



Rating
Buy

North America
United States

Health Care
Biotechnology

Company
Tesaro

Reuters
TSRO.OQ

Bloomberg
TSRO US

Exchange
NMS

Ticker
TSRO

Date
3 June 2013

Forecast Change

Price at 31 May 2013 (USD)	34.21
Price target	80.00
52-week range	35.91 - 11.25

Confidence out of ASCO on cinv and parp biz. New TP \$80.

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We see upside from greater confidence in parps and chance at hitting nausea

At ASCO two new data-points have emerged. 1) Improvement in nausea was seen with another NK1, Netupitant and this has a positive read to tesaro's rolapitant's ability to reduce nausea & 2) Data from a competing parp inhibitor, bmn-673, suggests it is likely not more effective vs. tesaro's niraparib. As tesaro is ahead in development, this bodes well for market uptake of niraparib vs. competition. We are raising our TP to \$80/sh as we model Rolapitant taking 50% share in all eligible CINV patients. We feel confident about our TP as even w/o nausea benefit and 100% probability to PARP we see FV at \$73/sh.

We see higher likelihood of stat sig nausea benefit for Rolapitant

Our checks suggest that Emend (first NK1) did not hit on nausea b/c of lower half life of 9-13 hrs & Netupitant w/ higher 70 hrs half life hitting on nausea endpoint supports this fact. We feel confident about Rolapitant showing nausea benefit as it has even longer half life of 180 hrs and it did show nausea benefit in ph 2. In addition, Rolapitant has no drug-drug interaction which could lead to higher potency. We also note that Netupitant is an oral vs. both Oral & IV formulations for Rolapitant which will help TSRO dominate the markets. Current market split between IV and Oral NK-1 is 80:20.

Increasing peak market share for Rolapitant on confidence in nausea

We are increasing our peak market share for Rolapitant to 50% in all eligible CINV patients and see peak sales at ~\$1B. This adds \$35 to our DCF and we now see FV at \$80/sh for TSRO.

Both BMRN and TSRO PARPs look similar on response rates.

We remain confident on PARP OPP'Y for TSRO BMN-673 and Niraparib look similar on response rate with TSRO in lead. As we highlighted previously that despite higher responses seen with BMN-673 in earlier studies, ph III could look similar. Niraparib's dose limiting tox was on-target myelosuppression and we were expecting bmn-673's to likely be the same at ASCO 2013. Acc to data at ASCO, in ovarian cancer response rates were 39% with BMN-673 in BRCA + which is at par with Niraparib's 37%.

We are splitting the market 50:50 between BMN-673 and Niraparib and our probability adjusted revenues contribute \$22 to our TP. At 100% probability we see FV at \$107/sh.

Raising TP to \$80. Our valuation assumptions

Our TP of \$80 is based on DCF (12.5% disc rate in line with small cap peers and 2% terminal growth as we see value beyond terminal year). Risks: 1) Rolapitant trial fails and it never reaches markets & 2) Niraparib fails in Ph 3.



Model updated: 03 June 2013

Running the numbers

North America

United States

Biotechnology

Tesaro

Reuters: TSRO.OQ

Bloomberg: TSRO US

Buy

Price (31 May 13) USD 34.21

Target Price USD 80.00

52 Week range USD 11.25 - 35.91

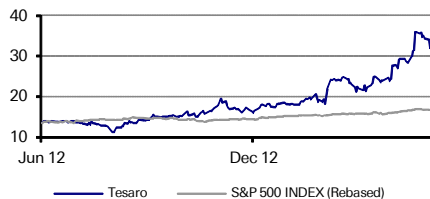
Market Cap (m) USDm 1,088

EURm 837

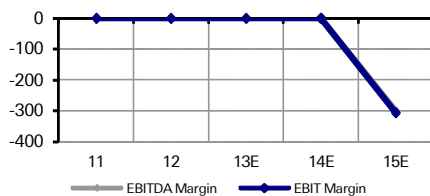
Company Profile

Developing.

Price Performance



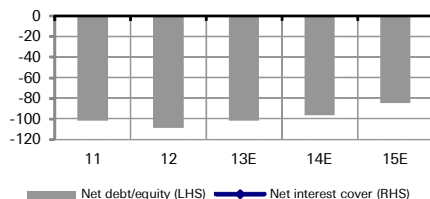
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013E	2014E	2015E
DB EPS (USD)	-31.90	-4.53	-2.85	-3.44	-3.91
Reported EPS (USD)	-31.90	-4.53	-2.85	-3.44	-3.91
DPS (USD)	0.00	0.00	0.00	0.00	0.00
BVPS (USD)	76.43	8.49	3.72	3.71	3.83

Valuation Metrics

Price/Sales (x)	nm	nm	nm	nm	26.6
P/E (DB) (x)	nm	nm	nm	nm	nm
P/E (Reported) (x)	nm	nm	nm	nm	nm
P/BV (x)	0.0	2.0	9.2	9.2	8.9
FCF yield (%)	na	nm	nm	nm	nm
Dividend yield (%)	na	0.0	0.0	0.0	0.0
EV/Sales	nm	nm	nm	nm	24.1
EV/EBITDA	nm	nm	nm	nm	nm
EV/EBIT	nm	nm	nm	nm	nm

Income Statement (USDm)

Sales	0	0	0	0	49
EBITDA	-15	-62	-91	-131	-146
EBIT	-15	-62	-91	-131	-149
Pre-tax profit	-16	-62	-91	-130	-148
Net income	-16	-62	-91	-130	-148

Cash Flow (USDm)

Cash flow from operations	-14	-43	-95	-125	-147
Net Capex	0	0	-2	-10	-15
Free cash flow	-14	-43	-97	-135	-162
Equity raised/(bought back)	52	136	92	150	150
Dividends paid	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0
Other investing/financing cash flows	0	-8	0	0	0
Net cash flow	38	86	-5	15	-12
Change in working capital	0	9	-6	2	-5

Balance Sheet (USDm)

Cash and cash equivalents	40	125	120	135	123
Property, plant & equipment	0	0	2	12	23
Goodwill	0	0	0	0	0
Other assets	3	2	2	3	13
Total assets	43	127	125	150	159
Debt	0	0	0	0	0
Other liabilities	4	12	6	9	14
Total liabilities	4	12	6	9	14
Total shareholders' equity	39	116	118	140	145
Net debt	-40	-125	-120	-135	-123

Key Company Metrics

Sales growth (%)	nm	nm	nm	nm	nm
DB EPS growth (%)	na	85.8	37.1	-20.6	-13.6
Payout ratio (%)	nm	nm	nm	nm	nm
EBITDA Margin (%)	nm	nm	nm	nm	-300.0
EBIT Margin (%)	nm	nm	nm	nm	-307.1
ROE (%)	-41.7	-79.7	-77.5	-100.5	-103.6
Net debt/equity (%)	-101.4	-108.5	-101.7	-96.2	-84.7
Net interest cover (x)	nm	nm	nm	nm	nm

DuPont Analysis

EBIT margin (%)	nm	nm	nm	nm	-307.1
x Asset turnover (x)	0.0	0.0	0.0	0.0	0.3
x Financial cost ratio (x)	1.1	1.0	1.0	1.0	1.0
x Tax and other effects (x)	1.0	1.0	1.0	1.0	1.0
= ROA (post tax) (%)	-38.2	-72.6	-71.9	-94.8	-95.9
x Financial leverage (x)	1.1	1.1	1.1	1.1	1.1
= ROE (%)	-41.7	-79.7	-77.5	-100.5	-103.6
annual growth (%)	na	-91.0	2.8	-29.7	-3.1
x NTA/share (avg) (x)	76.4	5.7	3.7	3.4	3.8
= Reported EPS	-31.90	-4.53	-2.85	-3.44	-3.91
annual growth (%)	na	85.8	37.1	-20.6	-13.6

Source: Company data, Deutsche Bank estimates

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Investment Thesis

Outlook

We rate Tesaro shares Buy because we believe that their lead asset, rolapitant (an NK-1 antagonist), is clinically differentiated from the current therapy on market for chemotherapy induced nausea and vomiting (CINV). We believe that management has material experience in executing launches & building sales forces in CINV. We believe that the CINV market is underpenetrated, and we believe that with mgmt expertise and a differentiated drug that the NK-1 market will grow. We also see value in company's PARP inhibitor, Niraparib, based on encouraging early data. We assign 50% probability to Niraparib in BRCA +ve breast and ovarian cancer & 25% probability to success in Non-gBRCA ovarian cancer.

Valuation

Our target price for Tesaro is based on our discounted cash flow analysis (DCF). In our DCF, we extend our estimates to 2025 and apply a 2% terminal growth rate as we do assign some value to future earlier stage assets. We derive our discount rate of 12.5% by applying a 2.1% premium to the company WACC of 10.4%. The WACC calculation is based on a 2 year weekly Beta of 1.0 from Bloomberg, risk free rate of 2%, and equity risk premium of 8.4%.

Risks

Downside risks include: 1) Lack of efficacy with Ph3 asset rolapitant or earlier stage assets 2) Negative safety surprise with rolapitant or earlier assets 3) Inability to complete Phase 3 program for rolapitant 4) Core leadership management turnover 5) NK-1 market growth is less than expected 6) Failure of Niraparib in Ovarian and Breast cancer.



TESARO .P&L

Figure 1: TESARO Income statement

Summary	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Product Revenues										
Rolapitant										
Rolapitant - US					\$49	\$150	\$322	\$372	\$410	\$423
Rolapitant - EU					\$0	\$19	\$57	\$120	\$134	\$144
Total Rolapitant Sales					\$49	\$169	\$379	\$491	\$544	\$567
PARP Inhibitor										
PARP Inh -US						\$11	\$32	\$72	\$104	\$126
PARP Inh - ex US						\$6	\$24	\$55	\$73	\$90
PARP	\$0	\$0	\$0	\$0	\$0	\$16	\$56	\$127	\$177	\$216
ALK Inhibitor										
ALK Inh -US										
ALK Inh - ex US										
PARP	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Revenues										
Royalties on Ex US and ex EU Rola sales	\$0	\$0	\$0	\$0	\$0	\$3	\$8	\$16	\$18	\$19
Milestone	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenues	\$0	\$0	\$0	\$0	\$49	\$188	\$443	\$634	\$739	\$802
Expenses										
COGS	\$0	\$0	\$0	\$0	\$12	\$37	\$78	\$105	\$115	\$117
as % of product revenues					25%	20%	18%	17%	16%	15%
R&D expenses	\$12	\$47	\$71	\$92	\$104	\$108	\$111	\$113	\$114	\$115
as % of total revenues			NA	NA	213%	57%	25%	18%	15%	14%
growth		301%	51%	30%	12%	4%	3%	2%	1%	1%
SG&A	\$3	\$7	\$10	\$29	\$72	\$115	\$129	\$135	\$140	\$144
as % of total revenues		#DIV/0!	NA	NA	148%	61%	29%	21%	19%	18%
growth		113%	43%	200%	150%	60%	12%	5%	3%	3%
Other Operating Expenses	\$1	\$8	\$10	\$10	\$10	\$0	\$0	\$0	\$0	\$0
Operating Income	-\$15	-\$62	-\$91	-\$131	-\$149	-\$72	\$125	\$280	\$370	\$425
Operating Margin					-307%	-38%	28%	44%	50%	53%
Other income/expenses	-\$1	\$0	\$0	\$1	\$1	\$1	\$0	\$1	\$4	\$6
Pre-tax Income	-\$16	-\$62	-\$91	-\$130	-\$148	-\$71	\$125	\$281	\$373	\$432
Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$86	\$151
tax rate%	0%	0%	0%	0%	0%	0%	0%	0%	23%	35%
Net Income	-\$16.4	-\$62	-\$91	-\$130	-\$148	-\$71	\$125	\$281	\$287	\$281
F.D. EPS	-\$31.90	-\$4.53	-\$2.85	-\$3.44	-\$3.91	-\$1.74	\$3.07	\$6.89	\$7.04	\$6.88
Basic Sharecount	0.5	14	32	38	38	41	41	41	41	41
F.D. Sharecount	0.5	14	32	38	38	41	41	41	41	41

Source: Deutsche Bank



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Tesaro	TSRO.OQ	34.21 (USD) 31 May 13	1,2,7

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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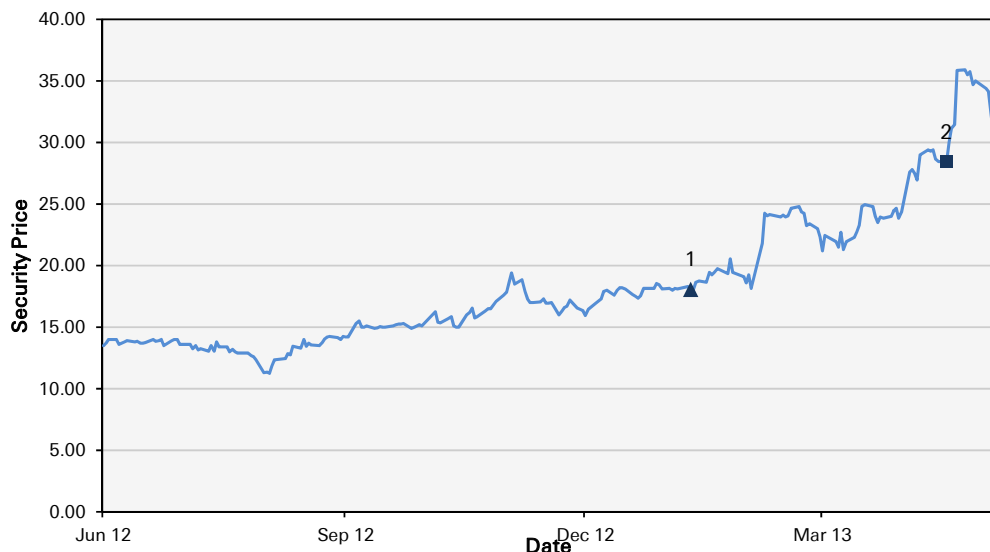
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Historical recommendations and target price: Tesaro (TSRO.OQ)

(as of 5/31/2013)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

- | | |
|---|--|
| 1. 02/05/2013: Upgrade to Buy, Target Price Change USD27.00 | 2. 05/13/2013: Buy, Target Price Change USD45.00 |
|---|--|

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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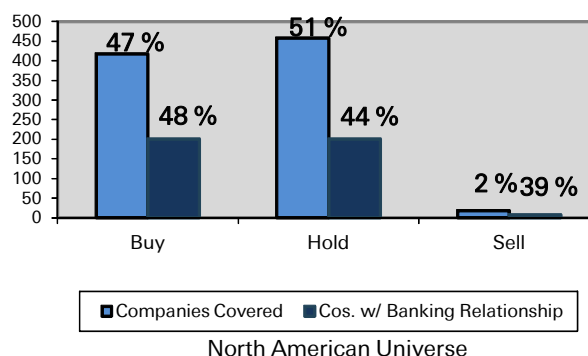
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Equity rating dispersion and banking relationships





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