

August 20, 2012

Tesaro

(TSRO-NASDAQ)

Stock Rating: Outperform
Industry Rating: Outperform

Biotechnology

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Chuck Whitesell / Nick Abbott, PhD.

JCO Article Supports Broader Use of NK1 Antiemetics With Multi-Day Chemotherapy

Event

The JCO's early online web site published data from the Hoosier Oncology Group (HOG) demonstrating a reduction in delayed emesis with the addition of an NK1 antagonist (NK1a) vs. placebo to standard of care antiemetic therapy in patients with testicular cancer receiving a five-day course of cisplatin-based chemotherapy. Achievement of a CR was higher with the addition of the NK1a vs. placebo at 42% vs. 13% reflecting a decrease in emesis during the cycle of NK-1 therapy—16% vs. 47%. No statistically significant improvement in delayed nausea was observed.

Impact

NK1 antagonists are approved for use with single-day chemotherapy regimens, but not five-day regimens. The HOG notes that its study is the first randomized phase 3 trial evaluating the addition of an NK1a in testicular cancer. In this trial the NK1a was added on days three through seven of a five-day chemo cycle. NCCN guidelines suggest a maximum of three days of NK1a dosing for use with single-day regimens, thus broader adoption of NK1a for five-day chemo regimens would increase both duration of NK1a dosing and target patient population size. TSRO's rolapitant is potentially a best in class NK1a with phase 2 data showing an improvement for both delayed emesis and nausea. Phase 3 trials data are expected 4Q12 to 1Q13.

Forecasts

Our 2012 forecast is for a loss per share of \$22.97.

Valuation

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

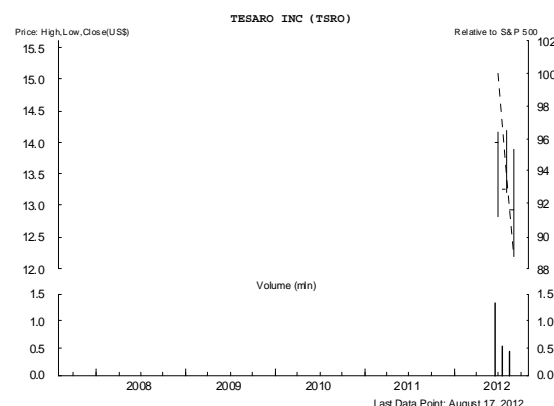
Recommendation

We rate Tesaro **OUTPERFORM**.

Securities Info

Price (20-Aug)	\$12.92	Target Price	\$22
52-Wk High/Low	\$14/\$12	Dividend	--
Mkt Cap (mm)	\$345	Yield	--
Shs O/S (mm, BASIC)	26.7	Float O/S (mm)	6.0
Options O/S (mm)	na	ADVol (30-day, 000s)	29

Price Performance



Valuation/Financial Data

(FY-Dec.)	2010A	2011A	2012E	2013E
EPS GAAP	-\$7.61	-\$9.12	-\$22.97	-\$2.30
P/E			nm	nm
First Call Cons.			-\$7.52	-\$2.38
FCF	-\$1.29	-\$14.24	-\$47.73	-\$66.00
P/FCF			nm	nm
EBITDA (\$mm)	-\$8	-\$15	-\$56	-\$64
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	-\$0.47	-\$0.49

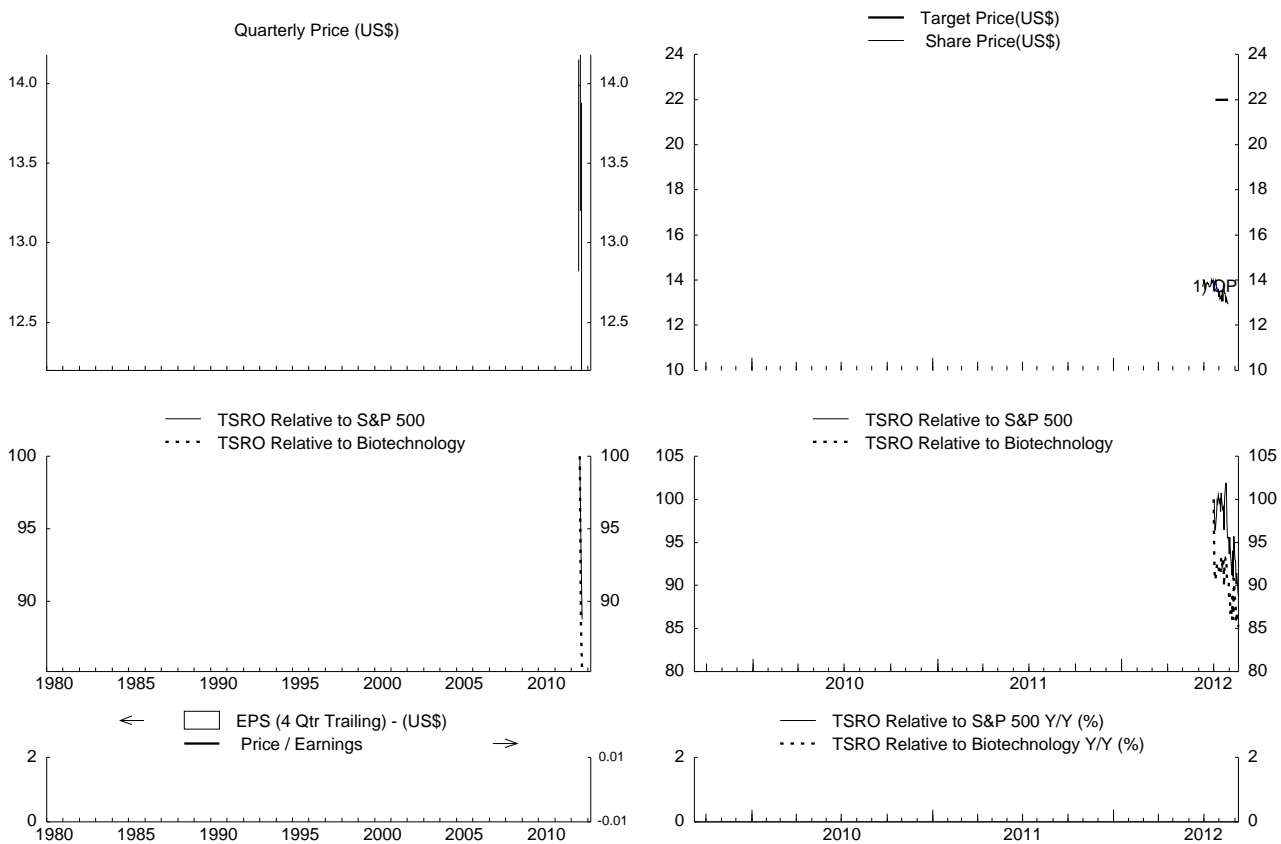
Balance Sheet Data (30-Jun)

Net Debt (\$mm)	-\$69	TotalDebt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	nm	Price/Book	5.0x

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.

TESARO INC (TSRO)



TSRO - Rating as of 28-Jun-12 = NR

Date	Rating Change	Share Price
1 24-Jul-12	NR to OP	\$13.90

Last Daily Data Point: August 17, 2012

Important Disclosures

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Methodology and Risks to Our Price Target/Valuation

Methodology: We arrive at our price target by applying a 20x multiple to 2017 GAAP EPS estimate of \$2.35 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 (June 30, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	39.2%	14.2%	66.0%	39.7%	49.1%	55.7%
Hold	Market Perform	58.8%	4.6%	31.9%	57.1%	48.6%	39.3%
Sell	Underperform	2.0%	9.1%	2.1%	3.2%	2.3%	5.0%

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

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We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

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