

AVEO Pharmaceuticals

AVEO : NASDAQ : US\$16.03

BUY**Target: US\$23.00****George Farmer, Ph.D.**

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COMPANY STATISTICS:

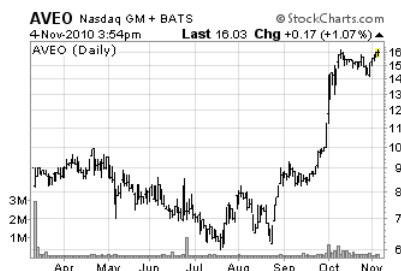
Market Cap (M): 571.1
 52-week Range: 6.01 - 16.25
 Avg. Daily Vol. (000s): 88.4

EARNINGS SUMMARY:

FYE Dec	2009A	2010E	2011E
Revenue (M):	20.7	39.6	16.1
EPS:	(27.43)	(2.66)	(2.39)

Revenue (M):	Q1	3.7	10.9A	-
	Q2	5.1	15.6A	-
	Q3	5.9	6.2A	-
	Q4	6.0	6.9	-
Total		20.7	39.6	16.1
EPS:	Q1	(5.93)	(2.27)A	-
	Q2	(6.41)	(0.50)A	-
	Q3	(8.56)	(0.60)A	-
	Q4	(6.59)	(0.56)	-
Total		(27.43)	(2.66)	(2.39)

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

TRIAL PROGRESS ON TRACK; MAINTAIN BUY

Investment recommendation: We remain buyers of AVEO shares primarily based on our view of the potential of tivozanib and AV-299 in solid tumor indications.

Highlights

- Top-line data release from TIVO-1 remains on track for mid-2011. Supported by exceptional efficacy and tolerability observed in a randomized discontinuation Phase II, we see high likelihood of tivozanib success in this trial.
- Beyond RCC, Phase I trial results for presentation later this year could inform a potential registration strategy for this drug in metastatic breast cancer, where likely RCC competitor, Sutent, has failed, in our view. Data is also expected from a Phase I trial investigating the safety of combining tivozanib with FOLFOX in colorectal cancer patients.
- AV-299 moves forward in a randomized Phase II trial under an Iressa treatment background of Asian, non-smoking, adenocarcinoma non-small cell lung cancer patients. Data from randomized trials evaluating other C-MET pathway inhibitors similar to AV-299 supports likelihood of success. Results are expected in H2/11.

Results and valuation: AVEO reported a net loss per share of \$(0.60) on \$6.2M of revenues, compared with our estimate of \$(0.59) on \$8.3M of revenues. Our year-end cash balance estimate of \$125M is comfortably in line with management guidance of >\$100M, and we believe it should be sufficient into 2012. Our \$23 price target is based on a DCF assuming risk-adjusted sales potential of tivozanib in RCC only and AV-299 EGFRmt+ NSCLC.

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Figure 1: Selected AVEO expected upcoming events

Event	Expected timing
Data presentation from Phase I trial of tivozanib+FOLFOX in colorectal cancer	November 2010
Data presentation from Phase I trial of tivozanib+paclitaxel in breast cancer	November 2010
Top-line results from TIVO-1 evaluating tivozanib vs. sorafenib (Nexavar) in front-line Stage IV renal cell carcinoma (RCC)	Mid-2011
Interim results from a randomized Phase II trial evaluating AV-299 in combination with gefitinib (Iressa) in treatment-naïve NSCLC	H2/11

Source: Company data and Canaccord Genuity

4 November 2010

Figure 2: 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
AV-299 (U.S.)	0.0	0.0	0.0	0.0	0.0	0.0	41.3	126.2	214.6	367.7	541.5	580.0
AV-299 (ex-U.S.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.3	21.5	55.2	135.4	145.0
Total product revenues	0.0	0.0	0.0	0.0	27.4	121.8	358.3	633.5	852.3	1,089.7	1,384.1	1,439.2
Collaboration revenues	20.7	39.6	16.1	17.7	19.4	21.4	23.5	25.8	28.4	31.3	34.4	37.8
Total Revenues	20.7	39.6	16.1	17.7	46.8	143.2	381.8	659.4	880.7	1,121.0	1,418.4	1,477.0
COGs	0.0	0.0	0.0	0.0	(5.5)	(24.4)	(67.5)	(128.5)	(165.3)	(195.7)	(230.3)	(236.8)
as % product sales					20%	20%	19%	20%	19%	18%	17%	16%
Research & Development	(51.8)	(90.6)	(81.6)	(89.7)	(98.7)	(108.6)	(119.4)	(127.8)	(136.7)	(146.3)	(156.5)	(167.5)
General & Administrative	(10.1)	(14.0)	(14.7)	(15.4)	(18.5)	(52.4)	(136.1)	(240.7)	(298.3)	(381.4)	(484.4)	(503.7)
Total Operating Expenses	(61.9)	(104.6)	(96.2)	(105.1)	(122.7)	(185.3)	(323.1)	(497.0)	(600.4)	(723.4)	(871.3)	(908.0)
Operating Income	(41.2)	(65.0)	(80.2)	(87.4)	(75.8)	(42.1)	58.7	162.4	280.3	397.6	547.1	569.0
Interest income	0.1	0.3	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.5	1.5	2.8
Interest expense	(2.8)	(2.8)	(8.0)	(7.5)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Other, net	(0.3)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Tax Income	(44.2)	(67.4)	(87.7)	(94.9)	(76.6)	(42.9)	57.9	161.6	279.5	397.3	547.8	571.1
Taxes (benefit)	(0.1)	0.0	0.0	0.0	0.0	0.0	22.0	61.4	106.2	151.0	208.2	217.0
tax rate	0%	0%	0%	0%	0%	0%	38%	38%	38%	38%	38%	38%
Net Income	(44.1)	(67.4)	(87.7)	(94.9)	(76.6)	(42.9)	35.9	100.2	173.3	246.3	339.6	354.1
EPS (basic)	(\$27.43)	(\$2.66)	(\$2.39)	(\$2.33)	(\$1.72)	(\$0.88)	\$0.68	\$1.77	\$2.86	\$3.81	\$4.95	\$4.88
EPS (diluted)	(\$27.43)	(\$2.66)	(\$2.39)	(\$2.33)	(\$1.72)	(\$0.88)	\$0.65	\$1.70	\$2.76	\$3.68	\$4.79	\$4.73
Basic Shares (MM)	1.6	25.4	36.7	40.6	44.6	48.6	52.6	56.6	60.6	64.6	68.6	72.6
Diluted Shares (MM)	1.6	25.4	36.7	40.6	44.6	48.6	54.9	58.9	62.9	66.9	70.9	74.9

Source: Company data and Canaccord Genuity estimates

Figure 3: Quarterly Income Statement (\$M except EPS)

	Mar-09	Jun-09	Sep-09	Dec-09	2009A	Mar-10	Jun-10	Sep-10	Dec-10	2010E
	1Q09A	2Q09A	3Q09A	4Q09A	FY2009	1Q10A	2Q10A	3Q10A	4Q10E	FY2010
Collaboration revenues	3.7	5.1	5.9	6.0	20.7	10.9	15.6	6.2	6.9	39.6
Total Revenues	3.7	5.1	5.9	6.0	20.7	10.9	15.6	6.2	6.9	39.6
Research & Development	(9.7)	(12.1)	(16.5)	(13.5)	(51.8)	(22.6)	(26.0)	(20.3)	(21.8)	(90.6)
General & Administrative	(2.6)	(2.4)	(2.5)	(2.6)	(10.1)	(2.8)	(3.8)	(3.6)	(3.8)	(14.0)
Total Operating Expenses	0.0	0.0	0.0	0.0	(61.9)	(25.4)	(29.8)	(23.9)	(25.5)	(104.6)
Operating Income	0.0	0.0	0.0	0.0	(41.2)	(14.5)	(14.2)	(17.6)	(18.7)	(65.0)
Interest income	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.1	0.2	0.3
interest expense	(0.7)	(0.7)	(0.7)	(0.7)	(2.8)	(0.6)	(0.7)	(1.0)	(0.4)	(2.8)
Other Income, net	(0.1)	(0.2)	(0.1)	(0.1)	(0.3)	0.7	(0.6)	0.0	0.0	0.1
Pre-tax income	(9.4)	(10.2)	(13.8)	(10.8)	(44.2)	(14.4)	(15.5)	(18.6)	(18.9)	(67.4)
Tax benefit	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Net Income	(9.4)	(10.2)	(13.8)	(10.8)	(44.1)	(14.4)	(15.5)	(18.6)	(18.9)	(67.4)
Basic shares	1.6	1.6	1.6	1.6	1.6	6.3	30.8	30.9	33.5	25.4
EPS	(\$5.93)	(\$6.41)	(\$8.56)	(\$6.59)	(\$27.43)	(\$2.27)	(\$0.50)	(\$0.60)	(\$0.56)	(\$2.66)

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

APPENDIX: IMPORTANT DISCLOSURES

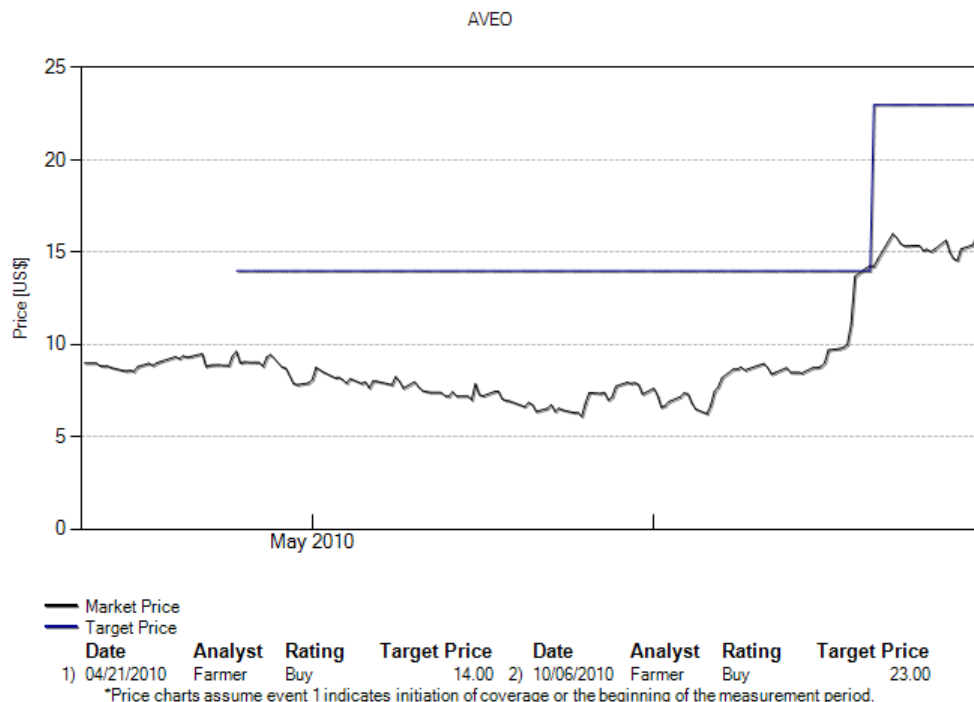
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Price Chart:*



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(as of 1 November 2010)

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	#	%	#	%
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Speculative Buy	73	10.3%	61	61.6%
Hold	197	27.8%	19	19.3%
Sell	20	2.8%	5	5.0%
	709	100.0%		

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

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