

Morgan Stanley & Co. LLC

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Stock Rating  
**Overweight**

Industry View  
**In-Line**

October 2, 2012

## Tesaro Inc.

### NCD for NK1 Inhibitor EMEND Should Expand the MEC Market

**Impact on our views:** News that CMS initiated a National Coverage Determination (NCD) process for Merck's EMEND (aprepitant) for chemotherapy induced nausea and vomiting (CINV) is a positive for the NK-1 inhibitor class including Tesaro's Phase 3 rolapitant (data 2H13). The NCD would expand coverage to include moderately emetogenic chemotherapy (MEC) beyond existing coverage in highly emetogenic chemotherapy (HEC). The NCD's expected decision date is April 1, 2013 and the completion date is June 30, 2013. Given MEC's inclusion in NCCN guidelines and current coverage by many regional Medicare carriers, we expect the NCD will be positive.

**Broader coverage of EMEND could drive uptake in the underpenetrated MEC market.** A key part of our thesis on Tesaro is that the NK-1 market is significantly underpenetrated at <20% of the ~ 5 MM addressable CINV treatments in the US annually. MEC penetration stands at ~12% compared to ~40% in cisplatin-based HEC regimens. An NCD should increase uptake in MEC where oncologist awareness of the need for CINV management and particularly for nausea control is lower. This is important as the MEC market totals nearly ~2 MM units meaning that even modest penetration gains are meaningful. We model MEC penetration reaching 25% by 2020.

#### **In other news ... stiff competition for TSR-011.**

Tesaro will initiate a dose escalation Phase 1 trial of the ALK inhibitor TSR-011 in 4Q12. New proof-of-concept data for competitive ALK inhibitors at ESMO including Ariad's AP26113 and Chugai's CH5424802 joining Novartis' LDK378 (among others) creates a relatively high hurdle for TSR-011. However, this program is not central to our thesis.

#### Key Ratios and Statistics

Reuters: TSRO.O Bloomberg: TSRO US

Biotechnology / United States of America

Shr price, close (Sep 28, 2012)	\$14.23
Mkt cap, curr (mm)	\$386
52-Week Range	\$15.05-11.05

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### Global Stock Ratings Distribution

October 2, 2012

Tesaro Inc.

(as of September 30, 2012)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1108</b>	<b>37%</b>	<b>450</b>	<b>41%</b>	<b>41%</b>
<b>Equal-weight/Hold</b>	<b>1273</b>	<b>43%</b>	<b>500</b>	<b>45%</b>	<b>39%</b>
<b>Not-Rated/Hold</b>	<b>106</b>	<b>4%</b>	<b>30</b>	<b>3%</b>	<b>28%</b>
<b>Underweight/Sell</b>	<b>470</b>	<b>16%</b>	<b>122</b>	<b>11%</b>	<b>26%</b>
<b>Total</b>	<b>2,957</b>		<b>1102</b>		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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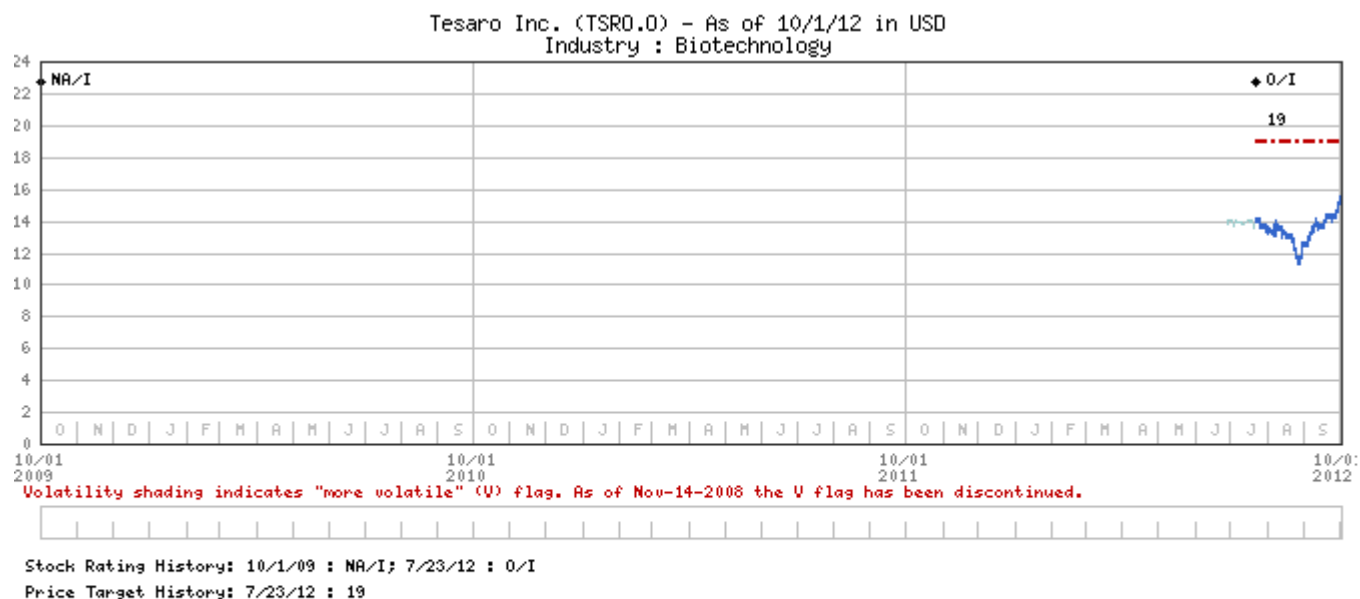
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## Stock Price, Price Target and Rating History (See Rating Definitions)

October 2, 2012

Tesaro Inc.



Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
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Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)  
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## Industry Coverage:Biotechnology

Company (Ticker)	Rating (as of)	Price* (10/01/2012)
<b>David Friedman, M.D.</b>		
AMAG Pharmaceuticals, Inc. (AMAG.O)	E (11/21/2011)	\$18.03
Alexion Pharmaceuticals (ALXN.O)	O (09/07/2010)	\$116
Auxilium Pharmaceuticals (AUXL.O)	U (08/21/2012)	\$24.83
Idenix Pharmaceuticals, Inc. (IDIX.O)	E (03/18/2011)	\$4.59
Incyte Corporation (INCY.O)	E (02/16/2012)	\$17.9
InterMune (ITMN.O)	E (09/07/2010)	\$9.06
Ironwood Pharmaceuticals, Inc. (IRWD.O)	O (03/18/2011)	\$12.99
Lexicon Pharmaceuticals, Inc. (LXRX.O)	E (09/07/2010)	\$2.41
Synageva Biopharma Corp (GEVA.O)	O (04/20/2012)	\$54.11
Theravance Inc (THRX.O)	U (01/31/2012)	\$25.72
Vertex Pharmaceuticals (VRTX.O)	E (05/08/2012)	\$56.44
XenoPort Inc (XNPT.O)	E (08/26/2011)	\$11.43
<b>Marshall Urist, M.D., Ph.D.</b>		
Amgen Inc. (AMGN.O)	E (02/09/2012)	\$85.08
Aveo Pharmaceuticals (AVEO.O)	E (02/09/2012)	\$10.22
Biogen Idec Inc. (BIIB.O)	O (02/09/2012)	\$149.94
Celgene Corp (CELG.O)	O (02/09/2012)	\$76.78
Elan Corporation PLC (ELN.N)	E (07/09/2012)	\$10.93
Gilead Sciences Inc. (GILD.O)	O (02/09/2012)	\$67.44
Hospira (HSP.N)	E (07/16/2009)	\$32.83
Onyx Pharmaceuticals Inc. (ONXX.O)	E (06/21/2012)	\$85.27
Sagent Pharmaceuticals Inc (SGNT.O)	E (08/13/2012)	\$16.3
Tesaro Inc. (TSRO.O)	O (07/23/2012)	\$15.3

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\* Historical prices are not split adjusted.