

MORNING ROUNDS

**TODAY'S HIGHLIGHTS / OCTOBER 30,
2014**

TODAY'S RESEARCH:

**BAX, HEALTHCARE SERVICES, CSII,
ESRX, HCA, MDAS, WLP**

INITIATIONS: NONE / **RATING CHANGES:** NONE / **PRICE TARGET
CHANGES:** WLP / **ESTIMATE CHANGES:** CSII, ESRX, HCA, WLP
/ **MEDACORP:** HEALTHCARE SERVICES, HEALTHCARE SERVICES
/ **PREVIOUS RESEARCH:** AMGN, ABT, SAN FP, SPECIALTY
PHARMACEUTICALS, ALKS, CNC, CYNO, GILD, NVS, UAM, UHS, AET, TFX,
VRTX, ZLTQ, WLP

REFERENCE TOOLS:

[Catalyst Tracker](#)

[Earnings Rundown](#)

[Abbreviations & Acronyms](#)

[Calendar of Events](#)

[HC Conferences](#)

[Leerink Events](#)

MORNING PRIMER:

**Futures (as of 6:30am): DJIA: -12.00 (16,936); S&P500: -5.00 (1,972); NASD
-10.00 (4,072)**

LEERINK EVENTS:

10/31: MEDACorp Pulse Call: Updates on anti-PD1 Opdivo in Lung Cancer from CMSTO,
1:30PM EDT

11/3: Corporate Access: Onconova Therapeutics Inc.: ONTX, Boston

11/3: Corporate Access: Dicerna Pharmaceuticals, Inc.: DRNA, Dallas

11/4: Corporate Access: Celgene Corporation: CELG, Boston

11/4: Corporate Access: Eli Lilly and Company: LLY, Boston

11/4: Investor Tours / Site Visits: ROCHE/Genentech: San Francisco

11/4: Corporate Access: Onconova Therapeutics Inc.: ONTX, New York

11/5: Corporate Access: Eli Lilly and Company: LLY, Boston

11/6: Corporate Access: Intra-Cellular Therapies: ITCI, Minneapolis

11/6: Investor Tours / Site Visits: Healthcare Technology Bus Tour: ATHN, IMPR, Boston

TODAY'S HEALTHCARE EVENTS:

Regulatory Events: FDA AdCom: Cardiovascular and Renal Drugs

Medical Meetings: Chicago Multidisciplinary Symposium in Thoracic Oncology (CMSTO), BMY; CMSTO abstracts released

Corporate Events: **EPS BMO:** ABC, ABMD, AMAG, CAH, CI, CTRX, HTWR, INCY, TEVA;
EPS AMC: AEGR, AFFX, ATRC, CPSI, CSLT, FLDM, GMED, MOH, MYL, NUVA, OGXI, PKI, SGEN, THRX, VCRA

TODAY'S RESEARCH (including notes post prior day's close):

BAXTER INTERNATIONAL, INC. (BAX) / DANIELLE ANTALFFY

Management Visit Highlights Potentially Improving 2016 After a Tough 2015

Outperform / **Market Cap:** \$38,514.3M / **Price:** \$70.41 / **Price Target:** \$80.00 / **Methodology:** ~15x multiple on our \$5.30 2016 cash EPS estimate

- **Bottom Line:** Earlier this week we hosted an investor bus trip to BAX headquarters and met with CFO Bob Hombach and Investor Relations' Mary Kay Ladone and Clare Trachtman. While we rehashed the many headwinds likely to make operational growth tough to come by for the combined company in 2015, the meeting did highlight the potential for meaningful EPS growth acceleration in 2016, which we believe could return to the high-single-digits range. Beyond easing comparables, a number of tailwinds are likely to hit in 2016, including: (1) New product launches, including HyQvia (just launched) and BAX855 (expected in late 2015); (2) a meaningful reduction in the \$300M annual run rate for spin dissynergies beginning in 2016; (3) lower R&D and SG&A spend post-spin, after an incremental \$50M in reinvestment in both Biosciences/Baxalta and Medical Products in 2014 to fund product launches and shore up infrastructure; (4) a still-strong emerging markets growth trajectory across both businesses as markets remain highly underpenetrated; and (5) Medical Products margin enhancement through both organic cost controls and portfolio optimization. Maintain \$80 PT.
- Portfolio Optimization, Cost Control Position Medical Products Business for Meaningful Margin Expansion Opportunities.
- New Product Launches Drive Baxalta/Biosciences Outlook.

HEALTHCARE SERVICES / ANA GUPTE, PH.D.**Update on Federal Exchange Litigation; Initial SCOTUS Decision Likely This Week****Outperform:** CYH, HCA, UHS / **Market Perform:** LPNT, THC

- **Bottom Line:** With the SCOTUS expected to decide if it will hear King v. Burwell by the end of this week, we thought it would be useful to provide a comprehensive update on the issue including (a) an overview of the legal controversy and a reminder of what is at stake; (b) where each of the four Federal cases currently stand to date; (c) upcoming catalysts to monitor; and (d) potential implications for our Hospital and MCO coverage. Overall, it is still our view that the SCOTUS will eventually hear this issue, with Friday's (10/31) potential decision essentially determining whether this will be an early or late 2015 event. We remain of the opinion that this issue likely represents more of a bump in the road, as we would expect Democrats to find a work-around to a worst-case objection. For our MCO coverage, exchange earnings estimates are modeled as minimal at best in 2015, and thus we do not expect the ruling to adversely impact the outlook regardless of the degree of exposure by company to Federal Exchanges. For hospitals, the earnings exposure is more significant, as exchange admissions have fueled a meaningful portion of ACA volume and bad debt tailwinds enjoyed YTD. That said, the share of beds located within states with Federal Exchanges is high, with an order of exposure as follows: CYH (OP), THC (MP), LPNT (MP), and HCA (OP), with substantially less for UHS (OP) given its ~70% behavioral EBITDA mix.
- King v. Burwell is one of four Federal lawsuits challenging the government's authorization to provide subsidies to individuals located in the 34 states that declined to establish independent exchanges under the ACA.
- To date, three of the four cases decided at the Circuit Court level have resulted in a "split" decision, making the chance of a SCOTUS review more likely.
- SCOTUS will likely decide whether it will hear King v. Burwell as early as Friday, Oct 31.
- Post Friday's potential decision, the primary focus will shift to the DC Circuit Court, where an en banc hearing will decide Halbig v. Burwell on Dec. 17.

HEALTHCARE SERVICES / ANA GUPTE, PH.D.**Provider Pulse Call Affirms View of Tempered Ebola Impact for HC Services in 4Q****Outperform:** CNC, CYH, HCA, HUM, UHS, WLP / **Market Perform:** THC

- **Bottom Line:** We hosted a MEDACorp Pulse Call to discuss the EBOLA experience and implications for various Healthcare Services sectors. We came away with an affirmed sense that, in the absence of a more widespread outbreak, the impact to HC Services is likely to be benign in 4Q. For our hospital coverage, the panel supported our view of a net-neutral impact with optionality to the upside for metro Dallas operators such as HCA (OP) and THC (MP) that stand to take inpatient, ER, and surgical share away from beleaguered Texas Presbyterian in 4Q and beyond, offset by modest delays in elective procedures and manageable expenses related to testing, containment, and protective equipment. For MCOs, the call supported a marginal impact with potential downside from increased costs of more flu treatment in Primary Care, though likely to be offset by the modest delay in procedures. Our view that Urgent Care/Walk-in Clinics stand to see more cautious patients presenting themselves with general flu symptoms

was also supported; however the panel indicated that labs, particularly within community settings, are unlikely to see meaningful upticks.

- Our MEDACorp panelists provided real-time insight into the Ebola experience in Texas from both physician and provider perspectives.
- Ebola impact net-neutral for most of our Hospitals, while share gains potentially offer as much as ~3% EBITDA upside for local players such as HCA and THC in 4Q and beyond.
- Impact likely to present modest 4Q downside risk to MCOs.
- Urgent Care likely to see volume uptick, with minimal impact on lab testing.
- The discussion supported the conclusion from the recent MEDACorp patient survey which showed that, barring a more widespread outbreak, Ebola fears are unlikely to present meaningful disruption for Facilities in 4Q.

CARDIOVASCULAR SYSTEMS INC. (CSII) / DANIELLE ANTALFFY

F1Q15: A Strong Start to the Year as Broad-Based Momentum Continues

Outperform / **Market Cap:** \$902.7M / **Price:** \$28.84 / **Price Target:** \$40.00 / **Methodology:** A ~4.75x EV/sales multiple to our \$241.7M CY2016E sales

- **Bottom Line:** After delivering now 11 consecutive sales beats with strength across the board -- both in core Peripheral Arterial Disease (PAD) and recently launched Coronary Arterial Disease (CAD) -- CSII shares should trade higher. Overall, CSII F1Q15 CAD sales of \$5M came in line with management's guidance and consensus expectations -- increasing 65% sequentially. But the notable outperformance again came within the company's core PAD business, which exceeded expectations by ~\$0.5M and again delivered 20%+ growth despite: (1) Increasingly difficult y/y comparables; and (2) a shifting competitive dynamic given recent acquisitions within the atherectomy space. To us, this sustained momentum represents an encouraging trend, and it could ease ramping investor anxieties around the potential impact of increasing competition. Highlighting the sustainability of this positive momentum, CSII guided to F2Q15 sales above both us and consensus at the low end -- with \$43.1M-\$44.8M, including ~\$6.0M-\$6.5M in coronary, vs. us previously at \$42.4M and the Street at \$43.1M -- suggesting 33%-39% total sales growth and still-strong core PAD growth. We believe continued strong adoption in PAD is critical to the shares sustaining and expanding beyond current valuation levels over the next 12 months as CSII rolls out the recent CAD approval. We reiterate our OP rating and \$40 price target.
- Positive PAD Momentum Continues, While CAD Gains Traction.
- Sales Outlook Moves Higher.
- **2015E EPS/REV:** (\$1.04) / \$172.4 → (\$1.07) / \$179.3
- **2016E EPS/REV:** (\$0.71) / \$212.5 → (\$0.75) / \$219.8

Revenues in millions.

EXPRESS SCRIPTS, INC. (ESRX) / DAVID LARSEN, CFA

2014 Is a Transition Year

Outperform / **Market Cap:** \$55,226.4M / **Price:** \$74.03 / **Price Target:** \$85.00 / **Methodology:** ~15.3x 2015E EPS

- **Bottom Line:** There were few surprises on the 3Q call, and we expect the next meaningful catalyst will be 2015 guidance which will likely be issued when ESRX reports 1Q:15 results in late April 2015. Preliminary guidance continues to call for claims volume to be “slightly down to down 1.5%” in 2015, and while utilization levels are expected to be flat y/y, it is encouraging that ESRX is offsetting a tough retention year (92-93%) with new sales and organic growth from its existing book. While ESRX continues to navigate the final stages of its Medco integration, we believe ESRX has worked through most service challenges and client disruptions. With investor sentiment already low, we believe downside risk is limited. Maintain Outperform rating and \$85 price target.
 - Exchanges boost mail, specialty, and generics.
 - Selling season and preliminary 2015 guidance reaffirmed.
 - Model update, maintain OP.
 - **2014E EPS/REV:** \$4.90 / \$99.3 → \$4.90 / \$100.4
 - **2015E EPS/REV:** \$5.60 / \$102.6 → \$5.55 / \$103.0
- Revenues in billions.*

HCA HOLDINGS, INC. (HCA) / ANA GUPTE, PH.D.

"Beat and Raise" 3Q Confirms ACA Tailwinds; Commercial Admissions Up

Outperform / **Market Cap:** \$31,254.2M / **Price:** \$69.92 / **Price Target:** \$85.00 / **Methodology:** EV/EBITDA of 9.0x on the average of our 2014E and 2015E EBITDA

- **Bottom Line:** HCA reported a "Beat and Raise" 3Q offering a strong proof point of the tailwinds from the ACA including eligibility of 100-133% FPL in Exchanges. Core growth from Commercial accelerated contributing to the volume uptick. While this is likely in part from jobs growth in economies such as TX, the impact from medical cost acceleration per capita needs to be monitored. We see favorable read-across to CYH and THC that have yet to report. HCA is investing the most actively in adjacencies such as Urgent Care business. and, in our view, is well positioned to grow even after the tailwinds from the ACA subside. We reiterate our Outperform at a Price Target of \$85.
- Substantial "Beat and Raise" Quarter offers another solid proof point of the tailwinds from the ACA.
- Core growth remains an important contributor of the solid performance with details on payor mix pointing to an accelerating admissions uptick of 2.6% from Commercial Managed Care in 3Q.
- Unit price increase from improving payor mix modestly beat consensus.
- We are raising our 2014 EBITDA to ~\$7,310MM from \$7,198MM (consensus at \$7,265MM) on back of a better than expected 3Q, strong core growth and better than expected ACA tailwinds.
- Acquisition of 24 Urgent Care Centers in Dallas also supports our longer term thesis that adjacencies aligned with the move to lower cost sites of service, and scale will make HCA a structural winner in the publicly traded Hospital landscape.
- HCA has a solid Balance Sheet with a leverage ratio of 3.9x,
- **2014E EPS/REV:** \$4.34 / \$36,458.9 → \$4.55 / \$36,804.5
- **2015E EPS/REV:** \$4.89 / \$38,413.2 → \$5.14 / \$38,945.8

Revenue figures are represented in \$ millions, after bad debt; EPS presented ex one-time items.

MEDASSETS, INC. (MDAS) / DAVID LARSEN, CFA**3Q:14 Beats, RCM 12-Month Outlook +11% ex. Barnabas; SCM Also Pops Back Up**Outperform / **Market Cap:** \$1,384.7M / **Price:** \$23.04

- **Bottom Line:** 3Q:14 results came in ahead of expectations with total revenue of \$175.7M almost \$3M ahead of our estimate (of \$172.9M) and consensus (of \$172.5M). Adjusted EPS of \$0.34 (+8.1% y/y) was \$0.02 ahead of our estimate (of \$0.32) and also beat consensus of \$0.31. While results were ahead, revenue upside came partially from early recognition of performance fees, though gross margin contraction offset top-line strength and the EPS beat came from better expense control relative to our estimate. Overall the 2014 revenue guidance range was increased with the addition of ~\$10.5-11.0M of revenue from Sg2, although EPS guidance was narrowed and now calls for adjusted EPS of \$1.34 - \$1.38 (previously \$1.32-1.40).
- 3Q:14 beat driven by solid expense control.
- SCM segment revenue roughly in line, but contracted revenue up sequentially which is a positive.
- RCM segment upside delivers strong revenue growth.
- Maintain OP.

WELLPOINT, INC. (WLP) / ANA GUPTE, PH.D.**Continued Strong Execution in 3Q With Upside in '15; New PT \$145**Outperform / **Market Cap:** \$34,717.0M / **Price:** \$122.20 / **Price Target:**\$140.00 → \$145.00 / **Methodology:** 14.4x on our 2015 EPS estimate

- **Bottom Line:** WLP (OP) reported a solid 3Q with a 10 c EPS beat and a 20 c guidance raise that was stated to be prudent. The beat was driven by the core MLR metric which improved YoY, with the miss in SG&A that is clearly focused on quality initiatives particularly in Medicare. Importantly, the Commercial book is seeing meaningful better performance on MLR YoY, with the company reiterating medical cost trend guidance. Balance Sheet remains well cushioned with only a 0.8 Sequential drop in Days in Claims Payable (DCP) despite a substantial uptick of 4 days in 2Q. For 2015, the company appears comfortable with the consensus view, providing soft guidance of \$9.15 - \$9.30 (before amortization of intangibles). Management plans to move to Cash EPS for 2015 which should offer as much as 50 c EPS boost to 2015 EPS (\$220 MM pre tax). We remain comfortable with our above consensus view and raise 2015 EPS by 5 c to \$10.05 EPS on a Non-Cash basis. Our longer-term view of WLP is also very positive with a Revenue, Core Earnings and EPS CAGR of 7%, 6% and 12% respectively. We reiterate our Outperform rating while raising Price Target to \$145 which represents a P/E of 14.4x on our 2015 Non-Cash EPS view.
- Solid quarter with a 10 c EPS beat and 20 c FY14 guidance raise.
- Management appeared generally comfortable with consensus and directionally guided to a range of \$9.15 - \$9.30.
- The PBM re-contracting with ESRX across the broader WLP-AGP book of business also offers meaningful upside at an estimated mid single to low double digit EPS accretion.
- We remain bullish on the long-term WLP story
- Balance Sheet is one of the strongest in our coverage and offers a lot of optionality for buyback, dividend raise and accretive deals.

- Valuation remains compelling at a 12.2x P/E on our 2015 EPS and under 12x on a Cash EPS basis.
- **2014E EPS/REV:** \$8.88 / \$73.2 → \$8.95 / \$73.3
- **2015E EPS/REV:** \$10.00 / \$78.2 → \$10.05 / \$79.1

Revenues in Billions.

PREVIOUS DAY NOTES:

AMGEN, INC. (AMGN) / HOWARD LIANG, PH.D.

Encouraging Updates and Guidance at Business Review

Market Perform / **Market Cap:** \$120,721.9M / **Price:** \$157.19 / **Price Target:**

\$153.00 → \$177.00 / **Methodology:** 17x 2016E non-GAAP EPS of \$10.68 disc. 0.3 years at 15%

- **Bottom Line:** At its business review meeting yesterday, AMGN announced additional initiatives of restructuring ("transformation"), key parameters for 2015 and intermediate term guidance, as well as updates on pipeline including a Neulasta line-extension product and increased enrollment for FOURIER (evolocumab outcome study) to accelerate data readout (no later than 2017 with no interim analysis to preserve power on secondary endpoints). In addition, AMGN reported a strong 3Q:14 as we expected (LINK to Biotech Preview). We are encouraged by the management initiatives and updates and are increasing our price target from \$153 to \$177 based on increased estimates.
- Not surprisingly, the company and its advisors weighed against splitting up.
- AMGN announced additional steps in its restructuring plan.
- Management also issued FY2015 guidance for the first time.
- **2014E EPS/REV:** \$8.39 / \$19,639.0 → \$8.59 / \$19,931.0
- **2015E EPS/REV:** \$9.24 / \$19,910.0 → \$9.55 / \$20,974.0

Revenues in millions

ABBOTT LABORATORIES (ABT) / DANIELLE ANTALFFY

Making a Play in the Double-Digit Growth AF Market

Market Perform / **Market Cap:** \$64,472.5M / **Price:** \$42.50

- **Bottom Line:** This morning, ABT announced the acquisition of Topera Medical -- a privately-held atrial fibrillation (AF) company that is developing its RhythmView System to diagnose and target rotors, which are focalized electrical impulses in the atria that are hypothesized by some to be the source of AF. Terms are \$250M in upfront cash and potential future milestone payments. We view this acquisition as highly strategic for ABT, representing a relatively small upfront investment for a company with over \$7B in cash that provides: (1) Access to an entirely new market in AF, ~\$4B in total and ~\$3B tied directly to ablation growing at a consistent double-digit rate; with (2) A highly differentiated technology that potentially addresses a serious unmet medical need. ABT also announced the option to acquire Advanced Cardiac Therapeutics, Inc. (ACT) -- a private, venture-backed company developing a novel irrigated ablation catheter -- which would nicely round out its AF portfolio. Longer-term, the acquisition of Topera -- and entry into the AF market more broadly -- should further augment growth within ABT's Medical Device business, working its way back towards the mid-single-digit growth range from flat-to-down in recent years.
- Reiterate MP, \$45 Price Target.
- AF Represents a Sustainable Double-Digit Market Growth Opportunity.

- Topera: A Highly Differentiated Technology Addressing an Unmet Clinical Need in Persistent AF Patients.
- Supportive Clinical Data To-Date.
- Sales Contribution Likely Modest Initially with More Dramatic Ramp in 2016 and Beyond.
- ABT Likely Continues to be Acquisitive.
- Link to our AF White Paper published September 13, 2013 here: [LINK].

SANOFI (SAN FP) / SEAMUS FERNANDEZ

Chairman Cites CEO Execution for Removal; Looking Externally for Pharma Exec

Market Perform / **Market Cap:** €98,007.0M / **Price:** €74.53

- **Bottom Line:** At 8 am, SNY's interim CEO and Chairman Serge Weinberg hosted a conference call with investors calling out "execution issues" and "management style" as the primary reasons for the removal of CEO Chris Viehbacher. Interestingly, he specifically cited two issues: (1) the loss of market share with Lantus in the US and recent reactions around price; and (2) missed execution in 2013 with the Brazilian generics business. In addition, Mr. Weinberg cited a dysfunctional relationship with the board specifically noting the revelation of "Project Phoenix", the pot'l plan to restructure the mature products business, via press leaks. Regarding the CEO search, Mr. Weinberg noted the board is focused on recruiting an external candidate with deep roots in the Pharma industry who will "manage locally". In our opinion, execution criticism around Lantus's market share in the US is a little tough to square as an execution issue given Lantus's still dominant share, Novo's singular focus on diabetes, and the general absence of other relevant diabetes product offerings beyond basal insulin. Clearly, the Brazilian situation deserves scrutiny, but it appears the relationship with the board is the most relevant topic. Now trading well below what we believe is the company's intrinsic value, the key question is one of leadership and execution and if the current board deserves the benefit of the doubt.
- Who might SNY's next CEO be and what are the qualities SNY's board is looking for?
- November 20 R&D day in Boston is unchanged, but don't expect 2015 guidance.

SPECIALTY PHARMACEUTICALS / JASON M. GERBERRY, JD

IMS Monthlies: No Signs Of FLML Bloxiverz Share Capture Yet, MNK's Ofirmev Weak

Outperform: FLML, MYL / **Market Perform:** HSP, MNK

- **Bottom Line:** In this note, we are providing monthly IMS sales and unit volume trends for MNK's (MP) Ofirmev, FLML's (OP) Bloxiverz (IV neostigmine) and HSP's (MP) Precedex, all of which are primarily sold into the hospital channel. For FLML, we saw decrease in mkt share to ~8% from ~13% in Aug. as unapproved versions continue to burn off inventory. MNK's Ofirmev declined Y/Y volume (vials) by -11%, while HSP's Precedex ceded ~20% share to the generics while its pre-mixed retained ~65% share of the overall market. Overall, we remain positive on Bloxiverz's ability to generate meaningful growth over the next 12-18 months, but today's datapoint on Ofirmev does raise some questions about MNK's ability to re-accelerate volume growth and Precedex generic uptake was in line with our expectations.
- Bloxiverz mkt share decreased to ~8% in Sept as competitors continue to burn off inventory.
- Ofirmev volumes still lackluster after May price hike.

- HSP's Precedex under pressure; Gx's capture ~21% of IMS sales in Sept.

ALKERMES PLC (ALKS) / MICHAEL SCHMIDT, PH.D.

3Q14 Recap: Top-line Beat; 2014 Guidance Revised Upward for Civitas Sale

Outperform / **Market Cap:** \$7,266.8M / **Price:** \$47.62 / **Price Target:** \$66.00 / **Methodology:** Sum of the parts DCF, 9-11% discount rates

- **Bottom Line:** ALKS reported solid 3Q14 results with a top-line beat with total revenue of \$160M vs. our estimate of \$157.1M and consensus of \$155.6M. ALKS also revised 2014 guidance upwards for the acquisition of Civitas Therapeutics by ACOR, which will translate into \$60M gross proceeds for ALKS in 4Q. All pipeline catalysts remain on track, with data for ALKS8700 (multiple sclerosis) and ALKS3831 (schizophrenia) expected in early 1Q15; data for ALKS7106 (pain) is expected in 1H15. An ancillary study for ALKS5461 (depression) of the registrational FORWARD program may read out in late 4Q. We reiterate our Outperform rating on strong fundamentals including diversified, growing commercial business and broad product development pipeline with several shots on goal and near-term newsflow. We are adjusting our estimates to reflect 4Q14 results. **Reiterate OP and \$66 FVE in 1 year.**
 - Solid quarter and top-line beat.
 - 2014 guidance increased to account for Civitas sale.
 - Proprietary programs remain on track with multiple near-term data readouts.
 - **2014E EPS/REV:** \$0.25 / \$604.9 → \$0.24 / \$607.9
 - **2015E EPS/REV:** \$0.10 / \$676.6 → (\$0.13) / \$681.3
- 2012: fiscal year 12 months ending March 31, 2013, 2013: Stub year 9-months ending Dec. 31, 2013, 2014: 12-months ending Dec. 31, 2014.*

CENTENE CORPORATION (CNC) / ANA GUPTA, PH.D.

3Q Modest Beat; Substantial Raise on Tax Rate Favorability; OP; New PT \$100

Outperform / **Market Cap:** \$5,381.1M / **Price:** \$88.65 / **Price Target:** \$90.00 → \$100.00 / **Methodology:** 18.9x on our 2015E EPS

- **Bottom Line:** CNC (OP) came in at \$1.01 for 3Q (after adjusting for 33 c in tax benefit) beating consensus by 4 c and modestly missing us. Importantly, the company raised FY14 guidance substantially on tax rate favorability from \$3.70-\$3.90 to \$4.35-\$4.50. The tax rate favorability has positive read-across for other MCOs. Management continues to expect TX to reimburse the ObamaCare industry fee in 4Q. While MLR disappointed from higher acuity membership on newly onboarded contracts in FL and IL, the G&A ratio exceeded expectations. We see this as another quarter that showcases the growth thesis, and decent earnings achievability from a more diversified geographic footprint and third party services. We remain bullish on this name from the turbocharged Medicaid growth story and optionality to the upside from take-out. We raise our Price Target by \$10 to \$100 which represents a P/E of 18.9x on our 2015 EPS estimate.
- The company reported a decent quarter that and broadly met expectations despite the continued delay in the TX Insurer fee reimbursement.
- FY14 guidance raised by 63 c at the mean from a range of \$3.70- \$3.90 to \$4.35-\$4.50,

- We raise our 2014 EPS from \$4.00 to \$4.61 to reflect this revised guidance while raising our 2015 EPS from \$4.80 to \$5.30
- Our medium term (2013-2019E) revenue, core earnings and EPS CAGR are modestly increased from 13%, 19% and 16% to 14%, 20% and 18%.
- Balance Sheet is decent with CFO to NI of 3.7x, RBC ratio of 350%, Debt to Cap of 36% and parent cash of \$3.30 per share for FY14.
- Valuation is still compelling at 16.7x our 2015E EPS given our view of the "turbocharged" growth and the optionality from take-out.
- **2014E EPS/REV:** \$4.00 / \$16.5 → \$4.61 / \$16.5
- **2015E EPS/REV:** \$4.80 / \$18.9 → \$5.30 / \$19.6

Revenues in billions; GAAP EPS.

CYNOSURE, INC. (CYNO) / RICHARD NEWITTER

Post-3Q Model Update: CYNO Regaining Its "Mojo"

Outperform / **Market Cap:** \$523.2M / **Price:** \$23.89 / **Price Target:** \$29.00 / **Methodology:** ~1.5x EV/2016E sales

- **Bottom Line:** In light of CYNO's 3Q sales/EPS outperformance--with organic rev growth accelerating again--our confidence increases in the company's ability to drive growth even during a "transition year" (i.e., lack of a 2014-launched new prod cycle). Sales momentum this qtr improved as 1H rep hires continued to come up the productivity curve and new PicoSure indications/geographic clearances came on board. We come away from 3Q with a higher level of conviction: (1) the multiple can expand from current levels as more qtlly execution unfolds; (2) risk/reward is skewed to the upside; (3) the valuation (1.1x EV/'16E sales) does not reflect intermediate-term growth prospects. Maintain OP/\$29 PT.
- 3Q Sales/EPS Beat.
- Noninvasive Fat Treatment Device Still on Track for 2015 Launch.
- We Adjust Our Model.
- **2014E EPS/REV:** \$1.17 / \$285.3 → \$1.17 / \$288.3
- **2015E EPS/REV:** \$1.52 / \$316.8 → \$1.50 / \$318.4

Revenues in MM; EPS are ex-items and amort from 1Q14.

GILEAD SCIENCES, INC. (GILD) / HOWARD LIANG, PH.D.

Solid 3Q Report on Good Harvoni Dynamics, OUS Sovaldi Trends, and HIV Growth

Outperform / **Market Cap:** \$185,604.2M / **Price:** \$113.45 / **Price Target:** \$109.00 → \$133.00 / **Methodology:** ~12x 2016E non-GAAP EPS

- **Bottom Line:** GILD reported 3Q:14 earnings with Sovaldi sales of \$2.8B, beating our estimates of \$2.1B but lower than consensus of \$3.0B. Nevertheless, we view US Sovaldi sales this quarter (which were lower than consensus) as relatively unimportant as all eyes turn to the Harvoni launch but we believe progression of OUS Sovaldi sales were encouraging as most of the \$617M sales in 3Q were from only two countries Germany and France and reimbursement has progressed well. In addition, products other than Sovaldi grew 8% sequentially although inventory for HIV products finished at the upper end of the range. The company narrowed guidance for total sales of \$22-23B (from \$21-23B previously), which we

believe is conservative given the strong (albeit early) trends seen so far with Harvoni ([LINK](#)) as well as positive commentary on many more prescriptions written, a broader initial prescriber group and earlier prescribing. The miss on non-GAAP EPS (\$1.84 vs consensus of \$1.88) due to the impact of non-tax deductible Branded Prescription Drug (BPD) fee for the final regulations of the Affordable Care Act and non-GAAP EPS would have been \$2.05 when excluding the impact. We continue to see a strong launch of Harvoni launch driving upward earnings revisions and we are increasing our 2015 and beyond forecasts for the Sovaldi/Harvoni franchise and raising our price target to \$133 from \$109.

- Revised FY2014 guidance appears conservative on Sovaldi/Harvoni sales.
- GILD reported that ~117,000 patients have been treated with Sovaldi to date and nearly half treated in 2Q were with the expensive Olysio combination.
- **2014E EPS/REV:** \$7.20 / \$22,522.0 → \$7.46 / \$23,407.0
- **2015E EPS/REV:** \$8.39 / \$24,612.0 → \$10.83 / \$33,563.0

Revenues in \$MM.

NOVARTIS AG (NVS) / SEAMUS FERNANDEZ

Solid 3Q Results; Emerging Cost Discipline Evidence Incrementally Encouraging

Outperform / **Market Cap:** \$223,671.7M / **Price:** \$92.35 / **Price Target:**

\$104.00 → \$107.00 / **Methodology:** DCF analysis through 2026E @ 8.25% discount rate and 2% terminal growth

- **Bottom Line:** NVS delivered a solid 3Q that beat our \$1.29 EPS estimate by ~\$0.07 on a combination of growth franchise execution and a 110bps better group operating margin than we forecast. We were most impressed by the tightening of R&D and MS&A across divisions including Pharma and Sandoz. Despite factoring in a 5% 4Q Fx headwind on the top line, we raise our 2014E EPS by \$0.03 to \$5.15 based on improved operating margins. We raise our DCF-based price target from \$104 to \$107/share as we tweak down our go-forward cost assumptions and accounting for an improved cash position aided by the sale of the company's Idenix shares. We view the sale of the flu business to CSL and pipeline updates on LCZ as positive, yet note a potential press release on Gilenya in primary progressive MS (PPMS) as the only noteworthy 4Q catalyst.
- 4Q Fx headwinds keep us from raising our 4Q revenue projections.
- Signs of cost discipline emerge, with room for further 2015-17 improvement in our forecasts.
- Pipeline updates focused on secukinumab, LCZ progress with regulators.
- **2014E EPS/REV:** \$5.12 / \$58.6 → \$5.15 / \$58.4
- **2015E EPS/REV:** \$5.64 / \$55.7 → \$5.71 / \$55.7

Total Adj Global Sales in \$B.

UNIVERSAL AMERICAN CORPORATION (UAM) / ANA GUPTE, PH.D.

3Q Earnings: 4 c EPS Miss; MA MLR & SG&A Missed Expectations

Market Perform / **Market Cap:** \$733.5M / **Price:** \$8.68

- **Bottom Line:** UAM (MP) reported 3Q14 earnings on October 29 before market open. The company posted an Adjusted EPS of 1 c missing us and consensus by 3 c and 4 c respectively. The EPS miss was driven by a combination of earnings miss in Traditional and Medicare Advantage (MA) segments along

with a modest revenue miss offset by lower than expected loss in its Corporate and Other segment along with a lower share count.

- 4 c EPS miss as compared to consensus estimates primarily driven by Traditional & MA segment earnings coming in worse than expected offset by lower than expected loss in its Corporate and Other segment along with a lower share count.
- Core metrics weak.
- Revenue came in at \$508 MM with MA membership at 114 K with growth in core Southwest HMO and attrition in non-core and rural footprint which fell by 700 lives sequentially.
- 85% of the Medicare Advantage book is in 4 STAR rated plans with a 5 STAR plan in Southeast TX. Open enrollment season is underway.
- ACO results have demonstrated Proof of Concept.
- Balance Sheet remains strong with \$155 MM of excess capital excluding the statutory capital coming free in 2015 from exit of non-core MA markets.
- Take-out appears more likely post the proof of concept on the Medicare Shared Savings Program.
- Management Conference Call at 930 am today. Dial-in is 1-201-493-6744.

UNIVERSAL HEALTH SERVICES, INC. (UHS) / ANA GUPTE, PH.D.

Better-than-Expected 3Q; Core Metrics Solid; Reiterating OP

Outperform / **Market Cap:** \$10,852.5M / **Price:** \$107.45 / **Price Target:** \$135.00 / **Methodology:** ~11x EV/EBITDA on the average of our 2014E & 2015E EBITDA

- **Bottom Line:** UHS reported an overall better-than-expected 3Q, with EBITDA coming in at \$350MM vs. us at \$355MM and consensus at \$353MM. 3Q14 revenues and EPS beat our and consensus estimates. Core metrics on admissions and bad debt were impressive, re-affirming the tailwinds from the ACA across Medicaid and Exchanges. Commercial volume tailwinds from the economy in Las Vegas were cited to have anniversaried. The Behavioral Health business continues to drive growth, with Mental Health Parity rules a tailwind in 2015. We are revising our 2014 EBITDA estimate from \$1,507MM to \$1,515MM, on the back of the quarter, 2.7% above consensus. Our 2015E EBITDA is now at \$1,670MM compared to consensus at \$1,602MM and includes the impact the UK Cygnet acquisition. We favor UHS from a structural perspective given the Behavioral Health book that is defensive against the longer-term headwinds on the acute care business, with revenue, EBITDA and EPS growth rates of 5%, 7% and 9%, respectively. Balance Sheet is one of the strongest in our coverage with a low leverage ratio of 2.4x, and cash back to shareholders in the form of share buybacks and dividends. We reiterate our OP rating at a price target of \$135.
- Better-than-expected 3Q with \$350MM in EBITDA almost in-line with consensus.
- We increase our 2015E EBITDA from \$1,657MM to \$1,670MM to reflect the better quarter, Mental Health parity regulations, and the Cygnet acquisition that offers \$40-45MM of EBITDA accretion.
- Our long-term view of UHS remains positive given the 75% EBITDA contribution from the Behavioral Health book of business, that offers defense against reimbursement, and long-term structural headwinds from payor mix shift to Government business and value-based care.
- Balance Sheet is one of the strongest in our coverage at a low leverage ratio of 2.4x, as compared to the sector average of 4.2x,
- **2014E EPS/REV:** \$5.75 / \$7,974.3 → \$5.82 / \$7,951.4

- **2015E EPS/REV:** \$6.43 / \$8,722.3 → \$6.63 / \$8,651.6
Revenues in MM, after bad debt. EPS ex one-time items.

TELEFLEX INCORPORATED (TFX) / RICHARD NEWITTER

First Take: Top- and Bottom-Line Beat; Guidance Increased

Market Perform / **Market Cap:** \$4,896.1M / **Price:** \$112.04

- **Bottom Line:** TFX had another solid quarter with 3Q sales outperformance (+10.2% cc, ~3% organic) and \$0.19 EPS upside, though increased guidance implies a step-down in 4Q EPS. We'll look to the conference call for more details on the quarter. Conference call started at 8:00 A.M. EDT; Dial-In: 800-510-0219; password: 31478673.
- Sales Ahead of Expectations, and EPS Beat.
- Guidance Implies 4Q Step-down in EPS.

VERTEX PHARMACEUTICALS, INC. (VRTX) / HOWARD LIANG, PH.D.

In-line 3Q:14, Reimbursement Progressing

Outperform / **Market Cap:** \$26,897.7M / **Price:** \$114.07 / **Price Target:**

\$125.00 → \$131.00 / **Methodology:** DCF analysis, 10% discount rate, 95% prob. of success on Kalydeco

- **Bottom Line:** VRTX reported 3Q:14 earnings with Kalydeco sales (\$127M) roughly in line although there was a \$7M inventory stocking. Announced reimbursement approval in Australia removes an overhang for Kalydeco, despite the negative impact from the delayed timing on 2014 guidance. Guidance also included higher 2015 OpEx which appears in line with consensus. Management highlighted geographic and label expansion for Kalydeco that could result in significantly larger population treated in 2015 with Kalydeco monotherapy, in addition to anticipated approval for VX-809/Kalydeco which should provide another revenue uptick in mid/2H:15, while VX-661/Kalydeco and triple combo of Kalydeco/dual correctors could drive long-term growth. We are increasing our valuation for VRTX from \$125 to \$131 to reflect recent positive outcome from the FDA AdCom panel on R117H filing.
- Australia reimbursement approval removes overhang, representing ~\$10M revenue per quarter.
- Kalydeco-eligible patients to grow from 2,600 to 4,000 in 2015.
- 100mg was chosen as VX-661 Phase III dosing.
- Important key catalysts in next 6-12 months.
- **2014E EPS/REV:** (\$2.65) / \$547.8 → (\$2.83) / \$560.4
- **2015E EPS/REV:** (\$0.58) / \$1,086.1 → (\$1.34) / \$1,119.1
Revenues in MM; EPS are GAAP.

ZELTIQ AESTHETICS, INC. (ZLTQ) / RICHARD NEWITTER

Another Beat and Raise Highlights Strong Fundamentals; PT to \$33

Outperform / **Market Cap:** \$994.7M / **Price:** \$24.32 / **Price Target:**

\$29.00 → \$33.00 / **Methodology:** ~5x EV/16E Sales

- **Bottom Line:** ZLTQ delivered another beat & raise 3Q performance with sales (\$6M beat; +55% y/y) again above consensus. It was a second straight qtr of profitability led by strong systems (+74 vs. our

estimates) and continued increases in y/y utilization. Mgmt raised guidance for the 4th straight qtr in a row. With the non-invasive fat mkt still underpenetrated, ongoing investments to expand the sales force and training/utilization initiatives accelerating, we continue to view the prospects for above-peer sales growth favorably. Reiterate OP. Our PT is now \$33 (vs. \$29) as our valuation rolls forward to a (higher) '16E sales.

- Another Solid 3Q Sales Beat Driven By Record System Orders...
- ...And Operating Leverage Shines
- Sales/Profit Guidance Increases; Raising Estimates
- Clinical Programs Remain on Track.
- **2014E EPS/REV:** (\$0.19) / \$162.1 → \$0.01 / \$171.5
- **2015E EPS/REV:** \$0.08 / \$196.6 → \$0.23 / \$208.8

Revenues in \$M

PREVIOUS NOTES:

AETNA, INC. (AET) / ANA GUPTE, PH.D.

Commercial MLR Disappoints From Pricing Pressures; Reiterating OP: New PT \$87

Outperform / **Market Cap:** \$27,555.7M / **Price:** \$77.23 / **Price Target:** \$90.00 → \$87.00 / **Methodology:** 12.6x 2015E EPS

SANOFI (SAN FP) / SEAMUS FERNANDEZ

Boardroom Drama & Perplexing Diabetes Outlook Outweigh Pot'l Asset Optionality

Market Perform / **Market Cap:** €98,007.0M / **Price:** €74.53 / **Price Target:** €85.00 → €82.00 / **Methodology:** DCF through 2026 @ 8.25% discount

WELLPOINT, INC. (WLP) / ANA GUPTE, PH.D.

3Q; 10c EPS Beat; 20 c Guidance Raise; MLR Beats; SG&A Misses

Outperform / **Market Cap:** \$34,320.0M / **Price:** \$120.00

RESEARCH PREVIEWS:

LEERINK EARNINGS CALENDAR



Updated on:

Ticker	Release Date	Release Time	CC Date	CC Time EDT	CC Tel	CC Pass	3Q14		4Q14		EPS Leerink	EPS Street	EPS Leerink	EPS Street
							Revs Leerink	Revs Street	Revs Leerink	Revs Street				
ABMD	10/30	Before Market	10/30	8:00 AM	(855) 212-2361	-	48.6	50.0	0.01	0.02	49.4	52.2	0.01	0.05
AMAG	10/30	Before Market	10/30	8:00 AM	(877) 412-6083	-	25.8	26.1	(0.04)	(0.08)	26.3	26.5	(0.02)	(0.12)
CAH	10/30	Before Market	10/30	8:30 AM	816.581.1703	1088767	23,000.0	22,549.8	1.00	0.96	23,000.0	23,102.7	1.12	1.11
CI	10/30	Before Market	10/30	8:30 AM	(800) 619-9569	7312014	8.7	8,609.4	1.82	1.82	8,800.0	8,705.3	1.69	1.76
CTRX	10/30	Before Market	10/30	8:30 AM	888-277-7138	1590391	5,403.0	5,351.0	0.58	0.56	5,425.1	5,456.1	0.62	0.61
HTWR	10/30	Before Market	10/30	8:00 AM	877-407-0789	-	72.4	69.3	(0.74)	(0.65)	76.1	71.3	(0.94)	(0.62)
INCY	10/30	Before Market	10/30	8:30 AM	877-407-8037	13592296	189.2	132.5	0.21	(0.02)	112.5	160.5	(0.29)	0.02
TEVA	10/30	Before Market	10/30	8:00 AM	877-391-1148	13650976	4,979.0	5,097.0	1.15	1.23	5,256.0	5,292.9	1.24	1.28
AEGR	10/30	After Market	10/30	5:00 PM	(866) 516-3002	-	52.2	48.6	(0.07)	(0.16)	58.0	61.2	(0.14)	0.08
AFFX	10/30	After Market	10/30	5:00 PM	877-407-8291	-	83.2	84.3	0.02	0.04	88.8	89.1	0.04	0.04
ATRC	10/30	After Market	10/30	4:30 PM	(800) 510-0219	16342969	24.8	25.6	(0.19)	(0.17)	27.6	27.3	(0.22)	(0.18)
CPSI	10/30	After Market	10/31	9:00 AM	212-231-2909	-	53.1	52.6	0.86	0.85	50.9	53.5	0.83	0.91
CSLT	10/30	After Market	10/30	5:00 PM	201-689-8562	-	11.4	11.5	(0.21)	(0.21)	16.2	12.6	(0.21)	(0.20)
FLDM	10/30	After Market	10/30	5:00 PM	(877) 556-5248	-	28.6	29.2	(0.50)	(0.48)	33.7	33.2	(0.49)	(0.47)
GMED	10/30	After Market	10/30	5:30 PM	855-533-7141	-	112.7	113.1	0.21	0.21	119.5	121.6	0.23	0.23
MOH	10/30	After Market	10/30	5:00 PM	(212) 271-4651	-	2.6	2,579.1	0.41	0.44	2,800.0	2,866.4	1.27	1.15
MYL	10/30	After Market	10/30	4:30 PM	800.514.4861	-	2,097.0	2,055.8	0.94	0.94	2,056.0	2,107.7	0.97	1.01
NUVA	10/30	After Market	10/30	5:30 PM	877-407-9039	-	175.1	179.3	0.26	0.26	201.2	200.1	0.28	0.30
OGXI	10/30	After Market	10/30	4:30 PM	(877) 606-1416	-	4.9	4.7	(0.48)	(0.32)	4.9	4.3	(0.48)	(0.33)
PKI	10/30	After Market	10/30	5:00 PM	(617) 213-8893	64896606	546.1	549.8	0.55	0.57	626.3	621.5	0.83	0.83
SGEN	10/30	After Market	10/30	4:30 PM	888-224-1141	6901988	66.4	66.9	(0.22)	(0.24)	67.3	67.6	(0.27)	(0.29)
THRX	10/30	After Market	10/30	5:00 PM	(877) 837-3908	-	6.8	6.0	(0.25)	(0.14)	12.9	9.5	(0.09)	(0.08)
VCRA	10/30	After Market	10/30	5:00 PM	800-510-0146	7730 2940	22.4	21.7	(0.18)	(0.20)	23.5	23.4	(0.16)	(0.16)
FLML	10/31	Before Market	10/31	10:00 AM	888-504-7963	1529553	27.6	12.1	0.20	(0.09)	38.5	27.9	(0.55)	0.24
HNT	11/3	Before Market	11/3	11:00 AM	(877) 407-4019	-	3.7	3,684.9	0.73	0.72	3,900.0	3,889.4	0.62	0.57
ITCI	11/3	Before Market	11/3	8:30 AM	844-835-6563	25568442	-	0.2	(0.34)	(0.27)	-	0.2	(0.47)	(0.37)
ALDR	11/3	After Market	11/3	5:00 PM	(877) 430-4657	20836583	4.8	4.8	(0.23)	(0.25)	4.8	4.8	(0.25)	(0.28)
CYH	11/3	After Market	11/4	11:00 AM	800-374-1773	5155405	5,059.0	4,931.7	0.79	0.76	5,347.0	5,128.8	1.32	1.27
IMPR	11/3	After Market	11/3	5:00 PM	888-364-3108	7055889	23.5	23.4	(0.15)	(0.15)	24.1	25.9	(0.81)	(0.09)
THC	11/3	After Market	11/4	10:00 AM	webcast	-	4,044.6	4,011.7	0.12	0.12	4,212.7	4,219.9	1.25	1.24

Source: Leerink estimates, FactSet, Company information

October 30-31– BMY Opdivo (Lung Cancer) CHECKMATE-063 Data**BMY – OP – Seamus Fernandez****Close: \$54.16, Mkt Cap: \$87,219M**

- CHECKMATE-063 Phase II data will be revealed in the 10/30 release of abstracts from the Chicago Multidisciplinary Symposium in Thoracic Oncology (CMSTO) meeting.
- Additional Opdivo CHECKMATE-063 data is expected at the CMSTO presentation on 10/31, and BMY will hold an investor meeting on 10/31 at 2:30pm EDT.
- CHECKMATE-063 is a single-arm Phase II study of Opdivo (nivolumab) (BMS-936558) in subjects with advanced or metastatic squamous cell non-small cell lung cancer (NSCLC) who have received at least two prior systemic regimens. The primary and secondary endpoints are objective response rate.
- The -063 results will (a) form the basis for BMY's rolling BLA in 3rd line squamous NSCLC, and (b) serve as precursor to the widely anticipated interim look at overall survival in CHECKMATE-017, BMY's head-head study vs. docetaxel in 2nd line squamous NSCLC, which is currently expected before year-end.

- In our opinion, a 14-16% response rate (RR) and 1-year survival >30% in -063 should be viewed positively given historical benchmarks of <10% RR and <20% 1-year survival in 3rd line squamous lung cancer.
- MEDACorp lung cancer specialists who have recently spoken with believe that Opdivo will be approved in 3rd-line squamous NSCLC based solely on the CHECKMATE-063 data, given the very high unmet need.
- **Next Up:** 10/31 at 1:30pm EDT, MEDACorp Pulse Call with a lung cancer specialist, updating Opdivo.

November 7-11 – American Association for the Study of Liver Disease (AASLD)

BMJ – OP – Seamus Fernandez

Close: \$54.16, Mkt Cap: \$87,219M

GILD – OP – Howard Liang

Close: \$110.72, Mkt Cap: \$115,234M

ACHN – OP – Howard Liang

Close: \$11.71, Mkt Cap: \$321M

MRK – MP – Seamus Fernandez

Close: \$56.20, Mkt Cap: \$146,523M

- Late-breaking abstracts (LB-7 and LB-2) on **BMJ's** UNITY 1 and 2 3DAA (direct antiviral agent) data from combo of asunaprevir (PI [protease inhibitor]) + daclatasvir (NS5Ai) + BMS-791325 (non-nuc) appear to show a generally similar profile to ABBV/ENTA's (OP) 3DAA regimen consisting of similar classes of agents in Hepatitis C (HCV).
- This potentially adds another, albeit somewhat late entrant, to the HCV race; however, we believe the landscape could evolve further based on upcoming C-SWIFT data (expected at AASLD, no data in abstract) from **MRK** (MP) combining its two potent NS5Ai's and PI's with a potent nuc (GILD's [OP] Sovaldi) to shorten treatment duration to 4-6 weeks.
- We believe this development could have the effect of narrowing the field, and currently only two big players (GILD, MRK) have an internal clinical-stage portfolio to produce such a combination with ACHN as potential third entry pending upcoming nuc data.
- On balance we would view this development to be a positive for **GILD**, which we believe is well positioned with a well-established nuc (Sovaldi), a second-gen NS5Ai GS-5816 (Phase III) and a pan-genotypic PI GS-9857 (entering Phase II).
- A MEDACorp liver specialist, who we hosted on a Oct. 16 call, also maintains that UNITY 1 and 2 data is insufficient to alter the post-Phase II perception that BMJ's triple therapy has lower activity than GILD and ABBV/ENTA's combos, and it appears to us that BMJ has the burden of proof to defend its combo's competitiveness.
- For **ACHN**, incremental new data (from abstract LB-23) on its ACH-3102 (NS5Ai) suggests the potential for shortening treatment duration to 6 weeks with a 2-DAA (ACH-3102 + GILD's SOF) combo with a potent nuc (perhaps ACH-3422 – data expected later in 2014, though will have 3 AASLD posters – 1978, 1982, 1985). The MEDACorp liver specialist noted that ACH-3422 showed improved potency vs. Sovaldi against GT3 replicons in vitro (Abstract 1978) but it remains to be seen if this advantage ends up being clinically relevant.

November 18-21 – EORTC-AACR-NCI

AGIO – OP – Howard Liang

Close: \$79.36, Mkt Cap: \$747M

CLVS – OP – Howard Liang**Close: \$57.24, Mkt Cap: \$2,043M**

- At EORTC (Cancer, 11/18-21), AGIO and CLVS data will be most prominent.
- AGIO – Earlier-than-expected presentation of AG-120 Phase I data; data, although early, will be meaningful.
- CLVS – If Rociletinib (CO-1686) data shown at ESMO is maintained at EORTC-AACR-NCI and ASCO '15, it could support a role for preventing resistance. Also, first data on identifying biomarkers for PARP inhibitors could distinguish CLVS's Rucaparib program ahead of competitors.
- ARQL (OP, **\$1.17**) and EPZM (OP, **\$26.23**) will also have data there.

PREVIOUS NOTES:**UPDATED MODELS:** [DERM - Model](#), [LMNX - Model](#), [RCPT - Model](#), [WMGI - Model](#)**EARNINGS PREVIEWS**[Biotechnology/Preview of 3Q:14 Earnings](#), Howard Liang[Biotechnology/3Q:14 Biotechnology Earnings Preview](#), Joe Schwartz[Biotechnology/3Q14 Earnings Preview for ALKS, EXEL, IMGN, and INCY](#), Michael Schmidt[Healthcare Facilities/3Q Preview: Most Upside for HCA, THC, and CYH](#), Ana Gupte[Healthcare IT & Distribution/HCIT 3Q:14 Preview - Positive on CERN & MDAS](#), Dave Larsen[Healthcare IT & Distribution/C3Q:14 PBM Preview - Recommending CVS; Cautious on](#)[ESRX and CTRX](#), Dave Larsen[Managed Care/3Q Preview: UNH, WLP; HNT Most Likely to Beat; HUM Guidance a Wild](#)[Card](#), Ana Gupte**SURVEYS**[Digital Health/Future of Digital Health](#), Steve Wardell[Healthcare Services/Consumer Survey Shows EBOLA-fueled Procedure Delay Unlikely in 4Q; Flu Tests Up](#), Ana Gupte[Life Science Tools and Diagnostics/Survey Offers Insight Into STD Testing Trends](#), Rich Newitter, Dan Leonard[ISRG/Higher Confidence In Procedure Acceleration & Xi; Upgrade To OP/Outperform](#), Rich Newitter[Medical Devices/Diabetes Survey: CGM, Patch Pump Penetration Continues to Ramp at a Rapid Pace](#), Danielle Antalfy**CV OUTCOMES SERIES**[CV Outcomes Series: Big Pot'l for MRK & LLY's CETPi's but Conviction Low](#)[Biopharma/CV Outcomes Series: Highlights from Our PCSK9 Conference Call](#)[Biopharma/Highlights from Our MEDACorp Acute Heart Failure Conference Call](#)[Biopharma/CV Outcomes Series: IMPROVE-IT Expected to Support the LDL Hypothesis](#)[Biopharma/CV Outcomes Series: NVS's LCZ696 Poised to Transform Treatment of CHF](#)**HEALTHCARE SERVICES ROUNDTABLE**[Healthcare IT & Distribution/Takeaways from Healthcare Services Roundtable](#), Dave Larsen

[Healthcare Services/Healthcare Policy Views from the Hill: Key Takeaways From Services RT Panel](#), Ana Gupte

[Healthcare Services/Paradigm Shifts to Value-Based Care Are Real: Takeaways from Recent Services RT](#), Ana Gupte

RARE DISEASE ROUNDTABLE

[Biotechnology/Orphan Drug Regulatory and Reimbursement Panels Project Continued Flexibility](#), Joe Schwartz

[Biotechnology/Takeaways from Rare Disease Roundtable](#), Howard Liang

[GWPH/Dinner With Management Previews Next Epidiolex Readout, Thoughts on Competition/Outperform](#), Paul Matteis

[AEGR/Dinner With Management Provides Insights on US Launch, PCSK9, Ex-US Biz/Outperform](#), Joe Schwartz

[Biotechnology/Takeaways from Rare Disease Roundtable on RNAi/GeneTx Stocks Under Our Coverage](#), Michael Schmidt

HEALTHCARE INSIGHTS CONFERENCE

[Healthcare/Healthcare Insights: Identifying the Industry's Key Trends & Growth Drivers](#), This Compendium Report from the Conference includes all the individual reports listed below.

[Biopharma/Investment Insights from Lymphoma/CLL Panel](#)

[Biopharma/Investment Insights from HCV Panel: Growing Patient Pool Bullish for Launches](#)

[Biopharma/Key Stock Impacts from Our Therapeutics Panels](#)

[Biopharma/Investment Insights from the IO and Targeted T-Cell Therapy Panel](#)

[Biopharma/Investment Insights from the Lung Cancer Panel](#)

[Biopharma/Investment Insights from the Breast Cancer Panel](#)

[Biotechnology/Investment Insights from Liver Disease Panel: Cautious on ICPT's OCA](#)

[Medical Supplies and Devices/Investment Insights from the MIS/Robotics Surgery Panel](#)

[Healthcare IT & Distribution/Investment Insights from the HCIT Panel: Robust Replacement Markets](#)

[Healthcare IT & Distribution/Investment Highlights from PBM Panel: Service Challenges Weigh on ESRX](#)

[Managed Care/Investment Insights from the Managed Care Panel on the Future of ACOs](#)

[Life Science Tools and Diagnostics/Investment Insights from Nextgen Seq Dx Panel: Clinical Growth Opportunity](#)

[STJ/Investment Insights from the CardioMEMS Panel: Large Market; Gradual Ramp/Outperform](#)

LONG SHELF LIFE REPORTS

[Healthcare Facilities/Puts & Takes in Dynamic Landscape of Reform & Recovery; UHS, CYH, HCA OP](#), Ana Gupte

[Biopharma/Future of Treatment of Lymphoid Malignancies](#), Howard Liang

[GWPH/Deep Dive on GWP42003 for UC: Cannabis Anecdotes Reminiscent of CBD in Epilepsy/Outperform](#), Paul Matteis

[Biopharma/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

UPCOMING HEALTHCARE EVENTS:

REGULATORY EVENTS

11/3-4: FDA AdCom: Risk Communication
11/6: FDA AdCom: Cellular, Tissue and Gene Therapy
11/14: FDA AdCom: Oncologic
11/19-20: FDA AdCom: Science Board
11/24-25: FDA AdCom: Anesthetic and Analgesic Drug Products

MEDICAL MEETINGS

10/31-11/3: American Urogynecologic Society (AUGS)
11/2-7: The Obesity Society
11/3-5: CERN Health Conference
11/4-7: Vascular Interventional Advances
11/5-8: American Academy of Implant Dentistry
11/5-8: American College of Prosthodontists
11/6: American Society of Hematology abstracts released
11/6-10: American College of Allergy, Asthma and Immunology
11/6-9: American Society for Dermatologic Surgery
11/6-8: International Society for Traumatic Stress Studies
11/6-9: Society for the Immunotherapy of Cancer
11/7-11: American Association for the Study of Liver Diseases, ACHN, ALNY, BMY, ENTA, GILD, ICPT, ISIS, JNJ, MRK, RPTP, TKMR
11/11-16: American Society of Nephrology, XLRN
11/12-15: North American Spine Society
11/12-15: Personal Genomes and Medical Genomics
11/13-16: American Academy of Physical Medicine and Rehabilitation
11/13-16: Asian Pacific Society of Respiriology
11/13-15: Association of Molecular Pathology
11/13-16: Society for Melanoma Research
11/13-16: Society for Neuro-Oncology

CORPORATE EVENTS

10/31: EPS BMO: FLML
10/31, 2:30PM: Investor meeting: BMY at CMSTO
11/1: A distribution date for Keysight
11/3: EPS: ALDR, CYH, HNT, IMPR, ITCI, THC
11/10: Investor meeting: ICPT

11/13: Investor meeting: NUVA

11/18: Investor meeting: AZN

11/20: Investor meeting: SNY

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 09/30/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	138	69.30	51	37.00
HOLD [MP]	61	30.70	2	3.30
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

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