

## **Biotechnology**

### **Onconova Therapeutics, Inc.**

#### **(ONTX) - BUY**

**Price:** **\$15.69**  
Fair Value Estimate: \$40.00  
52-Week Range: \$15.00-\$31.13  
Market Cap (MM): \$336  
Shr.O/S-Diluted (mm): 21.4  
Average Daily Volume: 210,981

FYE: Dec	2012A	2013E	2014E
EPS:	\$(11.50)A	\$(3.77)E	\$(4.61)E
Prior EPS:		NC	NC
P/E Ratio:	NA	NA	NA

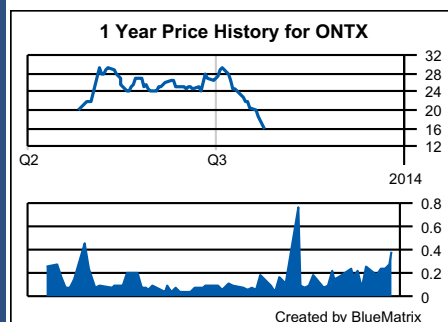
Quarterly EPS:

	Q1	Q2	Q3	Q4
Q1	--	\$(1.03)E	--	--
Q2	--	\$(1.05)E	--	--
Q3	--	\$(0.84)E	--	--
Q4	--	\$(0.91)E	--	--

FYE: Dec	2012A	2013E	2014E
Revenue (M):	\$46.0A	\$4.4E	\$1.1E

Quarterly Revenue (M):

	Q1	Q2	Q3	Q4
Q1	--	\$1.1E	--	--
Q2	--	\$1.1E	--	--
Q3	--	\$1.1E	--	--
Q4	--	\$1.1E	--	--



**Equity Research**  
**Note**

## **ONTX: Update From Management; Buy on Weakness Ahead of Significant Catalysts**

### **INVESTMENT CONCLUSION:**

We recently spoke with management, who provided us a company update in the midst of weak stock performance. Fundamentals remain unchanged and management reiterated timelines for near-term value-driving catalysts. Based on our conversation with management, we continue to view the most important near term event as the Phase III ONTIME study readout in 4Q13/1Q14 in the higher-risk MDS population followed by Phase II rigosertib data in the lower-risk MDS population at the upcoming American Society of Hematology (ASH) meeting (New Orleans, Dec. 7-10) (abstract release on Nov. 7) and interim Phase III pancreatic data in 4Q13/1Q14. We believe rigosertib's value proposition lies in its demonstration of duration of benefit in 2<sup>nd</sup>-line MDS therapy where there are no treatment options, its lack of myelosuppression and its effectiveness as a single agent or in combination therapy. ONTX's near-term success will be correlated with success in its ONTIME registration Phase III study in higher-risk MDS, which is being studied under a Special Protocol Assessment (SPA) but other shots on goal in pancreatic cancer and other solid tumors can be seen as call options, in our view. We recommend shares on any weakness and ahead of nearing catalysts and consider ONTX a compelling investment based on a burgeoning pipeline, near-term milestones, strong management team and compelling valuation. Thus, we reiterate our \$40 fair value estimate, which is based on a DCF analysis of cash flows through 2020.

### **KEY POINTS:**

- **Rigosertib - an attractive drug candidate in the MDS arena.** Rigosertib is a well-tolerated, highly differentiated small molecule therapy targeting significant market opportunities, in our view. The key differentiating factors for this drug are its lack of myelosuppression, its ability to target numerous different cancer types safely with high selectivity and its unique mechanism of action that allows for improved efficacy and reduced toxicity, all important factors in treating MDS patients.
- **ONTIME data release a binary event – risk/reward profile points to a potentially favorable outcome, in our view.** Data to date in the higher-risk MDS population has been very positive, with demonstration of some hematological response and importantly, bone marrow response that correlated with median survival. Also, survival compared favorable to historical control. Lastly, we believe the Phase III design may increase the chances of a positive outcome as rigosertib is being compared to best supportive care with a very low percentage of patients receiving low-dose ara-C.
- **Value-creating near-term events on the horizon.** We expect the release of ASH abstracts for rigosertib in the lower-risk MDS population on November 7 followed by data presentation at ASH from December 7-10. We believe investors are more focused on top-line Phase III rigosertib data release in the high-risk population in 4Q13/1Q14. Lastly, we expect interim Phase III pancreatic data release in 4Q13/1Q14 followed by trial resizing and a Go/No Go decision in 2014.
- **A highly undervalued investment ahead of major events.** We recommend ONTX shares based on rigosertib's compelling profile, meaningful market opportunities, long-term growth prospects, upcoming catalysts, strong management team and

**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	For the Quarter Ending				2012 A	For the Quarter Ending				2013 E	2014 E
		3/31/12 A	6/30/12 A	9/30/12 A	12/31/12 A		3/31/13 A	6/30/13 E	9/30/13 E	12/31/13 E		
Revenue:												
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collaboration Revenue	227	113	130	42,530	3,220	45,993	1,116	1,091	1,091	1,091	4,389	1,050
Grant Revenue	1,260	85	-	-	-	197	-	-	-	-	-	-
Total Revenue	1,487	198	130	42,530	3,220	46,190	1,116	1,091	1,091	1,091	4,389	1,050
Cost of Product Sales	-	-	-	-	-	-	-	-	-	-	-	-
Gross Profit	1,487	198	130	42,530	3,220	46,190	1,116	1,091	1,091	1,091	4,389	1,050
Cost and Expenses:												
Research and Development	22,624	8,448	-	-	-	52,762	12,756	14,032	15,435	16,978	59,201	84,632
General and Administrative	6,436	2,460	-	-	-	15,707	3,346	3,513	3,689	3,873	14,422	17,106
Total Costs and Expenses	29,060	10,908	-	-	-	68,469	16,102	17,545	19,124	20,852	73,622	101,738
Operating Income (Loss)	(27,573)	(10,710)	130	42,530	3,220	(22,279)	(14,986)	(16,454)	(18,033)	(19,761)	(69,233)	(100,688)
Other Income (Expense):												
Interest Income (Expense)	(19)	(21)	-	-	-	(8,608)	-	19	27	33	79	(36)
Other	1,298	(68)	-	-	-	975	141	141	141	141	564	564
Loss Before Income Taxes	(26,294)	(10,799)	130	42,530	3,220	(29,912)	(14,845)	(16,294)	(17,865)	(19,586)	(68,590)	(100,160)
Income Taxes	-	-	-	-	1,127	-	-	-	-	-	-	-
Net Income	(26,294)	(10,799)	130	42,530	2,093	(29,912)	(14,845)	(16,294)	(17,865)	(19,586)	(68,590)	(100,160)
Less: Accretion of Redeemable Convertible Preferred	(4,020)	(1,231)	-	-	-	(3,953)	(1,019)	-	-	-	(1,019)	-
Net Income Applicable to Common Stockholders	\$ (30,314)	\$ (12,030)	\$ 130	\$ 42,530	\$ 2,093	\$ (33,865)	\$ (15,864)	\$ (16,294)	\$ (17,865)	\$ (19,586)	\$ (69,609)	\$ (100,160)
Basic Earnings Per Share	\$ (10.64)	\$ (4.15)	#DIV/0!	#DIV/0!	#DIV/0!	\$ (11.51)	\$ (1.03)	\$ (1.05)	\$ (0.84)	\$ (0.91)	\$ (3.77)	\$ (4.61)
Diluted Earnings Per Share	\$ (10.64)	\$ (4.15)	#DIV/0!	#DIV/0!	#DIV/0!	\$ (11.51)	\$ (1.03)	\$ (1.05)	\$ (0.84)	\$ (0.91)	\$ (3.77)	\$ (4.61)
Basic Shares Outstanding	2,849	2,897	-	-	-	2,942	15,448	15,548	21,389	21,489	18,468	21,739
Diluted Shares Outstanding	2,849	2,897	-	-	-	2,942	15,448	15,548	21,389	21,489	18,468	21,739
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	35.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>EBITDA Calculation:</b>												
Loss Before Income Taxes	\$ (26,294)	\$ (10,799)	\$ 130	\$ 42,530	\$ 3,220	\$ (29,912)	\$ (14,845)	\$ (16,294)	\$ (17,865)	\$ (19,586)	\$ (68,590)	\$ (100,160)
Less: Interest Income	19	21	-	-	-	8,608	-	(19)	(27)	(33)	(79)	36
Plus: Depreciation & Amortization	316	-	-	-	-	319	98	88	88	88	362	328
EBITDA	\$ (25,959)	\$ (10,778)	\$ 130	\$ 42,530	\$ 3,220	\$ (20,985)	\$ (14,747)	\$ (16,225)	\$ (17,804)	\$ (19,532)	\$ (68,308)	\$ (99,796)
<b>Margins:</b>												
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	100.0%	100.0%	100.0%	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Net Income (Loss)	N/M	N/M	100.0%	100.0%	65.0%	N/M	N/M	N/M	N/M	N/M	N/M	N/M
EBITDA	N/M	N/M	100.0%	100.0%	100.0%	N/M	N/M	N/M	N/M	N/M	N/M	N/M
<b>Year-over-year Growth:</b>												
Total Revenue						3006.3%	463.6%	739.2%	-97.4%	-66.1%	-90.5%	-76.1%
Operating Income						N/M	N/M	-12756.8%	-142.4%	-713.7%	N/M	N/M
Net Income (Loss)						N/M	N/M	-12633.5%	-142.0%	-1035.8%	N/M	N/M
Research and Development Expense						133.2%	51.0%	N/M	N/M	N/M	12.2%	43.0%
General and Administrative Expense						144.0%	36.0%	N/M	N/M	N/M	-8.2%	18.6%

*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.

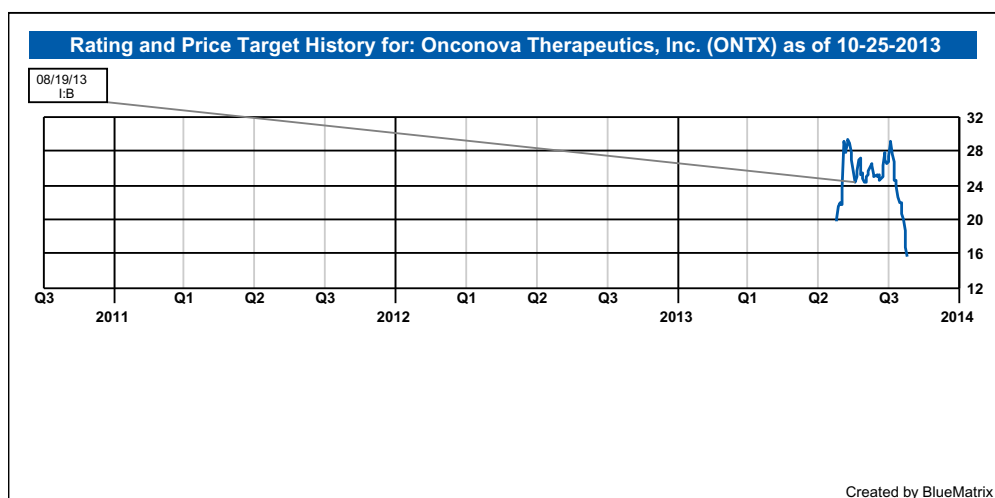
### **Definition of Ratings**

**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**



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### **Janney Montgomery Scott Ratings Distribution as of 9/30/13**

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	244	51.80	38	15.60
NEUTRAL [N]	221	46.90	21	9.50
SELL [S]	6	1.30	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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