

January 16, 2015

**Dear clients and colleagues,**

Demographics continue to be one of the key themes in our investment process. What often comes to mind when one discusses demographics are the rapidly aging populations of developed countries. It is important to note that the so called Baby Boomer generation is also the demographic with the highest amount of discretionary income. And these disposable funds are quite often invested in pursuing and maintaining a youthful lifestyle.

The medical aesthetic market is one of the industries that are best positioned to benefit from the aging population. This week, we shall introduce you to a portfolio holding that is ideally situated to benefit from this trend. The company is Cynosure Inc.

**Cynosure Inc. (CYNO US – \$29.88)**

<http://www.cynosure.com>

### ***Business Overview***

Based in Westford, MA Cynosure is the #1 Aesthetic Equipment Devices (AED) company by sales. What makes CYNO stand out from the herd is its comprehensive product offering. CYNO's products are used for applications such as hair removal, skin resurfacing and scar reduction, body contouring, treatment of vascular lesions, and tattoo removal.

Over the years, the company has accumulated more than 80 patents. It caters to customers in over 130 countries through its wholly owned subsidiaries and global distributors.

### ***Target Market***

Walden Group estimates that Americans spent nearly \$11B on cosmetic procedures in 2012, of which \$6.7B was spent on surgical procedures; \$2B on injectables; \$1.8B on skin rejuvenation procedures; and over \$483M on other nonsurgical procedures, including laser hair removal and laser treatment of varicose veins.

According to the American Society of Plastic Surgeons, U.S. cosmetic procedural volumes for both minimally-invasive and surgical procedures approached 15.1M in 2013. With improving technology, more and more procedures are shifting to either minimally-invasive or non-invasive options.

Growth in the medical aesthetic industry is being driven by factors such as:

- An aging population that wants to remain youthful
- A flight to out-of-pocket work among doctors and clinicians

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- Increasing interest in the media and popular culture
- Safety factors relative to invasive cosmetic work
- Improving efficacy

#### ***CYNO Competitive advantages***

- Technology spectrum
- First mover (6 to 12 months ahead of competition)
- 80 patents

#### ***Growth strategy***

- Launch new products
- Expand sales channels into new markets
- Introduce more products with consumables

#### ***Management***

- CYNO's senior management team has been together for a decade.

#### ***Risks***

- Aesthetic laser and light-based treatment system industry is vulnerable to economic trends
- Increased competition

#### ***Market Data***

Market Cap \$646M, P/E (2016) 16.3x, ev/sales (2016) 1.5x, ev/ebitda (2016) 8.4x, 5yr average sales growth 33.5%.

Global small cap companies are not always known by name, but they almost always touch our daily lives in important ways. For example, some of Unilever's high-end Illuminage products (<http://www.iluminagebeauty.com>) use Cynosure's technology. These are cutting-edge products that are revolutionizing the anti-aging industry - and are of particular appeal to the fastest growing demographic, the Baby Boomers.

Have a good weekend.

#### **The Global Alpha Team**

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