CANTOR Fitzgerald

U.S. Equity Research
February 11, 2015

Daily Research Highlights

Charles River Laboratories: 4Q:14 First Take - Strong Quarter and Solid Outlook, but FX Is a Significant Headwind

CVS Health Corporation: No Change in Outlook Following Latest Earnings and Analyst Day (HOLD)

Ligand Pharmaceuticals: 4Q:14 Benefited from Buyback Boost; Reiterate HOLD and $46 PT

Parkway Properties, Inc.: Re-Pricing Continues; Reiterate SELL

Phibro Animal Health Corporation: Double-Digit Growth in Core Businesses; Maintain BUY and $36 PT

Seattle Genetics, Inc.: 4Q:14 Beats, ADCETRIS Guidance Below Consensus, but Watching for New Indications

Yelp, Inc.: YELP Acquires Eat24 for ~$134M; Maintain BUY and Tweaking Outlook

Click on the headline title above to be taken to the report summary. Click on the title in the summary below to open the full pdf report.

Daniel Brims
Biotechnology
212-294-7729, dbrims@cantor.com

Caroline Corner
Medical Technology
415-869-2016, ccorner@cantor.com

Joseph D. France, CFA
Managed Health Care
212-915-1239, jfrance@cantor.com

Mara Goldstein
Biotechnology
212-610-2215, mgoldstein@cantor.com

Ajay Jain
Food Retail/Wholesale
212-915-1240, ajain@cantor.com

Naved Khan
Internet & Media
212-829-4860, nkhan@cantor.com

Irina Rivkind Koffler
Specialty Pharmaceuticals
212-915-1237, irivkind@cantor.com

Gaurav Mehta, CFA
REITs
212-915-1221, gmehta@cantor.com

Sung Ji Nam
Life Science Tools and Diagnostics
212-915-1236, snam@cantor.com

Kip Paulson
Internet & Media
212-915-1767, kip.paulson@cantor.com

Evan Smith
REITs
212-915-1220, evan.smith@cantor.com

Youssef Squali
Internet & Media
212-915-1794, ysquali@cantor.com

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

Brian White
IT Hardware & Software
212-610-2416, briwhite@cantor.com

February 11

Ligand Pharmaceuticals (LGND, HOLD, Target: $46.00)
Irina Rivkind Koffler (212-915-1237, irivkind@cantor.com)

4Q:14 Benefited from Buyback Boost; Reiterate HOLD and $46 PT

- **4Q:14 performance pressured by lower-margin CAPTISOL sales and boosted by share buyback:** Ligand reported revenues of $23.0M (+56% Y/Y) and adjusted non-GAAP EPS of $0.60 relative to FactSet consensus of $23.7M and $0.60, respectively. In this quarter, 56% of revenues were generated by the company's lower-margin CAPTISOL (material sales) business, which drove gross margin down from 90% to 82.6% Q/Q, resulting in lower profitability. However, Ligand bought back 0.6M shares in 4Q:14 for $29.4M, which we believe helped boost its bottom line in the quarter (otherwise non-GAAP EPS would have come in $0.02 lower). We still view 2015 as a relatively quiet year for the company and are not anticipating any major catalysts to the stock aside from disclosure of the Phase I/II diabetes data in 2Q:15. We reiterate our HOLD rating and $46 PT, since we believe that the company could utilize M&A to identify additional revenue sources with its remaining $167M in cash (though we were surprised to see continued share buybacks this quarter since we don't view the shares as inexpensive).
- **2015 guidance remains unchanged, but 1Q:15 came in below expectations:** Ligand reiterated its full year guidance of $81-83M in revenue and $2.14-2.18 in non-GAAP EPS. The company also introduced 1Q:15 guidance of $13-13.5M and $0.25-0.27 EPS, which came in below consensus expectations of $20.3M and $0.51, which could indicate that some sell-side analysts did not adjust Ligand estimates since partners Amgen and GSK disclosed 4Q:14 revenues for Kyprolis and Promacta (which were both weak). We model $14.0M and $0.28 for 1Q:15 and expect gradual increases during the year.
- **Partnered products are showing mixed results:** GSK reported 4Q:14 Promacta revenues of $105M, and management expects 2015 revenues of $0.5B due to growth in new indications like aplastic anemia in the U.S. and geographic expansion. We model $455M instead. Management is not anticipating any disruption from the transition of Promacta to Novartis this spring. Amgen reported 4Q:14 Kyprolis revenues of $91M, which missed consensus estimates of $107M and the light revenues were attributed to F/X. We expect sales of both of these products to remain healthy. After significant promotional investment from Pfizer, we estimate a current run rate below $20M/year for Duavee, which is disappointing, in our view.

Phibro Animal Health Corporation (PAHC, BUY, Target: $36.00)

Irina Rivkind Koffler (212-915-1237, irivkind@cantor.com)

Double-Digit Growth in Core Businesses; Maintain BUY and $36 PT

- **Strong top line beats consensus again:** Phibro reported revenues of $188.7M and adjusted diluted earnings of $0.35 versus FactSet consensus estimates of $181.5M and $0.35. Diluted GAAP earnings were higher at $0.39. Net sales in the quarter grew +9% Y/Y, and adjusted EBITDA grew +12% Y/Y. Despite the top line beat, management maintained 2015 revenue and adjusted diluted EPS guidance of $739-759M and $1.57-1.62, respectively which may be attributed to some delays in international product registrations in its Vaccines business and continued declines in the Performance Products segment. We reiterate our BUY rating and $36 PT, which is based on a 15x EV/EBITDA multiple, which is a discount to market leader, Zoetis.
- **Segments continue to perform:** Animal Health sales grew by +10% Y/Y, primarily from volume growth with some contribution from pricing. Within Animal Health, medicated feed additives grew +9% Y/Y, vaccine sales declined 8% Y/Y, and nutritional specialties (which includes the dairy immune boosters) grew +27% Y/Y. The vaccine sales decline was attributed to international product registration delays, while the increase seen in nutritional specialties was due in part to introductions into new markets. Mineral Nutrition sales grew +16% Y/Y also on volume following increased demand for certain trace minerals. Sales within the legacy business "Performance Products" declined 21% Y/Y.
- **Other updates:** (1) Management does not currently expect currency headwinds to negatively impact sales. (2) Phibro acquired distribution rights to MJ Biologics' vaccine technologies, which provided Phibro an entry point into the swine vaccine market, but management would not provide guidance on potential revenues. There is room to expand this technology in international markets such as China, where the vaccine is not available, and we expect this acquisition to drive growth in the vaccine segment. (3) Management continues to look for additional acquisitions and highlighted the MJ Biologics deal as an example of Phibro's ability to potentially use its infrastructure to help smaller companies expand sales. (4) Phibro received approval for Omnigen in China and has entered into a distribution agreement with a major local animal health company, which is currently hiring a sales team to start promoting Omnigen in a market with a high demand for dairy products. (5) Management continues to anticipate a $2M milestone later in the year from an existing vaccine license agreement, which provides use of Phibro's vaccine delivery technology to a global animal health company.

Seattle Genetics, Inc. (SGEN, HOLD, Target: $35.00)

Mara Goldstein (212-610-2215, mgoldstein@cantor.com)

4Q:14 Beats, ADCETRIS Guidance Below Consensus, but Watching for New Indications

- **Earnings Beat on ADCETRIS Royalties.** 4Q:14 EPS of ($0.22) came in ahead of our and FactSet consensus estimates of ($0.29) and ($0.25), respectively, driven by higher-than-expected ADCETRIS royalties ($11.9 million vs. consensus of $7.6 million) and our $6.4 million estimate. Sequentially ADCETRIS sales declined 4%.
- **Growth and ADCETRIS Trends Still a Work in Progress.** Y/Y growth has ranged from 14% to 32% for the 2014 quarters, an improvement vs. comparisons from 2013, where Y/Y sales gains did not breach 10%. However, Q/Q growth has remained inconsistent, ranging from a decline of 3.6% this quarter to a gain of 15.7% in 2Q:14. This suggests to us that while the core market is reasonably well served, off-label adoption is still spotty. Future indications, such as the AETHERA sBLA as well as myriad other trials are key to greater growth consistency and incorporated into our model.
- **Valuation.** Our PT is derived from a sum-of-the parts that values the shares at $35 and a discounted forward revenue calculation that values the shares at $34. We round the midpoint of the two to $35 to arrive at our PT. We like Seattle Genetic's pipeline and the opportunity to increase ADCETRIS sales but also believe that much growth is already in the valuation, driving our HOLD rating. We think the shares are likely to stay range-bound around our PT until data allows for upside.

The Disclosure Section may be found on page 5

February 10

CVS Health Corporation (CVS, HOLD, Target: $83.00)
Ajay Jain (212-915-1240, ajain@cantor.com)

No Change in Outlook Following Latest Earnings and Analyst Day (HOLD)

Summary: Overall, there is little incremental read-through following the latest results. While we liked what we heard at the Analyst Day in December, we don't believe there is any additional growth vehicle that incrementally impacts our views from an earnings perspective for 2015 (or further out). For the foreseeable future, we're comfortable that CVS can sustain its capital allocation strategy, with strong emphasis on share buybacks and dividends.

- **Revenue upside/gross margins pressured in 4Q:14** - CVS reported non-GAAP EPS of $1.21 for 4Q:14 ($0.01 better than the headline FactSet consensus figure) and GAAP EPS of $1.14 ($0.01 lower than Cantor est.). Relative to our expectations, gross margins were surprisingly weak, however (-140 bps from last year). Management expects continued margin compression based on competitive pricing in the PBM segment and had already planned to invest for the 2015 PBM selling season.
- **Increasingly a high multiple stock** - In looking at the bigger picture, we note that the stock has increased by more than 25% over the past several months without any corresponding increase in earnings guidance or in the preliminary outlook for 2015 (which bracketed the Street's outlook). Management is embarking on what we view as a more aggressive approach on formulary management with continued emphasis on specialty drugs. However, these strategies are well documented, in our view. There is no change in our outlook. While we continue to view CVS as a defensive stock, we think the valuation reflects a significant premium - assuming CVS can sustain low- to mid-teens EPS growth.

Yelp, Inc. (YELP, BUY, Target: $78.00)
Youssef Squali (212-915-1794, ysquali@cantor.com)

YELP Acquires Eat24 for ~$134M; Maintain BUY and Tweaking Outlook

Investment Summary: Yelp announced this morning the acquisition of food ordering service and partner, Eat24, for ~$134M. The transaction closed on 2/9. We view this deal favorably for Yelp, as it extends its reach with merchants, and helps it close the transaction loop for local businesses (mainly restaurant at this point). This transaction also gets Yelp closer to the ultimate customer. This is in line with management's increasing focus on pay for performance. With more scale, Yelp is now solidifying its position further as a prime beneficiary of the sizeable local online ad opportunity, as the number of players with scale, brand, network effect and solid execution remains very limited, in our view. We're maintaining a BUY rating and adjusting our PT to $78 (reflecting updated guidance), from $76 previously.

- **Yelp acquires online food ordering service, Eat24.** Eat24 provides ~20K restaurants in over 1.5K U.S. cities the ability to offer online delivery and takeout services. With the acquisition, Yelp expects to drive further daily engagement in the key restaurant vertical, and plans to expand Eat24's food ordering offering to the 1M U.S. restaurants listed on Yelp.
- **Tweaking our estimates; Maintaining BUY.** Our FY:15 revenue/EBITDA/EPS estimates go to $577.8M/ $107.5M/$0.09, from $546.3M/$104.8M/$0.10 previously. Please note that our GAAP EPS estimates are not yet adjusted given the lack of information on D&A and SBC. We're maintaining a BUY rating, and our PT goes to $78 from $76 previously.

The Disclosure Section may be found on page 5

Charles River Laboratories (CRL, BUY, Target: $70.00)
Sung Ji Nam (212-915-1236, snam@cantor.com)

4Q:14 First Take - Strong Quarter and Solid Outlook, but FX Is a Significant Headwind

Strong 4Q:14 results, and 2015 EPS guidance exceeds FactSet consensus: Revenue growth of +14% (~7.5% organic), driven by double-digit organic revenue growth in DSA and Manufacturing segments and non-GAAP EPS growth of +11% exceeded consensus estimates. Initial 2015 guidance calls for constant currency revenue growth of +6-7.5% y/y and non-GAAP EPS growth of +6-9% y/y, although FX is expected to reduce revenues by ~5% and EPS by ~3%. Looking ahead, CRL expects to continue focusing on expanding strategic relationships, gaining market share, and implementing efficiency and productivity initiatives. We look to the call tomorrow for additional details on 2015 guidance, as well as color on outsourcing trends across CRL's customer segments (large pharma, mid-tier biotech, academic/government), including potential strategic partnerships, safety assessment capacity utilization and pricing, competitive dynamics in early-stage discovery and development, and near-term priorities for productivity and efficiency initiatives. We are keeping our estimates unchanged ahead of the conference call tomorrow morning **(Wednesday, Feb. 11, 9am ET).**

- **4Q:14 results:** Revenues were $329.5mm, +14% y/y (including -2.9% FX; +9.3% acquisitions) vs. consensus of $320mm, +11%. Non-GAAP EPS was $0.81 vs. consensus of $0.71. CRL did not repurchase shares in the quarter (~$178.5mm remaining in the program).
- **Initial 2015 guidance** calls for revenue growth of +1-2.5% y/y including approximately -5% FX headwind (vs. prior consensus of +5% growth), and non-GAAP EPS of $3.55-3.65 including FX headwind of ~$0.12 and an estimated $0.03 benefit from limited partnership investments (vs. prior consensus of $3.56; 2014 EPS includes $0.12 gain on limited partnership investments).

Parkway Properties, Inc. (PKY, SELL, Target: $21.00)
David Toti (212-915-1219, dtoti@cantor.com)

Re-Pricing Continues; Reiterate SELL

On a trailing twelve month basis, PKY has lagged the RMZ by ~30%, as the weight of its Texas exposure continues to negatively impact stock price performance, in a textbook case of "shoot first, ask later." Given that ~30% of Parkway's revenue is derived from Houston (12/31/14), and that near-term roll-over is sizable, unanswered questions remain: *how much could spreads contract, and how much could cap rates decompress?* **Although the stock presents a more attractive "relative" price point today, we view the underlying asset re-pricing process as incomplete and reiterate our SELL rating.**

Outside of the energy concerns, the portfolio is well occupied, and aggregate leasing spreads were again positive, indicating that overall the current operating environment remains healthy. 4Q results met consensus and beat Cantor by a penny, while standing 2015 guidance was left unchanged. In addition to the stable core, management continues to actively reposition the portfolio, and 2014 closed with record volumes (with some attendant dilution).

- **Guidance.** FY2015 FFO/sh guidance, established less than three weeks ago, was left unchanged at $1.32-1.42. Current Cantor/consensus expectations are $1.39/$1.40.

The Disclosure Section may be found on page 5

Disclosures Appendix

Analyst Certification

The analyst primarily responsible for this research report, and whose name appears on the front cover, certifies that: (i) all of the views expressed in this research report accurately reflects his or her personal views about any and all of the subject securities or issuers featured in this report; and (ii) no part of any of the research analyst's compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

Legal Disclosures

For important disclosures on companies mentioned in this report, please contact the Cantor Fitzgerald Research Department at 110 East 59th Street, New York, NY 10022, or refer to this website:
https://cantor2.bluematrix.com/sellside/Disclosures.action

Cantor Fitzgerald's rating system

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.

HOLD: We have a neutral 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.

SELL: We have a negative 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 reduce their position.

NC: Not Covered. Cantor Fitzgerald does not provide an investment opinion or does not provide research coverage on this stock.

Prior to September 12, 2006, Cantor Fitzgerald had the below ratings:

BUY - denotes stocks that we expect will provide a total return (price appreciation plus yield) of 15% or more over a 12-month period. a BUY rated stock is expected to outperform the total average return of analyst's industry coverage universe on a risk adjusted basis.

HOLD - denotes stocks that we suggest will provide a total return or total negative return of up to 15% over 12-month period. A HOLD rated stock is expected to perform in-line with the total average return of the analyst's industry coverage universe on a risk adjusted basis.

SELL - denotes stocks that we expect to provide a total negative return of more than 15% over a 12 month period. A SELL rated stock is expected to underperform the total average return of the analyst's industry coverage universe on a risk adjusted basis.

NC - Not Covered. Cantor Fitzgerald does not provide research coverage on this company.

Other Disclosures

This report is for informational purposes only and is based on publicly available data believed to be reliable, but no representation is made that such data are accurate or complete. Opinions and projections contained herein reflect our opinion as of the date of this report and are subject to change. Pursuant to Cantor Fitzgerald's policy, the author of this report does not own shares in any company he/she covers.

Disclosures for UK investors

This material is approved for distribution in the United Kingdom by Cantor Fitzgerald Europe (“CFE”). CFE is authorised and regulated by the Financial Conduct Authority (“FCA”). While we believe this information and the materials upon which this information was based is accurate, except for any obligations under the rules of the FCA, we do not guarantee its accuracy. This material is only intended for use by eligible counterparties or professional clients who fall within articles 19 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and not the general investing public. None of the investments or investment services mentioned or described herein are available to other persons in the U.K and in particular are not available to "retail clients” as defined by the rules of the FCA.

Disclosure for Canadian Institutional Investors

This research report was prepared by analysts of Cantor Fitzgerald & Co. and not by Cantor Fitzgerald Canada Corporation. As a result, this report has not been prepared subject to Canadian Disclosure requirements. Cantor Fitzgerald Canada may distribute research reports prepared by its affiliates.

Risks

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based on their specific investment objectives. Past performance should not be taken as an indication or guarantee of future performance. The price, value of and income from, any of the financial instruments featured in this report can rise as well as fall and be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's currency, a change in exchange rates may adversely affect the price or value of, or income derived from, the financial instrument, and such investors effectively assume currency risk. In addition, investors in securities such as ADRs, whose value is affected by the currency of the home market of the underlying security, effectively assume currency risk.

Distribution of Ratings/Investment Banking Services (IB) as of 02/11/15

	Cantor		IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	**93**	**62.42**	**24**	**25.81**
HOLD [H]	**47**	**31.54**	**9**	**19.15**
SELL [S]	**9**	**6.04**	**1**	**11.11**

The Disclosure Section may be found on page 5