

Biotechnology

Onconova Therapeutics, Inc.

(ONTX) - NEUTRAL

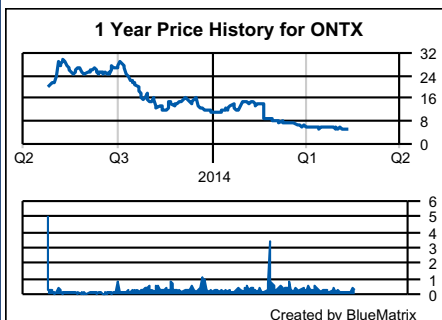
Price: **\$5.32**
Fair Value Estimate: \$10.00
52-Week Range: \$5.25-\$31.13
Market Cap (MM): \$115
Shr.O/S-Diluted (mm): 21.6
Average Daily Volume: 347,752

FYE: Dec	2011A	2012A	2013E
EPS:	--	\$(11.50)A	\$(4.72)E
Prior EPS:	NC		NC
P/E:	--	NA	NA

Quarterly EPS:			
Q1	--	--	\$(1.03)E
Q2	--	--	\$(5.21)E
Q3	--	--	\$(1.34)E
Q4	--	--	\$(0.68)E

FYE: Dec	2011A	2012A	2013E
Revenue (M):	--	\$46.0A	\$3.9E

Quarterly Revenue (M):			
Q1	--	--	\$1.1E
Q2	--	--	\$0.6E
Q3	--	--	\$1.1E
Q4	--	--	\$1.1E



Equity Research
FLASH Note

ONTX: Await Clarity on the MDS Programs

KEY POINTS:

- **Can rigosertib be approved in a subset of higher-risk MDS patients?** The company anticipates having regulatory discussions with the FDA and EMA in 2Q and 3Q, respectively, to determine next steps. Based on the ONTIME data which demonstrated an increase in survival of 3.9 months (HR=0.66; p-value =0.017) in a subset of patients with primary HMA failure, the company may consider filing for approval in this patient population. An ongoing Phase IIIB study in patients who have progressed on HMAs should provide additional tolerability and activity data in post-HMA MDS patients. It remains to be seen whether or not rigosertib could be approved in a subset of patients as the FDA usually does not favor post-hoc subset analyses unless the analyses were pre-specified.
- **Advancement of lower-risk MDS program in 2H.** The company intends to initiate a Phase III double-blind, placebo-controlled study under an SPA in 2H, pending full discussions with the EMA. The company has an ongoing study to examine the utility of a prognostic genomic methylation marker for transfusion-dependent lower-risk MDS patients to help distinguish between responders and non-responders. This marker will be used in future studies but the question remains whether or not the marker will be used to preselect patients for the Phase III study or to provide additional stratification or subset data. Lastly, ONTX has initiated a Phase I/II rigosertib plus azacitidine (Vidaza) study in front-line MDS patients. The company has completed the first two dosing cohort in the dose escalation stage. Once the final dose is selected, the company will initiate the Phase II portion of the study in the U.S. and Europe and report data in 2H.
- **Cash inflows needed by 2Q15.** The company ended 1Q with approximately \$84.6 million in cash and equivalents, which is enough to sustain operations through 2Q15, per our estimates.
- **Our outlook remains neutral. Reiterate \$10 fair value estimate.** We suggest staying on the sidelines until we gain clarity on the development and regulatory pathways in the higher- and lower-risk MDS population. Our fair value estimate is based on a DCF analysis of cash flows through 2021.

Research Analyst Certifications and Important Disclosures are on pages 3 - 4 of this report

Onconova Therapeutics (NASDAQ: ONTX)
Income Statement
(In thousands, except per share data)

	2011 A	2012 A	For the Quarter Ending				2013 A	For the Quarter Ending				2014 E
			3/31/13 A	6/30/13 A	9/30/13 A	12/31/13 A		3/31/14 A	6/30/14 E	9/30/14 E	12/31/14 E	
Revenue:												
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collaboration Revenue	227	45,993	1,116	591	1,116	1,930	4,753	447	113	113	113	786
Grant Revenue	1,260	197	-	-	-	-	-	-	-	-	-	-
Total Revenue	1,487	46,190	1,116	591	1,116	1,930	4,753	447	113	113	113	786
Cost of Product Sales	-	-	-	-	-	-	-	-	-	-	-	-
Gross Profit	1,487	46,190	1,116	591	1,116	1,930	4,753	447	113	113	113	786
Cost and Expenses:												
Research and Development	22,624	52,762	12,756	10,047	15,293	12,086	50,182	14,248	15,530	16,928	18,452	65,158
General and Administrative	6,436	15,707	3,346	3,117	5,927	4,403	16,793	4,932	5,129	5,334	5,548	20,944
Total Costs and Expenses	29,060	68,469	16,102	13,164	21,220	16,489	66,975	19,180	20,660	22,263	23,999	86,102
Operating Income (Loss)	(27,573)	(22,279)	(14,986)	(12,573)	(20,104)	(14,559)	(62,222)	(18,733)	(20,547)	(22,150)	(23,886)	(85,316)
Other Income (Expense):												
Interest Income (Expense)	(19)	(8,608)	-	(2)	(1)	(1)	(4)	16	24	18	11	84
Other	1,298	975	141	13	16	(65)	105	38	-	-	-	38
Loss Before Income Taxes	(26,294)	(29,912)	(14,845)	(12,562)	(20,089)	(14,625)	(62,121)	(18,679)	(19,049)	(20,538)	(22,152)	(78,816)
Income Taxes	-	-	-	-	432	3	435	-	-	-	-	-
Net Income	(26,294)	(29,912)	(14,845)	(12,562)	(20,521)	(14,628)	(62,556)	(18,679)	(19,049)	(20,538)	(22,152)	(78,816)
Less: Accretion of Redeemable Convertible Preferred	(4,020)	(3,953)	(1,019)	(1,032)	(269)	13	(2,307)	-	-	-	-	-
Net Income Applicable to Common Stockholders	\$ (30,314)	\$ (33,865)	\$ (15,864)	\$ (13,594)	\$ (20,790)	\$ (14,615)	\$ (64,863)	\$ (18,679)	\$ (19,049)	\$ (20,538)	\$ (22,152)	\$ (78,816)
Basic Earnings Per Share	\$ (10.64)	\$ (11.51)	\$ (1.03)	\$ (5.21)	\$ (1.34)	\$ (0.68)	\$ (4.72)	\$ (0.87)	\$ (0.88)	\$ (0.95)	\$ (1.02)	\$ (3.64)
Diluted Earnings Per Share	\$ (10.64)	\$ (11.51)	\$ (1.03)	\$ (5.21)	\$ (1.34)	\$ (0.68)	\$ (4.72)	\$ (0.87)	\$ (0.88)	\$ (0.95)	\$ (1.02)	\$ (3.64)
Basic Shares Outstanding	2,849	2,942	15,448	2,609	15,480	21,419	13,739	21,568	21,668	21,768	21,868	21,718
Diluted Shares Outstanding	2,849	2,942	15,448	2,609	15,480	21,419	13,739	21,568	21,619	21,719	21,819	21,669
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	-2.2%	0.0%	-0.7%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA Calculation:												
Loss Before Income Taxes	\$ (26,294)	\$ (29,912)	\$ (14,845)	\$ (12,562)	\$ (20,089)	\$ (14,625)	\$ (62,121)	\$ (18,679)	\$ (19,049)	\$ (20,538)	\$ (22,152)	\$ (78,816)
Less: Interest Income	19	8,608	-	2	1	1	4	(16)	(24)	(18)	(11)	(84)
Plus: Depreciation & Amortization	316	319	98	109	70	70	347	69	66	63	60	257
EBITDA	\$ (25,959)	\$ (20,985)	\$ (14,747)	\$ (12,451)	\$ (20,018)	\$ (14,554)	\$ (61,770)	\$ (18,626)	\$ (19,008)	\$ (20,494)	\$ (22,103)	\$ (78,643)
Margins:												
Gross	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Net Income (Loss)	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
EBITDA	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Year-over-year Growth:												
Total Revenue		3006.3%	463.6%	354.6%	-97.4%	-40.1%	-89.7%	-59.9%	-80.9%	-89.9%	-94.1%	-83.5%
Operating Income		N/M	N/M	-9771.5%	-147.3%	-552.1%	N/M	N/M	N/M	N/M	N/M	N/M
Net Income (Loss)		N/M	N/M	-10556.9%	-148.9%	-553.9%	N/M	N/M	N/M	N/M	N/M	N/M
Research and Development Expense		133.2%	51.0%	N/M	N/M	N/M	-4.9%	11.7%	54.6%	10.7%	52.7%	29.8%
General and Administrative Expense		144.0%	36.0%	N/M	N/M	N/M	6.9%	47.4%	64.6%	-10.0%	26.0%	24.7%

Source: Company reports and Janney Montgomery Scott LLC estimates

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Kimberly Lee, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Onconova Therapeutics, Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Onconova Therapeutics, Inc..

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Onconova Therapeutics, Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Onconova Therapeutics, Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Onconova Therapeutics, Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

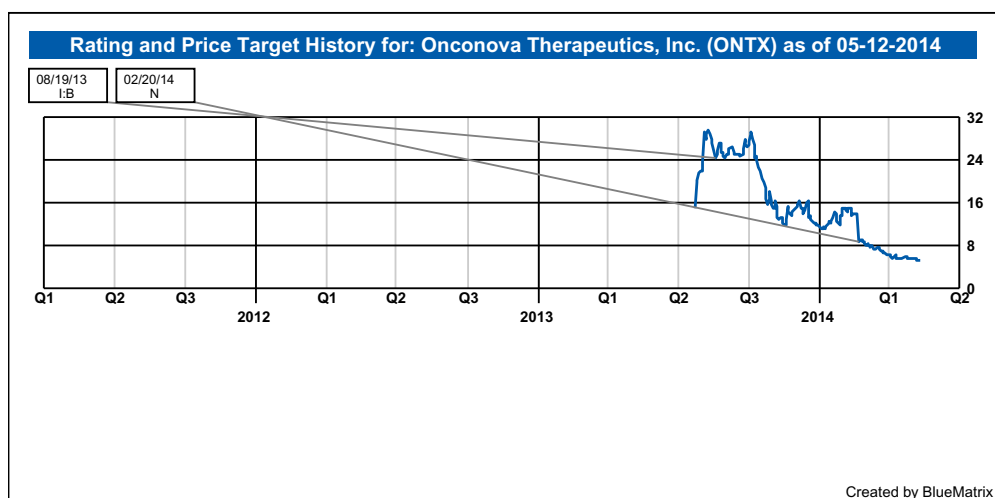
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 3/31/14

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	218	51.12	44	20.18
NEUTRAL [N]	205	48.12	21	10.24
SELL [S]	3	0.70	0	0.00

***Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.**

Other Disclosures

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