

## RBC Capital Markets, LLC

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FY Dec	2010A	2011E	2012E	2013E
Revenue (MM)	44.7	48.7	94.8	169.9
Prev.	38.6	27.4	57.8	
Rpt EPS - Basic	(2.31)	(2.64)	(1.50)	(1.43)
Prev.	(2.73)		(2.03)	
P/Rpt EPS	NM	NM	NM	NM
Revenue (MM)	Q1	Q2	Q3	Q4
2010	10.9A	15.6A	6.2A	12.0A
Prev.				5.9E
2011	8.0E	12.9E	13.8E	14.1E
Prev.	3.7E	4.9E	4.9E	13.9E
Rpt EPS - Basic				
2010	(2.27)A	(0.50)A	(0.60)A	(0.30)A
Prev.				(0.62)E
2011	(1.06)E	(0.48)E	(0.54)E	(0.56)E
Prev.	(0.73)E	(0.80)E	(0.68)E	(0.47)E

All values in USD unless otherwise noted.

## COMPANY UPDATE | COMMENT

FEBRUARY 17, 2011

## AVEO Pharmaceuticals, Inc. (NASDAQ: AVEO) Tivozanib Deal with Astellas a Positive on Multiple Fronts

### Outperform Speculative Risk

Price:	13.88	Price Target:	24.00
Shares O/S (MM):	33.9	Implied All-In Return:	73%
Dividend:	0.00	Market Cap (MM):	471
Float (MM):	32.3	Yield:	0.0%

### Event

AVEO reported 2010 results and more importantly a profit-sharing deal for tivozanib with Astellas

### Investment Opinion

We view the Astellas deal favorably and believe the structure maximizes return to AVEO as: (i) AVEO retains 50% of profits in the US and Europe; (ii) AVEO leads commercialization in the US.; and (iii) resources are now available to start clinical trials for potential label expansion right away. A single global partner also ensures better coordinated development, which is important because a significant portion of tivozanib's value is tied to expansion indications, such as breast, colorectal, and lung cancer. We reiterate our Outperform rating and expect AVEO shares to reflect a lower risk rate and trade higher in advance of pivotal data in mid-2011.

- **Deal allows for immediate expansion of tivozanib development.** AVEO can initiate multiple trials prior to Phase III kidney cancer data being reported. We expect trials to begin in advance of the Phase III data readout in mid-2011.
- **\$125M upfront; additional \$1.3B in potential milestones.** In addition to the \$125M upfront (net is \$96M), AVEO could receive \$90M for US/EU regulatory filings and approvals in kidney cancer. The remaining milestones are \$475M for other clinical/regulatory events and \$780M for commercial achievements. We currently assume that the \$90M will be received in 2012 and 2013. AVEO is also eligible to receive tiered double-digit royalties on sales outside the US, EU, and Asia.
- **Astellas is a major player in targeted oncology.** With the recent acquisition of OSI, Astellas is now a major player in small molecule kinase inhibitors for cancer. This makes the deal with AVEO a good strategic fit for both companies. OSI is also a major technology partner with Aveo, creating a very close relationship between the two companies.
- **Tivozanib Phase III data around mid-2011.** The timing of expected Phase III results is unchanged at mid-2011 but AVEO could adjust it once it receives an update on events in Q2:11.
- **Changes to our model.** We have updated our model to reflect a 50-50 profit split in the US and the EU with AVEO booking US sales. The net effect is an increase in total revenues and expenses for 2011-2017 and a decrease in EPS.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 6.

## Details

**Q4:10 results and 2011 guidance.** For Q4:10, revenues were higher and expenses lower than forecast, driving a better than expected EPS of (\$0.30). The key metric for AVEO at this stage is the cash and investment balance, and AVEO ended 2010 with approximately \$140M. The pro forma balance for Q1:11 is approximately \$236M given the upfront payment made by Astellas for tivozanib. AVEO expects to end 2011 with at least \$125M in cash and equivalents, sufficient to fund the company's operations through 2012. Our forecast is a YE:11 cash and equivalents balance of \$159M.

### Q4:10 - RBC vs. Actuals

(\$ in MM; except per share)	Act.	Est.	Var.
<b>Total Revenues</b>	12.0	5.9	6.0
COGS			
Research and Development Expenses	17.5	22.0	(4.5)
Sales, General and Administrative Expenses	4.6	4.0	0.6
<b>Total Costs and Expenses</b>	22.0	26.0	(4.0)
<b>Operating Income (Loss)</b>	(10.1)	(20.1)	10.0
Other income (expense), net	0.8	0.0	0.8
Interest income	0.0	0.1	(0.1)
Other Income/(Expense), Net	(0.2)	(1.0)	0.8
Income (Loss) before Tax	(10.3)	(21.1)	10.8
Provision for Income Tax			0.0
<b>Net Income (Loss) - GAAP</b>	<b>(10.3)</b>	<b>(21.1)</b>	<b>10.8</b>
<b>EPS, Basic (GAAP)</b>	<b>(\$0.30)</b>	<b>(\$0.62)</b>	<b>\$0.32</b>
<b>EPS, Diluted (GAAP)</b>	<b>(\$0.28)</b>	<b>(\$0.58)</b>	<b>\$0.30</b>
<b>EPS, Diluted (Fully-Taxed, GAAP)</b>			
Shares Outstanding, Basic	33.9	34.0	(0.1)
Shares Outstanding, Diluted	36.3	36.3	(0.1)

Source: Company reports and RBC Capital Markets estimates.

## Changes to Our Estimates (2011-2013)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E
<b>Total Revenues</b>							
Current	48.7	94.8	169.9	190.9	308.3	481.2	622.4
Previous	27.4	57.8	130.1	200.0	278.2	415.7	552.3
<b>Total Operating Expenses</b>							
Current	132.3	143.5	227.2	243.9	287.9	352.2	408.6
Previous	120.8	143.5	223.2	212.6	227.5	253.1	277.5
<b>Net Income (GAAP)</b>							
Current	(94.2)	(61.4)	(66.8)	(54.7)	18.8	127.4	206.9
Previous	(103.9)	(98.4)	(102.5)	(14.2)	49.0	161.0	266.3
<b>EPS, Basic (GAAP)</b>							
Current	(\$2.64)	(\$1.50)	(\$1.43)	(\$1.16)	\$0.39	\$2.65	\$4.27
Previous	(\$2.64)	(\$2.03)	(\$1.89)	(\$0.26)	\$0.89	\$2.88	\$4.72
<b>EPS, Diluted (GAAP)</b>							
Current	(\$2.48)	(\$1.42)	(\$1.38)	(\$1.12)	\$0.38	\$2.55	\$4.11
Previous	(\$2.49)	(\$1.93)	(\$1.83)	(\$0.25)	\$0.86	\$2.79	\$4.56
<b>Shares Out. Basic</b>							
Current	35.6	41.0	46.6	47.0	47.5	48.0	48.5
Previous	39.4	48.5	54.2	54.8	55.3	55.9	56.5
<b>Shares Out. Diluted</b>							
Current	38.0	43.3	48.5	48.9	49.4	49.9	50.4
Previous	41.7	50.9	56.1	56.7	57.2	57.8	58.3

Source: RBC Capital Markets estimates.

## Forecast News Flow

Timing	Expected News Flow	Program
Q2:11	Update on TIVO-1 event rate and data timing	Tivozanib
H1:11	Initiate breast and colorectal cancer trials	Tivozanib
Mid-2011	Phase III data for tivozanib in RCC	Tivozanib
Late-11/early-12	Initiate clinical trials	AV-203
Early 2012	Phase II data in NSCLC (combo with Iressa)	AV-299
Q1:12	File NDA	Tivozanib

Source: Company reports and RBC Capital Markets estimates.

### Products And Pipeline

Product	Indication	Trial(s)	Status	Partner
<b>Tivozanib</b>	Renal cell cancer	TIVO-1 (monotherapy)	Phase III	Astellas
	Renal cell cancer	Combination with Torisel	Phase I	
	Colorectal Cancer	Combo with FOLFOX , Afinitor	Phase I	
	Breast Cancer	Combo with Taxol	Phase I	
	Breast Cancer	Combo with Xeloda	Phase I	
	Lung cancer	Monotherapy	Phase I	
<b>Ficlatuzumab (AV-299)</b>	Non-small cell lung cancer	Combo with Iressa	Phase II	Proprietary
	Solid tumors, and multiple myeloma	Monotherapy	Phase I	
<b>AV-203</b>	Solid tumors	n/a	Preclinical	Biogen

Source: Company reports and RBC Capital Markets.

### Valuation

Our probability adjusted sum-of-the parts analysis of \$24/share includes tivozanib for renal cell (\$13/share), two pipeline opportunities for tivozanib in breast cancer, and AV-299 for non-small cell lung cancer (\$10/share), and a net positive for its cash, debt, and forecast four-year burn (\$1/share). A company DCF and P/E multiple analysis come to similar valuations.

### Price Target Impediment

Our price target is dependent primarily on the clinical, regulatory, and commercial success of tivozanib in renal cell carcinoma. We expect Phase III results for tivozanib in mid-2011 to show superiority to Nexavar (the direct comparator) and similar or better results compared to the market leader, Pfizer's Sutent. Any clinical, regulatory, or commercial setbacks could negatively impact our valuation. Upside could come from better than anticipated market penetration, partnerships for the pipeline, and clinical success of programs not directly included in our valuation.

### Company Description

AVEO Pharmaceuticals is an oncology-focused company developing both small molecules and antibodies against key targets in important signaling pathways. Its most advanced program, tivozanib, is a small molecule VEGF inhibitor in Phase III for kidney cancer. The trial is a head-to-head trial against Nexavar. Better selectivity and potency and robust Phase II results suggest likely superiority of tivozanib. Its most advanced antibody program is AV-299, an anti-HGF antibody, in Phase II development for non-small cell lung cancer. Both the Phase III for tivozanib and the Phase II for AV-299 are randomized trials with data expected in mid-2011 and late-2011, respectively.

## AVEO Pharmaceuticals

## Annual and Quarterly Income Statement

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(\$ in MM; except per share)	2008A	2009A	Q1:10A	Q2:10A	Q3:10A	Q4:10A	2010A	Q1:11E	Q2:11E	Q3:11E	Q4:11E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Tivozanib																		
U.S. Sales - RCC														54.4	117.0	183.4	255.4	300.2
Second indications																	25.0	70.0
EU - RCC and other profit split														6.0	21.4	41.0	65.4	85.3
AV-299																	40.0	80.0
Total Product Revenues														60.4	138.5	224.4	385.8	535.5
Reimbursement from Astellas								3.0	6.6	7.5	7.8	24.9	29.7	34.5	36.0	37.5	39.0	40.5
Collaboration revenue	19.7	20.7	10.9	15.6	6.2	12.0	44.7	5.0	6.3	6.3	6.3	23.8	65.1	75.1	16.4	46.4	56.4	46.4
Total Revenues	19.7	20.7	10.9	15.6	6.2	12.0	44.7	8.0	12.9	13.8	14.1	48.7	94.8	169.9	190.9	308.3	481.2	622.4
COGS														8.2	17.6	27.5	48.1	67.5
Research and Development Expenses	41.8	51.8	22.6	26.0	20.3	17.5	86.3	40.0	22.0	25.0	26.0	113.0	112.5	140.0	120.0	125.0	130.0	135.0
Sales, General and Administrative Expenses	9.2	10.1	2.8	3.8	3.6	4.6	14.8	4.5	4.8	5.0	5.0	19.3	31.0	75.0	80.0	85.0	90.0	95.0
Co-promotion profit split on US sales														4.1	26.3	50.4	84.1	111.1
Total Costs and Expenses	51.0	61.9	25.4	29.8	23.9	22.0	101.1	44.5	26.8	30.0	31.0	132.3	143.5	227.2	243.9	287.9	352.2	408.6
Operating Income (Loss)	(31.3)	(41.2)	(14.5)	(14.2)	(17.6)	(10.1)	(56.4)	(36.5)	(13.9)	(16.2)	(16.9)	(83.6)	(48.7)	(57.3)	(53.0)	20.4	129.0	213.8
Other income (expense), net	(0.2)	(0.3)	0.7	(0.6)	0.0	0.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Interest income	1.2	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Other Income/(Expense), Net	(1.1)	(3.0)	0.1	(1.3)	(1.0)	(0.2)	(2.4)	(1.0)	(3.2)	(3.2)	(3.2)	(10.5)	(12.7)	(9.5)	(1.7)	(1.7)	(1.7)	(1.7)
Income (Loss) before Tax	(32.5)	(44.2)	(14.4)	(15.5)	(18.6)	(10.3)	(58.8)	(37.5)	(17.1)	(19.4)	(20.1)	(94.2)	(61.4)	(66.8)	(54.7)	18.8	127.4	212.2
Provision for Income Tax																		5.3
Net Income (Loss) - GAAP	(32.5)	(44.1)	(14.4)	(15.5)	(18.6)	(10.3)	(58.8)	(37.5)	(17.1)	(19.4)	(20.1)	(94.2)	(61.4)	(66.8)	(54.7)	18.8	127.4	206.9
EPS, Diluted*	(\$21.07)	(\$27.44)	(\$2.27)	(\$0.50)	(\$0.60)	(\$0.30)	(\$2.31)	(\$1.06)	(\$0.48)	(\$0.54)	(\$0.56)	(\$2.64)	(\$1.50)	(\$1.43)	(\$1.16)	\$0.38	\$2.55	\$4.11
EPS, Diluted (Fully-Taxed, GAAP)																\$0.25	\$1.69	\$2.71
Shares Outstanding, Basic	1.5	1.6	6.3	30.8	30.9	33.9	25.5	35.5	35.6	35.6	35.7	35.6	41.0	46.6	47.0	47.5	48.0	48.5
Shares Outstanding, Diluted	1.5	3.2	7.9	33.1	33.6	36.3	27.8	37.8	37.9	38.0	38.1	38.0	43.3	48.5	48.9	49.4	49.9	50.4
Tivozanib RCC summary														2013E	2014E	2015E	2016E	2017E
US sales														54.4	117.0	183.4	255.4	300.2
EU sales														34.2	95.2	149.2	207.9	244.3
Total sales														88.6	212.3	332.6	463.3	544.5

\*Basic shares used to calculate diluted EPS when earnings are negative.

Source: Company reports and RBC Capital Markets estimates.

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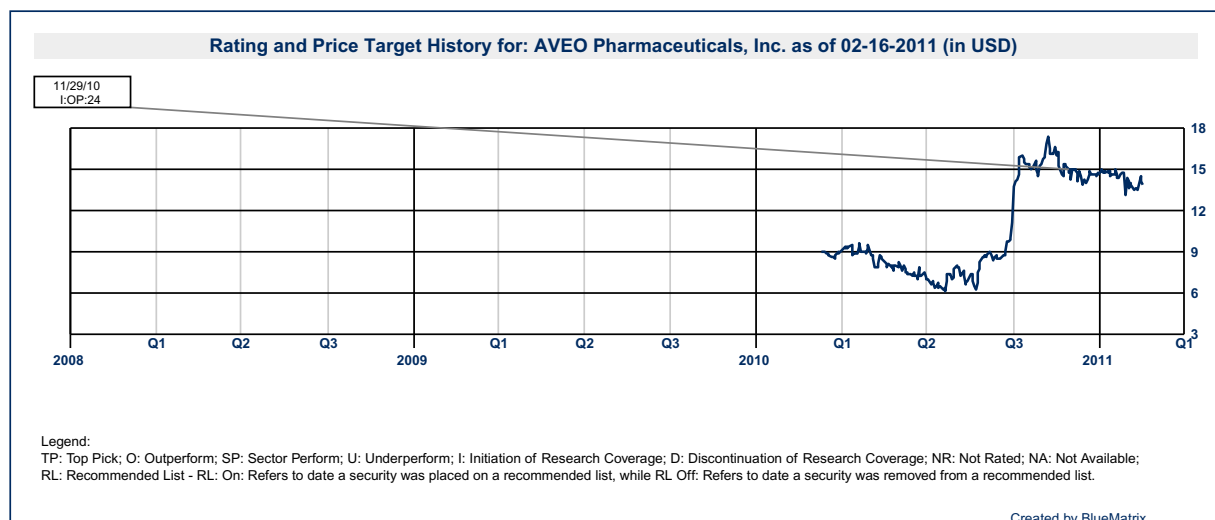
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