Daily Research Highlights

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June 17

Agile Therapeutics, Inc. (AGRX, BUY, Target: $17.00)

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

Reinventing the Contraceptive Patch: Initiating Coverage with a BUY Rating and $17 PT

- **We initiate coverage of Agile Therapeutics with a BUY rating and $17 PT:** Agile is developing Twirla, a Phase III, low-dose estrogen contraceptive patch that we believe has the potential to approximate the Ortho Evra launch trajectory. We expect positive data from the Phase III trial in mid-2015, followed by product launch in early 2017. Even under conservative risk-adjusted assumptions we believe that Twirla can attain over $300M in peak sales, and we think that this opportunity makes Agile an attractive, late-stage take-out target to a larger company focused on women's health. We see the stock as undervalued following the caution and recent sell-off in the biotech sector and initiate coverage with a BUY rating and $17 PT.
- **Simple story, with a lot to like:** Twirla will compete in a large and lucrative contraceptive market that has been growing since the passage of the Affordable Care Act. We believe that a contraceptive patch would generate significant patient and physician demand given that J&J's Ortho Evra quickly attained 10% market share before safety concerns about its estrogen exposure led to the brand's decline. Twirla has demonstrated lower estrogen exposure and estrogen-associated adverse events than Ortho Evra, so we think that doctors would easily understand the safety benefits of the product, which should facilitate its launch. We like category pricing in contraceptives since a recently launched generic version of Ortho Evra is priced at a premium to branded oral contraceptives. We believe that management is highly experienced and has realistic expectations. Finally, there has been significant M&A activity in women's health, which should also benefit Agile, in our view.
- **Valuation and risks:** We value Agile via DCF (13% WACC and 1% terminal growth rate) to account for the clinical risk associated with the Phase III Twirla trial. Key risks to the story include the aforementioned clinical risk (we also risk-adjust our revenue estimates by 60%), financing risk in mid-2015, and slower-than-expected commercial launch of Twirla.

REITs

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Housing Supply Preview: Delivery Sans Disruption

In recent periods, new residential construction data have continued to display evidence of housing market recovery, albeit at a slower pace than has been seen historically. Importantly, overall growth in both starts and permits data continue to be driven by acceleration in multifamily (5+ units) product. We expect today's data to continue the year-over-year upward trend, with single family home data maintaining a lagging position. In recent months, these consistent data reports have been short-term catalysts for the multi-family REIT stocks, and we expect today's data could do the same. **For some time, we have maintained an overweight position in the multifamily sub-sector, given the elastic P&L and attractive top-line pricing power; the recent pull-back in the MSCI US REIT (RMZ) index has created a modestly attractive entry point in the apartment names, in our view.**

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 May, and revised data for April. Current consensus estimates for total building permits are 1,050,000, indicating a potential y/y increase of 6.6%, and a sequential decrease of 2.8%. Consensus estimates for total housing starts are 1,029,000, indicating a potential y/y increase of 12.0%, and a sequential decrease of 4.0%. *Note that the aforementioned numbers include one, two-to-four, and five units or more and represent consensus estimates as provided by Bloomberg.*

April—Preliminary Numbers (five units or more)

- Permits up 16.2% to 453,000 (y/y) versus the 10-year historical average of 288,000
- Units authorized but not started up 29.0% to 57,000 (y/y)
- Units started up 70.0% to 413,000 (y/y) versus the 10-year historical average of 236,000
- Units under construction up 31.0% to 385,000 (y/y)
- Units completed up 47.6% to 242,000 (y/y)

June 16

Seattle Genetics, Inc. (SGEN, SELL, Target: $28.00)

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

Change to ADCETRIS Label Possible - Overhang Likely - Maintain SELL

- **Toxicity in the Spotlight Again.** The FDA has announced that it is reviewing ADCETRIS based on reports of hepatotoxicity appearing in the agency's Adverse Events Reporting System (FAERS) from January through March 2014. According to the FDA's website, "FDA is continuing to evaluate this issue to determine the need for any regulatory action."
- **Adversities Revisited.** Last year, news of pancreatitis associated with ADCETRIS circulated after a trial was temporarily suspended based on event reports, though the trial was ultimately resumed. Nonetheless, this incident, we believe, prompted increase oversight of ADCETRIS, and as a result, it's possible that a greater number of adversities have been reported. Whether hepatotoxicity is a greater practical threat than originally thought, we think the damage to the shares is an overhang that could persist for a while.
- **We Rate the Shares SELL on Valuation.** We are maintaining our SELL rating on the shares of Seattle Genetics, as we continue to believe the current valuation more than fully incorporates the current value of ADCETRIS plus new indications as well as early-stage products. Our price target remains $28.

The Disclosure Section may be found on page 3

Disclosures Appendix

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Distribution of Ratings/Investment Banking Services (IB) as of 06/17/14

Cantor

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [B]	85	58.22	22	25.88
HOLD [H]	50	34.25	7	14.00
SELL [S]	11	7.53	1	9.09

The Disclosure Section may be found on page 3