Daily Research Highlights

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March 26

Evoke Pharma, Inc. (EVOK, BUY, Target: $19.00)
Irina Rivkind Koffler (212-915-1237, irivkind@cantor.com)

Uneventful 4Q:13 Earnings; Moving Phase III Gastroparesis Trial Forward

- **4Q:13 earnings miss was irrelevant, in our view:** Evoke reported a net loss of ($1.6M), which came in above our net loss estimate of ($0.55M) due to higher operational expense (in both R&D and SG&A). With respect to per-share loss, the company reported a loss of ($0.27), compared to our estimated loss of ($0.21). This per-share performance also came in below FactSet consensus estimates of ($0.13), which comprises forecasts from two analysts. The miss is therefore irrelevant, in our view. We have raised our 2014 expense run rates and updated our balance sheet/cash flow assumptions after reviewing the company's 10-K filing. We continue to view the opportunity as highly attractive and reiterate our BUY rating and $19 PT, which is based on a 60% risk-adjusted, discounted 3x multiple of two potential peak revenue scenarios ($230M weighted at 90% and $415M weighted at 10%). We note that recent take-out multiples in the GI space were closer to 7x, possibly implying an even higher value for the company in the future.
- **We see positive trial progress:** Management indicated that it expects to enroll its first Phase III patient in 2Q:14. The company aims to utilize ~60 gastroenterology-focused sites to enroll 200 female gastroparesis patients. Management stated that it pre-selected sites based on the availability of potential patient lists which should speed enrollment, in our view. Evoke already held an "Investigator Meeting" for some of its sites and plans to train the rest via webinars and individual clinic visits. Management indicated that it is working on enrollment targets/time lines to track trial progress throughout the year. Any future indications of timely enrollment would be well-received by investors, in our view.
- **Why we like the story:** We believe that the EVK-001 program (intranasal metoclopramide for diabetic gastroparesis) is relatively low risk following the positive data in female patients from a recent Phase II trial, coupled with the well-characterized nature of metoclopramide. We also like the large commercial opportunity since there were over 3.5M metoclopramide prescriptions written in the last 12 months ending Feb 2014, and there are approximately 2 million patients already taking metoclopramide. We believe the company is adequately capitalized through its Phase III data in mid-2015 and, if results are positive, we believe that Evoke could get acquired. Catalysts for the stock over the next 12 months will primarily stem from updates on trial progress (which we expect to be provided during the quarterly earnings calls).

Walgreen Co. (WAG, SELL, Target: $50.00)

Ajay Jain (212-915-1240, ajain@cantor.com)

Earnings Remain Under Pressure but Investors Putting Faith in the Long Term

Summary: Although Walgreen's earnings momentum took a step backward in 2Q with operating income down by 3% based on our estimates, we estimate that weather accounted for around $0.04 per share of impact. However, the weather impact was anticipated. By any measure, earnings were weaker relative to both our estimates and the consensus figure.

- **Some clear progress despite continued pattern of earnings misses** - Positives include the planned store optimization process, favorable 3Q guidance for Alliance Boots, good leverage in 2Q with 1.7% increase in SG&A, and solid execution with the Alliance Boots integration. Based on our EPS methodology, we estimate Walgreen delivered $0.76 in EPS for 2Q (relative to our est. of $0.80 ahead of the print). Projected synergies from mgt. have again been raised to $375-425 million (from $350-400 million) for FY:14. Accretion from Alliance Boots should also be materially higher than last year in 3Q at $0.13-0.14 per share. However, even after fully accounting for the weather-related impact, we estimate the core rate of EBIT growth would have been around 2.5% in 2Q (similar rate to the previous quarter). We expect continued margin pressure through 3Q, with operating expenses growing at a faster rate than gross profit.
- **Longer-term prospects are underpinning WAG's valuation support** - Our concerns regarding the stock remain intact. The earnings power assumed by longer-term oriented investors who are taking a positive view on ABC-related procurement benefits and Alliance Boots synergies is already in the stock (in our view). Additionally, this type of growth continues to be inconsistent with Walgreen's recent financial performance. So far, we believe the flow through to earnings from deal-related synergies has been offset by other margin pressures.

IT Hardware & Software

Brian J. White, CFA (212-610-2416, briwhite@cantor.com)

Rotation Hits SPLK & DATA: Don't Throw the Big Data Babies Out with the Bathwater

Summary: In our view, a rotation away from stocks in the hotter areas of tech with richer valuations and into more traditional tech names with depressed valuations is currently occurring. As such, our Big Data universe of Splunk and Tableau Software have taken it on the chin over the past week. In our view, this Big Data selloff has nothing to do with fundamental trends and everything to do with a change in market psychology as macro factors weigh on investor's minds.

- **Market Psychology Changes but Fundamentals Stay the Same at DATA & SPLK.** Over the past week, SPLK shares have fallen by 13% and DATA shares have tumbled by 17%. Recall, both stocks reached all-time highs near the end of February. Since then, SPLK has dropped by 30% and DATA has fallen by 27%. Given that we believe this selloff is driven by a shift in investor sentiment, rather than any change in fundamental trends, the longevity of this downdraft is not easy to predict. That said, we believe Splunk and Tableau stand out from other tech stocks that have also experienced strong gains in recent months. For example, we believe both Splunk and Tableau have the potential to be leaders in their respective industries, hold strong balance sheets, enjoy high-quality management teams and are focused on one of the most exciting secular trends in the tech world, Big Data.
- **SPLK and DATA Reported Big 4Q Upside and Expect Momentum to Continue in 2014.** In February, Splunk and Tableau Software delivered the strongest 4Q:CY13 results in our coverage universe and we're modeling the fastest CY:14 revenue growth (up 33% for SPLK and up 39% for DATA) from these two companies in our universe. For Splunk, we believe this year is all about driving increased customer adoption (with more products, expanding use cases, increased distribution, more flexible pricing) as it aggressively pushes to compress the customer ramp cycle (i.e., big volumes that use Splunk as a platform) by approximately one-third. For Tableau, we believe it is at an inflection point in international markets, while we expect larger deal sizes, a rapidly growing customer base and support for Mac products with Tableau 8.2 to provide a healthy tailwind for growth momentum this year.

March 25

Hologic, Inc. (HOLX, HOLD, Target: $21.00)

Jeremy Feffer (212-915-1238, jfeffer@cantor.com)

Management Meeting Takeaways; Reiterate HOLD and $21 PT

SUMMARY: We reiterate our HOLD rating and $21 price target following our meeting with Hologic management in San Diego last week and highlight the following key takeaways: 1) there will likely be limited near-term impact on U.S. ThinPrep volumes from the recent FDA panel recommendation of Roche's HPV test as a primary screen, 2) Hologic is unfazed by ongoing debate over the use of mammography and thinks guideline changes are unlikely, and 3) despite macro-related pressures, Hologic is not interested in divesting the blood screening business.

- **HPV.** Given its dominant presence in the cytology-based cervical cancer screening market (alongside BDX), Hologic appears unconcerned by the recent FDA advisory committee recommendation of Roche's cobas HPV test as a primary screening tool. Hologic maintains that because guidelines still generally call for Pap/HPV co-testing, a Roche approval for primary testing likely would not have a material impact on pap volumes in the near term. While we tend to agree, we think over time it would likely still place additional pressure on pap, which is already affected by the move to longer screening intervals in the United States. The company also noted that it is unlikely to pursue a primary screening indication for Aptima HPV in the near term.
- **Blood Screening.** While this business remains on the list of potential divestitures, its high margin nature and solid cash flow generation make it an unlikely candidate, per Hologic. Although blood donation volumes remain weak, the company recently renewed its contract with the American Red Cross and sees potential for some international growth opportunities (most notably in China). Hologic also sees Panther as an important competitive advantage in blood screening. From a divestiture standpoint, management mentioned the GYN Surgical segment as a possible candidate.

Walgreen Co. (WAG, SELL, Target: $50.00)

Ajay Jain (212-915-1240, ajain@cantor.com)

Quick Comments - At First Glance Another Miss (SELL)

Summary: We will have more a detailed earnings recap following the management's conf. call, but our preliminary thoughts are that WAG missed 2Q earnings relative to our $0.80 est. by $0.01 per share based on comparable assumptions. Relative to the non-GAAP FactSet consensus est. of $0.93, WAG reported a figure of $0.91 for 2Q. Positives include another raise in synergy projections from mgt. related to Alliance Boots at $375-$425 million for FY:14 (from $350-$400 million previously). However, with Walgreen approaching the mid-point of its journey towards its FY:16 financial objectives outlined previously, despite the reported synergy benefits, we believe the earnings power originally envisioned by mgt. for both Walgreen and Alliance Boots seems a bit elusive at this time.

- **Gross margins weak, as expected** - The FIFO gross margin of 29.1% was in line with our est. but 20 bps lower than consensus. Gross margins were negatively impacted by the fading generic wave, negative flu comparisons, and severe winter weather. Although our SG&A assumptions are not directly comparable to the adjusted earnings methodology (we primarily exclude transaction costs but not the majority of other items), the winter impact accounted for a 50 bps increase in operating expenses from last year. We also note a lower tax rate added $0.01-$0.02 per share to the 2Q results.
- **Alliance Boots delivering the goods on combined synergies** - The latest results include $130 million of combined synergy benefits in 2Q and $375-$425 million now envisioned for the joint synergy program in FY:14. The guidance for Alliance Boots earnings in 3Q is $0.13-$0.14 per share. Overall, the latest results do little to change our view that WAG is currently overbought. Mgt. will hold its conf. call at 8:30 am EST (dial in #: 866.216.8683; password: 12526699). The mgt. commentary around Alliance Boots continues to be positive, but we expect margin trends will continue to pressure results in the near-term.

Disclosures Appendix

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BUY [B]	74	52.11	18	24.32
HOLD [H]	56	39.44	8	14.29
SELL [S]	12	8.45	1	8.33

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