Daily Research Highlights

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October 28

Ligand Pharmaceuticals (LGND, HOLD, Target: $43.00)
Irina Rivkind Koffler (212-915-1237, irivkind@cantor.com)

Reviewing the Numbers Post 3Q:14; Reiterate HOLD, Lower PT to $43 from $49

- **3Q:14 beat unsurprising:** Ligand reported revenues of $15.0M (+15.1% Y/Y) and adjusted non-GAAP EPS of $0.36 relative to FactSet consensus of $14.6M and $0.31, respectively. Ahead of the quarter, mgmt. pre-announced approximate revenues of $15.0M and non-GAAP EPS of $0.33-0.37. Despite raising our peak Promacta estimates from $610M to $631M in 2020, we are lowering our PT to $43 from $49 after updating cash and debt assumptions in the DCF, maintaining the 21M share count and modeling in $1.8M in annual cash interest expense. We maintain our HOLD rating because we believe that the company could identify additional revenue sources with its new balance sheet via M&A which could help support the stock.

- **2014 guidance remains unchanged, but revenue composition is slightly less favorable than expected:** Mgmt. reiterated its full year guidance with $64-66M in revenue and $1.50-1.55 in non-GAAP EPS. Earlier in the year mgmt. guided to a revenue distribution of approximately 50% in royalties with 100% gross margins, 30% in material sales (with 60% gross margins), and 20% in license and milestone revenue (also with 100% gross margins). Since mgmt. now expects approximately $12M in material sales in 4Q:14, we believe that lower margin material sales should now represent >40% of 2014 revenues. Mgmt. introduced 4Q:14 guidance of $22.5-24.5M in revenue and $0.57-0.62 in non-GAAP EPS which will contain a quarter of cash interest expense on the convertible debt.

- **Partnered product performance is encouraging:** GSK reported Promacta revenues in 3Q:14 of $104M, beating Bloomberg consensus estimates of $96.3M (+36.8% Y/Y). We expect continued growth from this franchise as it expands geographically and gains additional indications. Amgen reported 3Q:14 Kyprolis revenues of $94M, also beating consensus estimates of $87.5M (+44.6% Y/Y). Mgmt. remains enthusiastic about Pfizer's Duavee launch, and believes this franchise could reach peak sales of >$1B (based on its royalty estimates of at least $10M to Ligand); however, we have much more conservative expectations, and model ~$260M in 2020.

Sysco Corp. (SYY, SELL, Target: $27.00)

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

Earnings Preview - Regulatory Overhang Needs to Be Addressed (SELL)

Summary: Sysco is set to report 1Q earnings on 11/3. Based on the planned timeframe for closing, we believe the timing of the next earnings release on November 3 is significant. Our GAAP based EPS estimate for 1Q:15 remains unchanged at $0.49. Similar to last quarter, we expect some sequential weakness in case volume growth (down 70 bps based on our estimates).

Inflation remains high - we expect earnings to remain pressured - For 1Q our $0.49 EPS estimate assumes 5.6% sales growth comprised of: i) 50 bps contribution from acquisitions; ii) 4.3% inflation (compared to 4.1% last quarter); iii) 50 bps dampening effect from currency. We estimate implied volume growth of 1.2% in 1Q. We further estimate a gross margin decline of 30 bps to 17.3% and operating expense of 13.3% (-30 bps) in 1Q. However, we have no direct visibility on how transaction-related costs will be allocated going forward. We believe the magnitude of the integration expenses reported so far ($90.6 million) seems unusually high - especially since the transaction itself is subject to some regulatory uncertainty. Our GAAP EPS estimates of $0.49 for 1Q and $1.65 for FY:15 remain below consensus (FactSet) of $0.51 and $1.87, respectively.

Complexity of potential divestitures also needs to be accounted for - If Sysco is ramping up planned divestitures to satisfy FTC concerns, the divestability of the assets should raise a number of issues that are somewhat unique to the foodservice industry. In our view, the extent to which national accounts can transfer their business under a change of control for regional distribution facilities is somewhat unclear and may not be feasible in many cases. Our pro forma merger analysis already implies that the Sysco/US Foods merger could be potentially dilutive. The effect of forced divestitures could exacerbate this impact.

Whole Foods Market, Inc. (WFM, SELL, Target: $32.00)

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

Quick Comments Ahead of 4Q (SELL)

Summary: Ahead of 4Q results on 11/5, our estimates and $32 price target are unchanged. We think the biggest impact on near-term stock performance will be how management guides for FY:15. Even if Whole Foods guided conservatively and is capable of generating an expense driven earnings beat in 4Q, we remain concerned about how the continued sales deceleration of the existing store fleet will impact the outlook for FY:15.

Guidance for next year could disappoint - If the preliminary outlook for FY:15 is credible, we think there is potential for disappointment. So far, there are few indications that the sales trajectory has stabilized. With intra-quarter ID's most recently running below 3%, we think that the upcoming FY:15 guidance will be measured against the "vision" that management provided on May 6 in which detailed assumptions were outlined through FY:18. The longer-term outlook envisioned by management includes assumptions of 14-16% annual EPS growth, annual operating margin expansion, and comps +6% over the next four years. An acceleration of comps from current levels would require heavy margin investment, in our view

WFM remains a high PE stock and is a lagging indicator to fundamentals - We also expect an update on new initiatives. These include planned remodels for older stores and the launch of a new national marketing campaign. The marketing expense for these programs could also result in some near-term pressure on earnings, in our view. Overall, we still think it's too early to call an inflection point for WFM. We continue to believe the stock is a lagging indicator to fundamentals. In that context and with the potential for more disappointing guidance, we reiterate our SELL rating.

October 27

Twitter, Inc. (TWTR, BUY, Target: $58.00)
Youssef Squali (212-915-1794, ysquali@cantor.com)

Decent Quarter but Not Enough to Sustain Stock's S.T. Momentum; Maintain BUY

Investment Summary: Twitter reported 3Q:14 results, which topped guidance and consensus estimates for both revenue and EBITDA, but met on EPS. Monetization, both domestically and internationally, was again the primary top-line driver. MAUs and user engagement met relatively muted expectations, which pressured the stock post-close. While management hinted at stabilization in user engagement in 4Q Y/Y, re-acceleration in this key metric is likely to take time as the company tries to influence it through improvements to the user experience and content, and by introducing new apps and services. Twitter continues to be under-monetized relative to peers, and with the potential to effectively target a massive base of non logged-in users, we see meaningful upside potential over time. We're maintaining a BUY rating and a $58 PT.

- **Top/bottom lines beat by 3%/28%.** Total revenue increased 114.3% Y/Y to $361.3M ($351.5M StreetAccount consensus) while EBITDA at $68.3M (18.9% margin) handily exceeded consensus of $53.2M. NEPS of $0.01 was inline with the Street. Ad revenue continued to grow triple digits, up 108.7% Y/Y to $320.3M vs. consensus' $314.9M. Mobile contributed 85% of ad revenue, which remains best in class (vs. FB's 62+%).
- **Monetization continues to impress, driving the top line.** Ad revenue per 1k timeline views increased 83.1% Y/Y to $1.77, decelerating from +99.8% Y/Y in 2Q:14. This growth reflects advertisers' appetite for the platform, but it's still roughly half of FB's monetization levels, implying further upside potential. New advertiser tools and ad formats, including mobile app installs and promoted video ads, continue to refine the advertiser experience and improve ROI. Growth was broad based, with particular strength noted in EMEA and APAC.

AvalonBay Communities, Inc. (AVB, HOLD, Target: $152.00)
David Toti (212-915-1219, dtoti@cantor.com)

Same Store on Cruise Control; 5% in Fifteen?

AvalonBay's 3Q results highlight a protracted period of fundamental tailwinds for the apartment operators. SSNOI increased a respectable 5.5%, with the assistance of favorable opex comps, and steady occupancy levels. Performance metrics did not shift dramatically, despite the inclusion of Archstone assets in the same store pool. There was modest contraction within the development pipeline (rights), although dollar volumes are lumpy quarter to quarter (*a call question*).

Results point to stable performance in 2015, with similar patterns of weakness (the mid-Atlantic) and strength (Northern California, the Pacific Northwest). The company's balance sheet capacity, development value creation, and steady growth trajectory are to be liked — although we view the positives as fully reflected in current pricing, given a 4.6% implied cap (vs. our applied cap of 5.4%), and the current 20.0% NAV/sh. premium; reiterate HOLD.

- **Yields and Volumes Lower.** As compared to 2Q, the development pipe. was unchanged at $3.2b at 6.3% yield (10bps lower vs. 2Q) while Dev. rights declined approx. 10.0% to $2.9b. A few assets were sold, with Chrystie Place generating a sizable promote of $57.5m. Despite no LOC draw, $535.6m in cash, and 69% unencumbered NOI, the company issued under its market program, and executed a forward contract to sell 4.5 million shares *(call question: forward sale a pricing peak indicator?).*

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Disclosures Appendix

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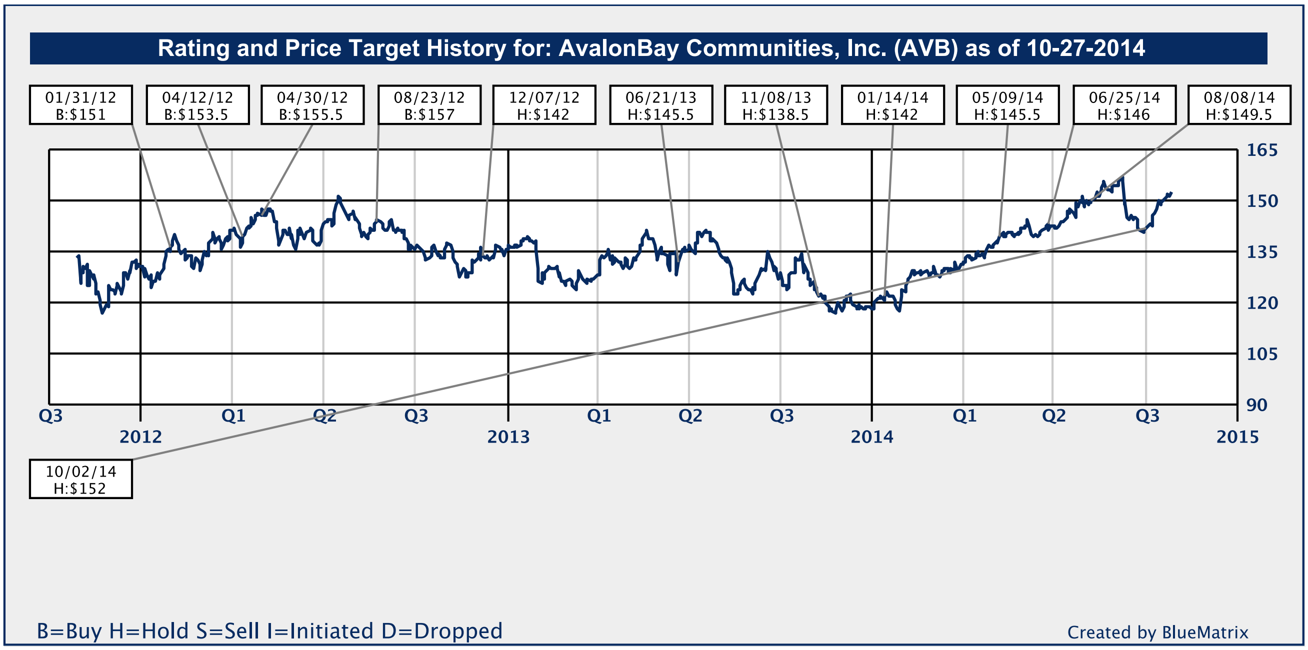

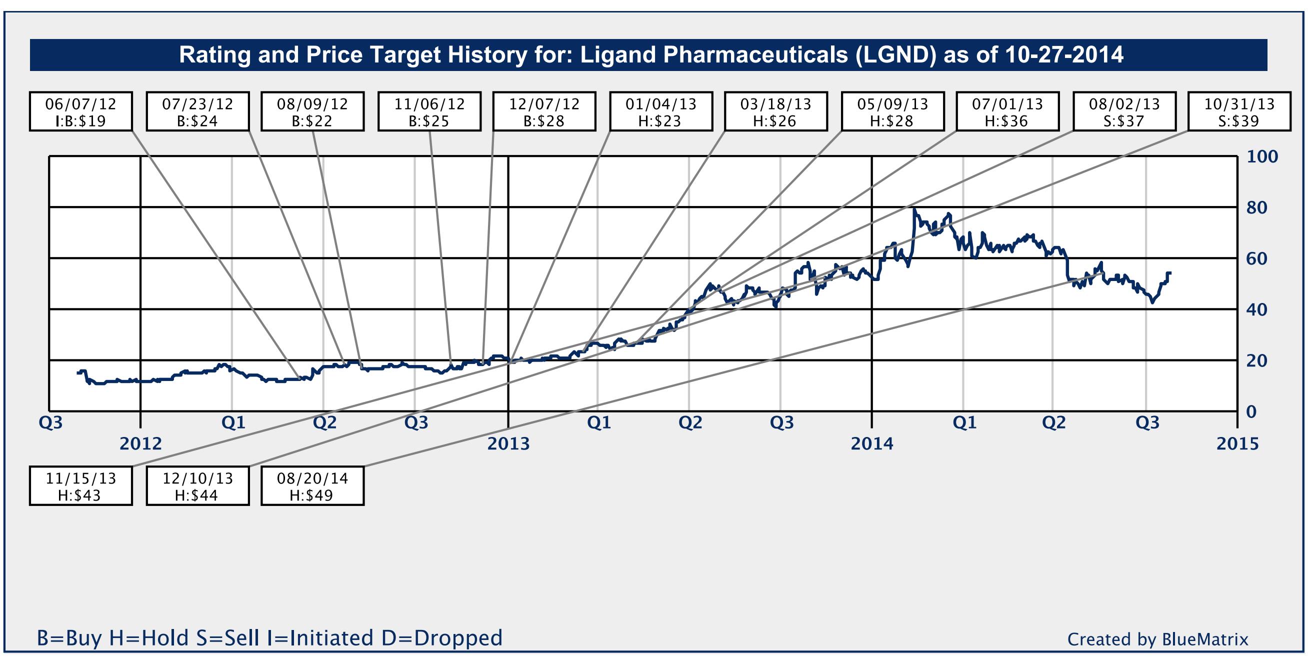

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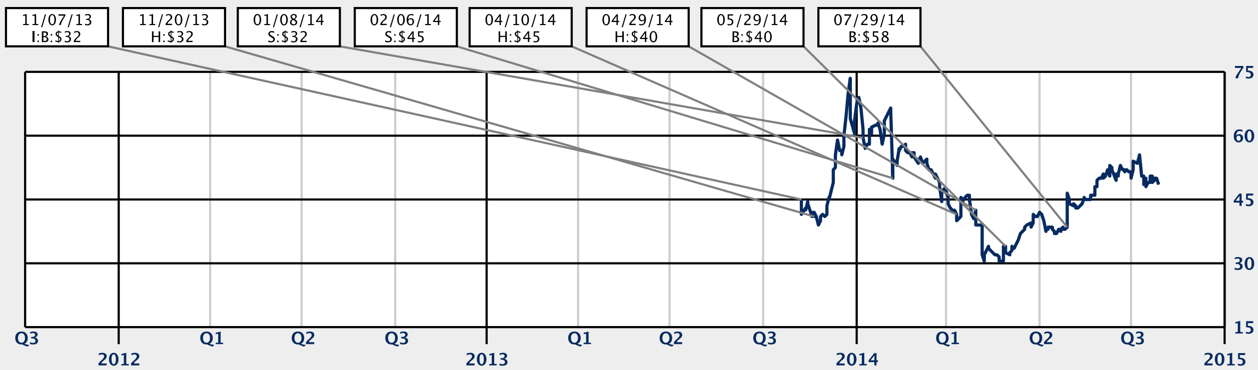
Rating and Price Target History for: Twitter, Inc. (TWTR) as of 10-27-2014



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

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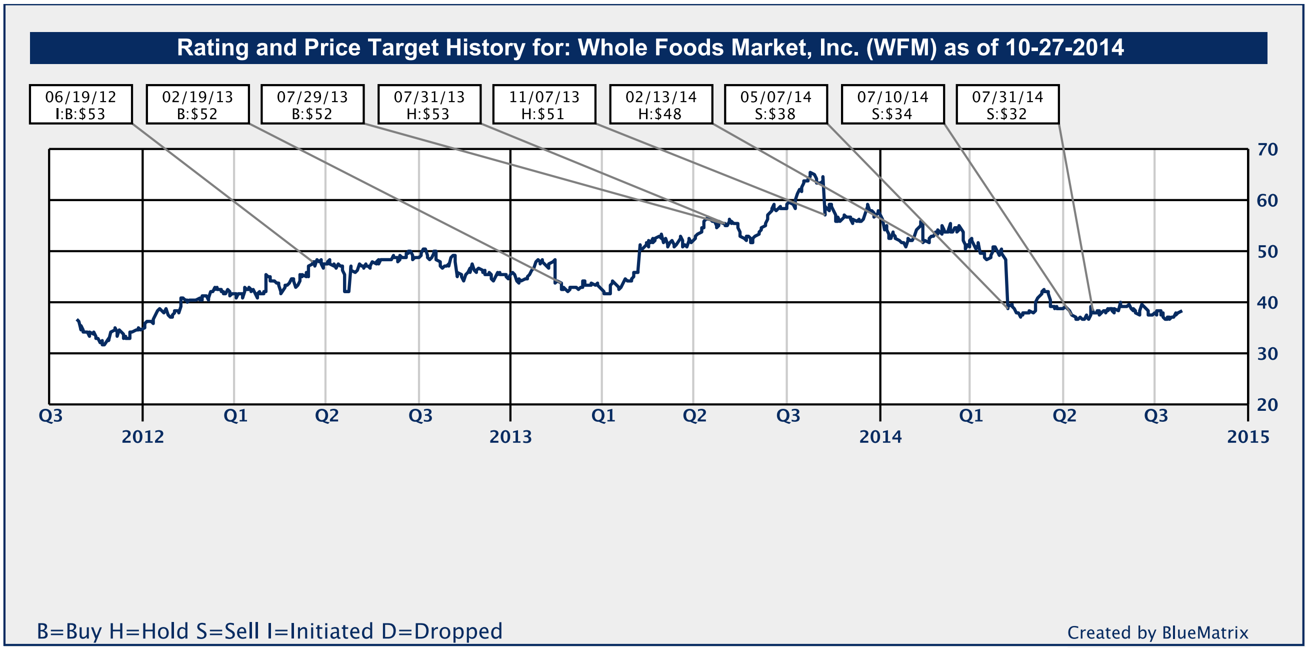

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			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	**89**	**61.81**	**21**	**23.60**
HOLD [H]	**47**	**32.64**	**9**	**19.15**
SELL [S]	**8**	**5.56**	**1**	**12.50**

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