Changes	Annual EPS	Annual Revenue	Rating/Target
	2011E ($2.48) from ($2.39) 2012E ($1.95) from ($2.33)	2011E $20.1M from $16.1M 2012E $41.7M from $17.7M	No change

AVEO Pharmaceuticals

AVEO : NASDAQ : US$13.88

BUY

Target: US$23.00

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COMPANY STATISTICS:

Market Cap (M):	470.7
52-week Range:	6.01 - 17.93
Avg. Daily Vol. (000s):	93.0

EARNINGS SUMMARY:

FYE Dec		2010E	2011E	2012E
Revenue (M):		44.7	20.1	41.7
EPS:		(2.30)	(2.48)	(1.95)
Revenue (M):	Q1	10.9A	5.0	-
	Q2	15.6A	5.0	-
	Q3	6.2A	5.0	-
	Q4	12.0	5.0	-
Total		44.7	20.1	41.7
EPS:	Q1	(2.27)A	(0.51)	-
	Q2	(0.50)A	(0.55)	-
	Q3	(0.60)A	(0.64)	-
	Q4	(0.30)	(0.78)	-
Total		(2.30)	(2.48)	(1.95)

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

RICH TIVO DEAL VALIDATES COMMERCIAL POTENTIAL

Investment recommendation. We are aggressive buyers of AVEO shares on the announcement of what we view as a highly attractive deal with Astellas centered on worldwide (ex-Asia) development of lead oncology drug candidate, tivozanib.

Investment highlights

- Astellas' attraction to tivozanib potential confirms our view that other VEGFR inhibitors, besides entrenched Sutent and Nexavar, have a place in treating both validated indications (e.g., renal cell carcinoma) and other solid tumor types. While knocking Sutent from front-line establishment remains an attractive possibility, we believe the relative tolerability and proven combinability of tivozanib – at full dose – for treatment of other larger market indications is probably what really grabbed Astellas' attention. Sutent, in particular, cannot be combined safely with other cancer therapies. Deal terms include a 50/50 U.S. profit split, tiered royalties on ex-U.S. sales, and share of development costs. In return, AVEO will receive $125M in cash upfront ($96M net of fees), $1.3B in potential milestones, and access to Astellas' commercial infrastructure.
- Management believes top-line TIVO-1 data could be available mid-year, which we regard as a major catalyst for the stock. With year-end cash guidance of at least $125M, we estimate sufficient cash into 2013 with runway extension on attainment of tivozanib regulatory milestones.

Valuation and risks

Our $23 target is based on a DCF. Risks include failure of clinical trials and regulatory setbacks.

Figure 1: AVEO investment synopsis

Key investment driver(s): • Potential of tivozanib in renal cell carcinoma (RCC). • Potential of AV-299 in non-small cell lung cancer (NSCLC).
Investment themes. We rate shares BUY based on: • Excellent Phase II data and rapid trial enrollment support high likelihood of success for Phase III TIVO-1 trial of tivozanib in RCC. • High tivozanib potency yields potential in other indications including metastatic breast cancer. • Potential for wholly-owned AV-299 validated by data from other c-met inhibitors.
CG differentiation from the Street: • Concerns about TIVO-1 design using Nexavar rather than standard-of-care Sutent as comparator can be discounted, as physician focus lies on absolute magnitude of responses. • Company valuation, considering holding of two wholly owned assets, is attractive relative to comparable peers.
Critical financial metrics. 2011 year-end cash of $127.9M, which we model as sufficient to fund operations through 2013. Updates to our model from Astellas deal will be communicated shortly.
Risks to BUY thesis: • Potential failure of tivozanib clinical trial • Competitive products in development could appear similar or better than tivozanib • Challenging market conditions could complicate future financing needs

Source: Canaccord Genuity

Figure 2: AVEO upcoming expected events

Drug (Target)	Indication	Details	Event Timeline (Estimated)			
			Q1/11	Q2/11	Q3/11	Q4/11
Phase III						
tivozanib (VEGFR)	Renal Cell Carcinoma, front-line	TIVO-1 trial; single-agent vs. Nexavar		Top-line data, mid-2011		
Phase II						
AV-299 (HGF)	Non-Small Cell Lung Cancer, front-line	combo +Iressa			Interim data, H2/11	
tivozanib (VEGFR)	Renal Cell Carcinoma	single-arm biomarker study	Initiated			
Phase I						
tivozanib (VEGFR)	Metastatic Breast Cancer	combo +paclitaxel	Ongoing			
tivozanib (VEGFR)	Colorectal Cancer	combo +FOLFOX6	Ongoing			

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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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	2)	10/06/2010	Farmer	Buy	23.00

*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 February 2011)

	Coverage Universe		IB Clients
Rating	#	%	%
Buy	437	57.7%	36.6%
Speculative Buy	65	8.6%	52.3%
Hold	236	31.1%	17.8%
Sell	20	2.6%	5.0%
	758	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 17 February 2011

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

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