

## MORNING ROUNDS

**TODAY'S HIGHLIGHTS / JULY 18, 2014**

## TODAY'S RESEARCH:

SPECIALTY PHARMACEUTICALS, LIFE  
SCIENCE TOOLS AND DIAGNOSTICS,  
BIOPHARMA, NVS, ATHN, CPHD, BAX,  
UNH

**INITIATIONS:** NONE / **RATING CHANGES:** NONE / **PRICE TARGET CHANGES:** NONE / **ESTIMATE CHANGES:** NONE / **MEDACORP:** SPECIALTY PHARMACEUTICALS, LIFE SCIENCE TOOLS AND DIAGNOSTICS, BIOPHARMA, BIOTECHNOLOGY, OPHT, REGN, AZN / **PREVIOUS RESEARCH:** BIOTECHNOLOGY, OPHT, REGN, AZN, GSK LN, STJ

### REFERENCE TOOLS:

[Catalyst Tracker](#)

[Earnings Rundown](#)

[Abbreviations & Acronyms](#)

[Calendar of Events](#)

[HC Conferences](#)

[Leerink Events](#)

### MORNING PRIMER:

**Futures (as of 6:30am):** DJIA: -116.00 (17,057); S&P500: +1.25 (1,954); NASD +4.00 (3,876)

### LEERINK EVENTS:

**7/21: Corporate Access:** Eleven Biotherapeutics, Inc. (EBIO): EBIO, Boston

**7/22: Corporate Access:** St. Jude Medical, Inc. Dinner: STJ, New York

## TODAY'S RESEARCH:

### SPECIALTY PHARMACEUTICALS / JASON M. GERBERRY, JD

#### APS Wrap-Up: KOL's More Positive on Xifaxan than Eluxadoline in IBS

**Outperform:** ACT, SLXP

- **Bottom Line:** Today, we hosted an investor call with two MEDACorp gastroenterology key opinion leaders (KOL's). Overall, the specialists thought both ACT's (OP) eluxadoline and SLXP's (OP) Xifaxan would get approval for Irritable Bowel Syndrome-Diarrhea (IBS-D), although one specialist thought eluxadoline could get a black boxed warning for pancreatitis. The specialists thought availability of new therapies should increase awareness and increase the number of pts seeking therapy; PCP usage, PCP referrals and improved reimbursement of Xifaxan were viewed as catalysts for market growth. Xifaxan was viewed more favorably than eluxadoline due to its shorter duration, safety profile and benefit on pain. We are making no changes to our estimates.
- KOL's positive on Xifaxan; increased use expected from PCP adoption + better reimbursement.
- The specialists don't see Xifaxan & eluxadoline as competitive and prefer Xifaxan
- Eluxadoline's pancreatitis issues was viewed as a negative that could limit uptake and result in a black boxed label

### LIFE SCIENCE TOOLS AND DIAGNOSTICS / DAN LEONARD

#### Investment Insights from Nextgen Seq Dx Panel: Clinical Growth Opportunity

**Outperform:** FMI, GHDX, ILMN, TMO / **Market Perform:** MYGN, QGEN

- **Bottom Line:** The nextgen sequencing (NGS) diagnostics discussion we hosted at our Healthcare Insights Conference suggested a growing role for NGS in clinical practice and touched on investment debates relevant for several stocks, including MYGN (MP), FMI (OP), ILMN (OP), and QGEN (MP). We continue to believe the top ways for investors to capitalize on the NGS clinical trend include ILMN (leading arms supplier) and FMI (leading NGS oncology lab).
- Discussion highlighted key opportunities and challenges for clinical NGS.
- NGS increasingly prominent in tumor profiling and rare inherited disease diagnosis.
- Drive toward panels seems inevitable.
- Reimbursement remains uncertain, but data dossier should build over the next 12 months.
- Barriers for service companies still an unknown, but inertia a powerful force.

### BIOPHARMA / JASON M. GERBERRY, JD, SEAMUS FERNANDEZ, HOWARD LIANG, PH.D.

#### Investment Insights from Respiratory Panel

**Outperform:** ACT, ITMN, NVS, REGN, TEVA, THRX / **Market Perform:** AZN, GSK LN, SNY

- **Bottom Line:** We hosted two MEDACorp key opinion leaders (KOLs) on our respiratory panel during our recent Healthcare Insights Conference. The discussion broadly covered the challenges facing novel respiratory inhaled therapies from GSK, AZN, NVS, and ACT, and the promise of biologics for severe asthma from AZN, GSK, SNY, and Roche. Based on available Ph II data, KOLs point to AZN's (MP) anti-

IL-5 benralizumab as the potential winner in respiratory biologics. For COPD, the specialists highlighted: (1) increasing managed care pressure which has made it challenging for GSK (MP) to launch Breo and Anoro; (2) triple therapy inhalers could become an important part of mgmt of severe COPD, ~20-25% of pts. Last, one specialist who managed IPF expects ITMN's Esbriet to get approved & be his exclusive IPF treatment.

- Feedback on inhaler market highlights sustained payer pressure.
- Triple combination (LAMA/LABA/ICS) appealing for the ~20-25% of COPD patients with severe disease.
- Emerging biologics target high unmet need in severe asthma.
- AZN's benralizumab highlighted as best-in-class with pot'l for broader-than-expected applicability.
- Idiopathic pulmonary fibrosis (IPF) has become a hot area for pulmonologists; our panelist plans to use ITMN's (OP) Esbriet (pirfenidone) exclusively.
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## NOVARTIS AG (NVS) / SEAMUS FERNANDEZ

### 2Q Results: Mgmt Sets The Bar for LCZ696 Heading into ESC

Outperform / **Market Cap:** \$216,190.3M / **Price:** \$88.53 / **Price Target:** \$104.00 / **Methodology:** DCF analysis through 2026E @ 8.25% discount rate and 2% terminal growth

- **Bottom Line:** NVS's 2Q results CC highlighted two critical points: (1) an impactful LCZ696 result; and (2) a challenging 2H14 for margin improvement as Diovan loses US exclusivity and investment continues at Sandoz (behind EU respiratory generics & biosimilars) & Alcon (behind the surprisingly rapid conversion to the Centurion IOL platform). Particular headwinds for 2Q14 EPS of \$1.34 vs. our and consensus' \$1.36E were (1) the drag from vaccine ops and (2) a 3 ppt drag on costs from appreciation of the Swiss franc. We reduce our 2014 estimates to \$5.16 (previously \$5.19 vs. consensus' \$5.27) and our 2015+ ests by \$0.05-0.10 to (a) reflect lower near-term gross margins for Alcon as well as higher spending for Sandoz. This is tempered by cont'd strong performances of key growth products (Gilenya, Lucentis, Tasigna, & Respiratory) together with cont'd belt tightening on Pharma R&D spend. We remain bullish on prospects for LCZ696 and the burgeoning heart failure business. Our PT of \$104 price target is unchanged.
  - With LCZ696 data still unknown to NVS, mgmt sets the bar at a 15-16% improvement in CV death.
  - Centurion placements at Alcon and spending on complex generics/biosimilars pressure near-term margins for long-term benefits.
  - **2014E EPS/REV:** \$5.19 / \$58.4 → \$5.16 / \$58.6
  - **2015E EPS/REV:** \$5.45 / \$59.2 → \$5.40 / \$59.4
- Total Adj Global Sales in \$B.*

## ATHENAHEALTH, INC. (ATHN) / DAVID LARSEN, CFA

### 2Q Earnings Well Ahead, Bookings Appear Solid, Clinicals Gaining at Ascension

Outperform / **Market Cap:** \$4,894.0M / **Price:** \$127.78 / **Price Target:** \$200.00

- **Bottom Line:** ATHN reported 2Q adjusted EPS of \$0.32, well ahead of consensus of \$0.22 and our \$0.28E. Revenue, "financial scorecard metrics" (which includes bookings) and doc-adds all appear solid in our view. Collector revenue increased +30% y/y, doc-adds of 2,023 were slightly behind consensus of

2,037 but still ahead of our 2,000E, and earnings were well ahead of expectations. We view this quarter's results as excellent with bookings on track to deliver solid growth for the year (however bookings are slightly behind goal YTD), earnings were ahead of expectations, and doc-adds were roughly in line with the FactSet mean. Full-year 2014 guidance for revenue, margins, and earnings was re-affirmed. We continue to be buyers of ATHN especially if shares open lower on Friday, as the core financial metrics in our view appear solid.

- Bookings and Revenue Growth Appear Solid.
- Earnings Well Ahead – Gross Margin Excellent.
- Conference Call 7/18 at 8AM ET: 877-853-5645, passcode 59551365.

## CEPHEID (CPHD) / DAN LEONARD

### 2Q in Line; Investments in Growth Initiatives Accelerating

Market Perform / **Market Cap:** \$3,233.3M / **Price:** \$46.19 / **Price Target:** \$50.00 / **Methodology:** ~6x EV/Jun-16 TTM revs

- **Bottom Line:** We have decreased our 3Q14 revenue forecast and nudged-up our 2015-2016 projections. We also decreased our 2014-2015 EPS forecasts to reflect increased investment in opex. We maintain our price target of \$50 and our Market Perform rating.
  - Strength in quarter driven by systems placements, China.
  - HAI franchise, new CT/NG test motivate placements.
  - More detail provided on Honeycomb technology.
  - Investment in oncology accelerated.
  - **2014E EPS/REV:** (\$0.39) / \$458.8 → (\$0.55) / \$457.7
  - **2015E EPS/REV:** (\$0.26) / \$522.0 → (\$0.34) / \$525.0
- Revenues in MM.*

## BAXTER INTERNATIONAL, INC. (BAX) / DANIELLE ANTALFFY

### Managing Through Headwinds While Still Reinvesting in Future Growth

Outperform / **Market Cap:** \$41,785.0M / **Price:** \$76.25 / **Price Target:** \$83.00 → \$85.00 / **Methodology:** ~15.5x multiple on our \$5.45 2015 cash EPS estimate

- **Bottom Line:** After delivering a 2Q14 top- and bottom-line beat, BAX narrowed the 2014 EPS guidance range to \$5.10-\$5.20 from \$5.05-\$5.25 -- basically leaving the midpoint unchanged despite a now-higher sales growth outlook. BAX did raise 2014 sales growth guidance by a point, reflecting delayed competitive launches for Cyclophosphamide to the end of 3Q14/4Q14. While the delayed competitive launches add ~\$150M to sales relative to management's prior guidance -- or ~\$0.20 in diluted EPS -- BAX expects this "transitory benefit" to allow the company to: (1) Offset an incremental ~\$0.10 FX headwind; and most importantly (2) ramp SG&A and R&D to further invest in future growth ahead of the upcoming mid-2015 split. We believe this investment in future growth is key as BAX approaches what we expect will prove to be a challenging 2H14 as headwinds begin to meaningfully ramp. But these headwinds are well-known and BAX now seems even better positioned to manage through these as base business growth seems to be improving.
- Reiterate OP, Raise Price Target to \$85.

- 2014 Guidance Likely Conservative, Leaves Flexibility for Reinvestment and/or Upside.
- Near-Term Estimates Move Modestly Lower to Reflect Ramping Investment.
- **2014E EPS/REV:** \$5.20 / \$16,546.0 → \$5.16 / \$16,794.0
- **2015E EPS/REV:** \$5.50 / \$17,015.0 → \$5.45 / \$17,264.0

*Revenues in MM.*

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## UNITEDHEALTH GROUP, INC. (UNH) / ANA GUPTA, PH.D.

### 2Q: Encouraging Turnaround & ACA Growth; 2015 Comm. Pricing A Concern; PT \$87

Market Perform / **Market Cap:** \$84,769.6M / **Price:** \$85.11 / **Price Target:**

\$79.00 → \$87.00 / **Methodology:** 15.0x the average of our 2014E and 2015E EPS

- **Bottom Line:** UNH (MP) posted a “Beat and Raise” quarter with a 16 c EPS beat, a 5 c guidance raise with \$1.5B in revenue guidance raise to \$130 B for FY14. The conference call included encouraging signs of a turnaround in the Amil International and Medicare Advantage (MA) businesses while Sovaldi cost pressure though escalating in 2Q14 is likely to level off for the balance of 2014. Medicaid expansion is the brightest story at 9% sequential enrollment growth and positive margins. Optum Rx in particular is exceeding growth expectations with 1 MM net new members while Optum Health and Optum Insight are expected to see meaningful margin expansion commencing 4Q14. For 2015, Public Exchanges and Medicaid are most promising growth contributors, while MA returns to growth. Commercial pricing rather than medical cost trend is the watch factor in our view for 2015 as the market shrinks and competition heightens. We raise our 2014 EPS from \$5.50 to \$5.60 on the back of the quarter. We raise our 2015 EPS from \$5.88 to \$6.00 to reflect the solid Medicaid, improving MA and new Public Exchange story. We raise our PT from \$79 to \$87.
- Beat and raise quarter from revenue, SG&A ratio and below the line favorability in investment income and tax rate.
- Encouraging signs of turnaround and margin recovery in MA and Amil International.
- Public Exchanges and Medicaid are shaping up to be the most promising growth drivers in 2015.
- Commercial pricing rather than medical cost trend remains the key watch factor for 2015 outlook in our view.
- Balance Sheet is strong with optionality for accretive deals even in Health Benefits subject to regulatory scrutiny.
- We raise our estimates for 2014 to \$5.60 and 2015 to \$6.00 on the back of the quarter and likely turnaround story.
- **2014E EPS/REV:** \$5.50 / \$130.4 → \$5.60 / \$130.0
- **2015E EPS/REV:** \$5.88 / \$141.6 → \$6.00 / \$142.4

*Revenues in millions. EPS (diluted)*

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## PREVIOUS DAY NOTES:

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**BIOTECHNOLOGY / JOSEPH P. SCHWARTZ****Physician Survey Implies Cont'd Growth for REGN's Eylea; Encouraging for OPHT**

Outperform: OPHT, REGN

**OPHTHOTEC CORPORATION (OPHT) / JOSEPH P. SCHWARTZ****Increasing Our PT on Encouraging Survey Feedback, Favorable NVS Deal**Outperform / **Market Cap:** \$1,435.1M / **Price:** \$40.20 / **Price Target:** \$45.00 → \$61.00 / **Methodology:** DCF, 12% WACC, 2% Terminal Growth Rate**REGENERON PHARMACEUTICALS, INC. (REGN) / JOSEPH P. SCHWARTZ****Physician Survey Bullish on Eylea Growth, Reimbursement Concerns Overdone**Outperform / **Market Cap:** \$35,877.3M / **Price:** \$306.12 / **Price Target:** \$355.00 / **Methodology:** sum-of-the-parts DCF analysis, 8% discount rate, 4% Terminal Growth**ASTRAZENECA PLC (AZN) / SEAMUS FERNANDEZ****2Q Results Likely to Beat on \$200M Milestone for Nexium OTC**Market Perform / **Market Cap:** \$93,895.2M / **Price:** \$74.52 / **Price Target:** \$75.00 / **Methodology:** DCF through 2026E at 8.25% discount with 2% terminal growth rate**GLAXOSMITHKLINE PLC (GSK) / SEAMUS FERNANDEZ****Pre-2Q Model Update: Lowering 2Q & Forward Ests for Fx & Slow Respiratory Sales**Market Perform / **Market Cap:** 7,427,322.0pM / **Price:** 1,543.50p / **Price Target:** 1,614.00p → 1,605.00p / **Methodology:** DCF through 2026 @ 8.25% discount**ST. JUDE MEDICAL, INC. (STJ) / DANIELLE ANTALFFY****Poised for Sales Growth Acceleration Exiting 2014 and into 2015**Outperform / **Market Cap:** \$19,553.7M / **Price:** \$67.66 / **Price Target:** \$80.00 / **Methodology:** ~18x 2015E EPS**RESEARCH PREVIEWS:****Mid-2014 – PBYI Neratinib (Breast Cancer) Data Releases**

**PBYI – OP**

Close: \$59.31, Mkt Cap: \$3,001M

- We expect Ph III data for ExteNET (1-year neratinib [metastatic breast cancer] following 1-year Herceptin) should have a realistic chance for success with potentially high asymmetrical rewards though GSK's (MP) Tykerb another HER2 tyrosine kinase inhibitor failed to show meaningful benefit when added to Herceptin.
- We believe neratinib is a different drug that has shown superior efficacy than Tykerb.
- The drop-out rate due to adverse events for neratinib was very low.
- ExteNET enrolled a sicker population that could have sufficient event rates to have a reasonable probability of a statistically significant outcome.
- Despite negative commentary, a pathological complete response (pCR) may be an approvable endpoint.
- FDA is unlikely to change regulatory paradigm before Roche's Perjeta's APHINITY data.
- Also expected for neratinib is Ph II data in 1st-line HER2 (+) metastatic breast cancer and FB-7 data from Ph II neoadjuvant trial in HER2(+) breast cancer.

**Mid-2014 – FDA Regulatory Decision****DXCM – MP**

Close: \$35.88, Mkt Cap: \$2,567M

- We expect FDA approval of the Animas Vibe Pump by mid-year 2014.
- On a recent MEDACorp Pulse call it was stated that as technology continues to evolve as more pumps become integrated with CGMs, the clinical benefits of pump therapy will become increasingly evident.
- If the MEDACorp physician's views play out, this could mean the insulin pump market could more than double from current levels.

**Mid-2014 – Phase III Data – PCSK9 for Dyslipidemia/Hypertriglyceridemia****REGN – OP**

Close: \$296.41, Mkt Cap: \$27,438M



- REGN expects Alirocumab (PCSK9) Ph III top-line data for dyslipidemia/hypertriglyceridemia to be announced mid-year 2014.
- REGN expects to submit regulatory applications from 10 studies that use LDL reduction as a primary endpoint by YE14.
- Ex-US approval is expected in 1Q15, with US approval granted later in the year.
- We expect PCSK9 peak sales to hit nearly \$3B in 2027 based on 75% probability of approval in heFH/statin intolerant patients and a 60% probability of approval in secondary prevention patients.

### **July – Ofirmev Patent Litigation vs. Fresenius**

MNK – MP

Close: \$74.49, Mkt Cap: \$2,515M

- Patent trial vs. FRE is set for July 2014 and Ofirmev is the second biggest component of MNK/QCOR's pro forma EPS (~20% of F'15E).
- With "early acceleration" clauses in existing generic settlement agreements, we believe MNK's ability to strike a settlement is limited & we view "litigation to the death" as the most likely outcome.
- We assign a 40% probability to a generic entry in 2016, which relative to our PT of \$90 we est would be a \$6 downside event vs. an MNK patent victory (50% POS) would lift an overhang, representing \$5 upside on pro forma numbers.

### **July/August – Distributors - Department of Defense (DoD) Pharmaceutical Prime Vendor (PPV) Solicitation**

ABC – OP

Close: \$72.70, Mkt Cap: \$14,053M

CAH – OP

Close: \$70.58, Mkt Cap: \$16,001M

MCK – OP

Close: \$188.71, Mkt Cap: \$40,788M

- We believe the U.S. military wants to keep multiple distributors in use in order to be able to move volume from one distributor to the other in the event of a war or disruptions in any one



company. We estimate that ABC's revenue under its current DoD contract is ~\$1.4B/year and CAH's revenue under its current DoD contract is ~\$0.5B/year.

- The 10-year contract renewal is split across different regions, and since the government will select at least two different vendors, we suspect it is likely that ABC and CAH will retain their existing books of business.
- While it is possible that MCK could win one of the regions, we estimate that the business will remain split between ABC and CAH.

## **July 22 – Earnings – Before the Open**

### **CNC – OP**

Close: \$77.98, Mkt Cap: \$3,261M

- 2QE Leerink EPS/Rev: \$0.73 / \$3,539.4M
- 2QE Street EPS/Rev: \$0.72 / \$3,646.6M
- Excluding HIPF reimbursement delay, we see an in-line quarter, as both Medicaid expansion and Public Exchanges remain very modest drivers.
- On Sovaldi, CNC is confident on reimbursements from states and referenced successful negotiations with TX and FL in at recent Investor day.
- Modest positive accretion from recently closed Community Health Solutions of America acquisition in the state of LA and acquisition of Ribera Salud non-controlling interest in Spain offers EPS upside.
- 2014E Leerink EPS/Rev: \$3.78 / \$15,123.7M
- 2014E Street EPS/Rev: \$3.73 / \$15,175.4M
- CC: 8:30am EDT; Dial-in: 866-739-7850; Access Code: --

### **WAT – MP**

Close: \$99.25, Mkt Cap: \$8,482M

- 2QE Leerink EPS/Rev: \$1.18 / \$475.9M
- 2QE Street EPS/Rev: \$1.21 / \$475.8M

- Among our coverage, WAT's full-year forecast is one of the more reliant on a 2H14 rebound, thus we'll be looking for improvements in instrument sales and academic/government & industrial/food safety customers.
- WAT experienced spending delays in China in 1Q14. We'll focus this geography since 2014 targets are contingent on booking and shipping to this customer this year.
- WAT's gross margins were at the lowest quarterly level observed in at least 10 years, down ~3% y/y and q/q, due to fx and negative fixed cost leverage. WAT's new guidance indicates an average GM of ~60% from 2Q-4Q, attainable historically, so we'll look for improvement here.
- 2014E Leerink EPS/Rev: \$5.30 / \$1,993.2M
- 2014E Street EPS/Rev: \$5.31 / \$1,981.6M
- CC: 8:30am EDT; Dial-in: 517-623-4512; Access Code: Waters

## **July 22 – Earnings – After the Close**

CBST – OP –

Close: \$63.24, Mkt Cap: \$5,126M

- 2QE Leerink EPS/Rev: \$0.24 / \$306.5M
- 2QE Street EPS/Rev: \$0.02 / \$299.5M
- 2014E Leerink EPS/Rev: \$1.19 / \$1,254.3M
- 2014E Street EPS/Rev: \$0.47 / \$1,215.4M
- CC: 5:00pm EDT; Dial-in: 855-319-7654; Access Code: 55596186

ISRG – MP

Close: \$382.22, Mkt Cap: \$14,672M

- 2QE Leerink EPS/Rev: \$2.84 / \$502.9M
- 2QE Street EPS/Rev: \$2.82 / \$502.8M
- We recently adjusted our 2Q & 2014 sales/EPS estimates downward following recent channel checks.

- We had been above consensus, primarily on the system placement side, where we were likely just too aggressive in 2014-2015.
- We believe our new estimates now better reflect: (1) a slower Xi system sales ramp, (2) lower service revenue estimates, and (3) recently (5/2) announced accelerated share repurchase, which should help offset the EPS impact from lost sales.
- 2014E Leerink EPS/Rev: \$11.45 / \$2,009.4M
- 2014E Street EPS/Rev: \$10.97 / \$2,049.8M
- CC: 4:30pm EDT; Dial-in: 800-230-1092; Access Code: --

### **July 23 – Earnings – Before the Open**

BIIB – OP –

Close: \$299.29, Mkt Cap: \$66,072M

- 2QE Leerink EPS/Rev: \$2.68 / \$2,049.0M
- 2QE Street EPS/Rev: \$2.83 / \$2,155.9M
- 2014E Leerink EPS/Rev: \$10.90 / \$8,808.0M
- 2014E Street EPS/Rev: \$11.54 / \$8,905.7M
- CC: 9:00am EDT; Dial-in: 877-650-1145; Access Code: --

MDCO – MP –

Close: \$25.59, Mkt Cap: \$2,487M

- 2QE Leerink EPS/Rev: \$0.03 / \$182.2M
- 2QE Street EPS/Rev: -\$0.03 / \$183.5M
- 2014E Leerink EPS/Rev: -\$0.08 / \$750.2M
- 2014E Street EPS/Rev: -\$0.20 / \$754.4M
- CC: 8:30am EDT; Dial-in: 877-359-9508; Access Code: 68208610

TMO – OP –

Close: \$119.02, Mkt Cap: \$40,304M

- 2QE Leerink EPS/Rev: \$1.60 / \$4,251.0M
- 2QE Street EPS/Rev: \$1.62 / \$4,248.4M
- This will be the first full quarter with Life Technologies as a consolidated entity, so we anticipate an update on the integration.
- We'll be focusing on trends in China, which grew in the low double-digits in 1Q14 but decelerated q/q for two consecutive quarters. We will also look for conditions in key end markets and geographies given TMO's breadth.
- We'll look for signs of life from the US academic market, and whether TMO continues to expect improvement in 2H14. We'll also keep our eyes peeled for an Ion Torrent update, notably for the PII chip, but don't expect one.
- We'll look for an update on margin expansion activities, as well as potential non-core asset divestitures.
- 2014E Leerink EPS/Rev: \$6.85 / \$16,948.4M
- 2014E Street EPS/Rev: \$6.91 / \$16,944.6M
- CC: 8:30am EDT; Dial-in: 877-201-0168; Access Code: --

### **July 23 – Earnings – After the Close**

GILD – OP –

Close: \$85.07, Mkt Cap: \$115,234M

- 2QE Leerink EPS/Rev: \$1.64 / \$5,435.0M
- 2QE Street EPS/Rev: \$1.75 / \$5,755.4M
- IMS prescription data suggest Sovaldi US sales to be tracking ~\$2.5B (vs. consensus of \$2.2B), but there could be additional upside due to under-capturing by IMS data.
- 2014E Leerink EPS/Rev: \$6.25 / \$21,081.0M
- 2014E Street EPS/Rev: \$6.57 / \$22,281.2M
- CC: 4:30pm EDT; Dial-in: NA; Access Code: --

ILMN – OP –

Close: \$166.16, Mkt Cap: \$14,098M

- 2QE Leerink EPS/Rev: \$0.52 / \$429.4M
- 2QE Street EPS/Rev: \$0.50 / \$426.9M
- ILMN broadened its sequencing instrument offering recently with the launch of the NextSeq and HiSeq X. We'll be looking for indications that these instruments are growing the market for sequencing rather than cannibalizing sales of existing instruments. Our May survey work suggests the former.
- We'll also look for updates on X Ten manufacturing capacity and new customer orders.
- We'll look for an update on the noninvasive prenatal testing (NIPT) market, and other market opportunities including oncology, genetic health, forensics, consumer, etc.
- 2014E Leerink EPS/Rev: \$2.13 / \$1,734.8M
- 2014E Street EPS/Rev: \$2.17 / \$1,756.8M
- CC: 5:00pm EDT; Dial-in: 888-679-8034; Access Code: 60693837

## **July 24 – Earnings – Before the Open**

ABC – OP –

Close: \$72.70, Mkt Cap: \$14,053M

- F3QE Leerink EPS/Rev: \$0.93 / \$29,070.1M
- F3QE Street EPS/Rev: \$0.92 / \$29,184.3M
- F2014E Leerink EPS/Rev: \$3.75 / \$116,100.0M
- F2014E Street EPS/Rev: \$3.73 / \$116,822.3M
- CC: 11:00am EDT; Dial-in: NA; Access Code: --

AXLN – OP –

Close: \$155.06, Mkt Cap: \$26,172M

- 2QE Leerink EPS/Rev: \$1.04 / \$507.0M
- 2QE Street EPS/Rev: \$1.07 / \$510.3M
- We forecast 2Q14 Soliris sales of \$507M, slightly below consensus of \$510M.

- Our estimate represents a ~\$28M q/q increase compared to pro-forma 1Q14 sales of \$479M (excluding \$88M in French government reimbursement from prior years).
- ALXN previously announced that the registrational trial for Soliris in delayed graft function (DGF) in renal transplant patients was planned for mid-2014 and we would expect an update on the earnings call.
- Other upcoming catalysts include the asfotase alfa EU filing in mid-2014, followed by completion of the rolling BLA submission in the US in 2H14 and filing in Japan by year-end.
- 2014E Leerink EPS/Rev: \$4.82 / \$2,170.0M
- 2014E Street EPS/Rev: \$4.86 / \$2,183.4M
- CC: 10:00am EDT; Dial-in: 800-967-7137; Access Code: 6169176

#### BMJ – OP

Close: \$48.42, Mkt Cap: \$87,219M

- 2QE Leerink EPS/Rev: \$0.45 / \$3,900.0M
- 2QE Street EPS/Rev: \$0.44 / \$3,851.2M
- 2014E Leerink EPS/Rev: \$1.78 / \$15,499.0M
- 2014E Street EPS/Rev: \$1.77 / \$15,535.7M
- CC: 10:30am EDT; Dial-in: 913-312-6681; Access Code: 3903092

#### BSX – MP

Close: \$12.46, Mkt Cap: \$15,894M

- 2QE Leerink EPS/Rev: \$0.12 (\$0.19 cash) / \$1,860.0M
- 2QE Street EPS/Rev: \$0.19 / \$1,865.5M
- In focus this quarter: Operating margin expansion potential; impact of recent new product launches; WATCHMAN update.
- 2014E Leerink EPS/Rev: \$0.51 (\$0.80 cash) / \$7,395.0M
- 2014E Street EPS/Rev: \$0.79 / \$7,399.3M
- CC: 8:00am EDT; Dial-in: 866-837-9782; Access Code: --

## CELG – OP

Close: \$83.13, Mkt Cap: \$69,226M

- 2QE Leerink EPS/Rev: \$0.86 / \$1,797.0M
- 2QE Street EPS/Rev: \$0.89 / \$1,845.1M
- For 2Q, our estimates for Revlimid revenue are slightly lower than consensus (\$1.201B vs. \$1.216B), largely due to lower estimate for the US sales.
- Our estimates for other products including Pomalyst, Thalomid, and Vidaza are generally in line with consensus while estimates for Abraxane and Otezla are slightly below consensus.
- As a result, our estimate of total product sales is slightly below consensus (\$1.797B vs. \$1.846B).
- Our estimate for non-GAAP EPS is \$0.86 following the recent stock split, slightly below consensus of \$0.89.
- 2014E Leerink EPS/Rev: \$3.61 / \$7,395.0M
- 2014E Street EPS/Rev: \$3.67 / \$7,536.6M
- CC: 9:00am EDT; Webcast: Celgene.com; Access Code: --

## IMS – OP

Close: \$26.25, Mkt Cap: \$8,706M

- 2QE Leerink EPS/Rev: \$0.37 / \$656.5M
- 2QE Street EPS/Rev: \$0.37 / \$654.9M
- 2014E Leerink EPS/Rev: \$1.40 / \$2,679.7M
- 2014E Street EPS/Rev: \$1.37 / \$2,680.1M
- CC: 9:00am EDT; Dial-in: 800-920-6941; Access Code: --

## LLY – OP

Close: \$62.26, Mkt Cap: \$15,824M

- 2QE Leerink EPS/Rev: \$1.48 / \$1,200.0M



- 2QE Street EPS/Rev: \$1.49 / \$1,206.3M
- 2014E Leerink EPS/Rev: \$6.13 / \$4,775.0M
- 2014E Street EPS/Rev: \$6.12 / \$4,779.5M
- CC: 9:00am EDT; Dial-in: 612-332-0335; Access Code: 330570

#### SIAL – MP

Close: \$102.26, Mkt Cap: \$11,187M

- 2QE Leerink EPS/Rev: \$1.11 / \$709.7M
- 2QE Street EPS/Rev: \$1.10 / \$706.1M
- SIAL has a number of initiatives underway in 2014 including plant expansion for high potency active pharmaceutical ingredients (APIs), collaborative product launches, and geographic expansion, thus we expect to hear more about these during the call.
- We are expecting improvement in the upcoming quarters vs. the +3% growth in SAFC, so we'll assess if the company is on track to meet our forecasts. We'll also look for more details on the plans to exit some low margin Hitech businesses, and any margin impact as a result.
- We'll look for an update on the company's capital deployment priorities given recent interest in large deals and greater appetite for risk.
- 2014E Leerink EPS/Rev: \$4.35 / \$2,812.3M
- 2014E Street EPS/Rev: \$4.37 / \$2,807.0M
- CC: 11:00am EDT; Dial-in: 877-266-0483; Access Code: 22676336

#### ZMH – OP

Close: \$100.71, Mkt Cap: \$15,824M

- 2QE Leerink EPS/Rev: \$1.48 / \$1,200.0M
- 2QE Street EPS/Rev: \$1.49 / \$1,206.3M
- We expect ZMH will deliver 2Q results that compare to our consensus-matching revenue estimates of \$1.2B
- (+2.6%) and EPS of \$1.48 vs. the Street's \$1.49.

- We expect ZMH to reiterate 2014 guidance of 3-5% organic sales growth (LP est: +3.7%) and EPS of \$6.00-\$6.20 (LP est: \$6.13).

- 2014E Leerink EPS/Rev: \$6.13 / \$4,775.0M

- 2014E Street EPS/Rev: \$6.12 / \$4,779.5M

- CC: 8:00am EDT; Dial-in: 888-878-3901; Access Code: 59090489

## **July 24 – Earnings – After the Close**

ATRC – OP

Close: \$15.33, Mkt Cap: \$434M

- 2QE Leerink EPS/Rev: -\$0.19 / \$24.9M

- 2QE Street EPS/Rev: -\$0.18 / \$25.0M

- In focus this quarter: Sustainability of long-term 15% sales growth profile; clinical progress of the pipeline.

- 2014E Leerink EPS/Rev: -\$0.92 / \$101.2M

- 2014E Street EPS/Rev: -\$0.84 / \$102.6M

- CC: 4:30pm EDT; Dial-in: 877-703-6106; Access Code: 59442407

BCR – MP

Close: \$142.30, Mkt Cap: \$10,372M

- 2QE Leerink EPS/Rev: \$2.00 / \$813.0M

- 2QE Street EPS/Rev: \$2.01 / \$814.5M

- Management should reiterate guidance (sales +6-8%, 1.5-3% organic and cash EPS of \$8.20-\$8.30), which compares to our 2014E revenue/EPS of \$3.27B/\$8.28 (~+3%/~+27%) and the Street's \$3.28B/\$8.25.

- We think there is potential downside risk to Lutonix forecasts but share repurchases should be able to mostly offset – recall, on 6/11 BCR authorized a \$500M repurchase authorization.

- 2014E Leerink EPS/Rev: \$8.28 / \$3,268.0M

- 2014E Street EPS/Rev: \$8.25 / \$3,275.1M

- CC: 4:30pm EDT; Dial-in: 800-230-1092; Access Code: --

CERN – OP –

Close: \$53.18, Mkt Cap: \$19,107M

- 2QE Leerink EPS/Rev: \$0.38 / \$810.0M
- 2QE Street EPS/Rev: \$0.40 / \$814.0M
- 2014E Leerink EPS/Rev: \$1.70 / \$3,373.9M
- 2014E Street EPS/Rev: \$1.65 / \$3,339.1M

- CC: 4:30pm EDT; Dial-in: 617-614-4909; Access Code: Cerner

TSRO – OP

Close: \$27.81, Mkt Cap: \$925M

- 2QE Leerink EPS/Rev: -\$0.87 / \$0.0M
- 2QE Street EPS/Rev: -\$0.87 / \$0.0M
- 2014E Leerink EPS/Rev: -\$4.37 / \$0.0M
- 2014E Street EPS/Rev: -\$4.17 / \$0.0M

- CC: 4:15pm EDT; Dial-in: 877-853-5334; Access Code: --

## **July 25 – Earnings – Before the Open**

COV – MP

Close: \$87.05, Mkt Cap: \$27,601M

- F3QE Leerink EPS/Rev: \$1.00 / \$2,690.0M
- F3QE Street EPS/Rev: \$1.00 / \$2,694.5M
- F2014E Leerink EPS/Rev: \$4.00 / \$10,606.0M
- F2014E Street EPS/Rev: \$3.99 / \$10,621.5M
- CC: 8:30am EDT; Dial-in: 877-546-5021; Access Code: 44793724

**MGLN – MP**

Close: \$62.15, Mkt Cap: \$1,654M

- 2QE Leerink EPS/Rev: \$0.56 / \$876.0M
- 2QE Street EPS/Rev: \$0.57 / \$863.0M
- We see 2014 as transition year and expect an in-line quarter as MGLN deals with contract losses across Maricopa, AZ & Pharmacy solutions, ACA tax headwind offset in part by Partners Rx acquisition & Iowa contract expansion.
- The upcoming FL Seriously Mentally Ill contract commencement in September is a catalyst to be monitored.
- 2014E Leerink EPS/Rev: \$2.41 / \$3,644.0M
- 2014E Street EPS/Rev: \$2.40 / \$3,709.3M
- CC: 11:00am EDT; Dial-in: 800-857-1812; Access Code: --

**July 25 – FDA Letter on ATX101 (Double Chin) NDA**

KYTH – OP –

Close: \$31.66, Mkt Cap: \$812M

- Although the FDA has 60 days to formally accept the ATX101 NDA, the letter from the Agency must be sent by day 74, putting the official "news release" date on 7/25/14.
- KYTH is already preparing for a panel given requirements for new chemical entities (NCEs) under PDUFA V, but noted that panels are unusual for the FDA's Dermatology division.
- A May 2015 PDUFA is expected, with a full commercial launch likely to occur in 4Q15, coinciding with typical aesthetic market seasonality.
- This is consistent with our expectation for just \$10.6M in sales in 2015. Mgmt's target for peak US ATX101 sales of >\$500M is unchanged, supported in our view by strong physician demand.

**PREVIOUS NOTES:**

**JULY 17**  
MODELS

ABT - Model, AZN - Model, GSK - Model, OPHT - Model, STJ - Model

## HEALTHCARE INSIGHTS CONFERENCE

[Biopharma/Investment Insights from Lymphoma/CLL Panel](#)  
[Biopharma/Investment Insights from HCV Panel: Growing Patient Pool Bullish for Launches](#)  
[Biopharma/Key Stock Impacts from Our Therapeutics Panels](#)  
[Biopharma/Investment Insights from the IO and Targeted T-Cell Therapy Panel](#)  
[Biopharma/Investment Insights from the Lung Cancer Panel](#)  
[Biopharma/Investment Insights from the Breast Cancer Panel](#)  
[Biotechnology/Investment Insights from Liver Disease Panel: Cautious on ICPT's OCA](#)  
[Medical Supplies and Devices/Investment Insights from the MIS/Robotics Surgery Panel](#)  
[Healthcare IT & Distribution/Investment Insights from the HCIT Panel: Robust Replacement Markets](#)  
[Managed Care/Investment Insights from the Managed Care Panel on the Future of ACOs](#)  
[CTRX/Model Update Following HC Insights Conference/Outperform](#)  
[STJ/Investment Insights from the CardioMEMS Panel: Large Market; Gradual Ramp/Outperform](#)

## EARNINGS PREVIEW NOTES

[Biotechnology/Biotechnology Preview of 2Q:14 Earnings, Howard Liang](#)  
[Life Science Tools and Diagnostics/Looking for Signs of a 2H Acceleration, Dan Leonard](#)  
[Medical Supplies and Devices/2Q14 Preview: Focus Shifts to Cash Deployment Priorities, Danielle Antalffy, Rich Newitter](#)  
[Managed Care/2Q14 Preview: A Likely Positive Catalyst; Though Caution on 2H14 Will Persist, Ana Gupte](#)

## RECENT SURVEYS

[Biotechnology/Physician Survey Implies Cont'd Growth for REGN's Eylea; Encouraging for OPHT, Joe Schwartz](#)  
[Medical Devices-Orthopedics/2Q Hip/Knee Survey Suggests Underlying Stability in US Mkt Trends, Rich Newitter](#)  
[INCY/Hematologist Survey Suggests Significant Oppty for Jakafi in Polycythemia Vera/Outperform, Michael Schmidt](#)  
[NPSP/Gattex Survey Projects Strong LT Growth as Physician Experience Increases/Outperform, Joe Schwartz](#)  
[Healthcare IT & Distribution/PBM Survey Highlights Tailwinds from Exchanges and Clinical Programs, David Larsen](#)

## LONG SHELF LIFE REPORTS

[P&A V - Partnerships & Acquisitions in Biopharma: Our New Top Ten List, Joe Schwartz et al.](#)

[BMRN/Deep Dive on BMN111: Compelling Logic/Early Efficacy Warrant Investor Attention/Outperform](#), Joseph Schwartz  
[DYAX/Deep Dive on DX2930: Value Warranted for Novel HAE Monoclonal Antibody/Outperform](#), Joseph Schwartz  
[SHPG/Deep Dive on Ph. III Pipe; Feedback on Lifitegrast Surprisingly Constructive/Outperform](#), Jason Gerberry

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## **UPCOMING HEALTHCARE EVENTS:**

### **REGULATORY EVENTS**

**7/30-31:** FDA AdComs: Gastroenterology & Urology, Blood Products, BAX next-gen subcutaneous IGIV HyQvia  
**8/1:** FDA AdCom: General and Plastic Surgery Devices  
**8/6:** PDUFA: MDCO Oritavancin (ABSSSI), GILD Idelaslisib (CLL)  
**8/14:** FDA AdCom: Pulmonary-Allergy Drugs  
**8/25:** PDUFA BMY Eliquis

### **MEDICAL MEETINGS**

**7/20-24:** American Association of Physicists in Medicine  
**7/20-24:** International Society for Eye Research  
**7/20-25:** International AIDS Society  
**7/25-29:** American Veterinary Medical Association  
**7/26-30:** American Head and Neck Society  
**7/26-31:** American Society of Transplant Surgeons  
**7/27-30:** The Protein Society  
**7/27-31:** American Association for Clinical Chemistry  
**7/28-31:** Society of NeuroInterventional Surgery  
**7/29-8/2:** Society for the Study of Ingestive Behavior  
**7/31-8/3:** Eastern Neuroradiological Society  
**8/3-6:** American Society for Healthcare Engineering

**8/7-13:** American Psychological Association

**8/9-13:** American Society of Retina Specialists

**8/10-13:** ASH Meeting on Lymphoma Biology (EPZM)

### **CORPORATE EVENTS**

**8/11:** VOLC Investor Mtg

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## Disclosures Appendix

### Analyst Certification

Each analyst certifies that the views expressed in this report accurately reflect their views and that no part of their compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Distribution of Ratings/Investment Banking Services (IB) as of 06/30/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	138	69.00	50	36.20
HOLD [MP]	62	31.00	2	3.20
SELL [UP]	0	0.00	0	0.00

### Explanation of Ratings

**Outperform (Buy):** We expect this stock to outperform its benchmark over the next 12 months.

**Market Perform (Hold/Neutral):** We expect this stock to perform in line with its benchmark over the next 12 months.

**Underperform (Sell):** We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

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