

Accelaron Pharma Inc. (XLRN)

Overweight

Clinical Programs On Track, Healthy Cash Position; Reiterate Overweight

CONCLUSION

We estimate Accelaron holds pro forma cash of \$242 million. With Celgene covering all development expenses for sotatercept and ACE-536, Accelaron can focus these funds to advance wholly owned dalantercept. Celgene will report preliminary Phase II data on sotatercept in chronic kidney disease (CKD) at the National Kidney Foundation Spring Clinical meeting in April. We look for a busy June with Phase I/II dalantercept renal cell carcinoma (RCC) and head & neck cancer data at ASCO and Phase II data on both sotatercept and ACE-536 at EHA. We reiterate our Overweight rating and price target of \$65.

- **Strengthened Balance Sheet.** Accelaron ended 2013 with cash of \$113 million. The company subsequently raised net proceeds of \$129 million bringing pro forma cash to \$242 million. With Celgene covering all expenses for sotatercept and ACE-536, Accelaron can focus these funds to advance wholly owned dalantercept, which we estimate will last into 2H:17.
- **Potential Blockbuster Anemia Drugs.** Celgene will report preliminary Phase II data on sotatercept in CKD at the National Kidney Foundation Spring Clinical meeting in April. Celgene has already initiated a larger 2 part Phase II study that includes a 60-patient dose-escalation portion and 230-patient randomized control study versus ESA. Sotatercept is also currently in Phase II trials for Beta-thalassemia and myelodysplastic syndromes (MDS) with updated data expected at the European Hematology Association (EHA) meeting in June. We anticipate Celgene will begin a Phase III trial in Beta-thalassemia in late 2014 or early 2015. Celgene is responsible for all costs of these drugs going forward with Accelaron retaining co-promote rights in North America and low-to-mid 20% royalties.
- **Dalantercept Expansion.** Accelaron is conducting a Phase II trial of dalantercept in combination with axitinib in renal cell carcinoma (RCC). We expect to see preliminary data from this trial in addition to Phase II head and neck cancer data at the American Society of Oncology (ASCO) meeting in June. Accelaron intends to begin a Phase I/II trial of dalantercept in combination with Nexavar in liver cancer ahead of schedule, potentially by April. Furthermore, Accelaron is likely to further expand the application of Dalantercept by initiating trials for other cancers such as colorectal or brain before the end of this year.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Sotatercept, ACE-536 and/or dalantercept may fail in the clinic or to gain regulatory approval. The Celgene partnership may falter. Accelaron may require additional capital or could face future unforeseen litigation.

COMPANY DESCRIPTION

Accelaron is developing novel drugs for hematology and cancer.

PRICE: US\$46.87

TARGET: US\$65.00

Proj. EV of \$1.9B + YE:14E net cash

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$65.00
FY13A Rev (mil)	57.0	57.2
FY14E Rev (mil)	—	23.5
FY13A EPS	(0.53)	(0.96)
FY14E EPS	—	(1.58)
<hr/>		
52-Week High / Low	US\$57.89 / US\$15.00	
Shares Out (mil)	31.0	
<i>Incl. impact of recent 2.76M share offering</i>		
Market Cap. (mil)	US\$1,453.0	
Avg Daily Vol (ooo)	225	
Book Value/Share	US\$9.00	
Net Cash Per Share	US\$8.55	
<i>Proforma cash incl. recent offering less notes payable</i>		
Debt to Total Capital	7%	
<i>\$16.9M in notes payable</i>		
Div (ann)	NA	
Fiscal Year End	Dec	

Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (m)						EARNINGS PER SHARE ()					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2012A	—	—	—	—	15.3	95.0x	—	—	—	—	(1.55)	NM
2013A	15.0	26.4	4.3	11.5	57.2	25.4x	0.08	0.62	(0.86)	(0.64)	(0.96)	NM
2014E	3.6	3.6	3.1	13.1	23.5	61.8x	(0.41)	(0.45)	(0.50)	(0.22)	(1.58)	NM

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Additional Detail

- **ACE-083 Slated to Enter Clinic.** The company is prepared to bring ACE-083 to the clinic, with an IND in the works and a Phase I trial targeted to initiate 2H:14. Acceleron is examining ACE-083 as a therapy to locally increase muscle mass/strength.

Acceleron Pharma Inc.
Quarterly Earnings Estimates
(\$ in thousands, except per share data)

2/26/2014

	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QA</u>	<u>2013A</u>	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>
Total Revenues	\$15,254	\$15,012	\$26,428	\$4,270	\$11,521	\$57,231	\$3,638	\$3,638	\$3,100	\$13,100	\$23,476
Operating Expenses:											
Research and Development	35,319	8,780	8,911	8,143	10,216	36,050	11,000	12,000	13,000	14,000	50,000
General and Administrative	8,824	3,096	3,365	3,011	4,756	14,228	4,000	4,500	4,500	5,000	18,000
Total Operating Expenses	\$44,143	\$11,876	\$12,276	\$11,154	\$14,972	\$50,278	\$15,000	\$16,500	\$17,500	\$19,000	\$68,000
Operating Income/(Loss)	(\$28,889)	\$3,136	\$14,152	(\$6,884)	(\$3,451)	\$6,953	(\$11,362)	(\$12,862)	(\$14,400)	(\$5,900)	(\$44,524)
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total Other Income/(Expense)	(3,693)	(1,489)	(1,074)	(11,629)	(14,659)	(28,851)	(1,000)	(1,050)	(1,100)	(1,150)	(4,300)
Pretax Income/(Loss)	(\$32,582)	\$1,647	\$13,078	(\$18,513)	(\$18,110)	(\$21,898)	(\$12,362)	(\$13,912)	(\$15,500)	(\$7,050)	(\$48,824)
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Income Tax	0	0	0	0	0	0	0	0	0	0	0
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income/(Loss)	(\$32,582)	\$1,647	\$13,078	(\$18,513)	(\$18,110)	(\$21,898)	(\$12,362)	(\$13,912)	(\$15,500)	(\$7,050)	(\$48,824)
Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Other Items	0	0	0	0	0	0	0	0	0	0	0
Net income applicable to common shareholders¹	(\$32,582)	\$1,647	\$13,078	(\$18,513)	(\$18,110)	(\$21,898)	(\$12,362)	(\$13,912)	(\$15,500)	(\$7,050)	(\$48,824)
Net Income/(Loss) per Share	(\$1.55)	\$0.08	\$0.62	(\$0.86)	(\$0.64)	(\$0.96)	(\$0.41)	(\$0.45)	(\$0.50)	(\$0.22)	(\$1.58)
Basic Shares Outstanding ²	21,062	20,954	20,954	21,500	28,123	22,898	30,000	31,000	31,250	31,500	30,938

Source: Company reports and Piper Jaffray & Co. analysis.

Note: Acceleron completed its IPO on September 18, 2013 and a follow-on offering on January 22, 2014

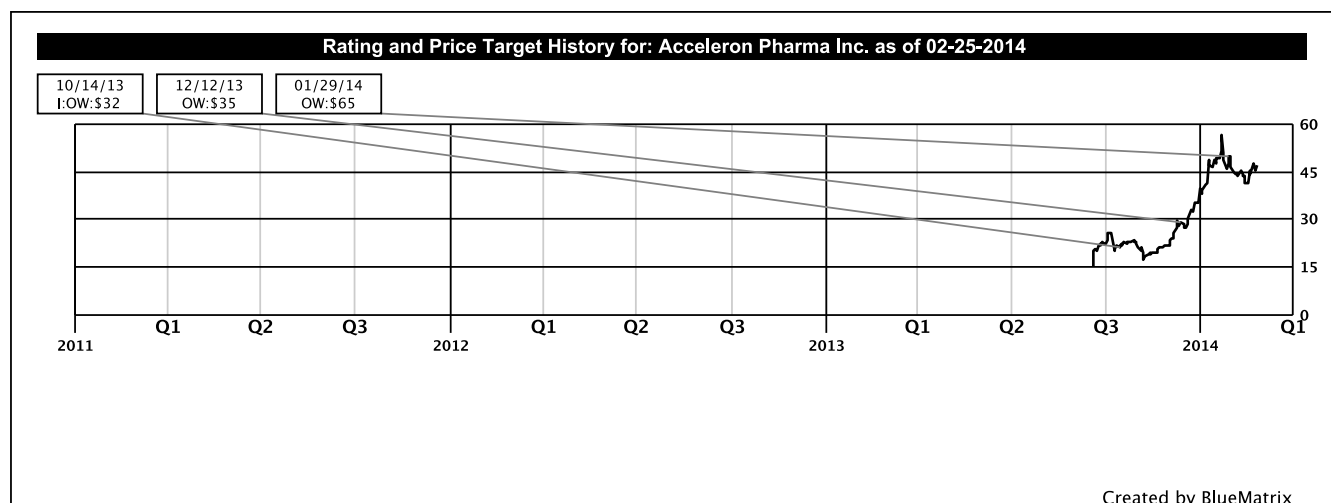
1. Net income applicable to common shareholders for 2012A, 1Q:13A, 2Q:13A, 3Q:13A and 2013A assumes full conversion of convertible preferred shares.

2. Shares Outstanding for 2012A, 1Q:13A, 2Q:13A, 3Q:13A and 2013A are Piper Jaffray estimates that assume conversion of convertible preferred shares.

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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	350	59.42	78	22.29
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SELL [UW]	20	3.40	0	0.00

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Analyst Certification — Edward A. Tenthoff, Sr Research Analyst — David N. Lebowitz, CFA, Research Analyst

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