November 12, 2012

OUTPERFORM

Reason for report:

COMPANY UPDATE

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LEERINK SWANN

HEALTHCARE EQUITY RESEARCH

CLOVIS ONCOLOGY, INC.

Reiterate OP & New $15 DCF based on CO-1686 in NSCLC; Weakness Overdone

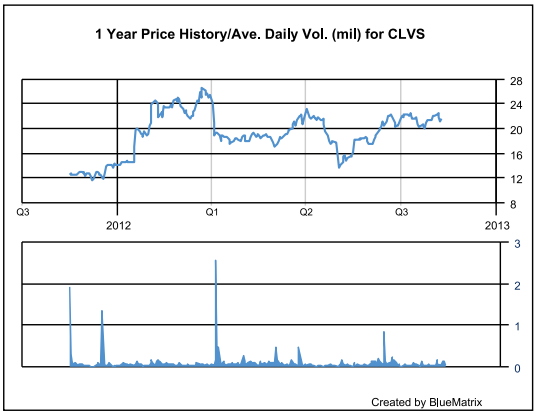
• **Bottom Line:** We previously estimated CO-1686 worth $15/share and are not surprised the CO-101 Phase IIb LEAP trial failed based on our diligence leading a 17% probability of success estimate. We also believe CO-1686 has not drawn enough Street attention despite it being a more valuable compound to CLVS. CO-1686 was always more valuable to us (with 28% chance of success) vs. CO-101 (17%) based on: 1) longer IP (out to 2028); 2) mechanism of action; 3) KOL feedback, and; 4) successes and in the NSCLC space. On potential negative CO-101 LEAP data we expected an overreaction to the downside and we recommend taking advantage of weakness below $15. We reiterate an Outperform (OP) rating and new $15 DCF.

• **CO-1686 for NSCLC worth $15/share:** CO-1686 was always more valuable to us (est. 28% chance of success) vs. CO-101 (17%) based on: 1) longer IP (out to 2028); 2) MOA; 3) KOL feedback, and; 4) successes of other Epidermal Growth Factor Receptor (EGFR) inhibitors in the NSCLC space. Proof-of-concept (POC) Phase I data remain on track for presentation at ASCO 2013. CLVS will also have preliminary 2nd-line T790M Phase II efficacy data in 2H13 with full Phase II data at ASCO-2014. In 1H13, after reaching a Maximum Tolerated Dose (MTD) in the Phase I trial, CLVS also plans to initiate a Phase II front-line (FL) trial in treatment naïve NSCLC patients. In if Phase II 2nd-line NSCLC data are positive, CLVS could initiate a pivotal NSCLC trial in this relapsed setting in 1H14. In 2H14, CLVS would also have preliminary Progression Free Survival (PFS) data from the FL NSCLC trial which if positive could lead to a pivotal trial start in this indication in 2015. Based solely on potential in NSCLC patients post Iressa or Tarceva therapy with T790M mutations, we estimate CO-1686 is worth $15/share in our valuation. Earlier line use (i.e., FL) would lead to upside to our estimates.

• **Negative CO-101 LEAP Trial:** While we were hopefully, based on previous diligence leading us to estimate a 17% probability of success, we are not surprised the CO-101 Phase IIb LEAP trial failed. CLVS announced CO-101 showed no overall survival (OS) benefit vs. gemcitabine in either the primary analysis of hENT1-low patients or in the overall intent-to-treat (ITT) population. We have now removed CO-101 completely from our model while previous and based on a 17% probability of success, it was worth $10/share in our previous $25 valuation.

• **Reiterate Outperform:** We reiterate our OP rating and are introducing our $15 DCF based valuation based solely on potential for CO-1686. We would take advantage of shares if they trade significantly below $15 in an over-reaction to the downside based on the failure of the CO-101 LEAP trial.

Key Stats:	**(NASDAQ:CLVS)**
S&P 600 Health Care Index:	**790.49**
Price:	**$21.49**
52 Week High:	$27.55
52 Week Low:	$11.45
Shares Outstanding (mil):	26.1
Market Capitalization (mil):	$560.9
Book Value/Share:	$6.50
Cash Per Share:	$6.27
Dividend (ann):	$0.00
Dividend Yield:	0.0%
Valuation:	$15 from $25



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2011A	0.0	0.0	0.0	0.0	0.0	($0.97)	($2.15)	($1.22)	($1.30)	($14.42)	NM
2012E	0.0A	0.0A	0.0A	0.0	0.0	($0.86)A	($0.61)A	($0.71)A	($0.77)	($2.93)	NM
2013E - New	**--**	**--**	**--**	**--**	**0.0**	**--**	**--**	**--**	**--**	**($3.37)**	**NM**
2013E - Old	--	--	--	--	0.0	--	--	--	--	($5.51)	NM

Source: Company Information and Leerink Swann LLC Research
GAAP EPS presented; note: quarterly EPS do not sum to annual total due to changes in shares outstanding.

Please refer to pages 4 - 6 for Important Disclosures, Price Charts and Analyst Certification.

INVESTMENT THESIS

We rate CLVS Outperform. We previously estimated CO-1686 worth $15/share and are not surprised the CO-101 Phase IIb LEAP trial failed based on our diligence leading a 17% probability of success estimate. We also believe CO-1686 has not drawn enough Street attention despite it being a more valuable compound to CLVS. CO-1686 was always more valuable to us (with 28% chance of success) vs. CO-101 (17%) based on: 1) longer IP (out to 2028); 2) mechanism of action; 3) KOL feedback, and; 4) successes and in the NSCLC space. On potential negative CO-101 LEAP data we expected an overreaction to the downside and we recommend taking advantage of weakness below $15. We reiterate an Outperform (OP) rating and new $15 DCF.

Change in Estimates

We adjusted our model based on today's negative outcome on the CO-101LEAP study. As a result, we removed CO-101 potential revenues from our model. We also decreased R&D and G&A projections due to failure of CO-101. Our 2013E R&D expense decreased from $75M to $62M. Our 2013E G&A expense decreased from $35M to $18M. As a result, our 2013E EPS increased from ($5.51) to ($3.37) due to decrease in operating expense projections.

Milestones

Product:	Partner:	Indication:	Timing:	Milestone:
CO-101:	Proprietary	NSCLC	2013	Data from Asia Phase I-II study in combo with Cisplatin
CO-1686:	Proprietary	NSCLC (1st or 2nd line)	2013	Initiate Phase I in Japan (informed dose + tablet)
			1H13	Initiate Phase II Front-Line NSCLC trial
			ASCO-2013	Data from Phase I (started March-2012)
			2H13	Data from Phase II (started March-2012)
			1H14	Pivotal trial start in 2nd-line NSCLC
			2H14	Data (PFS) from Front-Line NSCLC trial
			2015	Initiate Front-Line pivotal NSCLC trial
			2016	NDA (goal 4 years from IND)
			2017	**FDA Approval and Launch (in T790M patients)**
Rucaparib (CO-338):	Proprietary	Breast Cancer (BC), Ovarian Cancer (OC)	2013	Data from Phase I-II monotherapy trial
				Initiate global registration trial in plat-sensitive OC
KIT Inhibitor	ARRY	GIST	TBD	Identify clinical candidate

Source: Company Reports, Leerink Swann LLC estimates

VALUATION

Our New $15 Valuation ($25 previously): We calculate a $15 fair value estimate for CLVS based on a discounted cash flow (DCF) analysis that is probability adjusted for CO-1686. If successful, our model assumes CO-1686 for NSCLC with T790M mutations. Earlier line use would lead to upside to our estimates.

RISKS TO VALUATION

An investment in CLVS is fundamentally a high-risk, high-reward investment, in our opinion. CLVS may face significant pipeline clinical, regulatory, and commercial risks. Most important is risk associated with potential clinical failure of CO-1686 for patients with NSCLC. CO-1686 could also face commercial competition from compounds such as afatinib (Boehringer Ingelheim) and other late stage development-stage candidates. Finally, defense of its Intellectual Property (IP) portfolio is also a risk.

CLVS ANNUAL P&L ($M, except per share data)	2011A	1Q12A	2Q12A	3Q12A	4Q12E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Total CO-1686 Sales											$212	$467
Probability of Success						29%	29%	29%	29%	29%	29%	29%
CO-1686 Probability Adjusted U.S. sales ($M)						$0	$0	$0	$0	$0	$62	$136
Other Revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Revenue ($M)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$62	$136
Y/Y	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*#DIV/0!*	*120%*
COGS	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$14	$33
% Sales	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*18%*	*20%*	*22%*	*24%*
R&D	41	13	13	15	17	58	62	70	80	90	100	100
% Rev	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*
G&A	7	2	3	3	4	12	18	22	26	32	45	50
% Rev	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*37%*
Amortization of intangible asset												
Acquired in-process R&D/milestones	7	4	0	-	-	4	30	40	-	50	50	50
Operating Expenses	55	19	16	18	21	74	110	132	106	172	209	233
Interest/other income	(1)	(0)	(0)	(0)	1	1	3	6	7	9	15	20
Interest rate	*1%*					*2%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
Pretax income/(loss)	**(56)**	**(19)**	**(16)**	**(18)**	**(20)**	**(73)**	**(107)**	**(126)**	**(99)**	**(163)**	**(132)**	**(77)**
Accretion of preferred stock												
Taxes	0	0	(0)	-	-	-	-	-	-	-	-	-
Rate	*0%*					*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net income(/loss)	**($56)**	**($19)**	**($16)**	**($18)**	**($20)**	**($73)**	**($107)**	**($126)**	**($99)**	**($163)**	**($132)**	**($77)**
EPS/(Loss per share)	**($14.42)**	**($0.86)**	**($0.61)**	**($0.71)**	**($0.77)**	**($2.93)**	**($3.37)**	**($3.34)**	**($2.04)**	**($2.87)**	**($2.31)**	**($1.34)**
Y/Y	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*N/M*	*-19%*	*-42%*
Shares	4	22	26	26	26	25	32	38	48	57	57	57

Source: Company reports and Leerink Swann estimates

DCF Calculation	
Discount Rate	*10%*
Terminal Growth Rate	*1%*
NPV of Free Cash Flow	$320
Valuation / Share	$15

Source: Leerink Swann estimates

CLOVIS DCF VALUATION ANALYSIS		Discount Rate				
		9.5%	10.0%	10.5%	11.0%	11.5%
Terminal Multiple	*0.0%*	**$15**	**$13**	**$12**	**$10**	**$9**
	0.5%	**$16**	**$14**	**$12**	**$11**	**$9**
	1.0%	**$17**	**$15**	**$13**	**$11**	**$10**
	1.5%	**$18**	**$15**	**$13**	**$12**	**$10**
	2.0%	**$19**	**$16**	**$14**	**$12**	**$11**

Source: Leerink Swann estimates

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Disclosures Appendix

Analyst Certification

I, Marko Kozul, M.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

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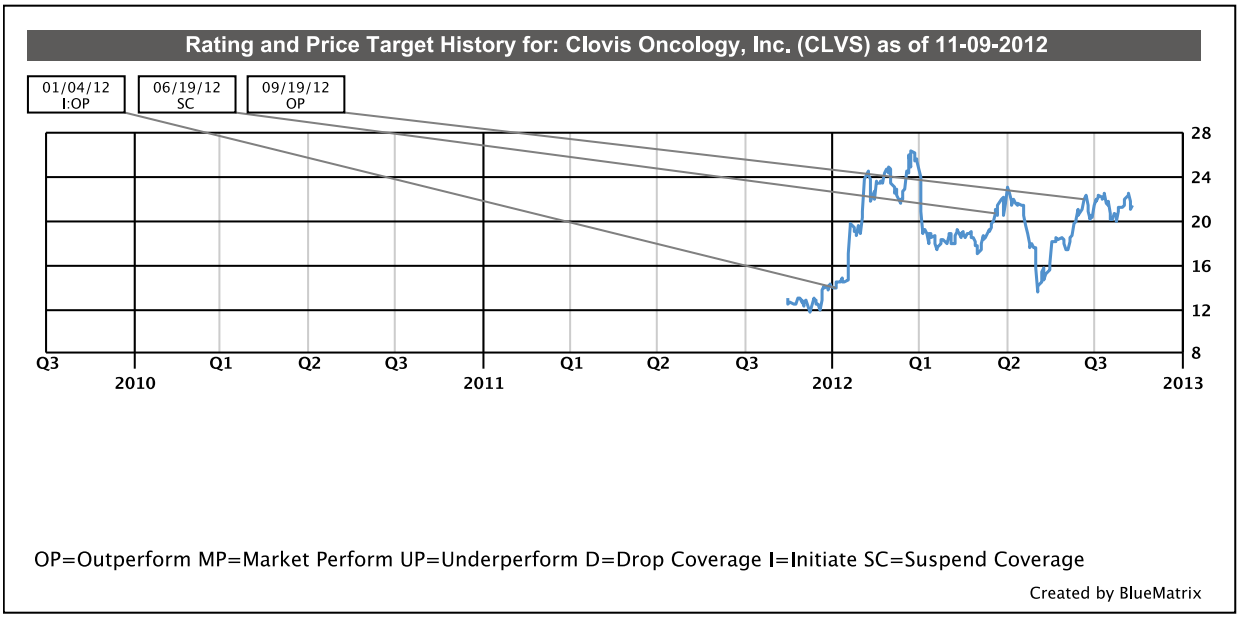

Distribution of Ratings/Investment Banking Services (IB) as of 09/30/12				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	102	58.30	29	28.40
HOLD [MP]	73	41.70	3	4.10
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months.The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

From October 1, 2006 through January 8, 2009, the relevant benchmarks for the above definitions were the Russell 2000® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

Definitions of Leerink Swann Ratings prior to October 1, 2006 are shown below:

Outperform (Buy): We expect this stock to outperform its benchmark by more than 10 percentage points over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform within a range of plus or minus 10 percentage points of its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark by more than 10 percentage points over the next 12 months.

For the purposes of these definitions, the relevant benchmark were the Russell 2000® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Index for issuers with a market capitalization over $2 billion.

Important Disclosures

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Leerink Swann Consulting LLC, an affiliate of Leerink Swann LLC, is a provider of evidence-based strategy and consulting to the healthcare industry.

In the past 12 months, the Firm has received compensation for providing investment banking services to Clovis Oncology, Inc.

Leerink Swann LLC makes a market in Clovis Oncology, Inc.

Leerink Swann LLC has acted as a co-manager for a public offering of Clovis Oncology, Inc. in the past 12 months.

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