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Morgan Stanley & Co. LLC

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May 21, 2013

Stock Rating  
**Overweight**

Industry View  
**In-Line**

## Tesaro Inc.

### Positive Netupitant Data Support NK-1 Market

**Impact on our views:** Recently announced positive top-line data from Helsinn/Eisai's pivotal trials for an oral fixed dose combination of netupitant (NK-1 inhibitor) and palonosetron (5-HT3 antagonist) or NEPA for chemotherapy-induced nausea and vomiting (CINV) should drive increased awareness of the NK-1 class and incremental growth of the NK-1 market ahead of Tesaro's oral (1H15) and IV (1H16) rolapitant launches.

**NK-1 market underpenetrated and evolving towards IV administration.** Positive NEPA data showing superiority vs palonosetron on overall/delayed phase complete response rates in HEC/MEC respectively should drive increased visibility for the NK-1 class in the supportive care community. Current NK-1 penetration is just ~17% of the addressable ~5MM CINV treatments in the US annually. Moreover, IMS data show the oral vs IV split for EMEND (Merck's NK-1 inhibitor) is just ~16%/84% with the skew still increasing, limiting risk to Tesaro ahead of Helsinn/Eisai's 2013 launch of NEPA and generic oral EMEND in April 2015.

**Delayed phase nausea protection a key question for NEPA's Phase III MEC data at ASCO** (abstr. LBA9514) with potential read-through for Tesaro's Phase III data (2H13) given rolapitant's ~180-hour half-life vs netupitant's ~75. In the pivotal Phase II HEC trial (abstr. 9512 and US patent 2012/0064153 A1) NEPA showed a 90.4% response rate for no significant nausea in the delayed phase vs 80.9% for palonosetron. Delayed phase nausea control could differentiate NK-1 drugs.

**Monitoring NEPA IV development in US.** NEPA development is one component of Eisai's strategy to protect the US Aloxi (palonosetron) franchise given a 2015 composition of matter patent. Recall, the June 2010 US commercialization agreement between Helsinn and Eisai for NEPA covered both oral and IV forms. We understand from Eisai that an IV version is in "very early stage" development. Tracking a possible IV NEPA could become more relevant for Tesaro longer-term.

#### Key Ratios and Statistics

Reuters: TSRO.O Bloomberg: TSRO US

Biotechnology / United States of America

Shr price, close (May 20, 2013)	\$35.50
Mkt cap, curr (mm)	\$949
52-Week Range	\$37.80-11.05

#### Key Terms

MEC	Moderately Emetogenic Chemotherapy (e.g., anthracycline-based chemotherapy)
HEC	Highly Emetogenic Chemotherapy (e.g., cisplatin-based chemotherapy)
Acute Phase	0-24 Hours post-chemotherapy.
Delayed Phase	25-120 hours post-chemotherapy.
Overall Phase	0-120 hours post-chemotherapy.

Source: Morgan Stanley Research

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(as of April 30, 2013)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1034</b>	<b>36%</b>	<b>399</b>	<b>39%</b>	<b>39%</b>
<b>Equal-weight/Hold</b>	<b>1250</b>	<b>44%</b>	<b>479</b>	<b>47%</b>	<b>38%</b>
<b>Not-Rated/Hold</b>	<b>105</b>	<b>4%</b>	<b>27</b>	<b>3%</b>	<b>26%</b>
<b>Underweight/Sell</b>	<b>473</b>	<b>17%</b>	<b>123</b>	<b>12%</b>	<b>26%</b>
<b>Total</b>	<b>2,862</b>		<b>1028</b>		

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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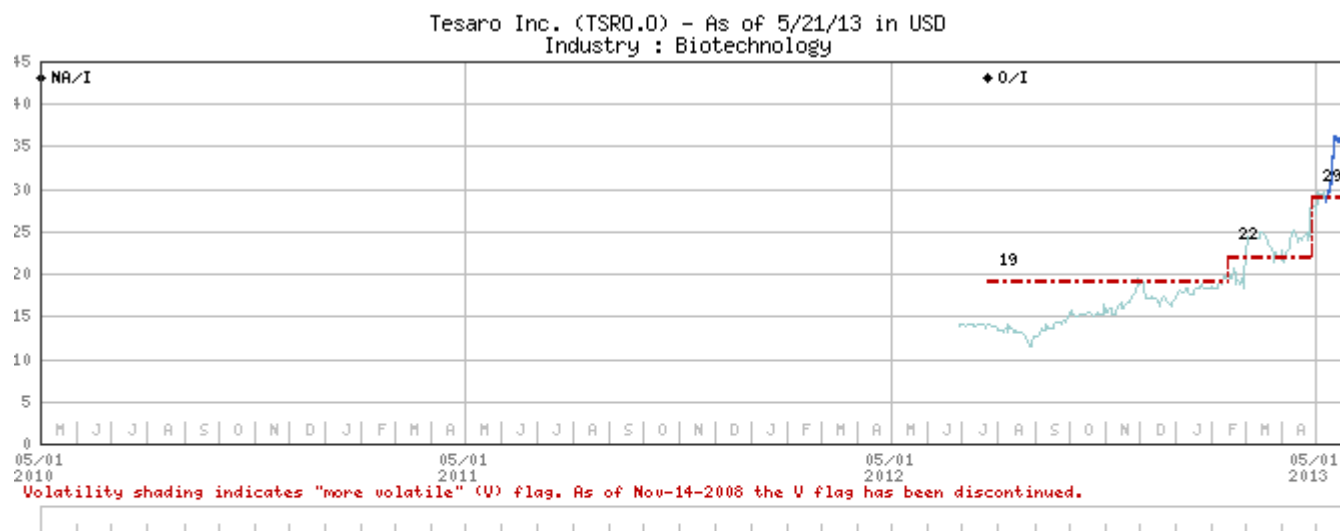
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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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

May 21, 2013

Tesaro Inc.



Stock Rating History: 5/1/10 : NA/I; 7/23/12 : 0/I

Price Target History: 7/23/12 : 19; 2/14/13 : 22; 4/28/13 : 29

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) —  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
 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* (05/20/2013)
<b>David Friedman, M.D.</b>		
AMAG Pharmaceuticals, Inc. (AMAG.O)	E (11/21/2011)	\$24.93
Alexion Pharmaceuticals (ALXN.O)	O (09/07/2010)	\$100.03
Auxilium Pharmaceuticals (AUXL.O)	E (05/03/2013)	\$15.1
Chimerix Inc (CMRX.O)	O (05/06/2013)	\$20.01
Cubist Pharmaceuticals Inc. (CBST.O)	O (10/03/2012)	\$53.48
Elan Corporation PLC (ELN.N)	++	\$12.04
Idenix Pharmaceuticals, Inc. (IDIX.O)	E (03/18/2011)	\$4.06
Incyte Corporation (INCY.O)	U (01/23/2013)	\$23.15
InterMune (ITMN.O)	E (09/07/2010)	\$10.14
Ironwood Pharmaceuticals, Inc. (IRWD.O)	E (04/24/2013)	\$13.83
Lexicon Pharmaceuticals, Inc. (LXRX.O)	E (09/07/2010)	\$2.18
NPS Pharmaceuticals (NPSP.O)	O (10/03/2012)	\$14.11
Synageva Biopharma Corp (GEVA.O)	O (04/20/2012)	\$38.79
Theravance Inc (THRX.O)	++	\$37.01
Vertex Pharmaceuticals (VRTX.O)	E (05/08/2012)	\$77.38
XenoPort Inc (XNPT.O)	E (08/26/2011)	\$5.72
<b>Yigal Nochomovitz, Ph.D.</b>		
Immunogen Inc. (IMGN.O)	E (11/13/2012)	\$17.02
Infinity Pharmaceuticals Inc (INFI.O)	O (02/19/2013)	\$25.61
Pharmacyclics Inc. (PCYC.O)	E (03/19/2013)	\$81.86
Tesaro Inc. (TSRO.O)	O (07/23/2012)	\$35.5
<b>Sara Slifka</b>		
Neurocrine Biosciences Inc (NBIX.O)	O (10/03/2012)	\$12.01
Optimer Pharmaceuticals (OPTR.O)	U (10/03/2012)	\$14.7

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