

Tesaro

(TSRO-NASDAQ)

Stock Rating: **Market Perform**↓
Industry Rating: **Outperform**

High Expectations Reasonable, but Leave Little Upside

Event

Tesaro shares are up 110% year-to-date vs. +29% for the NBI and +16% for the S&P. Strength has been driven by both anticipation of pivotal phase 3 data for NK-1 antagonist rolapitant in chemotherapy-induced nausea and vomiting (CINV) as well as improved visibility on PARP inhibitor niraparib for ovarian cancer and breast cancer. Increased optimism for rolapitant in CINV has emerged since ASCO based on validation from a positive phase 3 study for competing, long-acting NK-1 antagonist netupitant, and favorable differentiation with rolapitant in terms of half-life, drug interactions and an easier comparator in phase 3. Additional upside has emerged from improved visibility on PARP inhibitor niraparib and ahead of planned phase 3 initiation in ovarian CA and breast CA and phase 2 data suggesting 40% ORR in BRCA+ ovarian CA and 2 of 4 responses in BRCA+ breast cancer.

Impact

We are lowering our rating on TSRO to Market Perform from Outperform but maintaining our \$36 price target. With positive rolapitant data reflected in current valuation we see limited upside potential in the near term on confirmation of phase 2 results and greater downside risk in the event of trial disappointment or on results that don't match those of netupitant. While we are encouraged by progress with niraparib, expert feedback suggests that the PARP inhibitor field is getting crowded and there is no clear differentiation between niraparib, olaparib, rucaparib, and BM-673, although olaparib has most robust data and a head-start in Europe, while niraparib has a six-month lead in the US. With peak sales estimates of \$336 mn for rolapitant and \$834 mn for niraparib reflected in our current valuation it is difficult to envision a basis for upward revision over the next 12 months, notwithstanding strong execution, and would look for a better entry point ahead of CINV data.

Forecasts

Our 2013 forecast is for a loss per share of \$2.70.

Valuation

Our \$36 target is based on 20x our 2017E EPS of \$3.35, discounted 25%.

Recommendation

We rate Tesaro Market Perform.

June 19, 2013

Biotechnology

Jim Birchenough, M.D.

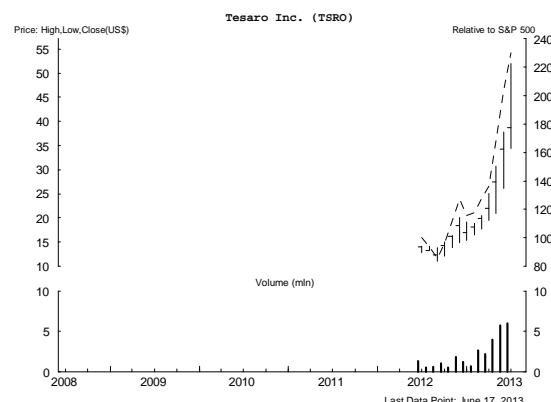
BMO Capital Markets Corp.
415-591-2129
jim.birchenough@bmo.com

Chuck Whitesell / Nick Abbott, PhD.

Securities Info

Price (18-Jun)	\$35.99	Target Price	\$36
52-Wk High/Low	\$52/\$11	Dividend	--
Mkt Cap (mm)	\$1,173	Yield	--
Shs O/S (mm, BASIC)	32.6	Float O/S (mm)	16.0
Options O/S (mm)	na	ADVol (30-day, 000s)	377

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS GAAP	-\$31.90	-\$36.11	-\$2.70	-\$2.88
P/E			nm	nm
First Call Cons.			-\$2.67	-\$3.20
FCF	-\$14.24	-\$47.73	-\$66.00	na
P/FCF			nm	na
EBITDA (\$mm)	-\$15	-\$62	-\$80	-\$98
EV/EBITDA			nm	nm
Rev. (\$mm)	\$0	\$0	\$0	\$0
EV/Rev			na	na
Quarterly EPS	1Q	2Q	3Q	4Q
2012A	-\$13.59	-\$21.31	-\$0.52	-\$0.70
2013E	-\$0.66A	-\$0.65	-\$0.67	-\$0.73

Balance Sheet Data (31-Mar)

Net Debt (\$mm)	-\$199	TotalDebt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	nm	Price/Book	8.4x

Notes: Quarterly EPS may not sum due to share count. All values in US\$.

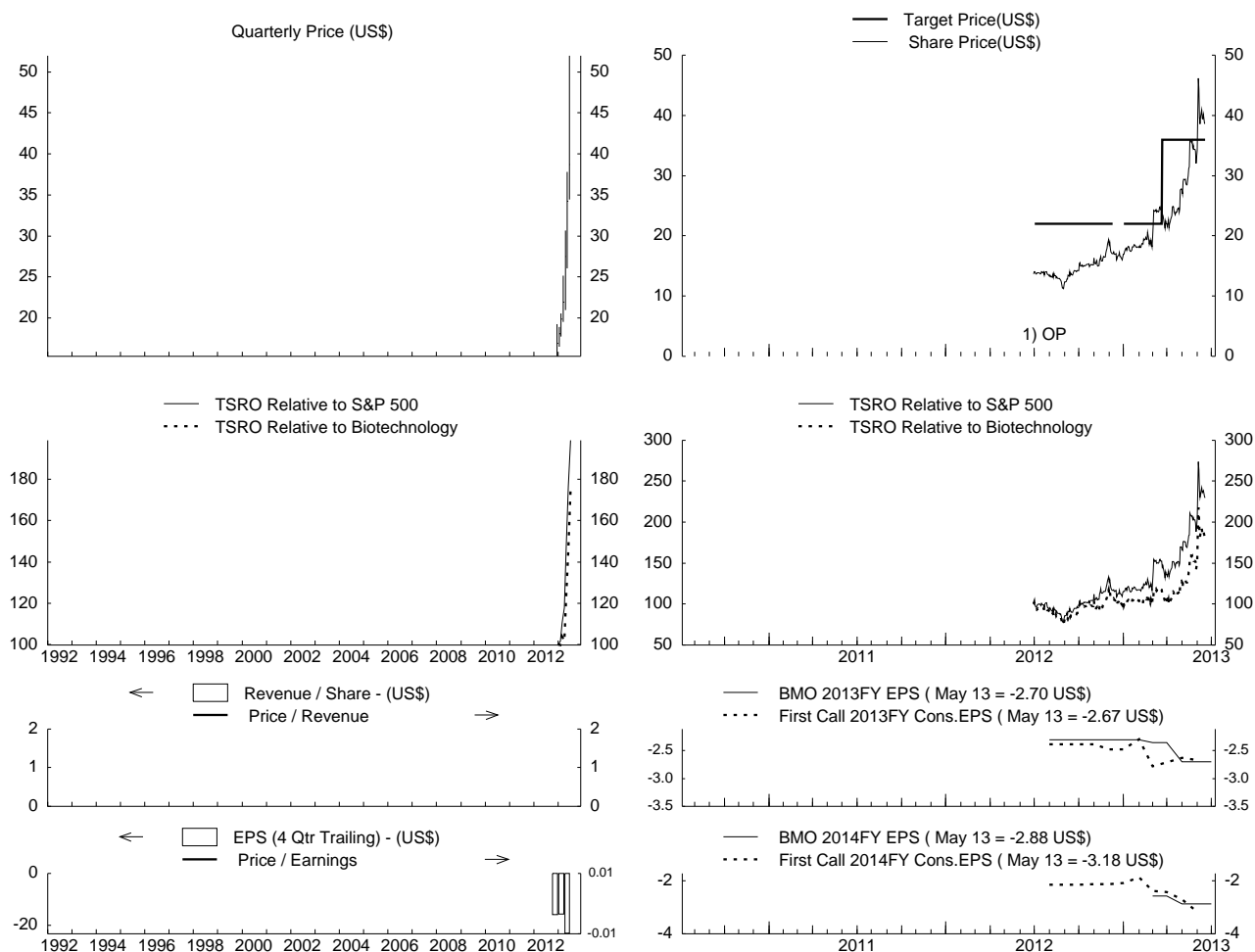
Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

Changes

Rating
OP to Mkt

Please refer to pages 2 to 5 for Important Disclosures, including the Analyst's Certification.

Tesar Inc. (TSRO)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
2012	-36.11	na na	0.00	0.0 0.0	0	2.6	7.8 4.3	
Range*		na na		0.0 0.0			7.8 4.3	
Current*	-23.19	na	0.00	0.0	0	4.3	8.0	na

TSRO - Rating as of 23-Jul-12 = OP

Date	Rating Change	Share Price
1 23-Jul-12	NR to OP	\$13.90

* Current EPS is the 4 Quarter Trailing to Q1/2013.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (June 17, 2013): \$38.73
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Important Disclosures

Analyst's Certification

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Methodology and Risks to Our Price Target/Valuation

Methodology: We arrive at our price target by applying a 20x multiple to 2017 GAAP EPS estimate of \$3.35 and discounting 25%.

Risks: There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

Distribution of Ratings (March 31, 2013)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	37.3%	16.5%	53.8%	38.2%	51.3%	53.2%
Hold	Market Perform	58.0%	8.8%	44.6%	56.8%	47.7%	41.1%
Sell	Underperform	4.7%	3.7%	1.5%	4.9%	1.0%	5.7%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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(S) = Speculative investment;

NR = No rating at this time; and

R = Restricted – Dissemination of research is currently restricted.

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http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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