

AVEO Pharmaceuticals

AVEO : NASDAQ : US\$7.57

BUY**Target: US\$14.00****George Farmer, Ph.D.**

1.212.849.3921

gfarmer@canaccordgenuity.com

COMPANY STATISTICS:

Market Cap (M): 233.2
 52-week Range: 6.01 - 9.91
 Avg. Daily Vol. (000s): 4.0

EARNINGS SUMMARY:

FYE Dec	2009A	2010E	2011E
Revenue (M):	20.7	43.6	25.2
EPS:	(27.43)	(2.69)	(2.64)

Revenue (M):	Q1	3.7	10.9A	-
	Q2	5.1	15.6A	-
	Q3	-	8.3	-
	Q4	-	8.8	-
Total		20.7	43.6	25.2
EPS:	Q1	(5.93)	(2.27)A	-
	Q2	(6.41)	(0.50)A	-
	Q3	-	(0.59)	-
	Q4	-	(0.60)	-
Total		(27.43)	(2.69)	(2.64)

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

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

Q2 UPDATE

TIVO-1 enrollment continues with data release expected in H2/11. Results from this registration trial – evaluating the company's lead product candidate, tivozanib, head-to-head against Nexavar for treatment of renal cell carcinoma (RCC) – could be sufficient to position tivozanib as a new front-line therapy of choice. As detailed before, this view is supported by a tolerability profile apparently much better than that of the market leader, Sutent, without comprising efficacy. AVEO owns worldwide rights (ex-Japan) to tivozanib.

AVEO's second product candidate, AV-299, an antibody against HGF, is under randomized Phase II evaluation in combination with Iressa for treatment of non-small cell lung cancer. This trial will enroll non-smokers of Asian descent where Iressa alone has demonstrated profound activity. We expect preliminary data in H2/11.

We maintain our BUY rating and \$14 target, based on our view that tivozanib could become a new standard of care in RCC and on the value of AVEO's novel drug development platform.

AVEO reported a net loss of \$(0.50) on \$15.6M of revenues, compared with our estimate of \$(0.07) on \$17.4M of revenues. R&D expenses related to a charge for clinical trial materials came in higher than anticipated. We revise our F2010 loss per share to \$(2.69) on \$43.6M in revenue from \$(1.74) on \$43.6M in revenue. We arrive at a cash balance of \$60M at year-end, which is consistent with management guidance of >\$50M.

Canaccord Genuity is the global capital markets group of Canaccord Financial Inc. (CF : TSX | CF. : AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's [Online Disclosure Database](#).

30 July 2010

Figure 1: 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
other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total product revenues	0.0	0.0	0.0	0.0	27.4	121.8	317.0	501.0	616.2	666.8	707.2	714.2
Collaboration revenues	20.7	43.6	25.2	27.7	30.5	33.5	36.9	40.6	44.6	49.1	54.0	59.4
Total Revenues	20.7	43.6	25.2	27.7	57.9	155.3	353.9	541.6	660.8	715.9	761.1	773.6
COGs	0.0	0.0	0.0	0.0	(5.5)	(24.4)	(63.4)	(115.2)	(141.7)	(153.4)	(162.6)	(164.3)
as % product sales					20%	20%	20%	23%	23%	23%	23%	23%
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)	(18.4)	(20.3)	(22.3)	(24.5)	(27.0)	(29.6)	(32.6)	(35.9)
Total Operating Expenses	(61.9)	(108.4)	(99.8)	(109.0)	(125.4)	(156.3)	(208.5)	(271.2)	(309.3)	(333.5)	(356.3)	(372.4)
Operating Income	(41.2)	(64.8)	(74.6)	(81.3)	(67.5)	(1.0)	145.4	270.4	351.5	382.4	404.8	401.1
operating margin	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest income	0.1	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.4	1.3	2.3	3.3
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
Pre-Tax Income	(44.2)	(67.2)	(76.4)	(82.9)	(68.3)	(1.8)	144.6	269.6	351.1	382.9	406.3	403.7
Taxes (benefit)	(0.1)	0.0	0.0	0.0	0.0	0.0	50.6	94.4	122.9	134.0	142.2	141.3
tax rate	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4	0.4	0.4
Net Income	(44.1)	(67.2)	(76.4)	(82.9)	(68.3)	(1.8)	94.0	175.2	228.2	248.9	264.1	262.4
EPS (basic)	(\$27.43)	(\$2.69)	(\$2.64)	(\$2.51)	(\$1.85)	(\$0.04)	\$2.09	\$3.58	\$4.31	\$4.37	\$4.34	\$4.04
EPS (diluted)	(\$27.43)	(\$2.69)	(\$2.64)	(\$2.51)	(\$1.85)	(\$0.04)	\$1.99	\$3.42	\$4.13	\$4.20	\$4.18	\$3.91
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

30 July 2010

Figure 2: 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
Total Revenues	3.7	5.1	20.7	10.9	15.6	8.3	8.8	43.6
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)
Total Operating Expenses	0.0	0.0	(61.9)	(25.4)	(29.8)	(26.1)	(27.1)	(108.4)
Operating Income	0.0	0.0	(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
Pre-tax income	(9.4)	(10.2)	(44.2)	(14.4)	(15.5)	(18.5)	(18.9)	(67.2)
Tax benefit	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Net Income	(9.4)	(10.2)	(44.1)	(14.4)	(15.5)	(18.5)	(18.9)	(67.2)
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

Valuation

Our \$14 price target based on a risk-adjusted DCF model.

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

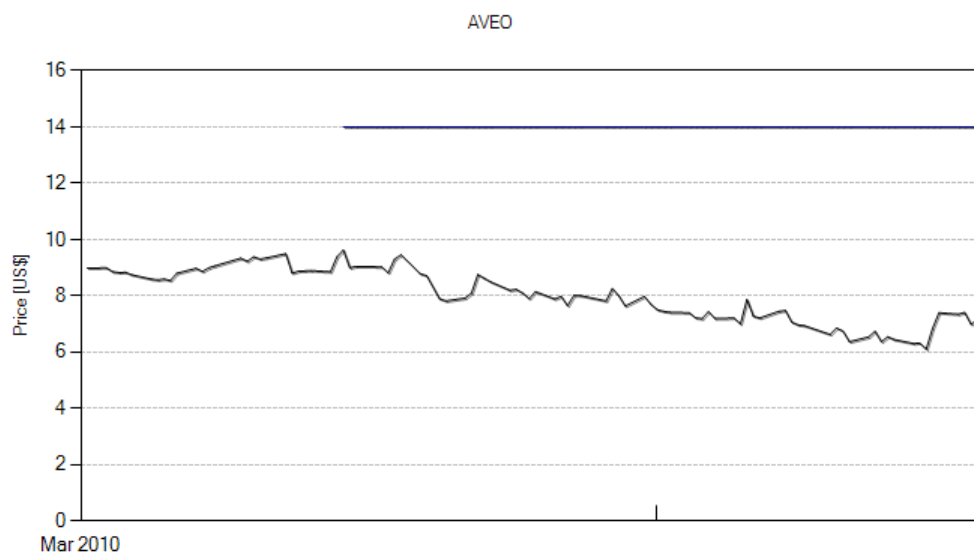
30 July 2010

APPENDIX: IMPORTANT DISCLOSURES**Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this investment research hereby certifies that (i) the recommendations and opinions expressed in this investment research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the investment research.

Site Visit:

An analyst has visited the issuer's material operations in Cambridge, Massachusetts. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:*

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 04/21/2010	Farmer	Buy	14.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 2 July 2010)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	424	61.0%	36.8%	
Speculative Buy	75	10.8%	62.7%	
Hold	184	26.5%	20.1%	
Sell	12	1.7%	0.0%	
	695	100.0%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Research Disclosures as of 30 July 2010

Company	Disclosure
AVEO Pharmaceuticals	1A, 2, 3, 5, 7
1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Genuity or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Genuity intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Genuity and its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Genuity is the business name used by certain subsidiaries of Canaccord Financial Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, and Canaccord Genuity Corp.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in Boston, New York, San Francisco and Houston or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London and Edinburgh (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Genuity and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Genuity Research, Attn:

Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or disclosures@canaccordgenuity.com.

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Genuity's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

For Canadian Residents: This Investment Research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular jurisdiction.

For United Kingdom Residents: This investment research is distributed in the United Kingdom, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Services Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom to retail clients, as defined under the rules of the Financial Services Authority.

For United States Residents: Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated

Investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analyst(s) preparing this report that are not employed by Canaccord Genuity Inc are resident outside the United States and are not associated persons or employees of any US regulated broker-dealer. Such analyst(s) may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

For European Residents: If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

Additional information is available on request.

Copyright © Canaccord Genuity Corp. 2010. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2010. – Member LSE, authorized and regulated by the Financial Services Authority.

Copyright © Canaccord Genuity Inc. 2010. – Member FINRA/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, and Canaccord Genuity Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

