

AVEO Pharmaceuticals

AVEO : NASDAQ : US\$6.60

BUY**Target: US\$14.00**

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COMPANY STATISTICS:

Market Cap (M): 203.4
 52-week Range: 6.01 - 9.91
 Avg. Daily Vol. (000s): 20.8

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

TIVOZANIB DEVELOPMENT TIMELINE ACCELERATES

Investment recommendation

We are aggressive buyers today following announcement that TIVO-1, AVEO's Phase III trial designed to support worldwide regulatory approval of tivozanib, has completed enrollment significantly ahead of schedule. Top-line data could be available mid-2011 rather than prior Street expectations of late 2011/early2012, in our view.

Highlights

Our BUY rating on AVEO primarily reflects our view of the high potential for tivozanib as the best-in-class small molecule targeted therapeutic for treatment of renal cell carcinoma (RCC). Prior Phase II results support at least equivalent efficacy to the market leader, Sutent, and a tolerability profile superior to that of all other agents on the market and in late-stage development, in our view. We believe completing enrollment of TIVO-1 significantly ahead of schedule positions this drug in front of Pfizer's axitinib, in particular, and signals high investigator satisfaction with tivozanib. Furthermore, with >\$50M cash on the balance sheet, as we model for year-end, AVEO should have plenty of runway to reach data read-out, the next major inflection point.

Valuation and risks

Our \$14 is based on a DCF model. While we currently model tivozanib sales beginning in 2013, we believe approval in 2012 is highly feasible. We caution that while tivozanib is highly active in RCC, this drug is being compared against an active comparator, Nexavar, in TIVO-1.

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12 August 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

Investment risks

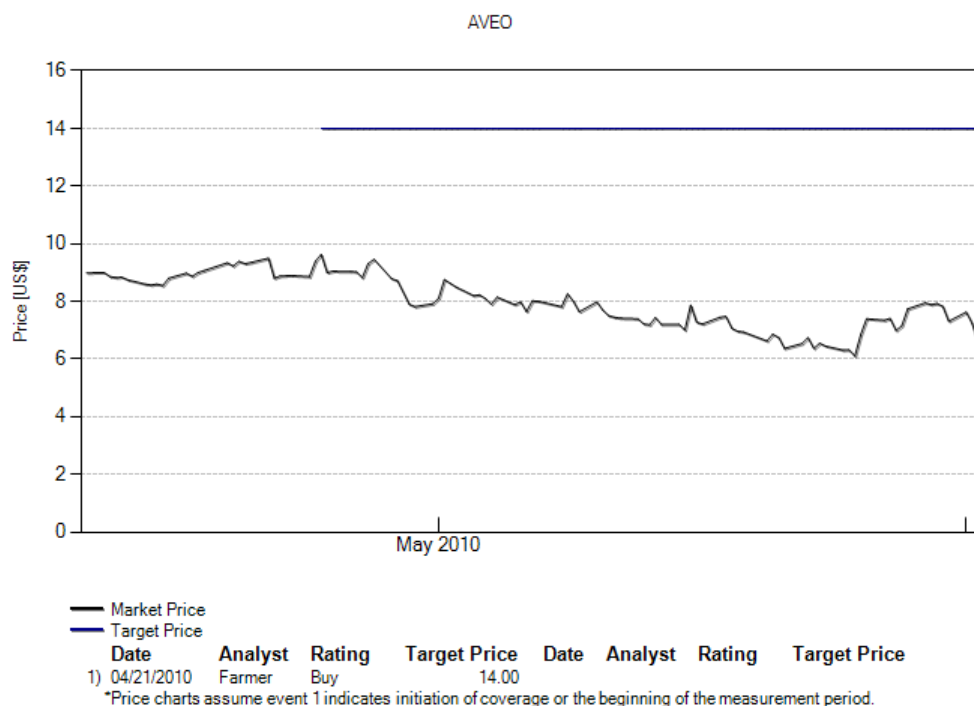
1. TIVO-1 could fail to hit its primary endpoint
2. Competitive products in development could appear similar or better than tivozanib
3. Deteriorating market conditions could complicate future financing needs

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Price Chart:***Distribution of Ratings:**

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(as of 3 August 2010)

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	#	%	#	%
Buy	412	60.1%	37	37.1%
Speculative Buy	77	11.2%	65	64.9%
Hold	187	27.3%	19	19.8%
Sell	10	1.5%	0	0.0%
	686	100.0%		

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

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