

Reason for report:

EARNINGS

CLOVIS ONCOLOGY, INC.

Key Binary Event by YE12 with CO-101; CO-1686 Promising Long term; 3Q12 Updates

• **Bottom Line:** CLVS is a high risk/reward binary event play with CO-101 Phase IIb LEAP pancreatic cancer data by YE12. We reiterate our OP rating and probability adjusted \$25 DCF valuation estimate with CO-1686 at ~\$15/share and CO-101 at ~\$10/share based on a 29% and 17% estimated respective probability of success. If LEAP data are positive, we believe a 70% chance of success would be warranted taking shares to ~\$55. We believe negative LEAP data would lead to an over-reaction to the downside to \$10-12 while we would value CLVS at \$15/share based on longer term potential of CO-1686 in NSCLC.

• **3Q12 EPS & Cash Guidance:** CLVS reported 3Q12 EPS of (\$0.71) vs. our (\$0.70) and consensus (\$0.67) estimates. R&D expense was \$15.5M which was essentially in-line with our \$16M estimate. G&A expense was \$2.8M vs. our estimate of \$3M. CLVS ended 3Q12 with \$162.5M in cash (\$6.27/share). CLVS continues to expect it will end 2012 with a cash burn of \$67-\$72M, and cash of ~\$140M.

• **CO-101 Pancreatic Cancer Update:** Phase IIb LEAP data will be announced over the next 2 months before YE12. To date, MEDACorp KOL feedback for CO-101 remains very mixed and heavily influenced by previous Phase III failures. They mostly believe CO-101 will demonstrate some benefit in front-line (FL) pancreatic cancer patients, but they are mixed on whether the magnitude will be clinically meaningful. They are looking for hENT-1 low patients in the trial to demonstrate a 4 month Overall Survival (OS) benefit and believe CO-101 at >6 months would lead to a statistically significant improvement in an unambiguously positive trial. If CO-101 shows OS between 4-5 months, they recommend abandoning this program, between 5-5.5 months they think is a tossup and 5.5-6 months would warrant a new clinical trial. We currently assume a 17% probability of success for CO-101 which leads to \$10/share.

• **CO-1686 NSCLC Update:** Phase I data should be available at ASCO-2013 and Phase II in 2H13. CLVS suggests no significant toxicity has been observed in the Phase I dose escalation, especially in terms of the common EGFR adverse event skin toxicity and diarrhea. Based on KOL feedback and IP length, we continue to view CO-1686 as CLVS's most important pipeline compound. We see Phase II data in 2H13 as a potentially significantly de-risking event at least to the NSCLC T790M mutation opportunity. We believe at the encouragement of the community, CLVS has decided to initiate a small FL pilot NSCLC trial once an MTD is established in the ongoing 2nd-line T790M Phase I trial. We believe data in FL could also become available ~YE13 or early 2013 serving as another important driver.

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 - New	0.0A	0.0A	0.0	0.0	0.0	(\$0.86)A	(\$0.61)A	(\$0.71)	(\$0.77)	(\$2.93)	NM
2012E - Old	0.0A	0.0A	0.0	0.0	0.0	(\$0.86)A	(\$0.61)A	(\$0.70)	(\$0.77)	(\$2.92)	NM
2013E	--	--	--	--	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.



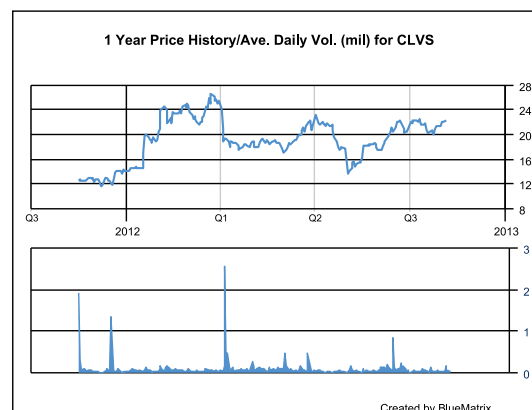
LEERINK SWANN

HEALTHCARE EQUITY RESEARCH

Key Stats:

(NASDAQ:CLVS)

S&P 600 Health Care Index:	805.37
Price:	\$22.37
52 Week High:	\$27.55
52 Week Low:	\$11.45
Shares Outstanding (mil):	26.1
Market Capitalization (mil):	\$583.9
Book Value/Share:	\$6.50
Cash Per Share:	\$6.27
Dividend (ann):	\$0.00
Dividend Yield:	0.0%
Valuation:	\$25 based on probability-wtd DCF





INVESTMENT THESIS

We rate CLVS Outperform. We view CLVS as a near term, high-risk, high-reward dynamic biotech company. Our probability adjusted \$25 DCF valuation estimates CO-1686 at ~\$15/share and CO-101 at ~\$10/share. Positive Phase IIb LEAP data for CO-101 in front-line (FL) pancreatic cancer expected in 4Q:12E could serve as a significant upward catalyst, while negative data would remove its premium from CLVS shares. Based on our current 17% probability of success we estimate CO-101 is worth \$10/share, but positive LEAP data would lead to a higher probability of success (i.e., 70%) and would lead to a DCF valuation of ~\$55. Negative LEAP data would lead us to value CLVS at \$15/share based on longer-term potential of CO-1686 in NSCLC (assuming 29% probability of success).

Change in Estimates

We adjusted our model based on yesterday's report of CLVS 3Q12 financial results. Our 2012E EPS changed minimally from (\$2.92) to (\$2.93).

Milestones

We project CLVS shares will move near term based on CO-101 Phase III LEAP results and longer term by CO-1686 progress. Potential for CO-101 to demonstrate a meaningful survival advantage in hENT low front-line (FL) pancreatic cancer patients is the main near-term catalyst. Despite recent CLVS share price appreciation, our risk reward calculations suggest shares may appreciate further despite significant recent gains associated with approaching LEAP data. Long term, we believe CO-1686 has considerable potential to at least address the unmet medical need represented by NSCLC patients with gating T790M mutations or possibly be used more broadly.

Product:	Partner:	Indication:	Timing:	Milestone:
CO-101:	Proprietary	Pancreatic Cancer	4Q12	Top-line LEAP Survival Data
			Mid-2013	CO-101 NDA-MAA + hENT-1 IHC PMA submissions
		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)
			ASCO-2013	Data from Phase I (started March-2012)
			2H13	Data from Phase II (started March-2012)
			1H14	Pivotal trial start
			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



CLVS Financial Model

Our model assumes CO-1686 approval and launch in 2017E for T790M patients. We estimate a steady R&D and SG&A ramp-up for 2012 and beyond mainly driven by CO-101 and CO-1686 clinical expenses. We project 2012E R&D expense of ~\$58M and G&A increasing from ~\$12M in 2012E to \$90M in 2018E. Our model assumes a 17% probability of success to CO-101 and a 29% probability of success to CO-1686.

We assume a capital-raising event in 2013. CLVS ended 3Q:12 with ~\$162M in cash and cash equivalents. Our model includes a \$200M capital raise in 2013E to more than balance our current projections.

Upside to Our CLVS Model:

Drug:	Factor:
CO-101:	LEAP trial results are positive for hENT-1 low patients
	Longer-term efficacy is observed in other tumor types such as NSCLC
CO-1686:	Phase I/II data are competitive with earlier line TKIs suggesting a path to FL NSCLC

Source: Leerink Swann LLC estimates

VALUATION

Our \$25 Valuation: We calculate a \$25 fair value estimate for CLVS based on a discounted cash flow (DCF) analysis that is probability adjusted for CO-101 and CO-1686. If successful, our model assumes CO-101 use only in hENT-1 low pancreatic patients and use of 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-101 in pancreatic cancer and subsequent 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.

CLOVIS QUARTERLY P&L (\$MM except data per share)										
	1Q11A	2Q11A	3Q11A	4Q11A	2011A	1Q12A	2Q12A	3Q12A	4Q12E	2012
Total Revenue (\$M)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Y/Y</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>
COGS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>% Sales</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>
R&D and owed milestones	7	10	12	12	41	13	13	15	17	58
<i>% Rev</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>
G&A	1	2	2	2	7	2	3	3	4	12
<i>% Rev</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>
Acquired in-process R&D/milestones	0	7	0	0	7	4	0	0	0	4
Interest/other income	0	0	-1	0	-1	0	0	0	1	1
Pretax income/(loss)	-8	-18	-14	-15	-56	-19	-16	-18	-20	-73
Taxes	0	0	0	0	0	0	0	0	0	0
<i>Rate</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>
Net income/(loss)	(\$8)	(\$18)	(\$14)	(\$15)	(\$56)	(\$19)	(\$16)	(\$18)	(\$20)	(\$73)
EPS/(Loss per share)	(\$0.97)	(\$2.15)	(\$1.22)	(\$1.30)	(\$14.42)	(\$0.86)	(\$0.61)	(\$0.71)	(\$0.77)	(\$2.93)
Shares	9	9	11	11	4	22	26	26	26	25

Source: company reports, Leerink Swann analyst estimates

CLOVIS ANNUAL P&L (\$M, except per share data)												
	2011A	1Q12A	2Q12A	3Q12A	4Q12E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
CO-101 sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$74.6	\$187.2	\$301.0	\$415.9	\$532.0
Probability of Success						17%	17%	17%	17%	17%	17%	17%
CO-101 Probability Adjusted U.S. sales (\$M)						\$0.0	\$0.0	\$12.7	\$31.8	\$51.2	\$70.7	\$90.4
Total CO-1686 Sales											\$212.4	\$467.3
Probability of Success						29%	29%	29%	29%	29%	29%	29%
CO-1686 Probability Adjusted U.S. sales (\$M)						\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$61.6	\$135.5
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	\$0.0	\$0.0	\$12.7	\$31.8	\$51.2	\$132.3	\$225.9
Y/Y	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	159%	71%
COGS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$6	\$10	\$29	\$54
% 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	75	85	93	100	105	105
% 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	35	70	73	75	85	90
% Rev	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	40%
Amortization of intangible asset												
Acquired in-process R&D/milestones	7	4	0	-	-	4	75	75	-	50	50	50
Operating Expenses	55	19	16	18	21	74	185	230	172	235	269	299
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)	(182)	(211)	(133)	(175)	(122)	(53)
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)	(\$182)	(\$211)	(\$133)	(\$175)	(\$122)	(\$53)
EPS/(Loss per share)	(\$14.42)	(\$0.86)	(\$0.61)	(\$0.71)	(\$0.77)	(\$2.93)	(\$5.51)	(\$5.20)	(\$2.80)	(\$3.25)	(\$2.25)	(\$0.98)
Y/Y	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	-31%	-56%
Shares	4	22	26	26	26	25	33	41	47	54	54	54

Source: Company reports and Leerink Swann estimates

DCF Calculation	
Discount Rate	10%
Terminal Growth Rate	1%
NPV of Free Cash Flow	\$642
Valuation / Share	\$25

Source: Leerink Swann estimates

CLOVIS DCF VALUATION ANALYSIS						
		Discount Rate				
		9.5%	10.0%	10.5%	11.0%	11.5%
Terminal Multiple	0.0%	\$26	\$23	\$21	\$19	\$17
	0.5%	\$27	\$24	\$21	\$19	\$17
	1.0%	\$28	\$25	\$22	\$20	\$18
	1.5%	\$29	\$25	\$23	\$20	\$18
	2.0%	\$30	\$26	\$24	\$21	\$19

Source: Leerink Swann estimates



Disclosures Appendix

Analyst Certification

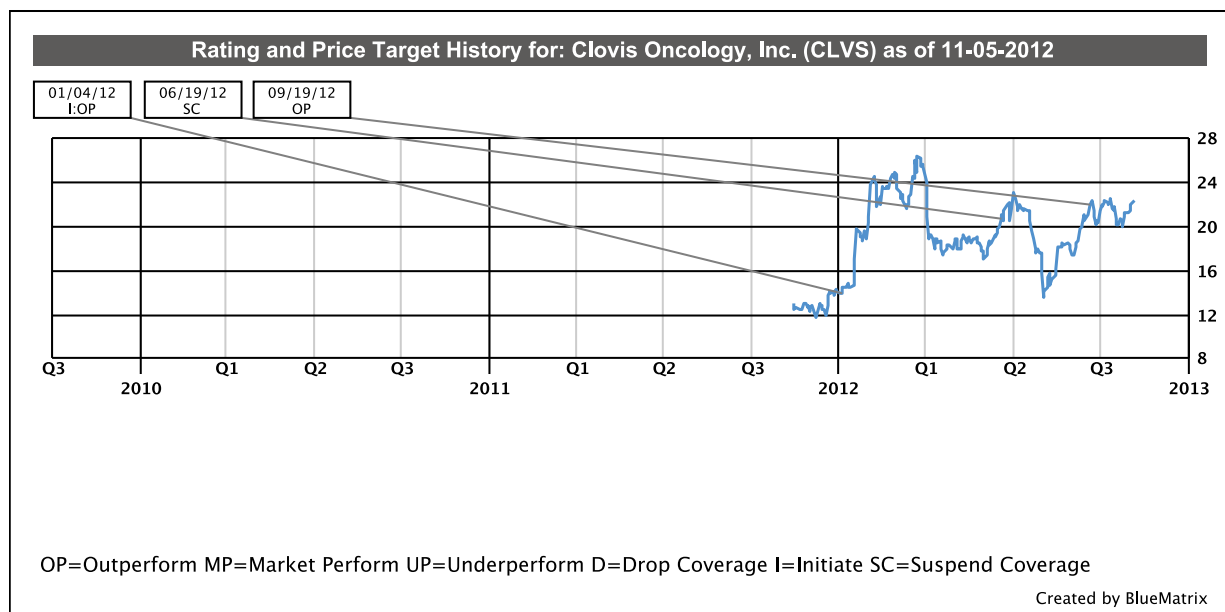
I, Marko Kozul, M.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

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Distribution of Ratings/Investment Banking Services (IB) as of 09/30/12				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			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.



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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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