

## AVEO Pharmaceuticals

AVEO : NASDAQ : US\$8.60

BUY

Target: US\$14.00

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## COMPANY STATISTICS:

Shares Out (M): 30.0  
 Market Cap (M): US\$258.0  
 52-week Range: 8.16 - 9.91  
 Avg. Daily Vol. (000s): 28.0

## EARNINGS SUMMARY:

FYE Dec	2009A	2010E	2011E
Revenue (M):	20.7	43.6	25.2
EPS:	(27.43)	(1.74)	(1.90)

Revenue (M):	Q1	3.7	10.9A	-
	Q2	-	17.4	-
	Q3	-	6.5	-
	Q4	-	8.7	-
Total		20.7	43.6	25.2
EPS:	Q1	(5.93)	(2.27)A	-
	Q2	-	(0.07)	-
	Q3	-	(0.45)	-
	Q4	-	(0.40)	-
Total		(27.43)	(1.74)	(1.90)

## 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

## REPORTS Q1/10 RESULTS

We increase our 2010 and 2011 LPS estimates to (\$1.74) and (\$1.90) from (\$1.44) and (\$1.42), respectively, following AVEO's Q1/10 report and guidance. These changes reflect higher expenses than we had previously modeled. Based on current burn, we estimate AVEO will end 2010 with \$53M in cash and cash equivalents, which should be sufficient to run operations through 2011.

The company's Phase III registration trial, TIVO-1, evaluating tivozanib vs. sorafenib in front-line renal cell carcinoma remains on track for completion in 2011. We expect data read-out late 2011 or early 2012. Meaningful updates around other pipeline products, AV-299 and AV-203, could come in H2/10 or early 2011.

We maintain our BUY rating and our \$14 price target based on a risk-adjusted DCF model.

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**Figure 1: AVEO expected upcoming events**

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Event	Expected timing
Follow-up data from clinical pipeline programs	2H/10
Completion of TIVO-1 enrollment	2011
TIVO-1 results	2012

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Source: Company reports and Canaccord Adams

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**Investment risks**

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

5 May 2010

Figure 2: 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
<b>Total product revenues</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>27.4</b>	<b>121.8</b>	<b>317.0</b>	<b>501.0</b>	<b>616.2</b>	<b>666.8</b>	<b>707.2</b>	<b>714.2</b>
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
<b>Total Revenues</b>	<b>20.7</b>	<b>43.6</b>	<b>25.2</b>	<b>27.7</b>	<b>57.9</b>	<b>155.3</b>	<b>353.9</b>	<b>541.6</b>	<b>660.8</b>	<b>715.9</b>	<b>761.1</b>	<b>773.6</b>
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)	(72.5)	(65.3)	(71.8)	(79.0)	(86.9)	(95.5)	(102.2)	(109.4)	(117.0)	(125.2)	(134.0)
General & Administrative	(10.1)	(11.7)	(12.3)	(12.9)	(14.2)	(15.7)	(17.2)	(18.9)	(20.8)	(22.9)	(25.2)	(27.7)
<b>Total Operating Expenses</b>	<b>(61.9)</b>	<b>(84.2)</b>	<b>(77.6)</b>	<b>(84.7)</b>	<b>(98.7)</b>	<b>(126.9)</b>	<b>(176.2)</b>	<b>(236.4)</b>	<b>(272.0)</b>	<b>(293.3)</b>	<b>(313.1)</b>	<b>(326.0)</b>
Operating Income	(41.2)	(40.7)	(52.4)	(57.0)	(40.8)	28.4	177.7	305.2	388.9	422.5	448.0	447.6
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	0.1	0.9	1.9	3.0	4.2
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)	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-Tax Income</b>	<b>(44.2)</b>	<b>(42.5)</b>	<b>(54.2)</b>	<b>(58.6)</b>	<b>(41.6)</b>	<b>27.6</b>	<b>176.9</b>	<b>304.5</b>	<b>389.0</b>	<b>423.7</b>	<b>450.3</b>	<b>451.0</b>
Taxes (benefit)	(0.1)	0.0	0.0	0.0	0.0	0.0	61.9	106.6	136.1	148.3	157.6	157.8
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
<b>Net Income</b>	<b>(44.1)</b>	<b>(42.5)</b>	<b>(54.2)</b>	<b>(58.6)</b>	<b>(41.6)</b>	<b>27.6</b>	<b>115.0</b>	<b>197.9</b>	<b>252.8</b>	<b>275.4</b>	<b>292.7</b>	<b>293.1</b>
EPS (basic)	(\$27.43)	(\$1.74)	(\$1.90)	(\$1.81)	(\$1.14)	\$0.68	\$2.59	\$4.09	\$4.82	\$4.88	\$4.85	\$4.55
EPS (diluted)	(\$27.43)	(\$1.74)	(\$1.90)	(\$1.81)	(\$1.14)	\$0.65	\$2.46	\$3.90	\$4.62	\$4.69	\$4.67	\$4.40
Basic Shares (MM)	1.6	24.5	28.5	32.5	36.4	40.4	44.4	48.4	52.4	56.4	60.4	64.4
Diluted Shares (MM)	1.6	24.5	28.5	32.5	36.4	42.7	46.7	50.7	54.7	58.7	62.7	66.7

Source: Company data and Canaccord Adams estimates

5 May 2010

Figure 3: AVEO quarterly income statement (\$M except EPS)

	Mar-09 1Q09A	2009A FY2009	Mar-10 1Q10A	Jun-10 2Q10E	Sep-10 3Q10E	Dec-10 4Q10E	2010E FY2010
Collaboration revenues	3.7	20.7	10.9	17.4	6.5	8.7	43.6
<b>Total Revenues</b>	3.7	<b>20.7</b>	<b>10.9</b>	<b>17.4</b>	<b>6.5</b>	<b>8.7</b>	<b>43.6</b>
Research & Development	(9.7)	(51.8)	(22.6)	(16.0)	(16.7)	(17.3)	(72.5)
General & Administrative	(2.6)	(10.1)	(2.8)	(2.9)	(3.0)	(3.1)	(11.7)
<b>Total Operating Expenses</b>	0.0	<b>(61.9)</b>	<b>(25.4)</b>	<b>(18.8)</b>	<b>(19.6)</b>	<b>(20.4)</b>	<b>(84.2)</b>
Operating Income	<b>0.0</b>	(41.2)	(14.5)	(1.4)	(13.1)	(11.7)	(40.7)
Interest income	0.0	0.1	0.0	0.1	0.0	0.1	0.3
interest expense	(0.7)	(2.8)	(0.6)	(0.7)	(0.7)	(0.8)	(2.8)
Other Income, net	(0.1)	(0.3)	0.7	0.0	0.0	0.0	0.7
<b>Pre-tax income</b>	(9.4)	<b>(44.2)</b>	<b>(14.4)</b>	<b>(2.0)</b>	<b>(13.8)</b>	<b>(12.3)</b>	<b>(42.5)</b>
Tax benefit	0.0	0.1	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	(9.4)	<b>(44.1)</b>	<b>(14.4)</b>	<b>(2.0)</b>	<b>(13.8)</b>	<b>(12.3)</b>	<b>(42.5)</b>
Basic shares	1.6	1.6	6.3	30.0	30.5	31.0	24.5
EPS	(\$5.93)	(\$27.43)	(\$2.27)	(\$0.07)	(\$0.45)	(\$0.40)	(\$1.74)

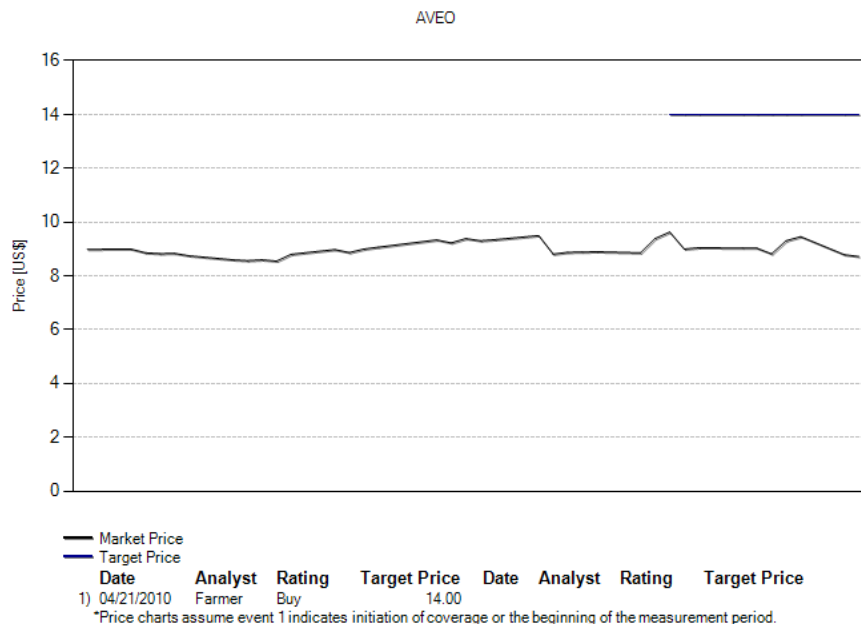
Source: Company data and Canaccord Adams estimates

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(as of 3 May 2010)

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Sell	22	3.3%	0	0.0%
	660	100.0%		

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