

## AVEO Pharmaceuticals

AVEO : NASDAQ : US\$13.65

**BUY**  
**Target: US\$23.00**

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### COMPANY STATISTICS:

Market Cap (M): 462.9  
52-week Range: 6.01 - 17.93  
Avg. Daily Vol. (000s): 106.7

### EARNINGS SUMMARY:

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

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

## ADMINISTRATIVE ERROR MAY BE LENDING TO CONFUSION

### Investment recommendation

In full confidence, we would be buyers on overblown concerns related to the status of the company CEO.

### Investment highlights

- As per company management, listing removal of Tuan Ha-Ngoc as CEO of AVEO from Bloomberg market data sources is nothing more than an administrative slip on the part of this provider. We understand that steps are being made to rectify. We believe that this error, in combination with awareness of cancellation of NYC investor meetings with our firm, could be contributing to share weakness today. We understand that Mr. Ha-Ngoc cancelled his meetings for personal reasons only.
- We remain optimistic for a positive outcome of the TIVO-1 Phase III trial from which data is expected mid-year. This trial is comparing the activity of tivozanib vs. Nexavar in front-line treatment of clear cell renal cell carcinoma (RCC). Data from a randomized Phase II discontinuation trial demonstrated unequivocal activity, in our view, and a safety profile that could position tivozanib as the best-in-class small molecule anti-angiogenic inhibitor. AVEO recently entered a worldwide (ex-Asia) development deal with Astellas Pharma around this compound.

### Valuation and risks

Our \$23 price target is based on a DCF which includes risk-adjusted sales estimates for tivozanib in RCC and AV-299 in non-small cell lung cancer. Risks include clinical trial failures and changes in competitive landscapes.

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**Figure 1: AVEO Investment Synopsis**

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<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, looks 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>

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Source: Canaccord Genuity

11 March 2011

**Figure 2: 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	30.5	123.3	294.2	450.7	514.8	545.9	579.0	614.0
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>30.5</b>	<b>123.3</b>	<b>335.5</b>	<b>583.3</b>	<b>750.8</b>	<b>968.8</b>	<b>1,228.8</b>	<b>1,338.9</b>
tivozanib ex-NA profit share	0.0	0.0	0.0	0.0	2.3	12.4	26.4	43.2	57.3	72.9	83.8
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>89.0</b>	<b>186.0</b>	<b>426.9</b>	<b>692.5</b>	<b>931.0</b>	<b>1,166.3</b>	<b>1,445.5</b>	<b>1,570.5</b>
COGs	0.0	0.0	0.0	(6.1)	(24.7)	(62.1)	(114.3)	(137.3)	(159.4)	(185.1)	(199.2)
<i>as % product sales</i>				20%	20%	19%	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)	(32.5)	(53.0)	(126.3)	(217.7)	(262.8)	(339.1)	(430.1)	(468.6)
<i>as % product sales</i>					43%	38%	37%	35%	35%	35%	35%
tivozanib N.A. profit share reimb.	0.0	0.0	0.0	(5.3)	(22.8)	(61.8)	(87.9)	(108.1)	(114.6)	(121.6)	(128.9)
<b>Total Operating Expenses</b>	<b>(101.1)</b>	<b>(108.5)</b>	<b>(118.5)</b>	<b>(154.6)</b>	<b>(217.9)</b>	<b>(374.6)</b>	<b>(551.7)</b>	<b>(648.0)</b>	<b>(761.3)</b>	<b>(890.9)</b>	<b>(957.1)</b>
<b>Operating Income</b>	<b>(56.4)</b>	<b>(88.4)</b>	<b>(76.8)</b>	<b>(65.7)</b>	<b>(31.9)</b>	<b>52.2</b>	<b>140.8</b>	<b>283.0</b>	<b>405.0</b>	<b>554.6</b>	<b>613.5</b>
<i>operating margin</i>						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	2.9	4.7
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>18.0</b>	<b>49.0</b>	<b>99.0</b>	<b>142.0</b>	<b>194.8</b>	<b>216.1</b>
Taxes (benefit)	0.0	0.0	0.0	0.0	0.0	18.0	49.0	99.0	142.0	194.8	216.1
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>(66.0)</b>	<b>(32.6)</b>	<b>33.4</b>	<b>91.1</b>	<b>183.8</b>	<b>263.7</b>	<b>361.8</b>	<b>401.3</b>
EPS (basic)	(\$2.30)	(\$2.56)	(\$2.01)	(\$1.50)	(\$0.68)	\$0.64	\$1.63	\$3.07	\$4.13	\$5.34	\$5.59
EPS (diluted)	(\$2.30)	(\$2.56)	(\$2.01)	(\$1.50)	(\$0.68)	\$0.62	\$1.57	\$2.96	\$3.99	\$5.16	\$5.42
<i>growth</i>							154%	89%	35%	29%	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

**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

11 March 2011

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**Price Chart:\*****Distribution of Ratings:**

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(as of 3 March 2011)

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	#	%	#	%
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Speculative Buy	62	8.1%	66.1%	
Hold	237	31.1%	17.3%	
Sell	15	2.0%	6.7%	
	761	100.0%		

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