

## AVEO Pharmaceuticals

BUY

AVEO : NASDAQ : US\$15.35

Target: US\$23.00

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## COMPANY STATISTICS:

Market Cap (M): 473.1  
 52-week Range: 6.01 - 16.25  
 Avg. Daily Vol. (000s): 76.5

## EARNINGS SUMMARY:

FYE Dec	2009A	2010E	2011E
Revenue (M):	20.7	43.6	18.3
EPS:	(27.43)	(2.69)	(2.88)

Revenue (M):	Q1	3.7	10.9A	-
	Q2	5.1	15.6A	-
	Q3	-	8.3	-
	Q4	-	8.8	-
Total		20.7	43.6	18.3
EPS:	Q1	(5.93)	(2.27)A	-
	Q2	(6.41)	(0.50)A	-
	Q3	-	(0.59)	-
	Q4	-	(0.60)	-
Total		(27.43)	(2.69)	(2.88)

## SHARE PRICE PERFORMANCE:



## COMPANY DESCRIPTION:

AVEO Pharmaceuticals is a biotechnology company devoted to the discovery and clinical development of oncologic therapeutics.

All amounts in US\$ unless otherwise noted.

## Life Sciences -- Biotechnology

## UPDATES FOLLOWING INVESTOR MEETINGS

**Investment recommendation:** We remain buyers following the latest pipeline developments and considering the major catalysts expected next year. We estimate sufficient cash through top-line data read-out of TIVO-1 expected mid-2011.

## Investment highlights

- **Tivozanib update:** On the road with the CG equity research team last week, management continued to stress P3 top-line data read-out on track for mid-2011. Choice of Nexavar as comparator was a common discussion point, which we believe was adequately addressed by noting perception that Nexavar is the least potent of the front-line kidney cancer (RCC) treatment class and the easiest one to beat. Potential grab of Sutent market share will depend on absolute rather than relative TIVO-1 outcomes, consistent with how oncologists currently choose RCC therapies. Development could move forward in metastatic breast cancer pending completion of tolerability studies. Interim data from Phase Ib trials evaluating combinations is expected shortly.
- **HGF antibody rights returned:** AV-299 potential has been further validated by randomized P2 data evaluating Roche's MetMab in non-small cell lung cancer (NSCLC) reported at ESMO, in our view. Per management, Merck's decision to return rights was for strategic reasons only, and Merck had no insight into the outcome of AVEO's on-going randomized P2 trial evaluating this agent in NSCLC. The positive market reaction to this Sept. 30 news supports investor consensus, in our view.

**Valuation and risks:** Our \$23 price is based on a DCF assuming risk-adjusted sales potential of tivozanib in RCC only and AV-299 EGFRmt+ NSCLC. Risks include clinical trial failures.

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**Figure 1: Selected AVEO expected upcoming events**

Event	Expected timing
Top-line results from TIVO-1 evaluating tivozanib vs. sorafenib (Nexavar) in front-line Stage IV renal cell carcinoma (RCC)	Mid-2011
Interim results from a randomized Phase II trial evaluating AV-299 in combination with gefitinib (Iressa) in treatment-naïve NSCLC	2H/11

Source: Company data and Canaccord Genuity

**Figure 2: AVEO clinical pipeline**

Drug	Target	Partner	indication	Stage
Tivozanib	VEGFRs	Kirin (Asia only)	RCC	Phase III
			Solid tumors	Phase I
AV-299	HGF-1	None	NSCLC	Phase II
			Solid tumors	Phase I

Source: Company data

**Investment risks**

1. TIVO-1 could fail to hit its primary endpoint
2. Competitive products in development could appear similar or better than tivozanib
3. Deteriorating market conditions could complicate future financing needs

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**Figure 3: AVEO annual income statement (\$M except EPS)**

	2009A	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Product revenues												
tivozanib (U.S.)	0.0	0.0	0.0	0.0	27.4	110.7	264.2	385.4	440.1	444.5	471.4	476.2
tivozanib (ex-U.S.)	0.0	0.0	0.0	0.0	0.0	11.1	52.8	115.6	176.1	222.3	235.7	238.1
AV-299 (U.S.)	0.0	0.0	0.0	0.0	0.0	0.0	41.3	126.2	214.6	367.7	541.5	580.0
AV-299 (ex-U.S.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.3	21.5	55.2	135.4	145.0
<b>Total product revenues</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>27.4</b>	<b>121.8</b>	<b>358.3</b>	<b>633.5</b>	<b>852.3</b>	<b>1,089.7</b>	<b>1,384.1</b>	<b>1,439.2</b>
Collaboration revenues	20.7	43.6	18.3	20.1	22.1	24.3	26.7	29.4	32.3	35.5	39.1	43.0
<b>Total Revenues</b>	<b>20.7</b>	<b>43.6</b>	<b>18.3</b>	<b>20.1</b>	<b>49.5</b>	<b>146.1</b>	<b>385.0</b>	<b>662.9</b>	<b>884.6</b>	<b>1,125.2</b>	<b>1,423.2</b>	<b>1,482.2</b>
COGs	0.0	0.0	0.0	0.0	(5.5)	(24.4)	(67.5)	(128.5)	(165.3)	(195.7)	(230.3)	(236.8)
as % product sales					20%	20%	19%	20%	19%	18%	17%	16%
Research & Development	(51.8)	(93.2)	(83.9)	(92.3)	(101.5)	(111.7)	(122.8)	(131.4)	(140.6)	(150.5)	(161.0)	(172.3)
General & Administrative	(10.1)	(15.2)	(15.9)	(16.7)	(20.1)	(52.4)	(136.1)	(240.7)	(298.3)	(381.4)	(484.4)	(503.7)
<b>Total Operating Expenses</b>	<b>(61.9)</b>	<b>(108.4)</b>	<b>(99.8)</b>	<b>(109.0)</b>	<b>(127.1)</b>	<b>(188.4)</b>	<b>(326.5)</b>	<b>(500.7)</b>	<b>(604.3)</b>	<b>(727.5)</b>	<b>(875.8)</b>	<b>(912.8)</b>
Operating Income	(41.2)	(64.8)	(81.6)	(88.9)	(77.6)	(42.3)	58.5	162.3	280.3	397.7	547.4	569.4
Interest income	0.1	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.3	1.3	2.6
Interest expense	(2.8)	(2.8)	(2.0)	(1.6)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Other, net	(0.3)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-Tax Income</b>	<b>(44.2)</b>	<b>(67.2)</b>	<b>(83.4)</b>	<b>(90.5)</b>	<b>(78.4)</b>	<b>(43.1)</b>	<b>57.7</b>	<b>161.5</b>	<b>279.5</b>	<b>397.2</b>	<b>547.8</b>	<b>571.2</b>
Taxes (benefit)	(0.1)	0.0	0.0	0.0	0.0	0.0	21.9	61.4	106.2	150.9	208.2	217.1
tax rate	0%	0%	0%	0%	0%	0%	38%	38%	38%	38%	38%	38%
<b>Net Income</b>	<b>(44.1)</b>	<b>(67.2)</b>	<b>(83.4)</b>	<b>(90.5)</b>	<b>(78.4)</b>	<b>(43.1)</b>	<b>35.8</b>	<b>100.1</b>	<b>173.3</b>	<b>246.3</b>	<b>339.7</b>	<b>354.2</b>
EPS (basic)	(\$27.43)	(\$2.69)	(\$2.88)	(\$2.75)	(\$2.12)	(\$1.05)	\$0.80	\$2.05	\$3.28	\$4.33	\$5.58	\$5.46
EPS (diluted)	(\$27.43)	(\$2.69)	(\$2.88)	(\$2.75)	(\$2.12)	(\$1.05)	\$0.76	\$1.95	\$3.14	\$4.16	\$5.37	\$5.27
Basic Shares (MM)	1.6	25.0	29.0	33.0	36.9	40.9	44.9	48.9	52.9	56.9	60.9	64.9
Diluted Shares (MM)	1.6	25.0	29.0	33.0	36.9	40.9	47.2	51.2	55.2	59.2	63.2	67.2

Source: Company data and Canaccord Genuity estimates

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Figure 4: AVEO Quarterly income statement (\$M except EPS)

	Mar-09	Jun-09	2009A	Mar-10	Jun-10	Sep-10	Dec-10	2010E
	1Q09A	2Q09A	FY2009	1Q10A	2Q10A	3Q10E	4Q10E	FY2010
Collaboration revenues	3.7	5.1	20.7	10.9	15.6	8.3	8.8	43.6
<b>Total Revenues</b>	<b>3.7</b>	<b>5.1</b>	<b>20.7</b>	<b>10.9</b>	<b>15.6</b>	<b>8.3</b>	<b>8.8</b>	<b>43.6</b>
Research & Development	(9.7)	(12.1)	(51.8)	(22.6)	(26.0)	(21.9)	(22.7)	(93.2)
General & Administrative	(2.6)	(2.4)	(10.1)	(2.8)	(3.8)	(4.2)	(4.4)	(15.2)
<b>Total Operating Expenses</b>	<b>0.0</b>	<b>0.0</b>	<b>(61.9)</b>	<b>(25.4)</b>	<b>(29.8)</b>	<b>(26.1)</b>	<b>(27.1)</b>	<b>(108.4)</b>
Operating Income	<b>0.0</b>	<b>0.0</b>	(41.2)	(14.5)	(14.2)	(17.8)	(18.3)	(64.8)
Interest income	0.0	0.0	0.1	0.0	0.0	0.0	0.2	0.3
interest expense	(0.7)	(0.7)	(2.8)	(0.6)	(0.7)	(0.7)	(0.8)	(2.8)
Other Income, net	(0.1)	(0.2)	(0.3)	0.7	(0.6)	0.0	0.0	0.1
<b>Pre-tax income</b>	<b>(9.4)</b>	<b>(10.2)</b>	<b>(44.2)</b>	<b>(14.4)</b>	<b>(15.5)</b>	<b>(18.5)</b>	<b>(18.9)</b>	<b>(67.2)</b>
Tax benefit	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>(9.4)</b>	<b>(10.2)</b>	<b>(44.1)</b>	<b>(14.4)</b>	<b>(15.5)</b>	<b>(18.5)</b>	<b>(18.9)</b>	<b>(67.2)</b>
Basic shares	1.6	1.6	1.6	6.3	30.8	31.2	31.5	25.0
EPS	(\$5.93)	(\$6.41)	(\$27.43)	(\$2.27)	(\$0.50)	(\$0.59)	(\$0.60)	(\$2.69)

Source: Company data and Canaccord Genuity estimates

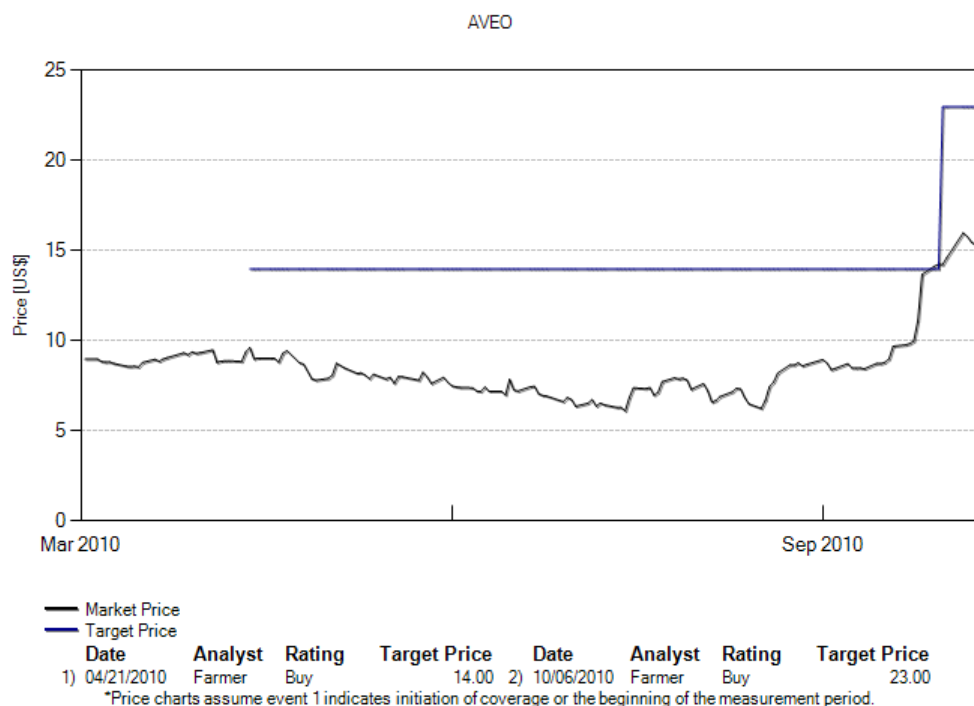
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(as of 5 October 2010)

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	711	100.0%		

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