

Daily Research Highlights

Eagle Pharmaceuticals Inc.: Teva Settlement Drives Profitability and LT-Royalty; Reiterate BUY, Raise PT to \$37

REITs: Housing Supply Preview: Expect a Pavlovian Response

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Eagle Pharmaceuticals Inc. (EGRX, BUY, Target: \$37.00)
Irina Rivkind Koffler (212-915-1237, irivkind@cantor.com)

[Teva Settlement Drives Profitability and LT-Royalty; Reiterate BUY, Raise PT to \\$37](#)

- **Eagle and Teva settle Treanda litigation and enter into a win/win licensing agreement on cancer drug Treanda:** Teva dropped its current litigation on the '270 patent and licensed Eagle's rapid infusion/small bag Treanda, which is pending FDA approval. As a result, Eagle will receive a \$30M upfront payment this year (rendering it profitable), and is also eligible to receive up to \$90M in additional milestones and a "healthy double-digit" royalty on U.S. net sales of rapid infusion Treanda. If approved, the rapid infusion/brand extension is expected to launch in 2H:15 or early 2016, and to replace Teva's existing liquid product. With this agreement we estimate Eagle can capture approximately two years of royalties on a \$800M drug ahead of a generic launch followed by a long tail of royalties on the remaining Treanda net sales (up to 18 years). ATC Eagle reported earnings for a stub quarter and beat FactSet consensus estimates by \$0.10. We reiterate our BUY rating and raise our PT to \$37 from \$30, based on our model updates and DCF valuation.
- **Agreement details and company catalysts:** Eagle will supply Teva with product until Teva can establish its own manufacturing. Eagle is eligible to receive up to \$90M, which is tied to events such as (1) priority review of the Treanda NDA; (2) FDA approval of the rapid infuse Treanda; (3) receipt of a unique J-code from CMS (thus preserving pricing power) for the rapid infusion product post-approval; and (4) sales milestones. We expect NDA approval of the new Treanda since the product has already demonstrated bioequivalence to Treanda with comparable safety. We have added a \$15M milestone as a placeholder in 4Q:15 since we are conservatively not modeling priority review, which would result in an August approval date. We should learn about priority review status in 2Q:15 but are not modeling any associated milestone for now. Management has previously indicated that its likelihood of a unique J-code is approximately 10-15%, but today noted that odds are higher for Teva. Separate potential catalysts to EGRX include: Orphan Drug Exclusivity for Ryanodex (expected imminently); and resolution of the HSP/MDCO Angiomax litigation appeal (expected in 2Q:15).
- **Stub quarter generally outperforms:** We have added a stub quarter for the period ending Dec 31, 2014, since Eagle is re-stating its financial statements. The company reported revenues of \$5.6M and net loss of (\$0.39) which outperformed FactSet consensus of \$3.1M and (\$0.49). The strength was driven by stronger-than-expected Argatroban demand, offset by lighter-than-expected Ryanodex sales of \$0.5M after a strong start last quarter. We attribute this lumpiness to lengthy P&T reviews following initially strong purchases by early adopter hospitals.

REITs:**David Toti (212-915-1219, dtoti@cantor.com)****Housing Supply Preview: Expect a Pavlovian Response**

Our analysis suggests that 2015 will see "peak multifamily supply" in North America, as deliveries crest. That said, the multifamily REIT stocks remain sensitive to the data, despite continued positive absorption and strong market-level rent growth. At 8:30 a.m. ET, the U.S. Department of Housing and Urban Development and the U.S. Census Bureau are scheduled to jointly release new residential construction data for January and revised data for December. Current consensus estimates for total building permits are 1,069,000, indicating potential y/y and sequential increases of 13.8% and 3.6%, respectively. Consensus estimates for total housing starts are 1,070,000, indicating a potential y/y increase of 19.3% and a sequential decline of 1.7%. *Note that the aforementioned numbers include one, two-to-four, and five units or more and represent consensus estimates as provided by Bloomberg.*

Supply Outlook: 2015-2017. Supply in 58 MSAs is expected to peak in 2015 with 192,800 total completions projected, or 2.1% of the existing inventory. In 2016 and 2017, completions are expected at 150,400 and 142,200, respectively, representing 1.6% and 1.5% of the forward inventory, respectively. Below we highlight supply as a percentage of existing/forward inventory in the top five multifamily REIT markets, by NOI exposure.

- **Metro DC.** 3.1% in 2015, followed by 1.9% and 2.2% in 2016 and 2017, respectively.
- **Los Angeles.** 1.6% in 2015, followed by 1.1% and 0.8% in 2016 and 2017, respectively.
- **New York .** 3.5% in 2015, followed by 2.5% and 2.1% in 2016 and 2017, respectively.
- **Dallas.** 3.1% in 2015, followed by 1.6% and 1.2% in 2016 and 2017, respectively.
- **Atlanta.** 2.0% in 2015, followed by 1.9% and 1.6% in 2016 and 2017, respectively.

Overall, we remain positive on multifamily REITs with diversified portfolios that could withstand supply hiccups in a few saturated markets (e.g., Equity Residential, UDR, MAA). YTD, multifamily REITs have performed somewhat in-line, having risen 5.9%, vs. 5.2% for REITs, overall. Stock pricing remains elevated, with multifamily implied cap rates at 4.7%, vs. 5.3% for REITs, overall.

Disclosures Appendix

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	Count	Percent	Count	Percent
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HOLD [H]	47	31.54	9	19.15
SELL [S]	9	6.04	1	11.11

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