

Morgan Stanley & Co. LLC

Marshall Urist, M.D., Ph.D.

Marshall.Urist@morganstanley.com
+1 212 761 8055

David Friedman, M.D.

David.Friedman@morganstanley.com

Yigal Nochomovitz, Ph.D.

Yigal.Nochomovitz@morganstanley.com
+1 212 761 0790

Tracy Huang

October 25, 2012

Stock Rating
Overweight

Industry View
In-Line

Tesaro Inc. Pipeline Making Progress

The quarter was uneventful, but the pipeline behind rolapitant is gaining momentum with the niraparib (the PARP inhibitor program) development plan expected soon and TSR-011 (the ALK inhibitor program) about to begin dosing in Phase I/II.

Snapshot of quarter. R&D was \$11.9MM vs MSe of \$16MM and G&A of \$1.7MM vs. MSe of \$2.2 MM for a net loss per share of \$0.52 versus MSe of \$0.66. Tesaro ended 3Q with ~\$139MM in cash. We are making no major changes to our model.

Niraparib development plan the next catalyst.

Clarity on the niraparib development plan is the next event for the stock before year-end. We expect a focus on breast, gastric, lung and/or ovarian cancers consistent with previous commentary and the key question will be if a rapid path to a pivotal trial exists likely in BRCA1/2 mutation breast or ovarian cancers where PARP inhibitors have shown single agent activity.

TSR-011 underway but differentiation the question.

Tesaro is screening patients for the Phase I/II trial with a starting dose of 30 mg. Following MTD determination, the trial will expand to three cohorts including 1) ALK inhibitor naïve ALK+ non-small cell lung cancer, 2) ALK inhibitor experienced ALK+ non-small cell lung cancer, and 3) other ALK+ tumor types. TSR-011 shows high in-vitro potency but ALK inhibitors from Ariad and Novartis among others are well ahead, creating an unclear competitive outlook.

Rolapitant on track. The Phase I trial for the IV formulation should begin shortly. Data from this trial will be key to formalizing the approval path in 2013/2014.

Other events to watch in 4Q12 1) Phase I update for BioMarin's PARP inhibitor BMN-673 in solid tumors and 2) Eisai/Helsinn's Phase III trial for the NK-1 inhibitor netupitant combined with Aloxi in moderately emetogenic chemotherapy (according to clinicaltrials.gov).

Key Ratios and Statistics

Reuters: TSRO.O Bloomberg: TSRO US

Biotechnology / United States of America

Price target	\$19.00
Shr price, close (Oct 25, 2012)	\$15.21
Mkt cap, curr (mm)	\$398
52-Week Range	\$16.34-11.05

Fiscal Year ending	12/11	12/12e	12/13e	12/14e
ModelWare EPS (\$)	(0.32)	(2.39)	(2.63)	(2.29)
Prior ModelWare EPS (\$)	-	(2.56)	(2.51)	(2.29)
P/E	NM	NM	NM	NM
Consensus EPS (\$)	-	(3.35)	(2.38)	(2.16)
Div yld (%)	0.0	0.0	0.0	0.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

\$ = Consensus data is provided by Thomson Reuters Estimates.

e = Morgan Stanley Research estimates

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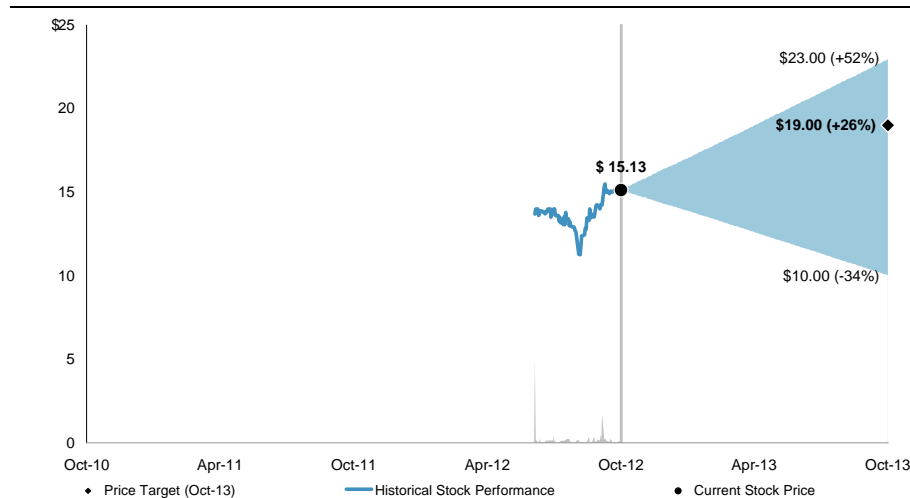
For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

October 25, 2012

Tesaro Inc.

Risk-Reward Snapshot: Tesaro (TSRO, Overweight, \$19 Price Target)

Risk-Reward View: Rolapitant the Focus but Early-Stage Pipeline Can Create Value



Source: Thomson Reuters, Morgan Stanley Research estimates

Price Target \$19		Based on base case scenario. PT is derived from a DCF analysis, which assumes a discount rate of 17.5% and no terminal value.
Bull Case \$23	DCF-based Valuation	Rolapitant ~\$500-600 MM in peak sales, Pipeline Delivers CINV Franchise: Rolapitant achieves differentiated efficacy tripling the NK-1 market Pipeline: Same as base case
Base Case \$19	DCF-based Valuation	Rolapitant reaches ~\$325 MM in sales, Pipeline a Toss-Up CINV Franchise: Management succeeds in matching the success with Aloxi and converts Rolapitant into a \$325MM drug with the NK-1 market doubling in size Pipeline: Niraparib succeeds in Phase II (included in our model) or ALK shows a favorable benefit/risk profile in Phase I
Bear Case \$10	DCF-based Valuation	Rolapitant Disappoints, No Pipeline Success CINV Franchise: Rolapitant reaches only \$150-200 MM in sales on just ~25% penetration of NK-1 inhibitor market and minimal expansion of the NK-1 market despite significant commercial efforts Pipeline: Both niraparib and ALK fail to deliver

Investment Thesis

- Lower-risk lead asset rolapitant has a high probability of meeting Phase III endpoints in 2H13
- NK-1 Inhibitors are a validated drug class for CINV with significant market growth potential
- Management team has deep experience in supportive care
- Cancer therapeutics pipeline is early but interesting

Key Value Drivers & Debates

- Degree of differentiation between Rolapitant and Merck's EMEND is a key question
- ALK program is early with a crowded development landscape

- Clarity on trials plan for niraparib

Key Risks

- Phase II for Rolapitant was only in HEC (Highly Emetogenic Chemotherapy) population
- Generic versions of EMEND and competition from Helsinn/Eisai
- IV Rolapitant is key commercial driver but will not launch until 2015
- NK-1 inhibitor market needs to grow
- Competitive landscape for pipeline

Key Catalysts

Niraparib development plan – 4Q12
 Eisai/Helsinn's netupitant Phase III in MEC – 4Q12
 IV rolapitant Phase I initiation – 4Q12
 TSR-011 Phase I initiation – 4Q12
 TSR-011 Phase I data – 2013 (MSe)
 Niraparib Phase II data – 2013 (MSe)
 Rolapitant Phase III data – 2H13

October 25, 2012

Tesaro Inc.

Valuation

DCF supports \$19 per share price target

Discounted cash flow is our primary valuation metric for TSRO. We view this as appropriate given still long timelines to Phase III data for rolapitant (2H13) and commercialization in late 2014 and late 2015 for the oral and IV forms respectively. Our model includes rolapitant and niraparib. We model each drug to their respective patent lives (including term extension) or 2030 for rolapitant and 2033 for niraparib.

We do not include any terminal value meaning R&D spend on TSR-011 (~\$22 MM annually between 2019 and 2029) is modestly dilutive to our valuation. That said, we assume the rolapitant commercial infrastructure is largely leveragable for niraparib. We include an additional \$7-\$14 MM in SG&A in connection with the niraparib launch.

Exhibit 1

DCF Supports \$19 per share in 12 Months

Discounted Cash Flow (\$MM):	
WACC Applied (%)	17.5%
Discounted Net Cash Flow	\$360
Terminal Value	\$0
Firm Value	\$360
Cash	\$147
Equity Value	\$507
Shares Outstanding (MM)	26.1
Equity Value per Share (\$)	\$19

Source: Company Data, Morgan Stanley Research estimates

We use a relatively high discount rate of 17.5% to reflect: 1) the commercial risks facing rolapitant including generic EMEND, 2) Phase III risks for the rolapitant, and 3) the earlier stage of the therapeutics pipeline including niraparib, which has only completed Phase I so significant risks remain.

Key Risks to Our Price Target

There are several risks to our valuation: 1) Generic versions of oral EMEND are expected in 2015 and oral rolapitant is launching just 1 year earlier, 2) IV rolapitant launch in 2015 is a key commercial driver for supportive care program and IV EMEND goes generic in 2019, 3) adoption of rolapitant among community physicians may be challenging since use of NK-1 inhibitors in this setting is more limited currently, 4) intense competitive landscape for cancer therapeutics assets with several programs more advanced in development by companies with greater resources, 5) Tesaro will likely require additional capital prior to reaching sustainable profitability.

October 25, 2012

Tesaro Inc.

Exhibit 2

Income Statement

(Dollars in millions, except per share data)

Fiscal year ends Dec. 31

	2011A	1Q12A	2Q12A	3Q12A	4Q12E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Rolapitant Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10	\$40	\$124	\$213	\$314	\$294	\$310	\$324	\$326	\$328	\$329	\$331	\$333	\$334	\$336	\$20
TSR-011 Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Niraparib Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$57	\$96	\$162	\$194	\$214	\$240	\$267	\$279	\$290	\$298	\$306	\$315	\$324
Other Revenue	\$0	\$0	\$0	\$0	\$0	\$2.5	\$10	\$5	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenue	\$0	\$0	\$0	\$0	\$0	\$3	\$20	\$45	\$124	\$271	\$410	\$456	\$504	\$539	\$566	\$595	\$608	\$621	\$631	\$641	\$651	\$651	\$344
% Growth y/y		NM	NM	NM	NM	NM	NM	700.4%	125.4%	175.2%	118.0%	51.6%	11.3%	10.5%	6.8%	5.1%	5.1%	2.1%	2.2%	1.6%	1.6%	1.7%	-47.2%
Cost of Sales																							
COGS	\$0	0	0	0	0	\$0	\$0	\$2	\$7	\$21	\$51	\$81	\$70	\$77	\$79	\$82	\$87	\$89	\$91	\$93	\$94	\$96	\$55
% of revenue	NM	NM	NM	NM	NM	NM	NM	17.0%	17.0%	17.0%	23.9%	25.7%	23.8%	25.0%	24.5%	25.3%	26.6%	27.0%	27.5%	27.8%	28.2%	28.5%	277.7%
Gross Profit	\$0	0	0	0	0	\$3	\$18	\$38	\$103	\$219	\$329	\$386	\$427	\$459	\$484	\$508	\$519	\$530	\$538	\$547	\$555	\$555	\$289
Gross Margin	NM	NM	NM	NM	NM	NM	NM	91.5%	84.9%	83.0%	81.1%	80.3%	84.6%	84.6%	85.3%	85.4%	85.4%	85.4%	85.3%	85.3%	85.3%	85.3%	84.1%
R&D	\$12	8.2	18.5	11.9	17.8	\$56	\$67	\$70	\$45	\$43	\$59	\$27	\$22	\$22	\$22	\$22	\$22	\$22	\$22	\$22	\$22	\$22	\$22
% of revenue	NM	NM	NM	NM	NM	NM	2675%	350%	100%	35%	22%	7%	5%	4%	4%	4%	4%	4%	3%	3%	3%	6%	
SG&A Total	\$3	1	2	2	2	\$7	\$9	\$26	\$42	\$50	\$83	\$119	\$129	\$133	\$130	\$132	\$103	\$101	\$80	\$65	\$64	\$54	\$50
% of revenue	NM	NM	NM	NM	NM	NM	341%	130%	93%	40%	31%	29%	28%	26%	24%	23%	17%	17%	13%	10%	10%	8%	15%
Sales & Marketing	\$0	0	0	0	0	\$0	\$0	\$15	\$30	\$37	\$56	\$78	\$88	\$88	\$81	\$81	\$55	\$59	\$50	\$40	\$38	\$34	\$30
% of revenue	NM	NM	NM	NM	NM	NM	0%	75%	66%	30%	21%	19%	19%	17%	15%	14%	9%	10%	8%	6%	6%	5%	9%
G&A	\$3	1.2	1.7	1.7	2.0	\$7	\$9	\$11	\$12	\$12	\$27	\$41	\$41	\$45	\$48	\$51	\$48	\$43	\$30	\$25	\$26	\$20	\$20
% of revenue	NM	NM	NM	NM	NM	NM	341%	55.0%	26.6%	10.0%	10.0%	10.0%	9.0%	9.0%	9.0%	8.0%	7.0%	4.8%	4.0%	4.0%	3.0%	12%	
Total Operating Expenses	\$15	9	20	14	20	\$63	\$75	\$96	\$87	\$93	\$142	\$146	\$151	\$155	\$152	\$154	\$125	\$123	\$102	\$87	\$86	\$76	\$72
Operating Income (Loss)	(\$15)	(\$9)	(\$20)	(\$14)	(\$20)	(\$63)	(\$73)	(\$78)	(\$48)	\$11	\$77	\$184	\$236	\$272	\$308	\$330	\$383	\$395	\$428	\$451	\$461	\$480	\$217
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	10.2%	35.2%	55.8%	61.0%	63.7%	67.0%	68.1%	75.5%	76.2%	80.8%	83.8%	84.3%	86.4%	75.1%
Interest, Other Income	\$0	0.02	0.04	0.05	0.32	\$0	\$1	\$1	\$0	\$0	\$0	\$1	\$2	\$3	\$3	\$5	\$6	\$7	\$8	\$10	\$11	\$13	\$14
Interest, Other Expense	\$0	0	0	0	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other income (expense), net	(\$1)	0	0	0	0	\$0	\$1	\$1	\$0	\$0	\$0	\$1	\$2	\$3	\$3	\$5	\$6	\$7	\$8	\$10	\$11	\$13	\$14
Pretax Income (Loss)	(\$16)	(\$9)	(\$20)	(\$14)	(\$19)	(\$62)	(\$72)	(\$77)	(\$48)	\$11	\$78	\$184	\$237	\$275	\$311	\$334	\$389	\$402	\$436	\$461	\$472	\$493	\$231
Provision for Income Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4	\$28	\$59	\$96	\$109	\$117	\$136	\$141	\$153	\$161	\$165	\$172	\$81
Effective Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	5.0%	15.0%	25.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net Income	(\$16.4)	(\$9.3)	(\$20.2)	(\$13.6)	(\$19.4)	(\$62.5)	(\$72.2)	(\$77.1)	(\$48.1)	\$10.9	\$73.7	\$156.8	\$178.0	\$178.5	\$202.2	\$217.1	\$252.9	\$261.5	\$283.5	\$299.4	\$306.9	\$320.3	\$150.4
Net Income, Fully Taxed	(\$16.4)	(\$9.3)	(\$20.2)	(\$13.6)	(\$19.4)	(\$62.5)	(\$72.2)	(\$77.1)	(\$48.1)	\$10.9	\$50.5	\$119.9	\$154.3	\$178.5	\$202.2	\$217.1	\$252.9	\$261.5	\$283.5	\$299.4	\$306.9	\$320.3	\$150.4
Basic EPS			(\$21.31)	(\$0.52)	(\$0.74)	(\$2.39)	(\$2.63)	(\$2.29)	(\$1.36)	\$0.29	\$1.33	\$3.09	\$3.90	\$4.42	\$4.91	\$5.17	\$5.90	\$5.98	\$6.36	\$6.58	\$6.61	\$6.77	\$3.12
Diluted EPS			(\$21.31)	(\$0.52)	(\$0.74)	(\$2.39)	(\$2.63)	(\$2.29)	(\$1.36)	\$0.29	\$1.84	\$3.85	\$4.28	\$4.21	\$4.67	\$4.92	\$5.62	\$5.70	\$6.05	\$6.27	\$6.30	\$6.44	\$2.97
Diluted EPS, Fully Taxed			(\$21.31)	(\$0.52)	(\$0.74)	(\$2.39)	(\$2.63)	(\$2.29)	(\$1.36)	\$0.29	\$1.26	\$2.94	\$3.71	\$4.21	\$4.67	\$4.92	\$5.62	\$5.70	\$6.05	\$6.27	\$6.30	\$6.44	\$2.97

Source: Company Data, Morgan Stanley Research estimates

October 25, 2012

Tesaro Inc.

Exhibit 3

Balance Sheet

(Dollars in millions, except per share data)
Fiscal year ends Dec. 31

	2011A	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Assets																			
Cash & Marketable Securities	\$40	\$121	\$153	\$81	\$78	\$70	\$104	\$235	\$421	\$594	\$795	\$1,013	\$1,259	\$1,520	\$1,800	\$2,097	\$2,403	\$2,721	\$2,935
Cash and cash equivalents	40	121	153	81	78	70	104	235	421	594	795	1,013	1,259	1,520	1,800	2,097	2,403	2,721	2,935
Marketable securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.7	3.6	9.9	16.2	20.5	22.8	25.2	24.2	22.6	23.8	24.3	24.8	25.2	25.6	26.1	13.8
Accounts receivable	0.0	0.0	0.2	1.4	4.5	12.4	27.1	36.9	41.1	45.4	48.5	51.0	53.5	54.7	55.9	56.8	57.7	58.6	30.9
Prepaid expenses and other current assets	2.6	3.0	4.0	4.5	4.5	11.2	18.9	24.6	27.4	30.3	32.3	34.0	35.7	36.5	37.3	37.8	38.4	39.1	20.6
Total current assets	\$42	\$124	\$157	\$87	\$91	\$104	\$166	\$317	\$512	\$695	\$900	\$1,121	\$1,372	\$1,636	\$1,918	\$2,217	\$2,525	\$2,844	\$3,000
Restricted cash	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Property and equipment, net	0.1	0.3	0.6	1.0	2.9	5.1	8.6	12.1	15.7	19.6	23.5	27.5	31.4	35.2	38.7	42.1	45.2	48.2	47.8
Other assets	0.1	0.2	0.3	0.4	0.4	1.0	1.9	2.9	3.2	3.5	3.8	4.0	4.2	4.3	4.3	4.4	4.5	4.6	2.4
Total assets	\$43	\$125.1	\$158.5	\$88.8	\$93.9	\$109.7	\$177.1	\$332.4	\$530.9	\$717.7	\$927.1	\$1,152.2	\$1,407.8	\$1,675.3	\$1,961.4	\$2,263.3	\$2,574.3	\$2,897.2	\$3,050.8
Liabilities																			
Accounts payable	0.6	3.1	4.1	5.3	4.8	4.6	7.1	7.3	7.5	7.7	7.6	7.7	6.2	6.2	5.1	4.4	4.3	3.8	3.6
Accrued expenses	3.0	4.4	5.3	6.7	6.1	6.5	10.0	10.2	10.5	10.8	10.6	10.8	8.7	8.6	7.1	6.1	6.0	5.3	5.0
Loans payable, net of discount	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Taxes	0.0	0.0	0.0	0.0	0.0	0.0	3.9	31.6	67.7	67.7	67.7	67.7	67.7	67.7	67.7	67.7	67.7	67.7	67.7
Deferred revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred rent & other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	\$4	\$8	\$9	\$12	\$11	\$11	\$21	\$49	\$86	\$86	\$86	\$86	\$83	\$83	\$80	\$78	\$78	\$77	\$76
Loans payable, less current portion and discount	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue, net of current portion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred rent, net of current portion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Warrants to purchase preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	\$4	\$8	\$9	\$12	\$11	\$11	\$21	\$49	\$86	\$86	\$86	\$86	\$83	\$83	\$80	\$78	\$78	\$77	\$76
Preferred stock	64.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockholders' equity																			
Common stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional paid-in capital	0.3	205.4	309.2	314.0	368.3	372.9	380.0	387.3	394.8	402.6	410.2	417.9	424.1	430.3	435.4	439.8	444.0	447.8	451.4
Accumulated deficit / Retained Earnings	(25.4)	(87.9)	(160.1)	(237.2)	(285.2)	(274.4)	(223.9)	(104.0)	50.3	228.8	431.0	648.1	901.0	1,162.5	1,446.0	1,745.4	2,052.3	2,372.6	2,523.0
Accumulated other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total stockholders' equity	(\$25)	\$118	\$149	\$77	\$83	\$99	\$156	\$283	\$445	\$631	\$841	\$1,066	\$1,325	\$1,593	\$1,881	\$2,185	\$2,496	\$2,820	\$2,974
Total liabilities and stockholder's equity	\$43	\$125	\$159	\$89	\$94	\$110	\$177	\$332	\$531	\$718	\$927	\$1,152	\$1,408	\$1,675	\$1,961	\$2,263	\$2,574	\$2,897	\$3,051

Source: Company Data, Morgan Stanley Research estimates

October 25, 2012
Tesaro Inc.

Exhibit 4

Cash Flow Statement

(Dollars in millions, except per share data)
Fiscal year ends Dec. 31

	2011A	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
CASH FLOWS FROM OPERATING ACTIVITIES:																			
Net (loss) Income	(\$16.4)	(\$62.5)	(\$72.2)	(\$77.1)	(\$48.1)	\$10.9	\$50.5	\$119.9	\$154.3	\$178.5	\$202.2	\$217.1	\$252.9	\$261.5	\$283.5	\$299.4	\$306.9	\$320.3	\$150.4
Depreciation and amortization	0.0	0.0	0.0	0.1	0.2	0.3	0.5	0.7	0.9	1.2	1.4	1.7	2.0	2.3	2.6	2.9	3.3	3.6	3.8
Stock-based compensation expense	0.3	1.2	3.8	4.8	4.3	4.6	7.1	7.3	7.5	7.7	7.6	7.7	6.2	6.2	5.1	4.4	4.3	3.8	3.6
Non-cash interest expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loss on disposal of PPE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquired in-process research and development	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in fair value of investor rights obligation	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax Credit from NOL's	0.0	0.0	0.0	0.0	0.0	0.0	3.9	27.7	36.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in working capital:	0	4	1	0	(7)	(21)	(24)	(20)	(9)	(9)	(5)	(2)	(9)	(3)	(5)	(4)	(2)	(3)	60
Accounts receivable	0.0	0.0	(0.2)	(1.2)	(3.1)	(7.9)	(14.6)	(9.9)	(4.2)	(4.3)	(3.1)	(2.5)	(2.6)	(1.2)	(1.2)	(0.9)	(0.9)	(1.0)	27.7
Prepaid expenses and other current assets	(2.7)	(0.4)	(1.0)	(0.5)	(0.0)	(6.7)	(7.8)	(5.7)	(2.9)	(2.1)	(1.7)	(1.7)	(0.8)	(0.8)	(0.6)	(0.6)	(0.6)	(0.6)	18.4
Other noncurrent assets	0.0	(0.1)	(0.1)	(0.1)	0.1	(0.6)	(0.9)	(1.0)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	2.2
Restricted cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	0.5	2.5	1.0	1.1	(0.5)	(0.1)	2.5	0.2	0.3	0.2	(0.2)	0.1	(1.5)	(0.1)	(1.1)	(0.7)	(0.1)	(0.5)	(0.2)
Accrued expenses	2.6	1.4	0.9	1.4	(0.6)	0.4	3.5	0.2	0.4	0.3	(0.2)	0.2	(2.1)	(0.1)	(1.5)	(1.0)	(0.1)	(0.7)	(0.2)
Deferred rent & other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	(0.7)	(2.9)	(6.3)	(6.3)	(4.3)	(2.3)	(2.4)	1.0	1.6	(1.2)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)	12.3
Net cash used in operating activities	(\$14)	(\$58)	(\$68)	(\$72)	(\$51)	(\$5)	\$38	\$135	\$190	\$178	\$206	\$224	\$252	\$267	\$286	\$303	\$312	\$324	\$218
CASH FLOWS FROM INVESTING ACTIVITIES																			
Purchases of PPE	(0.1)	(0.2)	(0.3)	(0.5)	(2.0)	(2.5)	(4.1)	(4.1)	(4.6)	(5.0)	(5.4)	(5.7)	(5.9)	(6.1)	(6.2)	(6.3)	(6.4)	(6.5)	(3.4)
Acquisition of ALK license	(0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restricted Cash	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases of marketable securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from maturities and sales of marketable securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash used in investing activities	(\$0.7)	(\$0.2)	(\$0.3)	(\$0.5)	(\$2.0)	(\$2.5)	(\$4.1)	(\$4.1)	(\$4.6)	(\$5.0)	(\$5.4)	(\$5.7)	(\$5.9)	(\$6.1)	(\$6.2)	(\$6.3)	(\$6.4)	(\$6.5)	(\$3.4)
CASH FLOWS FROM FINANCING ACTIVITIES																			
Proceeds from issuance of convertible preferred stock, net of issuance	\$2.1	\$8.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from exercise of stock options and issuance of common stock	0.0	81.0	100.0	0.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax benefit from stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disbursements from repurchase of common stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from issuance of loans payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal payments on loans payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by financing activities	\$2.1	\$139.5	\$100.0	\$0.0	\$50.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Increase in cash and cash equivalents	37.3	81.6	31.9	(72.7)	(2.7)	(7.9)	34.2	131.1	185.4	173.0	201.0	218.5	246.0	261.2	279.9	296.7	305.9	317.8	214.5
Restatement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and equivalents at beginning of year	2.5	39.8	121.4	153.3	80.6	77.9	70.0	104.2	235.3	420.7	593.6	794.7	1,013.2	1,259.1	1,520.4	1,800.2	2,097.0	2,402.8	2,720.7
Cash and equivalents at end of year	\$39.8	\$121.4	\$153.3	\$80.6	\$77.9	\$70.0	\$104.2	\$235.3	\$420.7	\$593.6	\$794.7	\$1,013.2	\$1,259.1	\$1,520.4	\$1,800.2	\$2,097.0	\$2,402.8	\$2,720.7	\$2,935.2

Source: Company Data, Morgan Stanley Research estimates

October 25, 2012

Tesaro Inc.



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October 25, 2012

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(as of September 30, 2012)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1108	37%	450	41%	41%
Equal-weight/Hold	1273	43%	500	45%	39%
Not-Rated/Hold	106	4%	30	3%	28%
Underweight/Sell	470	16%	122	11%	26%
Total	2,957		1102		

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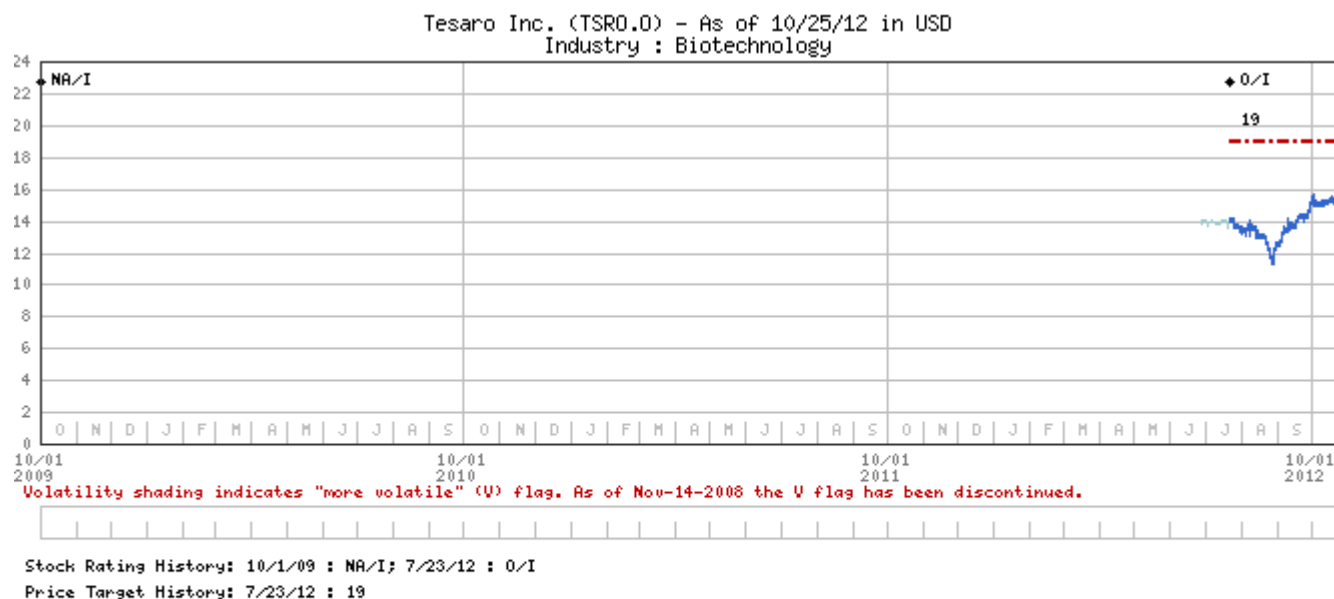
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Stock Price, Price Target and Rating History (See Rating Definitions)

October 25, 2012

Tesaro Inc.



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October 25, 2012

Tesaro Inc.

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The Americas

1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Biotechnology

Company (Ticker)	Rating (as of)	Price* (10/25/2012)
David Friedman, M.D.		
AMAG Pharmaceuticals, Inc. (AMAG.O)	E (11/21/2011)	\$16.12
Alexion Pharmaceuticals (ALXN.O)	O (09/07/2010)	\$96.45
Auxilium Pharmaceuticals (AUXL.O)	U (08/21/2012)	\$21.01
Cubist Pharmaceuticals Inc. (CBST.O)	O (10/03/2012)	\$43.71
Idenix Pharmaceuticals, Inc. (IDIX.O)	E (03/18/2011)	\$3.75
Incyte Corporation (INCY.O)	E (02/16/2012)	\$16.45
InterMune (ITMN.O)	E (09/07/2010)	\$8.33
Ironwood Pharmaceuticals, Inc. (IRWD.O)	O (03/18/2011)	\$12.16
Lexicon Pharmaceuticals, Inc. (LXRX.O)	E (09/07/2010)	\$2.17
NPS Pharmaceuticals (NPSP.O)	O (10/03/2012)	\$9.45
Synageva Biopharma Corp (GEVA.O)	O (04/20/2012)	\$45.35
Theravance Inc (THRX.O)	U (01/31/2012)	\$25.61
Vertex Pharmaceuticals (VRTX.O)	E (05/08/2012)	\$50.11
XenoPort Inc (XNPT.O)	E (08/26/2011)	\$8.6
Sara Slifka		
Neurocrine Biosciences Inc (NBIX.O)	O (10/03/2012)	\$7.62
Optimer Pharmaceuticals (OPTR.O)	U (10/03/2012)	\$10.23
Marshall Urist, M.D., Ph.D.		
Amgen Inc. (AMGN.O)	E (02/09/2012)	\$88.05
Aveo Pharmaceuticals (AVEO.O)	E (02/09/2012)	\$8.01
Biogen Idec Inc. (BIIB.O)	O (02/09/2012)	\$144.43
Celgene Corp (CELG.O)	O (02/09/2012)	\$74.32
Elan Corporation PLC (ELN.N)	E (07/09/2012)	\$10.89
Gilead Sciences Inc. (GILD.O)	O (02/09/2012)	\$67.38
Hospira (HSP.N)	E (07/16/2009)	\$31.16
Onyx Pharmaceuticals Inc. (ONXX.O)	E (06/21/2012)	\$81.98
Sagent Pharmaceuticals Inc (SGNT.O)	E (08/13/2012)	\$15.23
Tesaro Inc. (TSRO.O)	O (07/23/2012)	\$15.21

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.