

Changes	Annual EPS	Annual Revenue	Rating/Target
	2011E (\$2.56) from (\$2.48)	2011E \$20.1M (No change)	No change
	2012E (\$2.01) from (\$1.95)	2012E \$41.7M (No change)	

## AVEO Pharmaceuticals

AVEO : NASDAQ : US\$14.16

**BUY**

**Target: US\$23.00**

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### COMPANY STATISTICS:

Market Cap (M): 480.2  
 52-week Range: 6.01 - 17.93  
 Avg. Daily Vol. (000s): 107.5

### EARNINGS SUMMARY:

FYE Dec	2010A	2011E	2012E
Revenue (M):	44.7	20.1	41.7
EPS:	(2.30)	(2.56)	(2.01)

<b>Revenue (M):</b>	Q1	10.9	4.8	-
	Q2	15.6	5.2	-
	Q3	6.2	4.8	-
	Q4	12.0	5.2	-
<b>Total</b>		44.7	20.1	41.7
<b>EPS:</b>	Q1	(2.27)	(0.53)	-
	Q2	(0.50)	(0.56)	-
	Q3	(0.60)	(0.66)	-
	Q4	(0.30)	(0.79)	-
<b>Total</b>		(2.30)	(2.56)	(2.01)

### 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

## MODEL UPDATES FOLLOWING TIVO DEAL

### Investment recommendation

We maintain our BUY rating on AVEO shares ahead of 1) expected top-line data read-out from TIVO-1 evaluating lead product tivozanib in RCC and 2) following completion of what we see as a transformative global development deal with Astellas Pharma.

### Investment highlights

- Following a recently announced global corporate partnership around tivozanib development with Astellas, model revisions are included herein. Assumptions include: 1) 50/50 profit split on tivozanib sales in NA and EU, 2) future royalties to AVEO on ROW sales (ex-Asia), 3) future milestone payments from Astellas and 4) tivozanib sales in RCC only. Upside to our estimates include tivozanib potential in expanded indications including metastatic breast and colorectal cancers not reflected in our model at this time.
- We continue to expect top-line data from TIVO-1 evaluating tivozanib vs. Nexavar for front-line treatment of clear cell RCC. We estimate a 70% chance that tivozanib will outperform Nexavar and exhibit combined efficacy and tolerability profiles better than those of market leader Sutent. Moreover, recent Phase Ib trial results indicate that tivozanib can be safely combined with typical chemotherapeutic regimens at full doses, thus significantly distinguishing this drug from other members of its class.

### Valuation and risks:

Our \$23 target is based on a DCF assuming exit by acquisition. Risks include clinical trial failures and changes in competitive landscapes.

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**Figure 1: AVEO investment synopsis**

<b>Key investment driver(s):</b> <ul style="list-style-type: none"> <li>• Potential of tivozanib in renal cell carcinoma (RCC).</li> <li>• Potential of AV-299 in non-small cell lung cancer (NSCLC).</li> </ul>
<b>Investment themes.</b> We rate shares BUY based on: <ul style="list-style-type: none"> <li>• Excellent Phase II data and rapid trial enrollment support high likelihood of success for Phase III TIVO-1 trial of tivozanib in RCC.</li> <li>• High tivozanib potency yields potential in other indications including metastatic breast cancer.</li> <li>• Potential for wholly-owned AV-299 validated by data from other c-met inhibitors.</li> </ul>
<b>CG differentiation from the Street:</b> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Company valuation, considering holding of two wholly owned assets, is attractive relative to comparable peers.</li> </ul>
<b>Critical financial metrics.</b> 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.
<b>Risks to BUY thesis:</b> <ul style="list-style-type: none"> <li>• Potential failure of tivozanib clinical trial</li> <li>• Competitive products in development could appear similar or better than tivozanib</li> <li>• Challenging market conditions could complicate future financing needs</li> </ul>

Source: Canaccord Genuity

**Figure 2: AVEO upcoming events**

Event	Timing
Top-line data from TIVO-1 evaluating tivozanib in RCC	Mid-2011E
Full TIVO-1 data presentation	Q3/11E
Top-line data from a randomized Phase II trial evaluating AV-299/Iressa vs. Iressa alone in non-small cell lung cancer	H1/12E

Source: Company data and Canaccord Genuity

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**Figure 3: Tivozanib sales estimates in RCC, ex-Asia**

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
# eligible Stage IV patients (N.A.)	12,853	12,982	13,112	13,243	13,375	13,509	13,644	13,780	13,918	14,057
% treated	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
% treated with TKI's	97%	97%	97%	97%	97%	97%	97%	97%	97%	97%
share tivozanib			5%	20%	45%	65%	70%	70%	70%	70%
share Nexavar	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%
share Sutent	80%	80%	75%	60%	35%	15%	10%	10%	10%	10%
share Votrient	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
# patients treated with tivozanib			509	2,055	4,671	6,814	7,411	7,486	7,560	7,636
average duration of therapy (months)			12	12	12	12	12	12	12	12
patient months per year			6,105	24,663	56,047	81,767	88,937	89,826	90,725	91,632
cost per month			\$5,000	\$5,000	\$5,250	\$5,513	\$5,788	\$6,078	\$6,381	\$6,700
sales (U.S.) (\$M)			30.5	123.3	294.2	450.7	514.8	545.9	579.0	614.0
share to AVEO			50%	50%	50%	50%	50%	50%	50%	50%
share to AVEO (\$M)			15.3	61.7	147.1	225.4	257.4	273.0	289.5	307.0
EU sales as % U.S.				10%	20%	30%	40%	50%	60%	65%
EU sales (\$M)				12.3	58.8	135.2	205.9	273.0	347.4	399.1
<b>TOTAL NA and EU sales (\$M)</b>			<b>30.5</b>	<b>135.6</b>	<b>353.1</b>	<b>586.0</b>	<b>720.7</b>	<b>818.9</b>	<b>926.3</b>	<b>1,013.1</b>
ROW ex-NA, ex-EU, ex-Asia sales					10.0	20.0	30.0	33.0	36.3	39.9
royalty rate to AVEO					15%	15%	15%	15%	15%	15%
ROW royalties					1.5	3.0	4.5	5.0	5.4	6.0

Source: 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. Other pipeline products could suffer development setbacks

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**Figure 4: AVEO annual income statement (\$M except EPS)**

	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Product revenues											
tivozanib (N.A)	0.0	0.0	0.0	29.9	120.8	288.2	441.4	504.2	534.7	567.0	601.3
AV-299 (U.S.)	0.0	0.0	0.0	0.0	0.0	41.3	126.2	214.6	367.7	541.5	580.0
AV-299 (ROW)	0.0	0.0	0.0	0.0	0.0	0.0	6.3	21.5	55.2	108.3	145.0
<b>Total product revenues</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>29.9</b>	<b>120.8</b>	<b>329.4</b>	<b>574.0</b>	<b>740.2</b>	<b>957.6</b>	<b>1,216.8</b>	<b>1,326.3</b>
tivozanib ex-NA profit share	0.0	0.0	0.0	0.0	2.2	12.1	25.8	42.3	56.1	71.4	82.1
tivozanib royalty income	0.0	0.0	0.0	0.0	0.0	1.5	3.0	4.5	5.0	5.4	6.0
Collaboration revenues	44.7	20.1	41.7	58.4	60.4	77.5	79.8	132.4	135.3	138.4	141.8
<b>Total Revenues</b>	<b>44.7</b>	<b>20.1</b>	<b>41.7</b>	<b>88.3</b>	<b>183.4</b>	<b>420.5</b>	<b>682.7</b>	<b>919.5</b>	<b>1,153.9</b>	<b>1,432.1</b>	<b>1,556.2</b>
COGs	0.0	0.0	0.0	(6.0)	(24.2)	(60.9)	(112.1)	(134.8)	(156.8)	(182.4)	(196.3)
as % product sales				20%	20%	18%	20%	18%	16%	15%	15%
Research & Development	(86.3)	(91.5)	(100.7)	(110.7)	(117.4)	(124.4)	(131.9)	(139.8)	(148.2)	(154.1)	(160.3)
General & Administrative	(14.8)	(17.0)	(17.8)	(32.2)	(51.9)	(123.9)	(214.1)	(259.1)	(335.1)	(425.9)	(464.2)
as % product sales					43%	38%	37%	35%	35%	35%	35%
tivozanib N.A. profit share reimb.	0.0	0.0	0.0	(5.2)	(22.3)	(60.5)	(86.1)	(105.9)	(112.3)	(119.1)	(126.3)
<b>Total Operating Expenses</b>	<b>(101.1)</b>	<b>(108.5)</b>	<b>(118.5)</b>	<b>(154.1)</b>	<b>(215.8)</b>	<b>(369.8)</b>	<b>(544.3)</b>	<b>(639.6)</b>	<b>(752.4)</b>	<b>(881.5)</b>	<b>(947.1)</b>
<b>Operating Income</b>	<b>(56.4)</b>	<b>(88.4)</b>	<b>(76.8)</b>	<b>(65.8)</b>	<b>(32.4)</b>	<b>50.7</b>	<b>138.4</b>	<b>279.9</b>	<b>401.5</b>	<b>550.6</b>	<b>609.1</b>
operating margin						12%	20%	30%	35%	38%	39%
Interest income	0.8	0.7	0.7	0.5	0.2	0.0	0.2	0.6	1.5	2.8	4.6
Interest expense	(3.4)	(4.0)	(4.0)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Other, net	0.2	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>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>17.5</b>	<b>48.2</b>	<b>97.9</b>	<b>140.8</b>	<b>193.4</b>	<b>214.5</b>
Taxes (benefit)	0.0	0.0	0.0	0.0	0.0	17.5	48.2	97.9	140.8	193.4	214.5
tax rate	0%	0%	0%	0%	0%	35%	35%	35%	35%	35%	35%
<b>Net Income</b>	<b>(58.8)</b>	<b>(91.7)</b>	<b>(80.2)</b>	<b>(66.1)</b>	<b>(33.1)</b>	<b>32.4</b>	<b>89.5</b>	<b>181.8</b>	<b>261.4</b>	<b>359.2</b>	<b>398.4</b>
EPS (basic)	(\$2.30)	(\$2.56)	(\$2.01)	(\$1.51)	(\$0.69)	\$0.63	\$1.60	\$3.04	\$4.10	\$5.30	\$5.55
EPS (diluted)	(\$2.30)	(\$2.56)	(\$2.01)	(\$1.51)	(\$0.69)	\$0.60	\$1.54	\$2.93	\$3.95	\$5.12	\$5.38
growth							157%	90%	35%	30%	5%
Basic Shares (MM)	25.6	35.9	39.9	43.9	47.8	51.8	55.8	59.8	63.8	67.8	71.8
Diluted Shares (MM)	25.6	35.9	39.9	43.9	47.8	54.1	58.1	62.1	66.1	70.1	74.1

Source: Company data and Canaccord Genuity estimates

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Figure 5: AVEO Quarterly income statement (\$M except EPS)

	Mar-10	Jun-10	Sep-10	Dec-10	2010A	Mar-11	Jun-11	Sep-11	Dec-11	2011E
	1Q10A	2Q10A	3Q10A	4Q10A	FY2010	1Q11E	2Q11E	3Q11E	4Q11E	FY2011
Collaboration revenues	10.9	15.6	6.2	12.0	44.7	4.8	5.2	4.8	5.2	20.1
<b>Total Revenues</b>	<b>10.9</b>	<b>15.6</b>	<b>6.2</b>	<b>12.0</b>	<b>44.7</b>	<b>4.8</b>	<b>5.2</b>	<b>4.8</b>	<b>5.2</b>	<b>20.1</b>
Research & Development	(22.6)	(26.0)	(20.3)	(17.5)	(86.3)	(18.3)	(20.1)	(23.8)	(29.3)	(91.5)
General & Administrative	(2.8)	(3.8)	(3.6)	(4.6)	(14.8)	(4.1)	(4.2)	(4.2)	(4.5)	(17.0)
<b>Total Operating Expenses</b>	<b>(25.4)</b>	<b>(29.8)</b>	<b>(23.9)</b>	<b>(22.0)</b>	<b>(101.1)</b>	<b>(22.4)</b>	<b>(24.4)</b>	<b>(28.0)</b>	<b>(33.8)</b>	<b>(108.5)</b>
Operating Income	(14.5)	(14.2)	(17.6)	(10.1)	(56.4)	(17.6)	(19.2)	(23.1)	(28.6)	(88.4)
Interest income	0.0	0.0	0.1	0.8	0.8	0.2	0.2	0.2	0.2	0.7
Interest expense	(0.6)	(0.7)	(1.0)	(1.0)	(3.4)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)
Other Income, net	0.7	(0.6)	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax income</b>	<b>(14.4)</b>	<b>(15.5)</b>	<b>(18.6)</b>	<b>(10.3)</b>	<b>(58.8)</b>	<b>(18.4)</b>	<b>(20.0)</b>	<b>(24.0)</b>	<b>(29.4)</b>	<b>(91.7)</b>
Tax benefit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>(14.4)</b>	<b>(15.5)</b>	<b>(18.6)</b>	<b>(10.3)</b>	<b>(58.8)</b>	<b>(18.4)</b>	<b>(20.0)</b>	<b>(24.0)</b>	<b>(29.4)</b>	<b>(91.7)</b>
Basic shares	6.3	30.8	30.9	33.9	25.6	34.8	35.5	36.2	37.0	35.9
EPS	(\$2.27)	(\$0.50)	(\$0.60)	(\$0.30)	(\$2.30)	(\$0.53)	(\$0.56)	(\$0.66)	(\$0.79)	(\$2.56)

Source: Company data and Canaccord Genuity estimates

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(as of 2 February 2011)

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	#	%	#	%
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Speculative Buy	65	8.6%	52.3%	
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Sell	20	2.6%	5.0%	
	758	100.0%		

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