

AVEO Pharmaceuticals

AVEO : NASDAQ : US\$11.14

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

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COMPANY STATISTICS:

Market Cap (M): 343.4
 52-week Range: 6.01 - 11.23
 Avg. Daily Vol. (000s): 149.9

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

CONTINUED MOMENTUM EXPECTED INTO PHASE 3 READ-OUT

Investment recommendation: Regaining worldwide rights to AV-299 has minimal impact on our AVEO BUY thesis, which rests primarily on the potential of tivozanib for treatment of renal cell carcinoma (RCC). With what may have been regarded as an overhang lifted, we see continued momentum into Phase III read-out in mid-2011.

Investment highlights

- Per 8-K, portfolio prioritization appears to be motivating Merck's decision to return rights to AV-299, an anti-HGF antibody, which AVEO had originally licensed to Schering Plough. We believe Merck saw limited near-term market potential in a genetic subgroup of non-small cell lung cancer (NSCLC) where this agent may have the greatest potential. This particular subgroup comprises only 12-15% of the total NSCLC market, per thought-leader estimates.
- AV-299 undergoes evaluation in a randomized Phase II NSCLC trial with Iressa targeting 170 patients. With Merck committed to reimburse trial costs through December, management has indicated that existing cash should be sufficient to reach top-line data read-out of the TIVO-1 Phase III trial evaluating tivozanib in RCC. This view is consistent with our model. Based on earlier-than-expected enrollment completion last summer, we expect data mid-2011.
- AV-299 revenue estimates were never considered in our company valuation and represent pure upside if the Phase II trial is successful, in our view. Data is expected H2/11.

Valuation and risks. Our \$14 target is based on a DCF with contributing revenue estimates from tivozanib in RCC only. Risks include failure of TIVO-1 and potential competition in the RCC treatment landscape.

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1 October 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
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	18.3	20.1	22.1	24.3	26.7	29.4	32.3	35.5	39.1	43.0
Total Revenues	20.7	43.6	18.3	20.1	49.5	146.1	343.7	530.4	648.5	702.4	746.3	757.2
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)	(81.6)	(88.9)	(75.9)	(10.2)	135.2	259.2	339.2	368.9	390.0	384.8
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	0.2	1.1	2.0	3.1
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)	(83.4)	(90.5)	(76.7)	(11.0)	134.4	258.4	338.6	369.1	391.2	387.0
Taxes (benefit)	(0.1)	0.0	0.0	0.0	0.0	0.0	47.0	90.4	118.5	129.2	136.9	135.5
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)	(83.4)	(90.5)	(76.7)	(11.0)	87.4	168.0	220.1	239.9	254.3	251.6
EPS (basic)	(\$27.43)	(\$2.69)	(\$2.88)	(\$2.75)	(\$2.08)	(\$0.27)	\$1.94	\$3.43	\$4.16	\$4.22	\$4.18	\$3.88
EPS (diluted)	(\$27.43)	(\$2.69)	(\$2.88)	(\$2.75)	(\$2.08)	(\$0.27)	\$1.85	\$3.28	\$3.99	\$4.05	\$4.02	\$3.74
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

APPENDIX: IMPORTANT DISCLOSURES

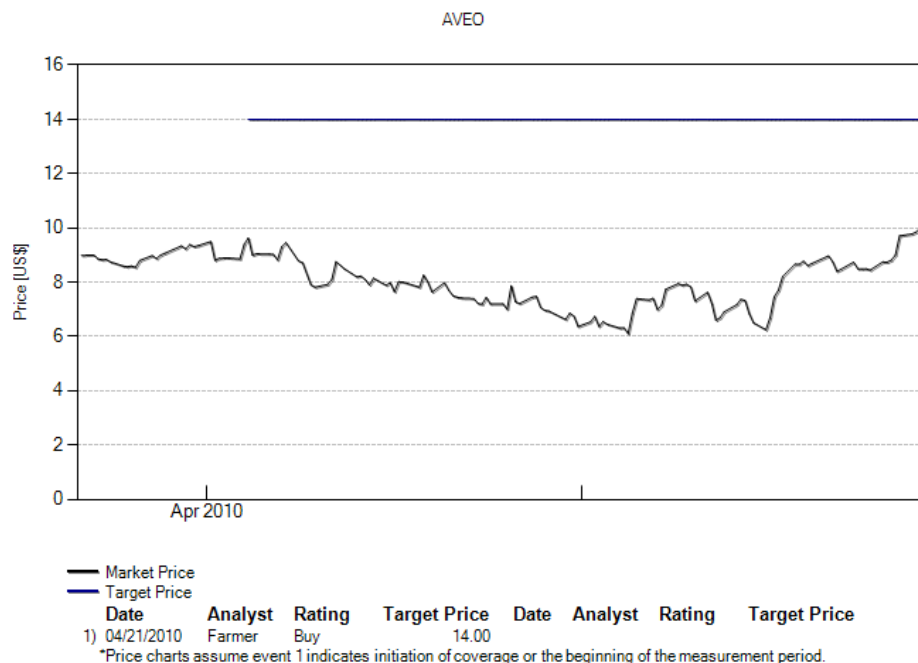
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Price Chart:*



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(as of 1 September 2010)

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	687	100.0%	

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Company	Disclosure
AVEO Pharmaceuticals	1A, 2, 3, 5, 7

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