



## Today's Highlights

April 7, 2014

**Featured Research:** ALNY, EXEL, ISRG, MGNX, PFE, Medical Supplies, Medical Supplies and Devices

**Initiations:** None | **Rating Changes:** None | **Price Target Changes:** EXEL, ISRG, PFE | **Estimate**

**Changes:** EXEL, ISRG, PFE | **MEDACorp:** Medical Supplies and Devices

**Reference Tools:**

[Catalyst Tracker](#) | [Calendar of Events](#) | [HC Conferences](#) | [Earnings Rundown](#) | [Abbreviations & Acronyms](#) | [Leerink Events](#)

## Leerink Events - Please contact your Leerink Partners representative for details

**4/7: MEDACorp Event:** Updates from AACR, San Diego

**4/9: Corporate Access:** Hyperion Therapeutics Inc: HPTX, New York

**4/11: MEDACorp Event:** UPDATES FROM EASL 2014, London

**4/14: Corporate Access:** Veracyte Inc: VCYT, New York

**4/15: Corporate Access:** Veracyte Inc: VCYT, Connecticut

**4/15: Corporate Access:** Veracyte Inc: VCYT, New York

**4/16: Corporate Access:** MacroGenics (MGNX): MGNX, Los Angeles

**4/16: Corporate Access:** MacroGenics (MGNX): MGNX, San Diego

## Today's Healthcare Events

**Regulatory:** Medicare Advantage (MA) Rate Release

**Medical Meetings:** American Society of Andrology; American Association for Cancer Research; Charing Cross | Vascular Society; American Association of Neurological Surgeons; Schizophrenia International Research Society

## Today's Research

**Alnylam Pharmaceuticals, Inc. (ALNY)** | Marko Kozul, M.D.

**Preview of 6 ALNY Pipeline Updates in 2Q14; Reit OP & \$125 PT**

**Outperform** | **Market Cap:** \$4,523.3M | **Price:** \$60.23 | **Price Target:** \$125.00 | **Methodology:** DCF analysis with 10% discount rate

• **Bottom Line:** We view top pick ALNY as very attractive at current levels given the recent non-fundamental related pull back and 6 upcoming 2Q14 pipeline updates, including: 1) Patisiran at International Symposium on Amyloidosis April 29th; 2) ALN-PCS-sc at Arteriosclerosis, Thrombosis, and Vascular Biology (ATVB) May 1st; 3) ALN-AAT at Digestive Disease Week (DDW) May 6th ([link](#) to ALNY note 4.4.14); 4) ALN-AT3 at World Federation on Hemophilia (WFH) May 11-14; 5) 5x15 update at Oligonucleotide and Peptide Therapeutics (TIDES) May 12-15, and; 6) ALN-CC5 at International Conference on Complement Therapeutics (ICCT) June 6-11. While collectively all of these updates could drive upside, we anticipate Patisiran, ALN-PCS-sc and ALN-CC5 will likely be most important. In 2H14/early-15, we anticipate 3 additional and potentially even more important catalysts related to data for Patisiran's Phase II open-label extension trial, ALN-AT3 proof of concept (POC) and ALN-TTR-sc in Phase II. We reiterate an Outperform rating and \$125 price target (PT).

• Patisiran Data at ISA (April 29th) will highlight additional new Phase II POC data and analysis from ALNY's proprietary 283-patient natural history registry.

• ALN-PCS-sc (GalNAc) at ATVB (May 1st) will show important Non-Human Primate (NHP) data that could begin to differentiate this compound from monoclonal antibodies.

• ALN-AT3 (GalNAc) and ALN-CC5 (GalNAc) data at WHF and ICCT, respectively, will provide additional preclinical support for these compounds prior to entering the clinic.

**Exelixis, Inc. (EXEL)** | Michael Schmidt, Ph.D.**Remain Cautious Post-COMET-1 Interim**

**Market Perform** | **Market Cap:** \$666.4M | **Price:** \$3.62 | **Price Target:** \$7.00 → \$5.00 | **Methodology:** DCF analysis

- **Bottom Line:** We are lowering our price target to ~\$5 from ~\$7 previously and are maintaining our MP rating. We remain cautious on EXEL shares despite the recent trade-off following the COMET-1 interim analysis. Whereas Street expectations for COMET-1 have come down significantly, we continue to believe stepping in ahead of the final analysis is risky. While we believe the probability of success (POS) for cabozantinib in RCC is higher, the need for dilutive financing by mid-2015 possibly before data readout may form an overhang should COMET-1 miss. Roche cobimetinib melanoma data could be an incrementally positive catalyst before final COMET-1 data, but the cobi market is small and competitive and positive coBRIM data should be priced in to a large degree at current \$700M EV.
  - We continue to remain cautious on final COMET-1 data in 2014.
  - We are constructive on cabozantinib in RCC, where we believe the drug has a higher probability of success, but EXEL's cash burn rate could form an overhang, following negative COMET-1 data in 2H14.
  - Probability of success for cobimetinib in BRAF+ melanoma (coBRIM) is very high in our view, but the opportunity is modest and the market competitive.
  - **2015E EPS/REV:** (\$1.64) / \$50.8 → (\$1.65) / \$40.8  
*Revenues in millions.*
- 

**Intuitive Surgical, Inc. (ISRG)** | Richard Newitter**Updating Model for Xi**

**Market Perform** | **Market Cap:** \$19,614.2M | **Price:** \$505.52 | **Price Target:**

\$420.00 → \$550.00 | **Methodology:** ~27.5x 2015E EPS (ex-cash) + cash/share

- **Bottom Line:** We come out of SAGES incrementally more bullish on ISRG's gen surgery penetration prospects (particularly Colorectal) in light of positive feedback on the just-released Xi system. The pipeline looks robust with a steady stream of advanced features on the Xi likely to roll out in coming qtrs. Still, we stay MP-rated as we think the stock's recent run (+15% since 3/31) already reflects a high degree of investor enthusiasm for the Xi new product cycle. To get more constructive from here we still need to do more work to better gauge whether (and how quickly) the Xi platform--and additional advanced capabilities down the road (i.e., nexgen single-site)--will translate into an upgrade/replacement cycle, especially amid a still-constrained cap equipment spending environment. We think this will ultimately dictate the rate at which ISRG can drive accelerated greater penetration into gen surgery & drive upside to estimates. Our PT increases to \$550 vs. \$420 on now higher 2015 estimates and assuming ISRG can sustain a premium valuation vs. large-cap MedTech given a unique-in-medtech (monopoly) position in robotics.
  - Initial Feedback on Xi Is Encouraging With Colorectal Surgeons Most Enthusiastic
  - We are increasing estimates to reflect the Xi launch
  - A key question: the degree to which Xi can accelerate ISRG's long-term growth profile,
  - **2014E EPS/REV:** \$14.80 / \$2,262.6 → \$14.98 / \$2,291.8
  - **2015E EPS/REV:** \$16.13 / \$2,409.4 → \$17.76 / \$2,574.8  
*Revenues in MM. EPS includes stock compensation expense.*
- 

**MacroGenics, Inc. (MGNX)** | Michael Schmidt, Ph.D.**Preclinical Data at AACR Suggests mAb-like Dosing of MGD007 Likely**

**Outperform** | **Market Cap:** \$703.6M | **Price:** \$26.06 | **Price Target:** \$52.00 | **Methodology:** Sum-of-the-parts DCF analysis

- **Bottom Line:** MGNX presented promising preclinical data on MGD007 at American Association for Cancer Research (AACR) yesterday. MGD007 is a first-in-class gpA33 x CD3 bi-specific dual-affinity re-targeting (DART) molecule targeting colorectal cancer (CRC) stem-like cells. MGD007 appears safe in tested doses, based on preclinical non-human primate data presented at AACR. A favorable pharmacokinetic (PK) profile supports

convenient antibody-like weekly dosing, which is in our view a tremendous advantage over "traditional" bi-specific molecules, since it enables longer-term chronic intermittent dosing, and thus access to large solid tumor indications. MGD007 is part of a broader partnership with Servier, and MGNX expects to initiate Phase I for colorectal cancer in 2H14. We continue to have a favorable view on MGNX's diversified and fast-growing pipeline with many shots on goal. **Reiterate OP; our price target remains \$52.**

- MGD007 is a first-in-class gpA33 x CD3 DART molecule targeting colorectal cancer stem-like cells discovered by MGNX.
- Favorable PK support convenient weekly dosing.
- Safety profile promising in preclinical studies.
- Phase I start for colorectal cancer in 2H14.

**Medical Supplies and Devices** | *Richard Newitter, Danielle Antalffy*

### **Positive DCB Data From MDT at Charing Cross—Mixed Read-Through to BCR**

**Market Perform:** BCR, MDT

• **Bottom Line:** MDT's (MP) positive 12-month IN.PACT Admiral drug coated balloon (DCB) trial results could, in our view, have some mixed implications for BCR (MP). On one hand it represents an important step forward for an exciting new therapy to treat peripheral arterial disease (PAD) for which there are currently no US approved devices and, according to both BCR and MDT, could represent a >\$1B global mkt opportunity by 2020. We now know that both major near-term US DCB clinical programs (the other being BCR's Lutonix/Levant II) have met their primary 12-mo. endpoints and (pending FDA approval) could be commercially available in CY15 with BCR's device likely to be about 6 months ahead of MDT's device. Still, it is difficult to compare the two trials at this point given that we haven't yet seen BCR's Levant II 12-month data (only 6-month data were made available at TCT last fall), and there are big differences in the two trials' designs. Nevertheless, inferences will be drawn and we suspect investors could focus on the fact that IN.PACT 6-mo. target lesion revascularization (TLR) data look better vs. Levant II—which showed no separation in freedom from TLR at 6 mo. As well, IN.PACT's strong 12-month TLR results could end up enhancing MDT's competitive positioning within the global DCB category if the Levant II trial does not demonstrate as strong of a separation in the TLR curves at 12 months.

- MDT's IN.PACT Admiral Data Look Impressive.
- The direct read-through to BCR is clouded by several factors...
- ...That said, we do think MDT's data now sets a "higher bar" for BCR's Lutonix if/when multiple DCBs are available in the marketplace.
- We don't see any change to change Lutonix's approval prospects and still expect BCR will be first to market with Lutonix.

**Medical Supplies** | *Richard Newitter*

### **Takeaways From SAGES - ISRG's New Xi Platform Steals The Show**

**Outperform:** COV, JNJ | **Market Perform:** ISRG

• **Bottom Line:** Last week we attended the SAGES (Society of American Gastrointestinal and Endoscopic Surgeons) meeting in Salt Lake City, where we had the opportunity to interact with general surgeons, check out ISRG's (MP) new Xi platform (which overall seems to be generating positive feedback, particularly from colorectal surgeons), sit in on several clinical robotics sessions, attend an ISRG-sponsored symposium on da Vinci, and learn about some new product extensions/launches from JNJ (OP) and COV (OP). Some takeaways follow.

- ISRG's New Xi Platform in The Spotlight & Well-Received...
- ...With Advanced Features Still To Come Plus an Advanced Single-Site Solution in The Works
- ISRG Also Recognizing Need for More Cost-Effectiveness Data.
- We view ISRG's move to a more tiered pricing strategy as a smart move.
- Beyond Robotics There Were Also Some New Products From COV and JNJ,

**Pfizer Inc. (PFE)** | Seamus Fernandez

### Final Palbociclib Analysis Solid, But Still More Questions than Answers

**Market Perform** | **Market Cap:** \$221,743.2M | **Price:** \$32.16 | **Price Target:** \$28.50 → \$31.60 | **Methodology:** DCF through 2020 at 8.25% discount with 2% terminal growth

• **Bottom Line:** Following the full presentation of the Ph II PALOMA 1 data for palbociclib (CDK 4/6 inhibitor + letrozole vs. letrozole alone in 1st line metastatic ER+/HER2- breast cancer), we view the 10-month progression-free survival (PFS) benefit vs. control in the overall patient population as positive for the overall class, but early approval of palbociclib (palbo) solely on the basis of PALOMA 1 looks like a long shot due to: (1) lesser effect size in biomarker-selected Part 2 vs. all-comers Part 1 of the study; (2) lack of clearly positive directional benefit on overall survival (OS); and (3) potential regulatory issues around a relatively small open-label study using investigator assessed tumor responses/progression. Nonetheless, we think the 10-month PFS benefit argues that PFE's Ph III PALOMA 2 will be successful on the primary PFS endpoint, and we maintain our palbociclib sales forecast of \$2.9B. We're also updating our model and valuation to reflect Fx headwinds, the potential introduction of Celebrex generics in the US in May 2014, and reduced forecasts for Xeljanz. Our updated DCF valuation now assumes a 2% terminal growth rate vs. 0% previously, consistent with other pharma companies in our universe, and our price target increases from \$28.50 to \$31.60.

- Final 10-month PFS benefit good for palbo and the CDK 4/6 class...
- ...but less dramatic benefit at the final (vs. interim) analysis & other questions suggest (at least some) Ph III data likely will be needed for approval.
- **2014E EPS/REV:** \$2.32 / \$49.3 → \$2.19 / \$47.9

*Excludes extraordinary items & discontinued operations; includes options expense. Revenue in \$B.*

## Research Previews

### April 7 – Medicare Advantage (MA) Rate Release

- This revised outlook on the MA rate prior to Final Notice is most positive for HUM (OP), UAM (MP), and WCG (OP) given their strong Medicare exposure, followed by UNH (MP), HNT (MP), AET (OP), CI (OP) and WLP (OP).
- We believe that while 2015 sees continuing pressure, the risk reward is skewed to the upside for the Final Rate Notice on April 7, while the 2016 and beyond rate outlook bodes for a positive growth story.
- See our notes: [2015 Final MA Rate Notice April 7; Risk Reward Modestly Skewed to Upside, Managed Care/Outlook for Final MA Rate Notice Sees Potential Relief on HRA and STAR Bonuses, Managed Care/Making Sense of Recent News Flow; Obamacare Continues to Diminish in Impact](#)

### April 9-13 – European Association for the Study of the Liver (EASL)

#### GILD – OP – Howard Liang

**Close:** \$72.20, **Mkt Cap:** \$115,234M

- This year's EASL will feature full Ph III results from the first two interferon-free regimens from GILD and ABBV and highlight promising data from a potential second wave of combos (including MRK's [MP] MK-5172+MK-8742 and GILD's pan-genotypic NS5A inhibitor GS-5186+sofosbuvir). We believe ifn-free regimens will make cost concerns less relevant. Other companies with data include ACHN (OP, **\$3.02**), BMJ (OP, **\$49.89**), ENTA (OP, **\$34.47**), IDIX (MP, **\$5.17**), and JNJ (OP, **\$98.42**).

### April 10-13 – International Society for Heart & Lung Transplantation

#### HTWR – OP – Danielle Antalfy

**Close:** \$88.24, **Mkt Cap:** \$1,585M

- We expect interim-post-approval data from the US BTT post-approval study at the upcoming ISHLT annual meeting.

- The HVAD U.S. Post-Approval study is a 1,200 patient study enrolling the first 600 HVAD commercial patients compared to 600 control patients.
- The length of follow-up is 6 months.
- This trial will help confirm that training around managing Mean Arterial Pressure (MAP) will result in better patient outcomes

## Previous Notes

### April 4

[Life Science Tools and Diagnostics/Bullish Call for Clinical Nextgen Sequencing \(ILMN\), with Qualifications](#), Dan Leonard

[Specialty Pharmaceuticals/Specialty Pharma 1Q Preview](#), Jason Gerberry

[ALNY/Positive ALN-AAT Data as DDW Late-Breaker; Reit. OP & \\$125 PT/Outperform](#), Marko Kozul

**Updated Models:** [MGLN - Model](#), [MNK - Model](#), [MYL - Model](#), [SHPG - Model](#)

### AACR (4/5-9) Preview Notes

[Flash -- AZN/AACR Could Make It a Hat-trick of Interesting Medical Mtgs for AZN in 2Q:14/Outperform](#), Seamus Fernandez

[SNSS/Encouraging AACR-14 Vosaroxin MDS/AML Abstract Drives our New \\$17 PT; Reit OP/Outperform](#), Marko Kozul

[Pharmaceuticals/ Major/AACR Preview: CDK 4/6 & MRK's IO Presentations Set the Pre-ASCO Table](#), Seamus Fernandez

### 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

### Recent Surveys

[AEGR/Juxtapid Survey Shows Slower NT Growth, but We See Solid LT Uptake/Outperform](#), Joe Schwartz

[TEVA/Signs of Cash Flow Stability Suggest M&A Activity Likely to Accelerate/Outperform](#), Jason Gerberry

[Managed Care/Broker Survey Points to Stable Market for 2014, Shifts to Exchanges in 2015](#), Ana Gupte

[KYTH/Survey Reactions to ATX-101 Validate Expectations for Successful 2015 Launch/Outperform](#), Seamus Fernandez

[Medical Supplies and Devices/Hemophilia Physician Survey: BAX Share Loss Likely in Line with Estimates](#), Danielle Antalffy

[AGN/4Q:13 Cosmetic Survey Highlights Stable Growth Trends, Cont'd AGN Strength/Market Perform](#), Seamus Fernandez

[Medical Devices-Orthopedics/Hip/Knee Survey Highlights 4Q Seasonality & Possible Positive Sign for 1H14](#), Richard Newitter

[Pharmaceuticals/ Major/MEDACorp Diabetes Survey: Solid SGLT2 Prospects & A Tough Januvia \(MRK\) Outlook](#), Seamus Fernandez

[Life Science Tools and Diagnostics/Survey Offers Mixed Feedback on Forthcoming Sequencing Demand](#), Dan Leonard

### White Papers

[Specialty Pharmaceuticals/ Generics/Future of Respiratory Generics - Next Major Generic Product Class](#), Jason Gerberry, JD

[Medical Devices-Orthopedics/The Future Of Growth & Innovation In US Extremities Ortho Reconstruction](#), Rich Newitter

[Biotechnology/Future of Dynamic Multiple Sclerosis Landscape](#), Marko Kozul, M.D.

[Healthcare IT & Distribution/The Future of HCIT Population Health Management](#), Dave Larsen

[Life Science Tools and Diagnostics/The Future of DNA Sequencing](#), Dan Leonard - Life Science Tools and Diagnostics

[Biopharma/Future of Cancer Treatment - Immuno-Oncology](#), Seamus Fernandez

[Biopharma/Future of Orphan Drugs: Neuro Nirvana](#), Joseph P. Schwartz - Biotechnology

[Biopharma/Future of Hepatitis C Treatment](#), Howard Liang, Ph.D. - Biotechnology

[Medical Devices-Cardiology/Future of Atrial Fibrillation](#), Danielle Antalffy - Medical Devices

### **Leerink Partners 2014 Global Healthcare Conference**

[Managed Care/Takeaways from our 2014 GHC Conference: Panel on Exchanges](#), Ana Gupte

[Medical Supplies and Devices/Takeaways from 2014 Leerink Global Healthcare Conference](#), Antalffy/Newitter

[Pharmaceuticals / Major/Takeaways from Our 2014 Global Healthcare Conference](#), Seamus Fernandez

[Biopharma/Takeaways from Our 2014 Global Healthcare Conference: Immuno-oncology](#), Fernandez/Liang/Schmidt

[Biopharma/Takeaways from our Global Healthcare Conference - The Hepatitis C Panel](#), Howard Liang

[Biotechnology/Takeaways from our 2014 Global Healthcare Conference](#), Michael Schmidt

[Biotechnology/Takeaways from our 2014 Global Healthcare Conference](#), Joe Schwartz

[Biotechnology/Takeaways from our 2014 Global Healthcare Conference](#), Marko Kozul

[Specialty Pharmaceuticals/Takeaways from our 2014 Global Healthcare Conference](#), Jason Gerberry

[Life Science Tools and Diagnostics/Takeaways from our 2014 Global Healthcare Conference: Clinical NGS](#), Dan Leonard

[HCIT/Takeaways from our 2014 Global Healthcare Conference](#), Dave Larsen

## **Upcoming Healthcare Events**

### **Regulatory Events**

**4/7:** Medicare Advantage Rate Decision, AET, CI, HUM, UAM UNH, WCG, WLP

**4/21:** FDA AdCom - Pediatric drugs

**4/24:** FDA AdCom: Analgesic Drugs

**4/24:** FDA AdCom: Neurologic Devices

### **Medical Meetings**

**4/4-8:** American Society of Andrology

**4/5-9:** American Association for Cancer Research

**4/5-9:** Charing Cross | Vascular Society, MDT, BCR

**4/5-9:** American Association of Neurological Surgeons

**4/5-9:** Schizophrenia International Research Society, ITCI

**4/9-13:** European Association for the Study of the Liver (EASL), ACHN, BMY, ENTA, GILD, IDIX, JNJ, MRK

**4/10-13:** Clinical Immunology Society

**4/10-13:** International Society for Heart & Lung Transplantation, HTWR

**4/21:** ASCO abstract titles available

**4/23-26:** National Kidney Foundation, XLRN

**4/24-29:** American Society for Aesthetic Plastic Surgery

### **Corporate Events**

**4/10:** IPH Analyst Meeting



## 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 03/31/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	131	68.23	46	35.11
HOLD [MP]	61	31.77	3	4.92
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.

### Important Disclosures

This information (including, but not limited to, prices, quotes and statistics) has been obtained from sources that we believe reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All information is subject to change without notice. This is provided for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy any product to which this information relates. The Firm, its officers, directors, employees, proprietary accounts and affiliates may have a position, long or short, in the securities referred to in this report, and/or other related securities, and from time to time may increase or decrease the position or express a view that is contrary to that contained in this report. The Firm's salespeople, traders and other professionals may provide oral or written market commentary or trading strategies that are contrary to opinions expressed in this report. The Firm's proprietary accounts may make investment decisions that are inconsistent with the opinions expressed in this report. The past performance of securities does not guarantee or predict future performance. Transaction strategies described herein may not be suitable for all investors. Additional information is available upon request by contacting the Editorial Department at One Federal Street, 37th Floor, Boston, MA 02110.

Like all Firm employees, analysts receive compensation that is impacted by, among other factors, overall firm profitability, which includes revenues from, among other business units, Institutional Equities, and Investment Banking. Analysts, however, are not compensated for a specific investment banking services transaction.

MEDACorp is a network of healthcare professionals, attorneys, physicians, key opinion leaders and other specialists accessed by Leerink and it provides information used by its analysts in preparing research.

For price charts, statements of valuation and risk, as well as the specific disclosures for covered companies, client should refer to <https://leerink2.bluematrix.com/bluematrix/Disclosure2> or send a request to Leerink Partners Editorial Department, One Federal Street, 37th Floor, Boston, MA 02110.

**©2014 Leerink Partners LLC. All rights reserved. This document may not be reproduced or circulated without our written authority.**