breancapital.com)**Daniel Brims**, (212) 702-6607[DBrims@breancapital.com](mailto:DBrims@breancapital.com)

EPS	FY12A	Prior12A	FY13E	Prior13E	FY14E	Prior14E
FY (Dec)						--
P/E (x)	NM	--	NM	--	NM	--
Revenue (\$M)	FY12A	Prior12A	FY13E	Prior13E	FY14E	Prior14E
FY (Dec)	\$48.9	\$45.7	\$50.0	--	\$81.7	--
P/S (x)	11.8	12.7	11.6	--	7.1	--

Price	\$6.15
52-Week High/Low	\$11.11-\$5.66
Shares Out (mm)	94.2
Market Cap (mm)	\$579
Avg. Daily Vol (000)	308,742
Short Interest	3.2%
Cash (mm)	NA
EV (mm)	NA
Book Value / Share	NA

**Investment Summary**

**NAPOLI-1 Now to Readout in 2H13.** Merrimack amended the NAPOLI-1 protocol to add a third arm, which has resulted in a readout being pushed back slightly from mid-2013 to 2H13.

**Back Half of 2013 Will Be Data Heavy for MM-121.** While we expect Phase 2 NSCLC data at AACR and possibly updated at ASCO in June, the majority of ongoing studies for MM-121 likely won't yield data until 2H13. There are four phase 2 trials being conducted for MM-121 in breast, ovarian, and non-small cell lung cancer, and we expect data from each of these studies to read out in 2H13. We do expect the mutant EGFR, NSCLC cohort to read out earlier, in 1H13.

**Merrimack reported Earnings of \$(1.28) Per Share.** The loss of \$(1.28) per share was in line but slightly below our estimate of \$(1.26) per share for FY12. Merrimack ended the quarter with ~\$110M in cash including a \$40M line of credit, which we believe will fund operations into 2014.

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**Synta Pharmaceuticals Corp.****SNTA \$9.02****SNTA: 4Q Results; Key Overall Survival Update for GALAXY 1 Expected at ASCO****Buy/Target Price:\$12.00****Gene Mack**, (212) 702-6616[GMack@breancapital.com](mailto:GMack@breancapital.com)**Daniel Brims**, (212) 702-6607[DBrims@breancapital.com](mailto:DBrims@breancapital.com)

EPS	FY11A	Prior11A	FY12A	Prior12A	FY13E	Prior13E
Mar	--	--		--	--	--
June	--	--		--	--	--
Sept	--	--		--	--	--
Dec	--	--		--	--	--
FY (Dec)		--				
P/E (x)	NM	--	NM	--	NM	--
Revenue (\$M)	FY11A		FY12A		FY13E	
FY (Dec)	\$7.6		\$0.1		\$0.0	
P/S (x)	81.8	--	NM	--	--	--

Price	\$9.02
52-Week High/Low	\$11.88-\$3.57
Shares Out (mm)	68.9
Market Cap (mm)	\$621
Avg. Daily Vol (000)	459,142
Short Interest	11.7%
EV (mm)	NA

**Investment Summary**

- **Data From GALAXY 1 Expected in 2Q13 As GALAXY 2 begins.** We expect an interim OS analysis for GALAXY 1 in May that will facilitate a data presentation at ASCO. GALAXY 1 completed enrollment in October 2012, and we expect mature data in 4Q13, approximately 10 months following complete enrollment. The GALAXY 2 study is expected to complete enrolling by YE13, and we do not expect interim data until after mature GALAXY 1 data has been released.
- **Focus Moving from Ganetespib Monotherapy to Combo.** We believe the addition of a paclitaxel combo arm to the ENCHANT breast cancer study will demonstrate better efficacy than monotherapy.
- **Synta reported Earnings of \$(1.06) Per Share.** The loss of \$(1.06) per share was in line but slightly below our estimate of \$(1.02) per share for FY12. SNTA entered 2013 with approximately \$100M in cash which is sufficient to fund operations through 2Q14. The company filed a shelf registration yesterday, but we do not believe SNTA will consider a secondary offering prior to the next data presentations at ASCO in June.

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## COMPANY COMMENTS

## Bonanza Creek Energy, Inc.

BCEI \$39.29

## First Look: Beats Estimates And Good Well Results

Buy/Target Price:\$42.00

Jeff Connolly, (212) 702-6661

[JConnolly@breancapital.com](mailto:JConnolly@breancapital.com)

Price	\$39.29
52-Week High/Low	\$39.92-\$14.52
Shares Out (mm)	40.1
Market Cap (mm)	\$1,576
Avg. Daily Vol (000)	627,864
Short Interest	4.5%
Public Market Float (mm)	38
Cash (mm)	\$4.8
LTD (MM)	\$155.4
EV (mm)	NA
Book Value / Share	14.30

## Investment Summary

Bonanza Creek reported better-than-expected 4Q results and positive data from multiple test wells in the Wattenberg Field. Better-than-expected pricing drove the top- and bottom-line beats. Initial results from the Niobrara C bench look good, and we are excited about the play's potential. Initial results from the Codell formation and Niobrara B bench extended reach lateral well are positive, as well. We maintain our Buy rating on BCEI.

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## Callon Petroleum Company

CPE \$5.00

## First Look: Disappointing Well Results And Guidance

Buy/Target Price:\$6.00

Jeff Connolly, (212) 702-6661

[JConnolly@breancapital.com](mailto:JConnolly@breancapital.com)

Price	\$5.00
52-Week High/Low	\$7.46-\$3.80
Shares Out (mm)	39.8
Market Cap (mm)	\$199
Avg. Daily Vol (000)	237,123
Short Interest	2.8%
Public Market Float (mm)	40
Cash (mm)	\$1.5
LTD (MM)	\$151.5
EV (mm)	NA
Book Value / Share	5.16

## Investment Summary

Callon Petroleum reported disappointing results for 4Q12 and year-end 2012 on weaker-than-expected production. Results from exploratory wells on the company's northern Midland Basin acreage in Borden County, TX, were disappointing, as well. In addition, management's guidance for 2013 was lower than our expectations.

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## SECTOR NOTES

## Technology

## February NPD Retail Video Game Industry Sales Continue to Decline

Todd Mitchell, (212) 702-6602

[TMitchell@breancapital.com](mailto:TMitchell@breancapital.com)

Yung Kim, (212) 702-6629

[YKim@breancapital.com](mailto:YKim@breancapital.com)

## Investment Summary

**NPD reports a 25% decline in total U.S. retail sales for the video game industry.** Total industry sales dipped to \$810 million from \$1.1 billion a year ago. Software sales fell 27% to \$352 million from \$484 million, versus expectations for a 17% drop. The pullback in NPD software sales reflects a drop in demand for mid-tier titles, with sales of new launches declining 30% in February 2013 versus a year ago, according to NPD. Hardware sales were off 36% to \$244 million from \$383 million, reflective of weak sales of the new Wii U and softer demand ahead of the release of new consoles this holiday season. Accessories dipped 3% to \$214 million from \$220 million. However, sales of Activision's (ATVI \$15.03, Buy) *Skylanders Giants* continued to be a significant contributor to the segment overall.

**EA and Activision continues to dominate the top of the video games sales chart.** Video game software sales fell 27% in February to \$352 million from \$484 million. EA (EA \$19.34, Buy) saw solid results from *Dead Space 3* and *Crysis 3*, which came in first and third respectively, while Activision's *Call of Duty: Black Ops II* fell from first place for the first time since its November launch, finishing second. Accessories sales dipped 3% to \$214 million from \$220 million. However, Activision's *Skylanders Giants* continued to be a significant contributor to the segment, generating \$35 million in sales in February, with sales of single character packs for *Skylanders Giants* ahead of the original *Skylanders* a year ago. The franchise has generated more than \$600 million in the U.S. alone since launching in October 2011, according to NPD. Activision previously announced that the franchise had surpassed the \$1 billion threshold globally.

**With the Wii U DOA, hardware sales slip ahead of the release of new consoles.** Hardware sales fell 36% to \$244 million from \$383 million a year ago. Nintendo's Wii U continues to falter, up 40% sequentially, put down 38% versus the Wii for its first three months on the market. On the other hand Microsoft continues to gain share, with sales of 302,000 X360 in the past month, despite softening demand in front of the launch of the next generation of consoles. Sony officially announced its PlayStation 4 in February with a holiday 2013 release. Microsoft has yet to unveil its next generation console, but it is widely expected to have a new version of the Xbox for the holidays as well. We anticipate further details on both consoles in advance of the E3 industry conference in June.

**Despite sales declines, shares have benefited from a rotation into the group.** Since the New Year, shares prices for EA have increased 33%, ATVI has jumped 42%, and TTWO (TTWO \$15.93, Hold) have risen 45%. We believe the ongoing momentum is being driven by a rotation into the group ahead of the release of new consoles in the fall, despite the fact that console transitions have typically been challenging for third-party publishers. We anticipate this dynamic to be present in the upcoming transition. However, current gen multi-player functionality and digital add-ons should help keep players engaged until a significant base of players coalesce around the new consoles. Take-Two's *Grand Theft Auto V*, a September release, EA's sports lineup and Activision's *Call of Duty* stand to be the most significant beneficiaries in our view.

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Buy - Expected to appreciate by at least 10% within the next 12 months.

Hold - Fully valued, not expected to appreciate or decline materially within the next 12 months.

Sell - Expected to decline by at least 10% within the next 12 months.

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
BUY	141	65.58%	8	5.67%
HOLD	68	31.63%	2	2.94%
SELL	6	2.79%	1	16.67%
NOT RATED				

*Note: Stock price volatility may cause temporary non-alignment of some ratings with some target prices.*

### Valuation / Target Price

Bonanza Creek Energy, Inc. - BCEI:

Our \$42.00 per-share price target applies a 15% discount to our \$49.00 per-share net asset value estimate, which assumes mid-cycle NYMEX prices of \$85.00 per Bbl of oil and \$4.00 per Mcf of natural gas plus applicable differentials.

Callon Petroleum Company - CPE:

Our \$6.00 per share price target is based on 85% of our risked \$7.00 per-share NAV estimate, which assumes midcycle NYMEX benchmark prices of \$85/Bbl of oil and \$4.00/Mcf of natural gas adjusted for company specific differentials.

Merrimack Pharmaceuticals - MACK:

Our \$14 target price for MACK shares is based on the NPV of MM-398 global revenue (discounted 20%) in pancreatic cancer alone, which we forecast will peak at \$800M (see Exhibit 1). We assume orphan pricing for MM-398 peaking at \$80k per course in the US with conservative peak penetration in the US (35%) and ex-U.S. (25%). MACK's early stage pipeline, which is not included in our revenue forecasts, lends significant upside to our current valuation.

Synta Pharmaceuticals Corp. - SNTA:

Our \$12 target price for SNTA shares is based on the NPV of Ganetespib revenue discounted (at 20%) from U.S. and E.U. sales in 2nd-line NSCLC alone. We forecast \$1.0B in peak global sales by 2020. Risks to the achievement of our target price include: (1) clinical trial risk; (2) regulatory risk; (3) commercialization risk; and (4) pipeline risk.

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