Daily Research Highlights

AU Optronics Corp.: AUO Delivers Weaker-than-Seasonal Sales Trend in February

Eagle Pharmaceuticals Inc.: Eagle Eyes Attractive Hospital Opportunities; Initiating With a BUY Rating and $21 PT

Safeway Inc.: Upgrading on Merger Announcement

Sunesis Pharmaceuticals, Inc.: Updating Model and Raising Price Target to $14; Potential Upside from MDS ISTs

REITs: 11 REITs, 58 MSAs, 710,703 Apartments: Supply Equilibrium?

REITs: The Cantor Weekly REIT Beat:What the 10-Year Giveth, the 10-Year Taketh Away

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.

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March 10

Eagle Pharmaceuticals Inc. (EGRX, BUY, Target: $21.00)

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

Eagle Eyes Attractive Hospital Opportunities; Initiating With a BUY Rating and $21 PT

- **We initiate coverage of Eagle Pharmaceuticals with a BUY rating and $21 price target:** Eagle is a small, hospital-focused specialty pharma company that plans to leverage the classic "spec pharm" low-risk drug reformulation strategy to create innovative injectable products that address the unmet needs of its hospital customers. We like the company's focus on an attractive segment within the hospital market. We also appreciate Eagle's low operating costs (due to its small commercial organization that targets hospital decision makers) and do not expect it to require additional capital to attain profitability (expected in 2016). As Eagle builds its pipeline and becomes more entrenched, we think the company could become more appealing to acquirers.
- **Outlining the company's strategy:** Eagle has a portfolio of "value-add" pipeline products that are pending market entry in 2015-2017 along with a declining marketed asset (reformulated argatroban) that served as the "proof-of-concept" to its business model. The company has acquired a number of patents on drug reformulations that it expects to be widely adopted in the hospital setting since they offer cost-efficiencies and additional convenience to familiar products already in use. A critical element of the company's strategy is to enter the market ahead of generics, which would allow Eagle to capture significant market share prior to price deterioration.
- **Valuation and risks:** We value EGRX via DCF over the 2014-2020 period. We utilize a 13% WACC to account for litigation risk and uncertainty surrounding market entry of generics along with a 1% terminal growth rate. This method generates a $21 PT. We excluded additional potential upside from international partnerships, an early-stage program in a blockbuster cancer agent, and the development of a first-in-class emergency-use compound, and therefore we believe that our estimates are conservative. Key risks to the story include patent litigation, earlier-than-expected generic entries, clinical development risk, and risks associated with selling in the hospital environment.

Sunesis Pharmaceuticals, Inc. (SNSS, BUY, Target: $14.00)

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

Updating Model and Raising Price Target to $14; Potential Upside from MDS ISTs

- **Raising PT to $14.** We are raising our price target on shares of Sunesis to $14 from $8, updated for the change from 2013 to 2014, as well as pricing assumptions to our model for vosaroxin. We are now using our 2019 revenue forecast, and applying a 10x multiple on revenues discounted at 30%. We use a lower rate of 30% to reflect the high degree of de-risking in VALOR trial. We have also updated our financial model for the 2013 figures, reported on March 6th, and the increased share base associated with the company's recent financing.
- **MDS Could Add Upside.** We also believe that there is additional upside—at least $3 per share—that could be driven by clinical success in MDS (myelodysplastic syndrome). Vosaroxin is currently being tested in investigator-sponsored studies (ISTs), and early results are compelling. Results of a Phase I/Ib study will be presented at AACR in early April, and early results show response rates to be very encouraging (89% ORR, 67% CR + PR). The study, performed at MD Anderson, is small—data from just 9 evaluable of 12 patients were in the abstract, but this figure should be updated when results are reported at AACR on April 8th during a morning poster session (poster #7).
- **Extended Cash Runway.** With the completion of a follow-on offering on February 27th, Sunesis now has net cash of over $60 million, excluding proceeds from the exercise of warrants associated with the recent offering.

REITs

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

11 REITs, 58 MSAs, 710,703 Apartments: Supply Equilibrium?

We view multifamily supply dynamics as an issue to watch, and not one to fear; based upon our analysis, we view current—and forecasted—supply levels to represent relative market equilibrium in the near-term, albeit negatively skewed. Although an oft-discussed topic, we thought it wise to revisit the issue of apartment supply given our sub-sector Overweight, as well as our broader core 2014 investment strategy focused on organic growth, top-line pricing power, and P&L elasticity. The following report is an extraction from our long-running quarterly Multifamily MetroView report, which assesses 58 U.S. MSAs, screens for forward operating strength, and maps findings to 11 REIT portfolios, thereby producing a relative rank. A few conclusions:

- **ESS and HME sit at the top, EQR and PPS at the bottom.** In 2015E, Essex Property Trust, pro forma for the pending BRE Properties (NYSE: BRE, NC) merger, continues to screen well on supply. Counterintuitively, Home Properties is ranked third, near the top–high supply in metro D.C. looks to be offset by low supply in some of the company's other market concentrations, including Long Island and Philadelphia. REITs that screen below-average on 2015E supply forecasts include Equity Residential (Denver, New York, Boston, metro DC) and Post Properties (Dallas, Atlanta and metro D.C.).
- **Over a seven-year, post-recessionary period, apartment supply has remained surprisingly measured.** 710,703 apartment units are expected to be completed between 2011A and 2017E, per REIS. This delta represents growth of 7.3% in the same time period. A critical piece of the supply impact assessment puzzle remains the conversion ratio. A number of factors skew this metric. The 11-year historical average stands at 83%. As of January 2014, the conversion ratio was 70%. A declining conversion ratio is generally a net positive, as it indicates a general slowdown in deliveries.

The Disclosure Section may be found on page 4

March 7

Safeway Inc. (SWY, HOLD, Target: $36.00)
Ajay Jain (212-915-1240, ajain@cantor.com)

Upgrading on Merger Announcement

Summary: Safeway has announced a definitive merger agreement with Cerberus, which we value at 5.6x EV/EBITDA for its core grocery business. Based on the binary event outcome of Safeway's strategic review process, we have no basis to maintain a SELL rating at this time. While the shares currently reflect some level of disappointment based on the implied valuation, we also believe SWY shares still need to better reflect (or already discount) the planned distribution of HAWK, since the spin-off is independent of Safeway's merger with Cerberus.

- **Unlikely, in our view, that another bidder emerges** - While Safeway has a standard 21 day "go shop" provision, we think Cerberus is uniquely positioned to monetize Safeway's assets (particularly in relation to real estate). We think there are structural impediments to a major transaction involving other strategic parties. These include MEPP under-funding and Safeway's legacy issues related to its pricing and gross margin structure.
- **Raising price target to $36 (from $23)** - Our revised price target represents the mid-point between the anticipated cash consideration from Cerberus and the $40 theoretical take-out price based off of management's assumptions. Our $36 price target also reflects our view that the stock should largely discount the $4 distribution for HAWK shares at this time.

AU Optronics Corp. (AUO, HOLD, Target: $3.20)
Brian J. White, CFA (212-610-2416, briwhite@cantor.com)

AUO Delivers Weaker-than-Seasonal Sales Trend in February

Summary: This morning, AU Optronics reported February sales that were weaker than the average sales change for past Februaries, while preliminary Taiwan LCD Panel Barometer sales are also softer than historical seasonality. Our LCD supply chain coverage universe includes AUO, Corning, and LG Display. AUO is an important LCD display customer for Corning.

- **AUO Delivers a Weaker-than-Seasonal February**. This morning, AU Optronics reported February sales of NT$28.181 billion, down 10.8% MoM and much weaker than the average decrease of 2% over the past eight years. As of this morning, three companies in our Taiwan LCD Panel Barometer have reported February sales, and the month-over-month sales change (down approximately 9% vs. an average of down 2%) was much weaker than seasonal trends over the past eight years. In our view, the early Chinese New Year (which began on January 31) hurt sales in January but there should have been a modest incremental benefit in February. AUO is an important LCD display customer for Corning.
- **Valuation.** Our price target of $3.20 is based on 0.5x 4Q:13 tangible book value.

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The Cantor Weekly REIT Beat:What the 10-Year Giveth, the 10-Year Taketh Away

REIT & Lodging Review No. 81

- **What the 10-Year Giveth, the 10-Year Taketh Away.** On March 4, 2014, the MSCI US REIT index reached our FTM target of 984.0, established on January 14, 2014; a review of our real-time proprietary index forecast suggest that recent levels may be unsustainable. We believe that index gains have been fuelled in part by an S&P "correction," compression of the 10-year yield, solid FY:14 earning guidance ranges, and the expectation of the Fed to maintain a relatively accommodative policy. We have been reducing our REIT exposure in recent months and expect to continue doing so until we see a more compelling argument for 1) a faster rate of core growth, 2), evidence of consistent cap rate compression, or 3) an increase in applied stock trading premiums.
- **11 REITs, 58 MSA's, 710,703 Apartments: Supply Equilibrium?** We view multifamily supply dynamics as an issue to watch and not one to fear; based upon our analysis, we view current supply levels to represent relative market equilibrium. We thought it wise to revisit the issue of apartment supply given our sub-sector Overweight, as well as our broader core 2014 investment strategy focused on organic growth, top-line pricing power, and P&L elasticity. The following preview is an extraction from our long-running quarterly Multifamily MetroView report. The full report will be published on March 10, 2014.
- **Tickers in Focus: AVB, DFT, DLR, MAA**

The Disclosure Section may be found on page 4

Disclosures Appendix

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The Disclosure Section may be found on page 4

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY [B]	73	52.14	17	23.29
HOLD [H]	56	40.00	7	12.50
SELL [S]	11	7.86	1	9.09

The Disclosure Section may be found on page 4