Daily Research Highlights

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REITs: Our Spruce Goose Economy: Lowered Assumptions, but Staying "Positive"

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June 6

Equity Lifestyle Properties, Inc. (ELS, BUY, Target: $75.50)
David Toti (212-915-1219, dtoti@cantor.com)

Upgrading to BUY; A Bargain in the Housing Bin

We upgrade shares of Equity Lifestyle Properties, Inc. (NYSE: ELS) to Buy from Hold and leave our price target unchanged. YTD, the stock has underperformed the RMZ index by 630 bps, returning (0.2%). So why the upgrade now, when nothing has changed?

- **Suddenly, its cheaper.** The stock is a more attractive relative value given underperformance (due to the flight to "higher growth" rental housing investment options). ELS is now attractive on an absolute basis (our price target of $75.50 implies a 12-month total return of 16.0%, higher than our 12-month total return expectation for the RMZ of 9.5-14.5%) and on a relative basis, trading with an implied cap of 6.2%, vs. 5.2%/6.0% for multifamily/REIT peers, respectively, while '13 AFFO multiples trail at 15.8x, vs. 20.8x/18.4x for multifamily/REITs peers.
- **The call could be an Early-Bird Special.** Should the current revival of EU fears and the negative twist in job creation dissipate, the decision to overweight exposure to ELS could prove a negative. The stock works best in a tepid economy, and as such, relative out-performance is at risk if the economy (and investor sentiment) improve.

NewLink Genetics Corporation (NLNK, BUY, Target: $18.00)
Mara Goldstein (212-610-2215, mgoldstein@cantor.com)

Great Data at ASCO; Raising Price Target to $18

- We are raising our 12-month price target to $18 from $15 based on our view that the Phase II data generated by HyperAcute Pancreas provides some de-risking to the Phase III trial, prompting us to reduce our five-year discount rate to 45% from 50%. Our new price target is based on a 40x multiple on our 2017 EPS forecast of $2.86 discounted by 45%.
- Phase II results presented at ASCO show that HyperAcute Pancreas increased overall survival by 59% over a two-year period and 121% over three years, though there are still a handful of patients yet to read out. However, given the small number of patients pending read-out, our anticipation is that the data won't change dramatically.
- We have also updated our estimates to reflect 1Q:12 actual results. Based on a higher share count our new EPS forecast for 2012 is ($1.77) from ($2.98) and our 2013 forecast is now (2.07).

REITs
David Toti (212-915-1219, dtoti@cantor.com)

Our Spruce Goose Economy: Lowered Assumptions, but Staying "Positive"

We update our rolling 12-month REIT total return forecast to 12% (mid-point) from current levels, while modestly lifting our target for the MSCI US REIT Index (RMZ) to 915, from 900 (inclusive of a 3.7% aggregate dividend yield). We have downgraded our core economic assumptions, from a previously assumed "Slower Near-Term Growth" scenario, to a less robust assumption of "Below-Trend Long-Term Growth." Had we kept our original assumption, our model suggests a ~975 12-month target. Recall, these scenarios underpin our sector call and impact our interest rate-driven valuation processes. The specifics to the two scenarios are detailed on page 2.

We therefore continue to maintain a "positive" view of the REIT sector, given that this forecast is ahead of the returns expected (+6.5%) for the S&P 500. This forecast is the product of our proprietary RMZ forecasting model, which is framed by the following: (a) 2.1% 2012 U.S. GDP growth (down from 2.3%), (b) 8.2% unemployment (from 8.9% prior), (c) still-low interest rates (2.9% 10-year UST by 2013), (d) continued capital access bifurcation (public vs. private), and (e) a lingering cloud of EU uncertainty and unknown U.S. government actions. Net net, the change has extended our forecast from YE to mid-year 2013, with only a modest change in the return expectation. Below, we outline five key arguments that support relative REIT outperformance from current levels:

- **Finally, a ~3.7% dividend yield, with growth potential, is attractive in today's world of 0%.**

June 5

United Natural Foods, Inc. (UNFI, SELL, Target: $36.00)
Ajay Jain (212-915-1240, ajain@cantor.com)

UNFI: EPS Growth Appears Mostly Cosmetic - Maintain SELL

- **A lot of concerns below the surface -** While we've raised our price target for UNFI to $36 (from $33), our underlying concerns on fundamentals remain the same. UNFI's FCF outlook typically improves in 2H due to seasonality. However, FCF trends appear to be highly disconnected from reported earnings growth, and this continued weakness may be a factor behind the reduced capex guidance for FY:12.
- **Raising estimates -** We've raised our EPS estimates for FY:12 to $1.94 (from $1.81). However, this figure isn't directly comparable to the adj. non-GAAP EPS guidance of $1.92-$1.96, since we've included the $0.02 per share of integration costs for the Safeway (NYSE: SWY, SELL) contract.
- **Operating cash flow appears insufficient to finance UNFI's growth** - At this time, we don't foresee a significant earnings or operational catalyst for the stock. However, the shares remain significantly overbought at current levels. The revised guidance range implies an EPS range of $0.49-$0.53 for 4Q (therefore, we see little upside to the near-term consensus outlook). The negative impact from working capital items, including DSOs, were evident again in the latest results. Rising bad debt expense is also a concern.

RF Micro Devices, Inc. (RFMD, BUY, Target: $8.00)
Dale R. Pfau (650-529-1993, dpfau@cantor.com)

Lowers Cost by Outsourcing: BUY

- On June 5, after the close, RF Micro Devices announced that it will be lowering its manufacturing costs by purchasing all of its MBE and most of its MOCVD processed GaAs wafers from IQE plc (London: IQE, NC). RF Micro Devices had been purchasing the majority of its MOCVD wafers but had processed its own MBE wafers. The company is moving this process step to a variable-cost model from a fixed-cost model.
- The company will transfer a 90,000 square foot building, 16 MBE machines, and approximately 70 employees to IQE. The company expects non-cash GAAP charges of approximately $0.02-0.03 per share ($5-7 million) in the June quarter for inventory and other charges. There should be no effect on our non-GAAP estimates. We expect the transaction to be positive to earnings in the September quarter. While the company would offer no guidance on cost savings, we estimate that margins could improve by 50-150 bps depending on overall factory utilization.
- With products ramping into new 3G/4G platforms over the next year and with expanding margins, we find the shares attractive at current levels and suggest investors aggressively accumulate shares at current levels.

Varian Medical Systems, Inc. (VAR, BUY, Target: $75.00)
Jeremy Feffer (212-915-1238, jfeffer@cantor.com)

Elekta Results Read-Through: Worldwide Demand Remains Strong

SUMMARY: Elekta (NASDAQ OMX NORDIC: EKTA'B-SK, NC), Varian's largest competitor, reported worldwide order growth of 11% for its April 2012 quarter (versus a +9% y/y comp), which is roughly in line with Varian's most recent results and suggests that there remains ample global demand for radiation oncology equipment. We continue to view the worldwide oncology market as a mid-to-high single-digit grower, with Varian well positioned to further strengthen its leadership status, particularly with its Siemens (NYSE: SI, NC) partnership. We reiterate our BUY rating.

- **Americas.** Order bookings in the Americas grew 20% (x-FX), although that was aided by a -14% y/y comp. Growth in North America was 13%, which management attributed in part to a growing replacement market, which is precisely how Varian has characterized North America. As a reminder, Varian's North American orders grew 14% in its comparable March quarter (versus a +12% comp) on continued TrueBeam momentum.
- **Bottom Line.** O-U.S. comps do get tougher in 2H:12, but weakness in southern Europe is offset somewhat by still strong demand in northern Europe, while Varian continues to build momentum in Japan. Margin headwinds and reduced guidance are well reflected in the stock, in our view, and we would use recent weakness in the stock as a buying opportunity.

United Natural Foods, Inc. (UNFI, SELL, Target: $33.00)
Ajay Jain (212-915-1240, ajain@cantor.com)

Quick Comments on 3Q Beat - Still Worried About FCF and Bad Debt Expense (SELL)

- **Sales-driven earnings beat.** UNFI reported 3Q EPS of $0.59 (consensus $0.56) and raised its full year EPS outlook. The source of upside was primarily top line related. UNFI's sales (+15.3%) were higher than our 14% estimate. Gross margins of 17.6% (-53 bps) were modestly lower than our 17.8% estimate. Operating expenses (14.1% of sales) reflected a decrease of 81 bps Y/Y and was materially better than our 14.6% estimate.
- **Guidance updated.** UNFI raised its non-GAAP EPS guidance for FY:12 to $1.92-$1.96 (from a range of $1.88-$1.94). The reported GAAP EPS guidance range is now $1.84-$1.88 (from $1.79-$1.86). While it's not clear whether the SG&A improvement was driven by aggressively managed cost cutting or by actual productivity gains, management noted in its prepared comments that operating efficiencies from new initiatives are gaining traction. We look for more color in relation to the ongoing rollout of the warehouse management technology (WMS) and the factors behind the company's plans to cut capex guidance over the balance of the year (with capex now in the range of $35-$40 million (compared to $47-$52 million previously).
- **Valuation remains punchy.** We would be careful not to get too carried away on the latest results. To the extent that UNFI generates FCF this year, it will likely benefit from lower capital spending based on the latest update in guidance. Additionally, bad debt expense continued to creep higher in 3Q, underscoring our continued concerns over lower quality/lower margin customer mix.

Disclosures Appendix

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BUY: We have a positive outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors add to their position.

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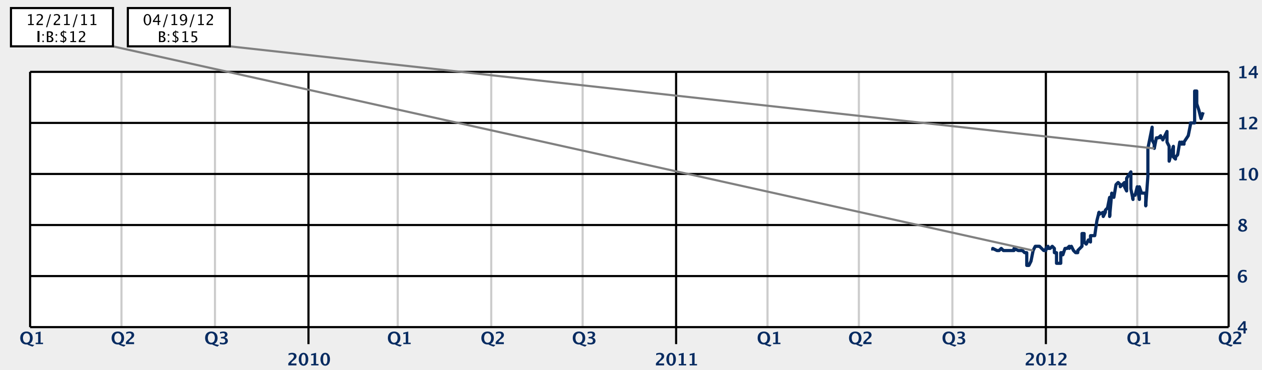
Rating and Price Target History for: NewLink Genetics Corporation (NLNK) as of 06-05-2012



B=Buy H=Hold S=Sell I=Initiated D=Dropped

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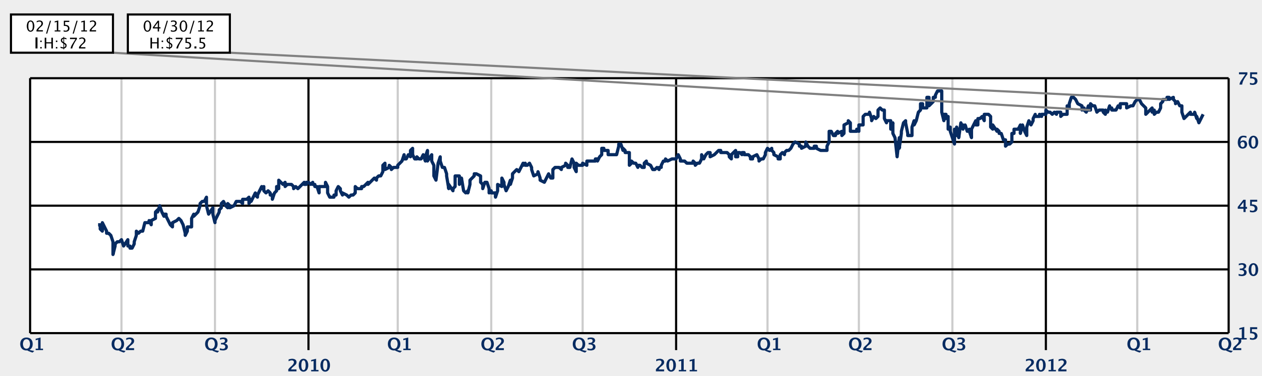
Rating and Price Target History for: Equity Lifestyle Properties, Inc. (ELS) as of 06-05-2012



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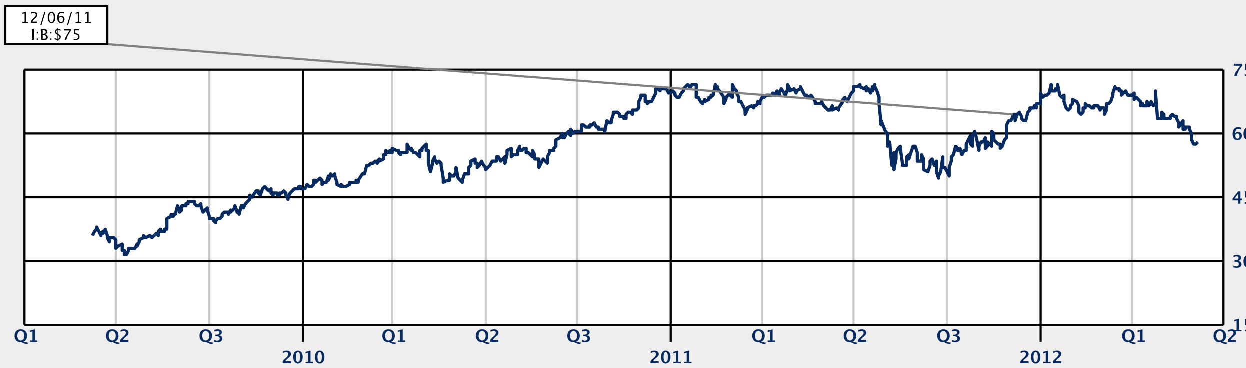
Rating and Price Target History for: Varian Medical Systems, Inc. (VAR) as of 06-05-2012



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Rating and Price Target History for: United Natural Foods, Inc. (UNFI) as of 06-05-2012

B=Buy H=Hold S=Sell I=Initiated D=Dropped

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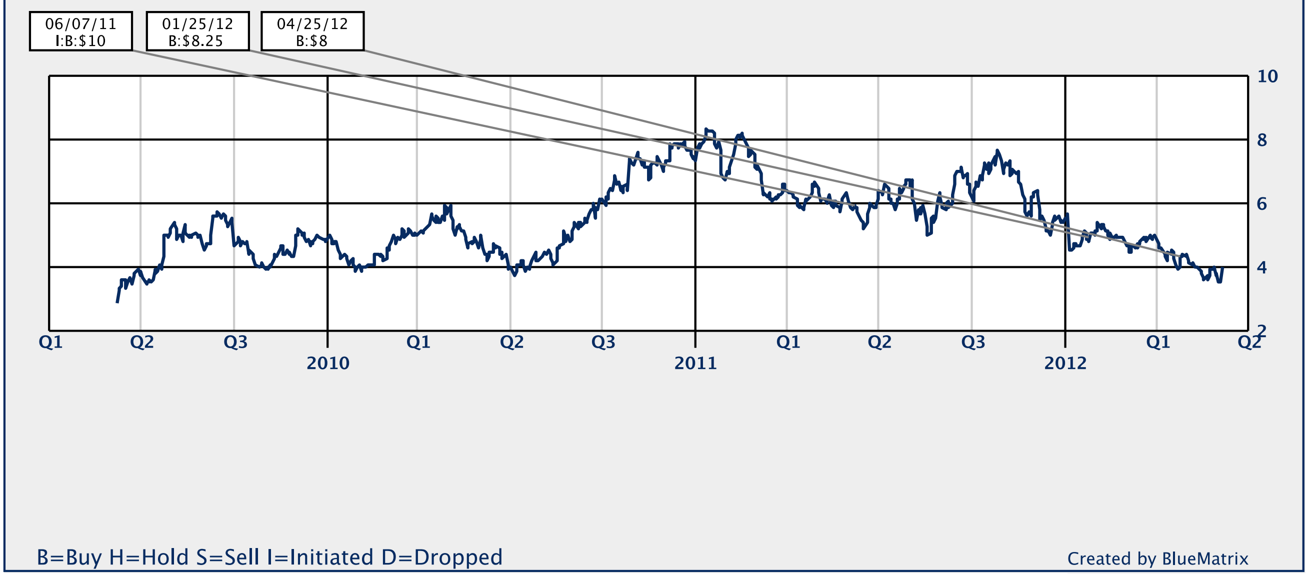
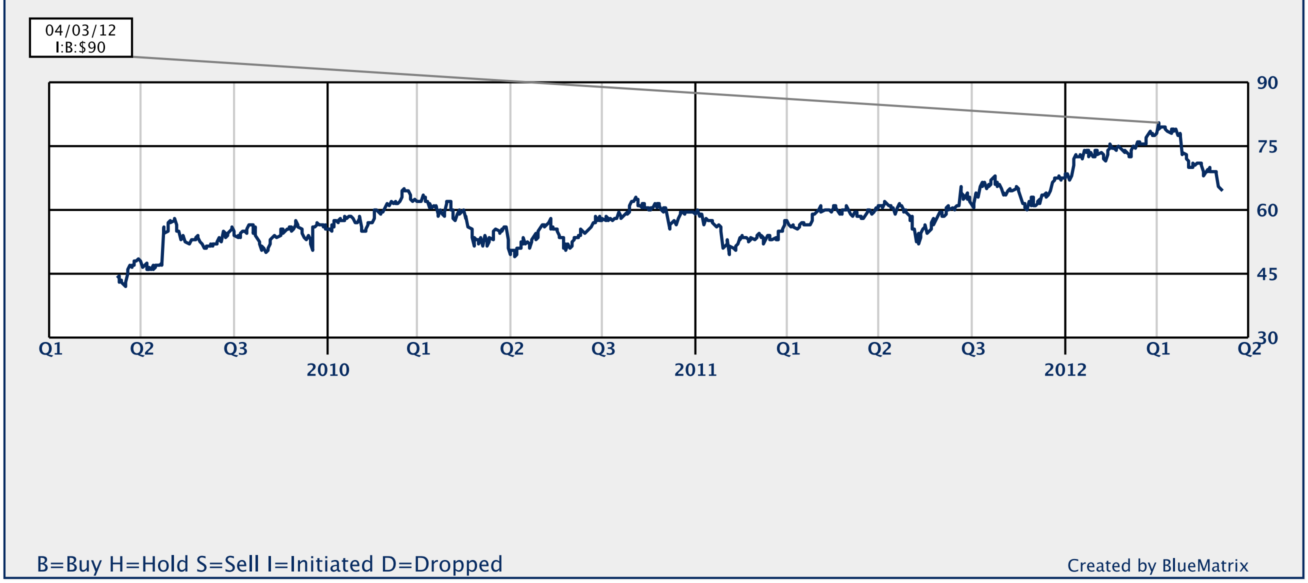
Rating and Price Target History for: RF Micro Devices, Inc. (RFMD) as of 06-05-2012



Rating and Price Target History for: Celgene Corporation (CELG) as of 06-05-2012



Rating and Price Target History for: Celldex Therapeutics, Inc. (CLDX) as of 06-05-2012

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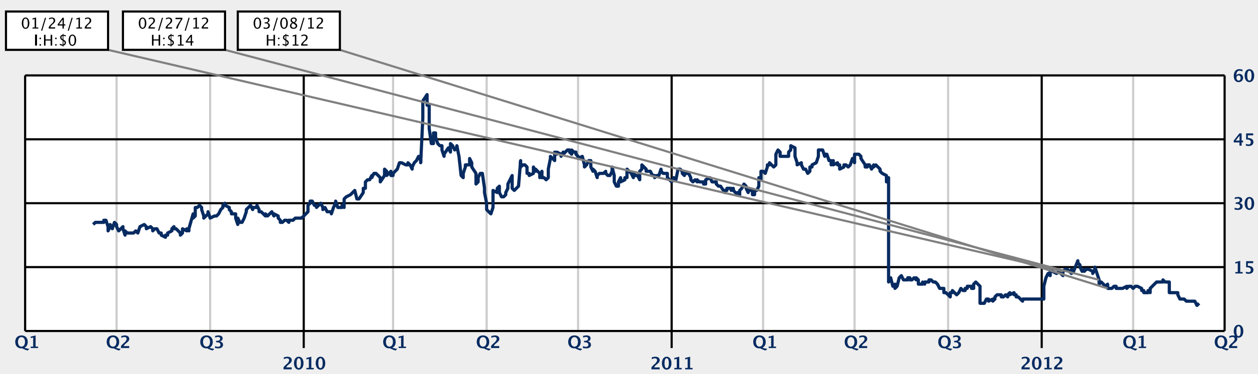
Rating and Price Target History for: Dendreon Corporation (DNDN) as of 06-05-2012



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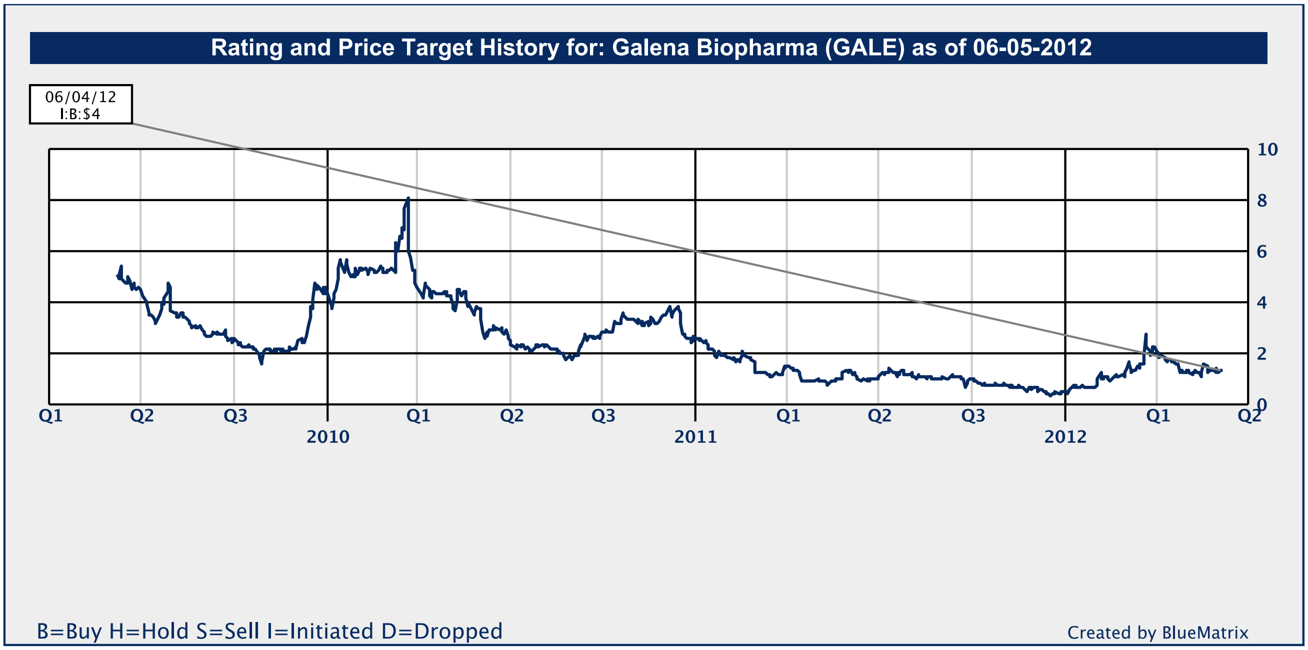
Rating and Price Target History for: Galena Biopharma (GALE) as of 06-05-2012
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Q3
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2012
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B=Buy H=Hold S=Sell I=Initiated D=Dropped
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Rating and Price Target History for: Oncothyreon Inc. (ONTY) as of 06-05-2012
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B=Buy H=Hold S=Sell I=Initiated D=Dropped
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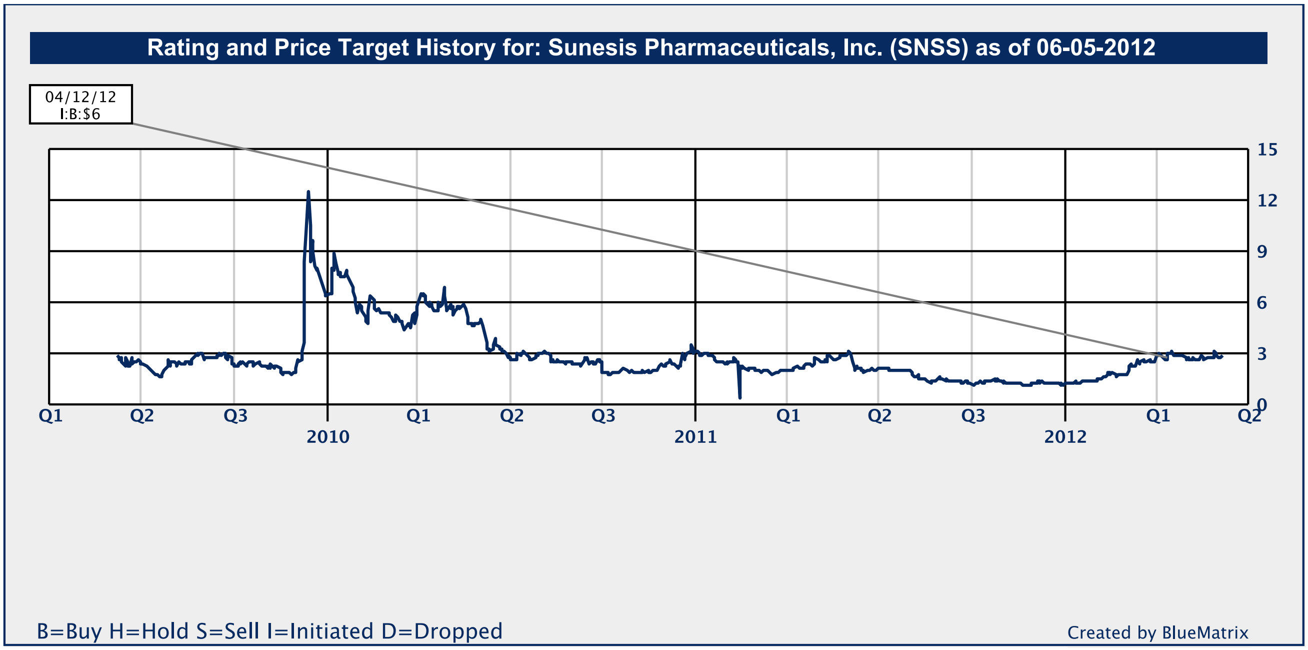

Distribution of Ratings/Investment Banking Services (IB) as of 06/06/12

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY [B]	64	54.70	12	18.75
HOLD [H]	42	35.90	4	9.52
SELL [S]	11	9.40	0	0.00

The Disclosure Section may be found on page 4