

Tesaro

(TSRO-NASDAQ)

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

Solid 1Q13 Progress, Multiple Catalysts Ahead

Event

Tesaro, Inc (TSRO) reported 1Q13 results yesterday after market close and provided an update on key initiatives. A net loss of \$18.9M was in line with expectations, and TSRO ended 1Q13 with \$198.6M in cash. With the focus on pipeline development, TSRO remains on track to report phase 3 data from three separate trials of oral rolapitant for CINV in 2H13 with advancement of rolapitant IV targeted for regulatory submission on oral approval. Development of PARP inhibitor niraparib is also on track with phase 3 initiation as maintenance therapy in germ-line BRCA+ and non-germ-line BRCA+ ovarian Ca by mid-2013. TSRO also announced the planned initiation of a 300-patient phase 3 trial for niraparib in patients with advanced BRCA+ breast Ca in 2H13. The trial is designed to compare niraparib versus chemotherapy in patients receiving prior anthracycline and taxane therapy and with a primary endpoint of PFS and 95% power to demonstrate a 50% improvement. Finally, TSRO has moved ALK inhibitor TSR-011 into a fifth dose cohort where plasma levels are above that required for target inhibition.

Impact

We are maintaining our Outperform rating on shares of TSRO following the positive 1Q13 update. We continue to expect positive phase 3 data for rolapitant oral with differentiated profile in CINV. With an increasing focus on targeted drug development, we expect a meaningful data update at ASCO in June to support activity of niraparib in BRCA+ breast CA and to provide better visibility on a significant incremental opportunity in an incident population of ~15,000 patients per year in the US alone. Finally, with little value attached to TSR-011, we are encouraged by progress with dose escalation and believe that multiple ALK inhibitors may be utilized sequentially and provide another opportunity for TSR-011.

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 Outperform.

April 26, 2013

Biotechnology

Jim Birchenough, M.D.

BMO Capital Markets Corp.

415-591-2129

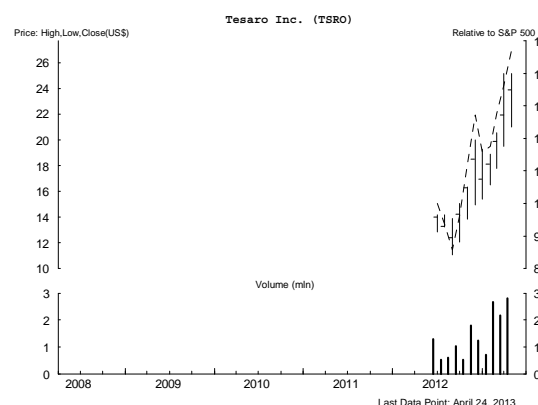
jim.birchenough@bmo.com

Chuck Whitesell / Nick Abbott, PhD.

Securities Info

Price (25-Apr)	\$24.40	Target Price	\$36
52-Wk High/Low	\$25/\$11	Dividend	--
Mkt Cap (mm)	\$795	Yield	--
Shs O/S (mm, BASIC)	32.6	Float O/S (mm)	13.9
Options O/S (mm)	na	ADVol (30-day, 000s)	135

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.			-\$2.71	-\$2.42
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-Dec)				
Net Debt (\$mm)	-\$199		Total Debt/EBITDA	nm
Total Debt (\$mm)	\$0		EBITDA/IntExp	na
Net Debt/Cap.	nm		Price/Book	5.7x

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
2013E -\$2.35 to -\$2.70
2014E -\$2.57 to -\$2.88

Quarterly EPS
Q2/13E -\$0.58 to -\$0.65
Q3/13E -\$0.60 to -\$0.67
Q4/13E -\$0.65 to -\$0.73

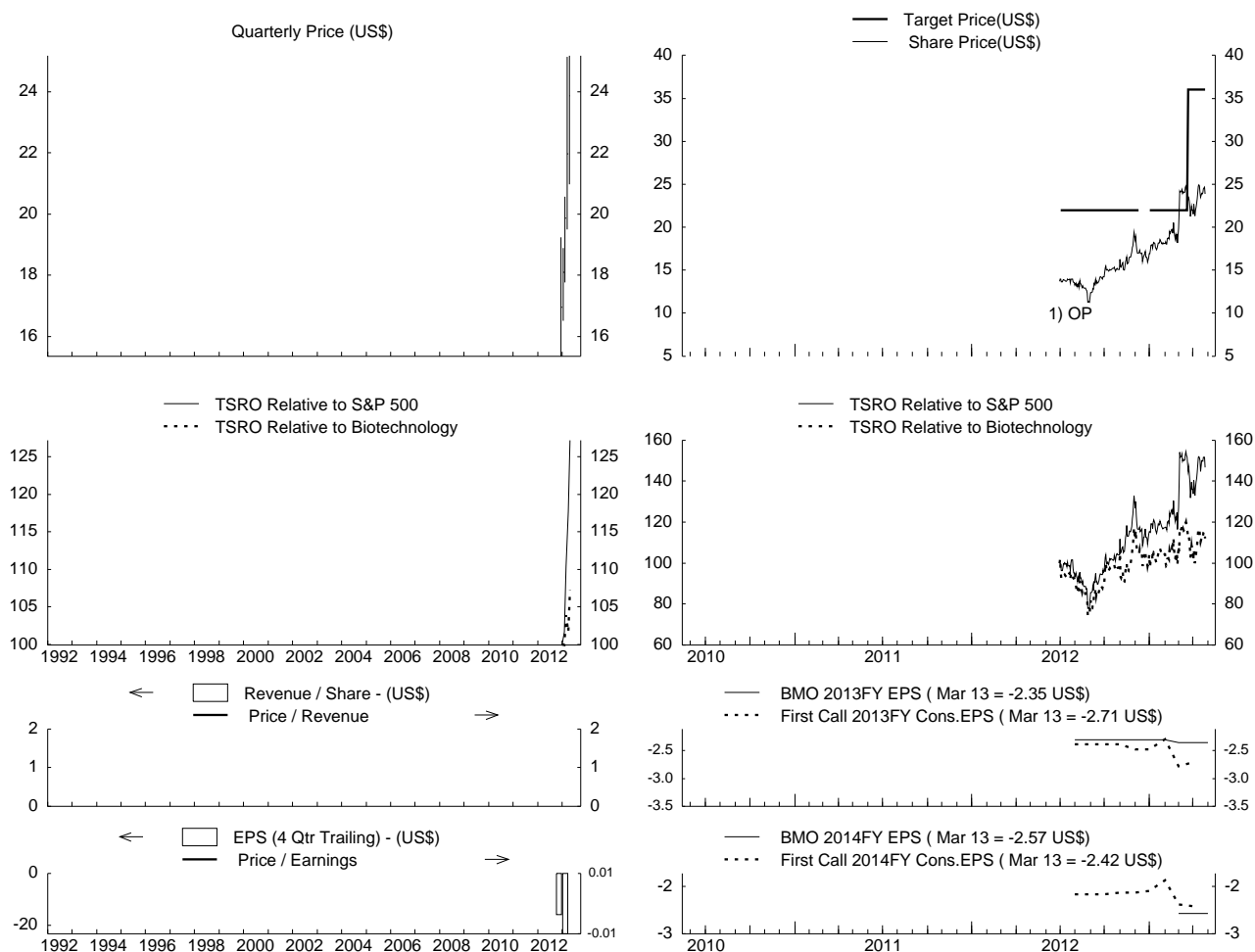
Please refer to pages 3 to 6 for Important Disclosures, including the Analyst's Certification.

Exhibit 1: TSRO Income Statement 2012A-2017E

INCOME STATEMENT (\$M)	2012A	1Q13E	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E
REVENUES										
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43.3	\$ 129.9	\$ 474.4
Collaborative Revenues/Milestones	-	-	-	-	-	-	-	-	-	-
Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43.3	\$ 129.9	\$ 474.4
EXPENSES (GAAP)										
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.2	\$ 0.5	\$ 1.7
R&D Expense	47.2	16.5	14.2	15.0	16.0	61.7	67.5	88.9	93.4	146.3
SG&A Expense	6.7	2.4	5.0	5.0	6.0	18.4	30.4	40.0	52.0	159.0
Acquired In-Process R&D	8.0	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	61.9	18.9	19.2	20.0	22.0	80.1	97.9	129.1	145.8	307.0
Operating Income	(61.9)	(18.9)	(19.2)	(20.0)	(22.0)	(80.1)	(97.9)	(85.8)	(15.9)	167.4
Depreciation and Amortization	-	-	-	-	-	-	-	-	-	-
EBIT	(61.9)	(18.9)	(19.2)	(20.0)	(22.0)	(80.1)	(97.9)	(85.8)	(15.9)	167.4
Interest Income	0.2	0.0	0.5	0.4	0.4	1.3	1.1	1.0	0.9	1.2
Interest Expense	-	-	-	-	-	-	-	-	-	-
Other Expense	-	-	-	-	-	-	-	-	-	-
Interest and Other (net)	\$ 0.2	\$ 0.0	\$ 0.5	\$ 0.4	\$ 0.4	\$ 1.3	\$ 1.1	\$ 1.0	\$ 0.9	\$ 1.2
Pre-Tax Income	(61.8)	(18.9)	(18.7)	(19.6)	(21.6)	(78.8)	(96.8)	(84.9)	(15.0)	168.6
Income Taxes	-	-	-	-	-	-	-	-	-	33.7
Net Income (GAAP)	(61.8)	(18.9)	(18.7)	(19.6)	(21.6)	(78.8)	(96.8)	(84.9)	(15.0)	134.9
EPS (GAAP) (basic)	\$ (4.51)	\$ (0.66)	\$ (0.65)	\$ (0.67)	\$ (0.73)	\$ (2.70)	\$ (2.88)	\$ (2.34)	\$ (0.40)	\$ 3.35
EPS (GAAP) (diluted)	\$ (4.51)	\$ (0.66)	\$ (0.65)	\$ (0.67)	\$ (0.73)	\$ (2.70)	\$ (2.88)	\$ (2.34)	\$ (0.40)	\$ 3.35
Total of Reconciliation Items	1.8	2.0	2.0	2.0	2.0	8.0	8.0	8.0	8.0	8.0
Net Income (Non-GAAP)	\$ (60.0)	\$ (16.9)	\$ (16.7)	\$ (17.6)	\$ (19.6)	\$ (70.8)	\$ (88.8)	\$ (76.9)	\$ (7.0)	\$ 142.9
Impact of Adjustments to EPS	0.73	0.07	0.07	0.07	0.07	0.27	0.24	0.22	0.21	0.20
EPS (Non-GAAP) (basic)	\$ (22.30)	\$ (0.59)	\$ (0.58)	\$ (0.60)	\$ (0.66)	\$ (2.42)	\$ (2.64)	\$ (2.12)	\$ (0.19)	\$ 3.55
EPS (Non-GAAP) (diluted)	\$ (22.30)	\$ (0.59)	\$ (0.58)	\$ (0.60)	\$ (0.66)	\$ (2.42)	\$ (2.64)	\$ (2.12)	\$ (0.19)	\$ 3.55
Weighted average shares outstanding (basic)	13.7	28.8	29.0	29.3	29.7	29.2	33.6	36.3	37.8	40.1
Weighted average shares outstanding (diluted)	13.7	28.8	29.0	29.3	29.7	29.2	33.6	36.3	37.8	40.1

Source: Company reports and BMO Capital Markets

Tesaro Inc. (TSRO)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
2012	-4.51	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*	-23.23	ND	0.00	0.0	0	4.3	5.2	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 Q4/2012.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (April 24, 2013): \$23.87
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

Important Disclosures

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I, Jim Birchenough, M.D., hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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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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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;

(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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