Daily Research Highlights

Achaogen, Inc.: Plazomicin Phase 3 Enrolling, Development Update Expected in 2Q:15

Specialty Pharmaceuticals: We Expect Valeant to Prevail at $173/Share in Cash; See Less Accretion to Endo

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March 17

Achaogen, Inc. (AKAO, BUY, Target: $13.00)
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Plazomicin Phase 3 Enrolling, Development Update Expected in 2Q:15

- **Phase 3 CARE Trial Enrolling.** The phase 3 superiority trial that AKAO is conducting of a plazomicin-based regimen vs. a colistin-based regimen in blood stream infections and pneumonia is currently enrolling globally. The majority of sites in the U.S. and E.U. have openings, and additional sites, as well as those in Latin America, are expected to open during 1Q:15. Enrollment remains slower than anticipated and AKAO is currently looking at options designed to accelerate enrollment, including but not limited to discussions with the FDA on changes to the study protocol. AKAO expects to provide an update of the development strategy during 2Q:15.
- **Robust Preclinical Pipeline of Novel Antibacterials**. Antibiotic development has focused on modifying only a few known classes of drugs in order to overcome resistance. In preclinical development, Achaogen has antibacterial antibodies and a LpxC inhibitor. Both these assets, we believe, have novel mechanisms of action, raising the hurdle for resistance, though they have also been untested in the clinic. We expect AKAO to submit the IND for one or more of these preclinical assets to the FDA in 2016 and begin phase 1 studies shortly afterwards.
- **AKAO Reported Earnings of $(0.27) per Share for 4Q:14.** The net loss of $(0.27) beat FactSet consensus of $(0.33), though in-line with our estimate of $(0.21). AKAO ended the quarter with $64M in cash and equivalents, which we believe will fund operations into 2017.

March 16

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

We Expect Valeant to Prevail at $173/Share in Cash; See Less Accretion to Endo

- **What is best for the SLXP shareholder?** VRX announced it is now offering $173/share in an all cash offer. Valeant expects to close the deal on April 1, and if the conditions of the tender are not satisfied then the offer price will drop to $158/share on April 8 (which should pressure SLXP shareholders to tender, in our view). ENDP, in contrast, is offering $45 in cash, plus 1.4607 shares of ENDP for each share of SLXP. We estimate a total of 87.5M fully diluted SLXP shares, so this deal implies issuance of ~128M ENDP shares plus ~$4.3B in debt. Since Endo's offer has no collar, Salix shareholders risk receiving less than $175/share (as of Friday's closing price the offer would be valued at <$173/share). There is also a possibility that Endo shareholders could vote against the transaction, especially if there is an unexpected delay around the Xifaxan IBS-D PDUFA on May 27. Furthermore, we believe that there could still be some commercial execution risk within the Endo organization which may also deter its shareholders. We expect Valeant's all-cash counter-offer to be accepted and a rapid close of the deal. We are not expecting a bidding war at this time since we believe that accretion to Endo is less significant under the existing offer. We continue to expect Salix to work down a significant portion of its revenue in 1Q:15 and for this reason, modeled negligible sales in the quarter. We don't expect Salix to report another quarter prior to takeover.
- **What is the impact of the raised VRX bid:** After its failed attempt to acquire Allergan in 2014, we don't think that Valeant is willing to strike out a second time. Due to the significant destocking expected from Salix, it is also likely that the transaction could result in higher-than-anticipated accretion in 2015. We estimate additional interest expense associated with another $1.3B in debt at approximately 5.5% (or another $72M) which may result in a negative ($0.10) impact to Valeant 2015 EPS. We have not yet modeled this impact.
- **How we model the Endo bid:** We model lower accretion to Endo's business relative to Valeant's due to its higher tax rate, but we do think that the Salix portfolio would be transformative for the company and result in significant multiple expansion. Furthermore, we model ~$2.5B in 2016 adjusted EBIT, coupled with approximately $600M in Depreciation & Amortization ($3.1B EBITDA) and approximately $10.0B in debt, for a leverage ratio of ~3.2x by the end of 2016.

Disclosures Appendix

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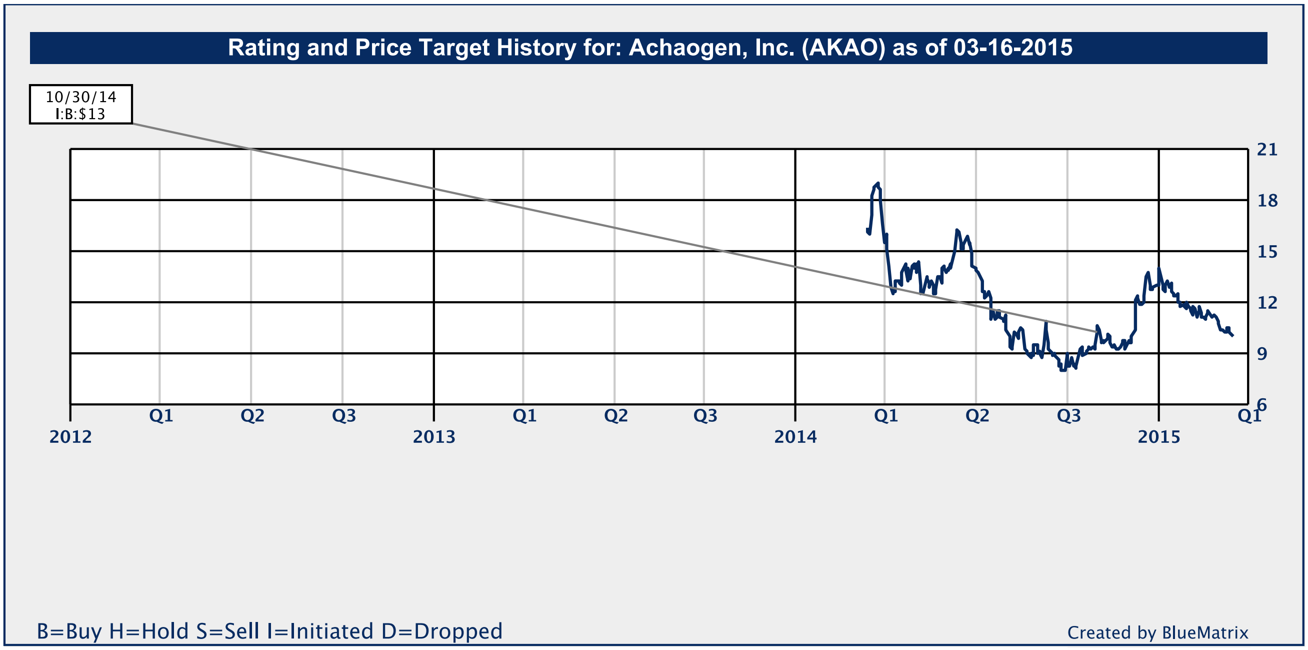

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Cantor

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
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HOLD [H]	**45**	**31.91**	**8**	**17.78**
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