

October 26, 2012

Tesaro

(TSRO-NASDAQ)

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

Biotechnology

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Chuck Whitesell / Nick Abbott, PhD.

Solid 3Q12 Progress, Multiple Catalysts Ahead in 2013

Event

Tesaro Inc. (TSRO) reported 3Q12 operating results yesterday after market close and provided an update on key activities. Net loss of \$13.6M or (\$0.52) per share was in line with expectations, and the company ended 3Q12 with \$136M in cash, sufficient to fund development through rolapitant NDA filing and pre-launch activities. With the focus on pipeline activities progress with phase 3 enrollment for rolapitant oral remains on track across 2 trials in HEC and 1 trial in MEC with data expected by YE13. The company remains on track to initiate an IV bioequivalence study by YE12 with data presentation likely in 2013. In line with prior guidance TSRO is initiating its phase 1/2 program for second-generation ALK inhibitor TSR-011 with potential to enroll ALK+ patients in phase 1 before expanding to NSCLC ALK+ naïve, NSCLC ALK+ resistant and ALK+ general tumor cohorts. Finally, niraparib development remains on track for trial initiation in 2013, although details on specific tumor populations are yet to be disclosed.

Impact

With solid progress in 3Q12 TSRO is well positioned for significant data flow across multiple potential best-in-class compounds for patients with cancer. We continue to expect rolapitant to differentiate favorably from NK-1 brand leader Emend in patients with highly emetogenic chemotherapy (HEC) and moderately emetogenic chemotherapy (MEC) in terms of faster onset, better effect on nausea, simpler dosing and less drug interaction. While the ALK inhibitor space in NSCLC is becoming more crowded, we expect multiple drugs to be used in sequence and expect TSR-011 to leverage high potency and specificity into a competitive profile. While further behind, niraparib could be the biggest drug for TSRO given broad effects of PARP inhibition across major cancers.

Forecasts

Our 2012 forecast is for a loss per share of \$23.02.

Valuation

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

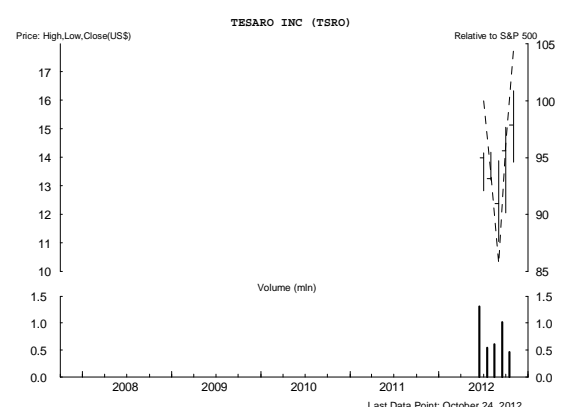
Recommendation

We rate Tesaro **OUTPERFORM**.

Securities Info

Price (25-Oct)	\$15.21	Target Price	\$22
52-Wk High/Low	\$16/\$11	Dividend	--
Mkt Cap (mm)	\$397	Yield	--
Shs O/S (mm, BASIC)	26.1	Float O/S (mm)	6.4
Options O/S (mm)	na	ADVol (30-day, 000s)	45

Price Performance



Valuation/Financial Data

(FY-Dec.)	2010A	2011A	2012E	2013E
EPS GAAP	-\$7.61	-\$9.12	-\$23.02↓	-\$2.30
P/E			nm	nm
First Call Cons.			-\$3.35	-\$2.38
FCF	-\$1.29	-\$14.24	-\$47.73	-\$66.00
P/FCF			nm	nm
EBITDA (\$mm)	-\$8	-\$15	-\$57	-\$65
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	-\$0.52A	-\$0.49

Balance Sheet Data (30-Jun)

Net Debt (\$mm)	-\$69	TotalDebt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	nm	Price/Book	5.9x

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

Annual EPS
2012E -\$22.97 to -\$23.02

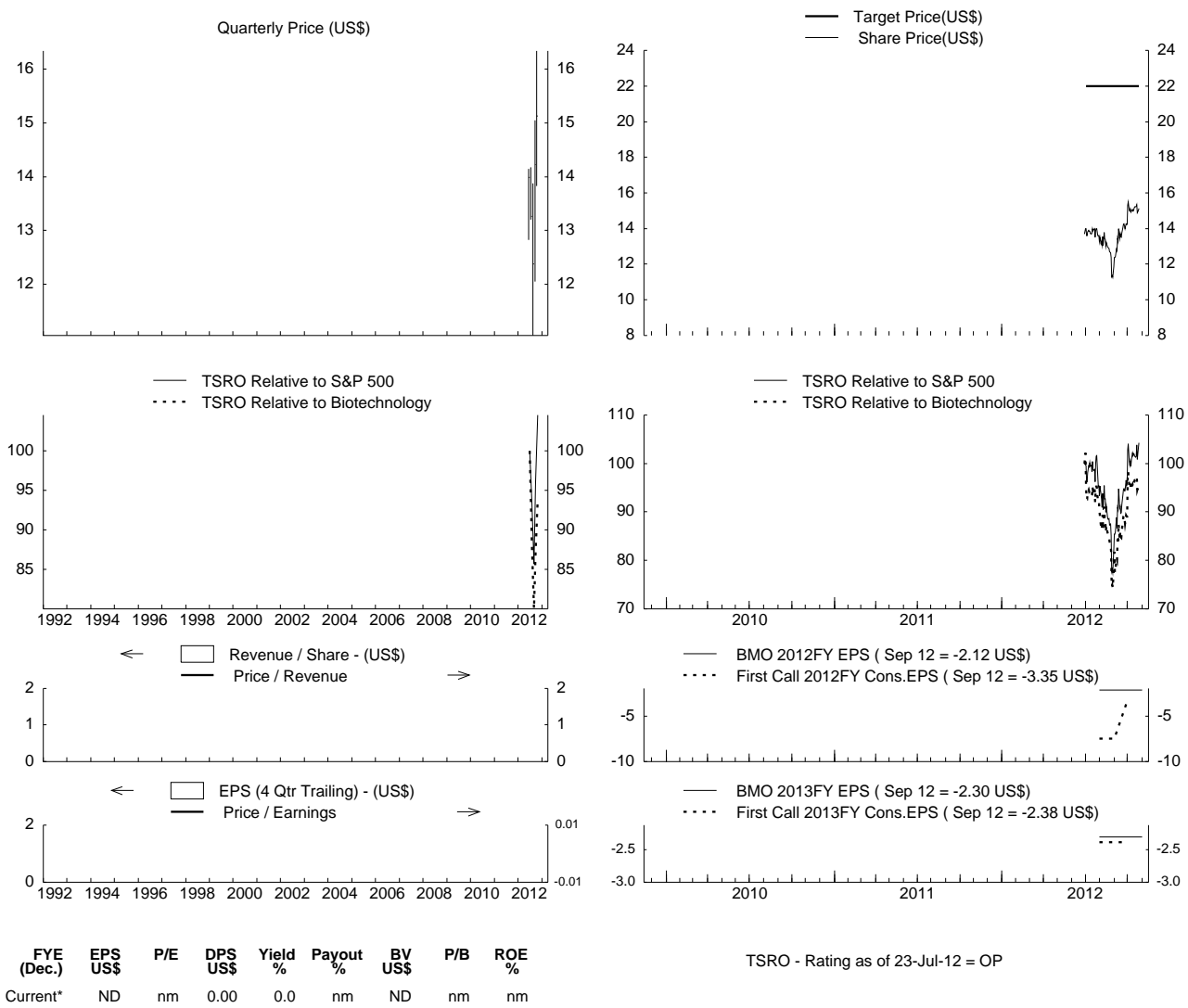
Please refer to pages 3 to 6 for Important Disclosures, including the Analyst's Certification.

Exhibit 1: TSRO Income Statement 2011A-2017E

INCOME STATEMENT (\$M)	2011A	1Q12A	2Q12A	3Q12A	4Q12E	2012E	2013E	2014E	2015E	2016E	2017E
REVENUES											
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43.3	\$ 129.9	\$ 318.4
Collaborative Revenues/Milestones	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43.3	\$ 129.9	\$ 318.4
EXPENSES (GAAP)											
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.2	\$ 0.4	\$ 0.7
R&D Expense	11.8	8.2	11.5	11.9	12.3	43.9	54.8	66.5	78.4	90.6	100.6
SG&A Expense	3.2	1.2	1.7	1.7	1.4	6.0	10.5	14.5	53.0	69.0	112.0
Acquired In-Process R&D	0.5	-	7.0	-	-	7.0	-	-	-	-	-
TOTAL EXPENSES	15.4	9.3	20.2	13.6	13.7	56.9	65.3	81.0	131.6	160.0	213.3
Operating Income	(15.4)	(9.3)	(20.2)	(13.6)	(13.7)	(56.9)	(65.3)	(81.0)	(88.3)	(30.0)	105.1
Depreciation and Amortization	-	-	-	-	-	-	-	-	-	-	-
EBIT	(15.4)	(9.3)	(20.2)	(13.6)	(13.7)	(56.9)	(65.3)	(81.0)	(88.3)	(30.0)	105.1
Interest Income	0.0	0.0	0.0	0.1	0.3	0.4	1.1	0.6	0.6	0.5	0.5
Interest Expense	-	-	-	-	-	-	-	-	-	-	-
Other Expense	(1.0)	-	-	-	-	-	-	-	-	-	-
Interest and Other (net)	\$ (1.0)	\$ 0.0	\$ 0.0	\$ 0.1	\$ 0.3	\$ 0.4	\$ 1.1	\$ 0.6	\$ 0.6	\$ 0.5	\$ 0.5
Pre-Tax Income	(16.4)	(9.3)	(20.2)	(13.6)	(13.4)	(56.5)	(64.2)	(80.4)	(87.7)	(29.6)	105.6
Income Taxes	-	-	-	-	-	-	-	-	-	-	15.8
Net Income (GAAP)	(16.4)	(9.3)	(20.2)	(13.6)	(13.4)	(56.5)	(64.2)	(80.4)	(87.7)	(29.6)	89.8
EPS (GAAP) (basic)	\$ (9.12)	\$ (0.70)	\$ (21.31)	\$ (0.52)	\$ (0.49)	\$ (23.02)	\$ (2.30)	\$ (2.51)	\$ (2.54)	\$ (0.83)	\$ 2.35
EPS (GAAP) (diluted)	\$ (9.12)	\$ (0.70)	\$ (21.31)	\$ (0.52)	\$ (0.49)	\$ (23.02)	\$ (2.30)	\$ (2.51)	\$ (2.54)	\$ (0.83)	\$ 2.35
Total of Reconciliation Items	0.0	-	0.4	2.0	2.0	4.4	8.0	8.0	8.0	8.0	8.0
Net Income (Non-GAAP)	\$ (16.4)	\$ (9.3)	\$ (19.8)	\$ (11.6)	\$ (11.4)	\$ (52.1)	\$ (56.2)	\$ (72.4)	\$ (79.7)	\$ (21.6)	\$ 97.8
Impact of Adjustments to EPS	0.01	-	0.38	0.08	0.07	0.53	0.29	0.25	0.23	0.22	0.21
EPS (Non-GAAP) (basic)	\$ (0.49)	\$ (0.20)	\$ (20.93)	\$ (0.44)	\$ (0.42)	\$ (21.99)	\$ (2.02)	\$ (2.26)	\$ (2.31)	\$ (0.60)	\$ 2.56
EPS (Non-GAAP) (diluted)	\$ (0.49)	\$ (0.20)	\$ (20.93)	\$ (0.44)	\$ (0.42)	\$ (21.99)	\$ (2.02)	\$ (2.26)	\$ (2.31)	\$ (0.60)	\$ 2.56
Weighted average shares outstanding (basic)	1.8	13.3	0.9	26.1	27.3	16.9	27.8	32.0	34.6	36.0	38.0
Weighted average shares outstanding (diluted)	1.8	13.3	0.9	26.1	27.3	16.9	27.8	32.0	34.6	36.0	38.0

Source: Company reports and BMO Capital Markets

Tesaro Inc. (TSRO)



* Current EPS is the 4 Quarter Trailing to Q2/2012.

Last Price (October 24, 2012): \$15.13
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Important Disclosures

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Hold	Market Perform	58.5%	7.9%	39.1%	56.4%	48.5%	40.3%
Sell	Underperform	3.1%	11.8%	3.1%	4.6%	2.0%	5.3%

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

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Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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