Investors Alley
Bret Jensen's Blue Chip Gems
June 2015 Vol. 1 Issue 6

# Financials, Retail, and Healthcare Continue to Deliver

Fellow Investor,

Equities continue to trade in one of the narrowest trading ranges of the decade and are slightly down from our last update. I am still leaning toward to the cautious side at current price levels. It simply is getting harder to find compelling value in the market. In addition, Greece seems to be a worry that just cannot be put to bed. Hopefully this week the European Union reaches a deal that kicks the can down the road to next year at least. At least that would remove one headwind to the current market.

## *In This Issue*



I am also watching China closely. After more than doubling within a year, stocks there have sold off recently and are now right on the border of being in 20% "correction" territory. The economy is growing slower in the Middle Kingdom than at any time in the last 25 years which is a core reason commodities and commodity stocks have been so challenged over the past a year or two. In many ways, the Chinese market reminds me of the Internet boom here back in 1999. New brokerage account openings are up more than 500% YTD and the hot money that has been chasing real estate over the past decade seems to have shifted to the stock market in China. If we get a market crash in the second largest economy in the world there obviously will be a global impact.

The other bubble that has started to deflate some over the last week or so is the biotech sector. Specifically, the small cap part of this highly volatile area. A lot of the small names that have had massive run ups this year are starting to come back down to earth a bit here. The 10 year treasury yield ended Friday at its high of the year at just under 2.5%. If rates keep rising there should be an increase migration out of high risk areas like small caps and biotech as well as high yield sectors like utilities.

On the brighter side, gradually rising rates should continue to be good for sentiment on financials. This is one reason our portfolio selections of **JP Morgan (NYSE: JPM)** and **Capital One (NYSE: COF)** continue to do well. In addition, consumer spending seems to be moving to a higher plane as consumers finally become more comfortable spending more of their gasoline "tax cut". Sales on restaurants and footwear particularly seem to be bolstered in recent months. This is one reason **Foot Locker (NYSE:FL**) is behaving well recently.

Our large cap healthcare positions also are doing well and should continue to do so even if we do get a "flight to safety" sometime this summer. That being said, with few positive catalysts visible until earnings start to come in starting in mid-July it is hard to find good value in the market right at the moment. This month I add another large cap growth name from the healthcare sector. I will also offer up a special supplemental pick at mid-month, hopefully with a lower entry point as I think it is likely the next two weeks the direction of the market will be down.

On another note, if you're in northern California or plan to visit in mid-July I'll be giving two presentations at the San Francisco MoneyShow. The show runs from Thursday, July 16 through Saturday, July 18th and registration is free. To find out more about the show, how to register and my schedule, click here.

If you ever have a question or comment you can reach me at bret.jensen@investorsalley.com.

Thank you and Happy Hunting.

Bret Jensen
Editor
*Bret Jensen's Blue Chip Gems*

# Celgene Corporation

We are going back to the well that has delivered superior performance since the Blue Chip Gems portfolio was launched. Our latest portfolio selection is biotech juggernaut **Celgene Corporation (NASDAQ: CELG)**. The company has had a remarkable run over the past few years but still sports reasonable valuations in an overbought market. Celgene is attractive also as it has multiple revenue generating products and a rich pipeline of drug candidates. The firm's patent protection on most of its drugs extends into the next decade and many of its commercialized products are poised to expand thanks to new treatment indications.

**Main Products:**

Celgene's best performing product is Revlimid for the treatment of Multiple myeloma (MM), a type of cancer that results from blood disease. The drug also treats a condition called Myelodysplastic syndromes (MDS), which causes low blood cell counts, as well as Mantle cell lymphoma (MCL). Sales in the first quarter of 2015 increased 17% to over $1 billion despite a foreign exchange headwind. In February, the FDA expanded the approved indication for Revlimid to include patients with newly diagnosed Multiple myeloma, and the EU approved it for untreated patients not eligible for transplant. The approvals should help strengthen the drug's position as a crucial component in the treatment of myeloma.

The patent for Revlimid is set to expire in 2027 for the U.S. market. The drug is also being investigated as a part of a combination therapy in which it would serve as the backbone compound for the treatment of myeloma. Revlimid is enrolled in five Phase III trials centered on the treatment of lymphoma with data expected in early 2017. Celgene expects Revlimid to generate sales of over $5 billion in 2015.

Celgene also markets a chemotherapy product called Abraxane. In combination with one other drug, Abraxane has become the standard of care for metastatic pancreatic cancer in the United States and is in the early stages of its European launch for that particular type of cancer. The firm is launching the product for the treatment of non-small cell lung cancer in Germany and Austria after it received European Union approval in February, and will progress to other countries once reimbursement details are ironed out. Abraxane had sales of over $220 million in the first quarter, which represents an over 20% increase year-over-year.


Source: BOA 2015 Healthcare Conference

The drug is enrolled in multiple clinical trials, including a Phase II trial for breast cancer and a Phase III trial in which the therapy is an adjuvant for pancreatic cancer. Celgene should see revenues of approximately $1 billion from Abraxane in 2015. The company forecasts sales will grow to over $2 billion annually by 2020. Abraxane is also being studied as a core component in over two dozen ongoing trials with immunotherapy agents, none of which were included in the firm's revenue forecast. Abraxane's patent doesn't expire until 2026 in the United States and 2022 in Europe, so the company has ample time to continue growing Abraxane into a blockbuster product.

The company's other myeloma drug is called Pomalyst ("Imnovid" in Europe). Similar to Revlimid but more potent, Pomalyst is approved for use by patients with myeloma who have received at least two prior therapies. Sales of the drug for the first quarter were about $200 million, better than a 45% increase year-over-year, and the compound received regulatory approval in Japan this February about 18 months ahead of schedule.

Rounding out Celgene's current core products is Otezla, which treats psoriasis and psoriatic arthritis. So far the drug has the leading share of new patients ahead of all other products, both branded or unbranded, for both conditions. The company has initiated a global Phase III trial to study Otezla's effectiveness in treating Behçet's disease, a chronic inflammatory disorder, and is undertaking a host of trials to pinpoint other potential treatment areas.

Pomalyst, Abraxane and Otezla combined for net sales of just over $480 million in the first quarter, a 50% increase compared to the first quarter of last year. It is important to note that these products are still in the relatively early stages of their global launches, and they are all being studying in clinical trials that could boost their growth prospects over the long run.

**Pipeline Candidates:**

Celgene is developing a number of candidates in Phases I and II that are not derived from its core products but have the potential to be commercialized down the line. GED-0301 for Crohn's disease is one such candidate and is moving forward into Phase III trials in mid-2015. The treatment will also be studied in a Phase II trial in the second half of 2015 with its focus on ulcerative colitis.

| Franchise | Milestone | Expected Timing |
|---|---|---|
| Hematology & Oncology | • Regulatory decisions on REVLIMID® for NDMM in the U.S. and EU | Feb 2015 |
| | • Regulatory decision on REVLIMID® for NDMM in Japan | H2 |
| | • Submit REVLIMID® for non-del5q MDS in U.S. and Japan | 2015 |
| | • Presentation of FLASH meta-analysis on durable CR in follicular NHL | Q2 |
| | • Initiate enrollment in REVLIMID® Ph III ROBUST™ trial in DLBCL | Jan 2015 |
| | • EU regulatory decision on ABRAXANE® in NSCLC | Mar 2015 |
| | • Regulatory decision on POMALYST® for RRMM in Japan | Mar 2015 |
| | • Complete enrollment in REVLIMID® Ph III CONTINUUM® trial in CLL | H2 |
| | • CHMP opinion on VIDAZA® for elderly AML | H2 |
| | • Advance CC-122 in Ph I/II trials in DLBCL | H2 |
| | • Initiate luspatercept in Ph III trial in beta-thalassemia | H2 |
| | • Initiate Ph III trial with AG-221 in AML with IDH-2 mutation | H2 |
| I & I | • EU regulatory decision on OTEZLA® in PSOR and PsA | Jan 2015 |
| | • Complete enrollment in GED-0301 registration-enabling endoscopy trial | H2 |
| | • Initiate enrollment in GED-0301 Ph III trials in Crohn's disease | H2 |
| | • Initiate GED-0301 clinical program in ulcerative colitis | H2 |
| | • Complete enrollment in CC-220 Ph II trial in SLE | H2 |

*Source: BOA 2015 Healthcare Conference*

The company is also developing CC-486, which is enrolled in Phase II clinical trials for breast cancer, nasopharyngeal carcinoma, and non-small cell lung cancer. The firm announced in April that it is purchasing Quanticel Pharmaceuticals, a biotech that focuses on cancer therapies. Celgene will have full access to Quanticel's lead programs, including its drug candidates that are expected to enter the clinic in early 2016. The acquisition seems a smart strategic move because it expands the portfolio of opportunities available and increases the likelihood of Celgene commercializing another product.

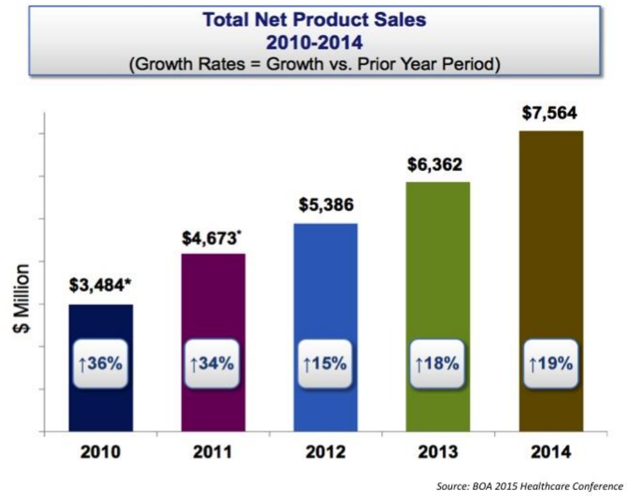
Celgene is also partnered with **Acceleron Pharma (NASDAQ: XLRN),** and the two companies are moving forward with a Phase III program focused around their candidate luspatercept, which targets lower-risk Myelodysplastic syndromes. That compound just had encouraging Phase II trial results disclosed. One other recently announced partnership, with **AstraZeneca (NYSE: AZN)**, hopes to develop and commercialize MEDI4736 for hematologic malignancies like non-Hodgkin's lymphoma.

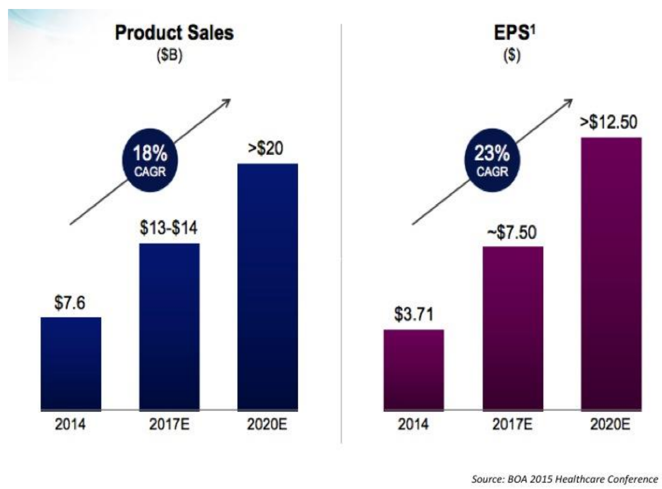
Celgene has also inked deals potentially worth hundreds of millions with emerging cancer biotech companies **OncoMed (NASDAQ: OMED)**, **blubird bio (NASDAQ: BLUE)**, and **Epizyme Inc (NASDAQ: EZPM)** in collaboration deals as another way to keep its potential pipeline strong.

The second half of Celgene's 2015 milestone calendar is particularly full of late stage clinical trials whose positive results should boost the stock.

**Balance Sheet & Growth:**

Celgene has delivered impressive revenue and earnings growth year after year since 2010. Product sales rose just under 20% to over $7 billion in 2014 compared to the previous year, and the firm delivered earnings of slightly under $4.00 a share. The company is on track to achieve its net sales guidance of about $9 billion, which represents a 20% increase from 2014. Full year adjusted earnings are expected to be just under $5.00 a share, or 25% higher than last year. Sales of its core products are driving Celgene's growth, and analysts estimate that EPS should jump to above $6.00 a share in 2016.




Celgene repurchased over $1 billion in shares during the first quarter of 2015. Since implementing its repurchase program six years ago, the company has bought back over $10 billion of its common stock, which represents about 11% of its current float. Celgene also recently announced it is upping its stock buyback program by $4 billion immediately. The firm ended the first quarter with just over $7 billion in cash and marketable securities.

The long lives of Celgene's core product patents should protect its most important revenue streams while it develops other commercial opportunities. As the firm's less mature branded products fill out their global market share opportunities I think they will help contribute to even greater free cash flow and earnings growth.

**Outlook:**

The eight analysts who cover the company have an average price target of $146.00 per share on Celgene. Deutsche Bank reiterated its Buy rating on Celgene in March with a price target of $160 per share, and analysts at the Bank of Montreal have set a target of $163. Shares currently trade around $118.00, so the average price target on Celgene represents a potential upside of about 20% to 25%.

The stock does trade at 20 times next year's profit forecasts. This is an approximately 20% above the overall market multiple. However, Celgene's superior growth prospects deserve at least this premium and then some. I expect the stock to continue to march ahead along with earnings growth in the years ahead.

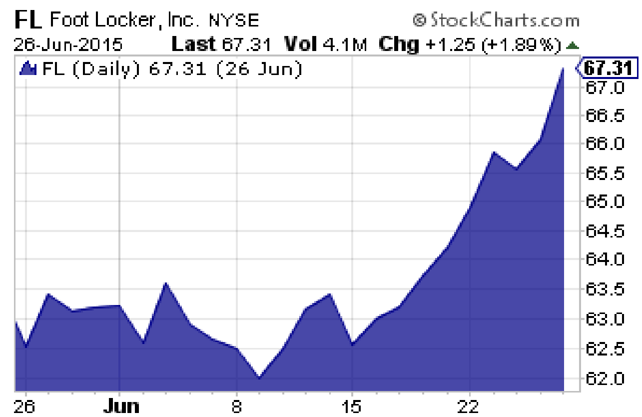
### Recommendation: Buy CELG up to $125.00 a share

Position: Long CELG

# Portfolio Update

As mentioned at the beginning of this issue, the market is down slightly from our last update but stocks continue to trade in one of the narrowest ranges in over a decade. There seems to be classic struggle between bulls and bears over the past few months ahead of the first interest rate hike from the Federal Reserve since 2006. This increase should take place sometime in September or December. I think the timing will depend on domestic economic indicators such as the upcoming monthly jobs report as well as some sort of resolution in Greece. There seems to be significant sector rotation going on even as the major indices remain stuck in neutral.

Financials are doing well over the past couple of months as interest rates have moved up to a yield of almost 2.5% on the ten year treasury, the high so far in 2015. Our financial holdings have overall benefitted from this trend and is one reason we continue to be overweight the sector.




In addition, **Foot Locker (NYSE: FL)** had a good month. Both **Finish Line (NASDAQ: FINL)** and **Nike (NYSE: NKE)** reported standout results this week. I expect the same from Foot Locker when it reports quarterly results late in August.

Healthcare has also been a standout sector in the portfolio where Blue Chip Gems is getting very solid performance from all three of our holdings of **AbbVie (NYSE: ABBV)**, **Gilead Sciences (NASDAQ: GILD)** and **Express Scripts (NASDAQ: ESRX)**. I've added another large cap growth play in the sector this month that is sporting reasonable valuations given its growth prospects in what I feel is at least a slightly overbought market currently.

Technology has been the one weak area so far in our portfolio. We have gotten standout results from **Apple (NASDAQ: AAPL)** but **Qualcomm (NASDAQ: QCOM)** has been a bit disappointing so far. However, with activists applying pressure, stock buybacks on the rise and the company putting its Chinese problems behind it I expect a strong second half of the year from this tech giant.

The biggest disappointment by far in the portfolio is **Micron Technologies (NYSE: MU)** which is down significantly since we added the chipmaker. The stock sunk this week on an earnings miss and disappointing guidance which took most of the chip sector down with Micron's announcement on Friday.

I am disappointed and surprised that the three firm oligopoly including Micron has not done a better job rationing capacity and maintaining pricing in the DRAM market. It almost goes against basic economic theory. That being said, the second half of the year should be stronger as demand picks up in front of the seasonally strong and holiday driven fourth quarter.

The stock also probably sold off more than it would usually on quarterly numbers due to results coming right before quarter end "window dressing". It was good to see a variety of analyst firms reiterate their "Buy" ratings on Micron after results Friday, albeit with lower price targets. I will watch closely to see if the stock stabilizes in the first two weeks of July and if not, I may decide to move on to greener pastures.

As mentioned at the start of this month's issue, I will be doing a mid-month supplemental edition of Blue Chip Gems. I believe it is likely the market goes down over the next few weeks and would not mind lower entry points for our next portfolio addition. If we get a significant dip, we may add two selections at mid-month. I believe it is prudent to be somewhat cautious until earnings reports start to come in during mid-July.

As always, if you have a question about our portfolio holdings or how they fit the strategy just send me an email at bret.jensen@investorsalley.com.

# Current Portfolio

| Company | Entry Date | Entry Price | Recent Price | Yield | Returns | S&P 500 Comp. |
|---|---|---|---|---|---|---|
| Celgene Corp. (CELG) | 06/26/15 | $117.92 | $117.92 | 4.5% | N/A | N/A |
| Blackstone Group (BX) | 05/18/15 | $43.64 | $41.50 | 8.4% | -4.9% | -0.2% |
| Qualcomm (QCOM) | 04/15/15 | $68.46 | $64.67 | 2.9% | -5.5% | -0.2% |
| Capital One (COF) | 04/15/15 | $82.82 | $89.06 | 1.8% | 7.5% | -0.2% |
| Express Scripts (ESRX) | 03/18/15 | $83.29 | $90.85 | - | 9.1% | 0.1% |
| Foot Locker (FL) | 03/18/15 | $61.17 | $67.31 | 1.6% | 10.0% | 0.1% |
| AbbVie (ABBV) | 02/13/15 | $58.05 | $70.46 | 3.1% | 21.4% | 0.2% |
| Valero Energy (VLO) | 02/13/15 | $58.60 | $60.90 | 2.9% | 3.9% | 0.2% |
| Gilead Science Inc. (GILD) | 01/16/15 | $100.71 | $119.50 | 1.4% | 18.7% | 4.1% |
| Micron Technologies, Inc. (MU) | 01/16/15 | $28.99 | $19.66 | - | -32.2% | 4.1% |
| Apple Inc. (AAPL) | 01/16/15 | $105.99 | $126.75 | 1.6% | 19.6% | 4.1% |
| JPMorgan Chase & Co. (JPM) | 01/16/15 | $55.93 | $68.95 | 2.6% | 23.3% | 4.1% |
| Las Vegas Sands Corp. (LVS) | 01/16/15 | $54.89 | $51.20 | 4.9% | -6.7% | 4.1% |

Notes:

Entry price is determined by the last "Close" price at the closing of the market on the day before publication. Recent price is determined by the last "Close" price at the closing of the market on the day before publication; most recent update: 06/26/15. Returns is share price appreciation or depreciation between entry price and recent price. S&P Comp. represents the returns on the S&P 500 Index from the point of entry of a stock listed above through the recent price and is meant to provide a comparison to the overall small cap stock market as comprises that index.

This is not real-time data and should not be interpreted as such.