

July 26, 2012

Tesaro

(TSRO-NASDAQ)

Stock Rating: Outperform**Industry Rating:** Outperform

Biotechnology

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Chuck Whitesell / Nick Abbott, PhD.

2Q12 Results as Expected, Multiple Catalysts Ahead

Event

Tesaro (TSRO) hosted its first earnings call following its recent IPO and reviewed both 2Q12 operating results as well as key upcoming events. Net loss of \$20.2M was in line with our expectations and driven in part by a one-time in process R&D charge of \$7M associated with the May 2012 in-licensing of oral PARP inhibitor niraparib. TSRO ended 2Q12 with \$146.9M in cash and sufficient reserves to support phase 3 rolapitant development and pre-launch activities as well as expected development activities with niraparib and ALK inhibitor TSR-011. With primary focus on NK-1 antagonist rolapitant TSRO suggested that all three phase 3 studies are enrolling well since initiation in 1Q12 and maintained timelines for NDA filing in 2H13. TSRO expects to enter clinical development with TSR-011 by YE12, and will presumably focus development on ALK+ NSCLC patients. Phase 2 development of niraparib is expected to be detailed by YE12 and will presumably focus on BRCA+ patients with breast cancer and ovarian; however, no details were provided with respect to development in specific indications.

Impact

We recently initiated coverage of TSRO with an Outperform rating and \$22 price target and believe that the company is on track for significant value creation into YE12 and 2013. With a mix of a late stage, lower risk asset, and early-to-mid-stage intermediate risk assets, TSRO has a diversified risk profile that should mitigate any one product event. We expect positive phase 3 data for rolapitant to support a \$300M+ opportunity and see even greater opportunity for niraparib and TSR-011 as therapeutics.

Forecasts

Our 2012 forecast is for a loss per share of \$22.97.

Valuation

Our \$22 target is based on 20x our 2017E EPS of \$2.35 discounted 25%.

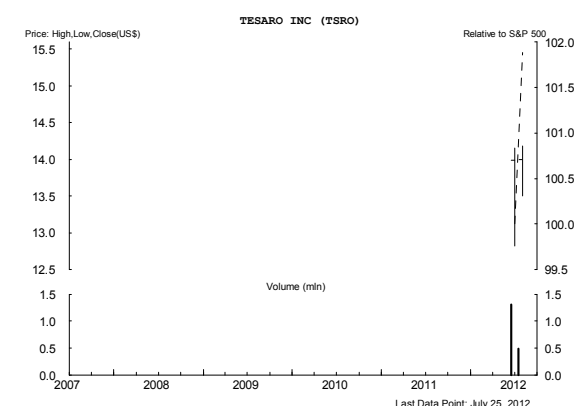
Recommendation

We rate Tesaro **OUTPERFORM**.

Securities Info

Price (26-Jul)	\$13.85	Target Price	\$22
52-Wk High/Low	\$14/\$13	Dividend	--
Mkt Cap (mm)	\$369	Yield	--
Shs O/S (mm, BASIC)	26.7	Float O/S (mm)	6.0
Options O/S (mm)	na	ADVol (30-day, 000s)	3,976

Price Performance



Valuation/Financial Data

(FY-Dec.)	2010A	2011A	2012E	2013E
EPS GAAP	-\$7.61	-\$9.12	-\$22.97	-\$2.30
P/E			nm	nm
First Call Cons.			-\$2.58	-\$2.25
FCF	-\$1.29	-\$14.24	-\$47.73	-\$66.00
P/FCF			nm	nm
EBITDA (\$mm)	-\$8	-\$15	-\$56	-\$64
EV/EBITDA			nm	nm
Rev. (\$mm)	\$0	\$0	\$0	\$0
EV/Rev			na	#DIV/0!
Quarterly EPS	1Q	2Q	3Q	4Q
2011A	-\$1.64	NA	NA	NA
2012E	-\$0.70A	-\$21.31A	-\$0.47	-\$0.49

Balance Sheet Data (31-Mar)

Net Debt (\$mm)	-\$69	TotalDebt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	nm	Price/Book	-0.5x

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.

Save the Date

Biotech Corporate Access Day
With BMO analyst Jim Birchenough
East Coast: July 31, Boston
West Coast: Aug 2, San Francisco

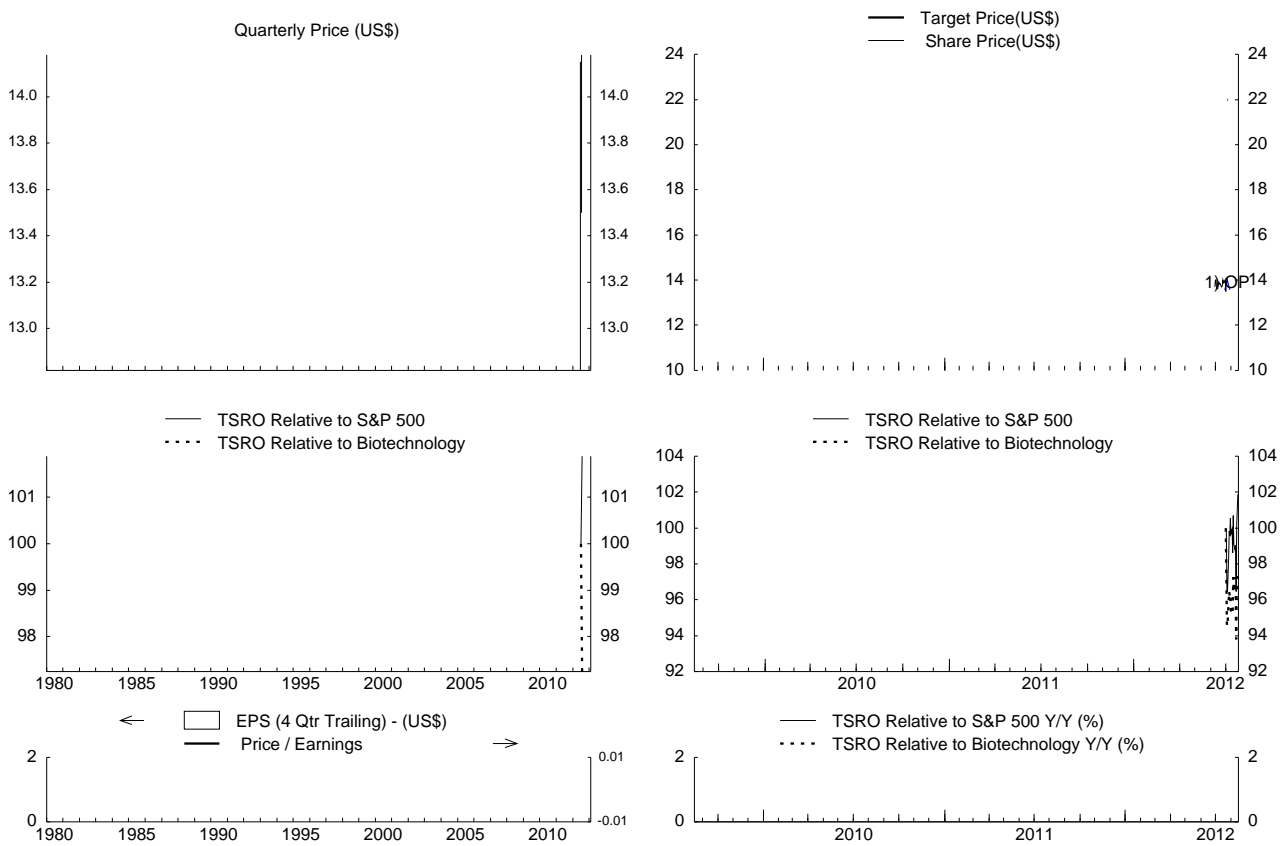
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Exhibit 1: TSRO Income Statement 2011A-2015E

INCOME STATEMENT (\$M)	2011A	1Q12A	2Q12A	3Q12E	4Q12E	2012E	2013E	2014E	2015E
REVENUES									
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43.3
Collaborative Revenues/Milestones	-	-	-	-	-	-	-	-	-
Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43.3
EXPENSES (GAAP)									
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.2
R&D Expense	11.8	8.2	11.5	11.5	12.0	43.2	54.0	66.0	78.0
SG&A Expense	3.2	1.2	1.7	1.3	1.4	5.5	10.0	14.5	53.0
Acquired In-Process R&D	0.5	-	7.0	-	-	7.0	-	-	-
TOTAL EXPENSES	15.4	9.3	20.2	12.8	13.4	55.7	64.0	80.5	131.2
Operating Income	(15.4)	(9.3)	(20.2)	(12.8)	(13.4)	(55.7)	(64.0)	(80.5)	(87.9)
Depreciation and Amortization	-	-	-	-	-	-	-	-	-
EBIT	(15.4)	(9.3)	(20.2)	(12.8)	(13.4)	(55.7)	(64.0)	(80.5)	(87.9)
Interest Income	0.0	0.0	0.0	-	-	0.1	-	-	-
Interest Expense	-	-	-	-	-	-	-	-	-
Other Expense	(1.0)	-	-	-	-	-	-	-	-
Interest and Other (net)	\$ (1.0)	\$ 0.0	\$ 0.0	\$ -	\$ -	\$ 0.1	\$ -	\$ -	\$ -
Pre-Tax Income	(16.4)	(9.3)	(20.2)	(12.8)	(13.4)	(55.7)	(64.0)	(80.5)	(87.9)
Income Taxes	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	(16.4)	(9.3)	(20.2)	(12.8)	(13.4)	(55.7)	(64.0)	(80.5)	(87.9)
EPS (GAAP) (basic)	\$ (9.12)	\$ (0.70)	\$ (21.31)	\$ (0.47)	\$ (0.49)	\$ (22.97)	\$ (2.30)	\$ (2.51)	\$ (2.54)
EPS (GAAP) (diluted)	\$ (9.12)	\$ (0.70)	\$ (21.31)	\$ (0.47)	\$ (0.49)	\$ (22.97)	\$ (2.30)	\$ (2.51)	\$ (2.54)
Reconciliation of Reported GAAP to Non-GAAP									
COGS Stock Compensation Expense	-	-	-	-	-	-	-	-	-
R&D Stock Compensation Expense	-	-	1.0	1.0	1.0	3.0	4.0	4.0	4.0
SG&A Stock Compensation Expense	-	-	1.0	1.0	1.0	3.0	4.0	4.0	4.0
Other Adjustments	-	-	-	-	-	-	-	-	-
Total of Reconciliation Items	-	-	2.0	2.0	2.0	6.0	8.0	8.0	8.0
Net Income (Non-GAAP)	\$ (16.4)	\$ (9.3)	\$ (18.2)	\$ (10.8)	\$ (11.4)	\$ (49.7)	\$ (56.0)	\$ (72.5)	\$ (79.9)
Impact of Adjustments to EPS	-	-	2.11	0.07	0.07	2.26	0.29	0.25	0.23
EPS (Non-GAAP) (basic)	\$ (0.49)	\$ (0.20)	\$ (19.20)	\$ (0.40)	\$ (0.42)	\$ (20.21)	\$ (2.01)	\$ (2.26)	\$ (2.31)
EPS (Non-GAAP) (diluted)	\$ (0.49)	\$ (0.20)	\$ (19.20)	\$ (0.40)	\$ (0.42)	\$ (20.21)	\$ (2.01)	\$ (2.26)	\$ (2.31)
Weighted average shares outstanding (basic)	1.8	13.3	0.9	27.0	27.3	17.1	27.9	32.0	34.6
Weighted average shares outstanding (diluted)	1.8	13.3	0.9	27.0	27.3	17.1	27.9	32.0	34.6

Source: Company reports and BMO Capital Markets estimates.

TESARO INC (TSRO)



TSRO - Rating as of 28-Jun-12 = NR

Date	Rating Change	Share Price
1 24-Jul-12	NR to OP	\$13.90

Last Daily Data Point: July 25, 2012

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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 (June 30, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	14.2%	66.0%	39.7%	49.1%	55.7%
Hold	Market Perform	58.8%	4.6%	31.9%	57.1%	48.6%	39.3%
Sell	Underperform	2.0%	9.1%	2.1%	3.2%	2.3%	5.0%

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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