

## Acceleron Pharma Inc. (XLRN)

Overweight

Celgene Buying VC Shares; Reiterate Overweight and \$65 Price Target

### CONCLUSION

In a Form 8K released this morning, Celgene (CELG) entered into a stock purchase agreement with 5 venture capital firms to purchase 1.1 million XLRN shares for \$47.1 million increasing the company's ownership position to 14.8% of Acceleron. We view this as a vote of confidence in Acceleron's anemia programs, sotatercept and ACE-536, which are partnered with Celgene and currently in Phase II development. Celgene will report Phase IIa data on sotatercept in end-stage renal disease (ESRD) patients who are on dialysis at the National Kidney Foundation Spring Clinical meeting being held April 22-26 in Las Vegas as well as Phase II data on sotatercept in MDS and Beta-thalassemia at the EHA meeting in June. We reiterate our Overweight rating and price target of \$65.

- Partner Celgene Ups Ownership.** Celgene has entered into Stock Purchase Agreements with 5 VC firms (ATV, Flagship, Polaris, Venrock and Alkermes) to buy 1.1 million XLRN shares for \$47.146 million, after which the company will own ~14.8% of Acceleron. We see this as a vote of confidence from Acceleron's partner.
- ESRD Sotatercept Data Shows Hemoglobin Benefit.** Celgene announced preliminary Phase II data on sotatercept in ESRD in dialysis patients in a poster presentation at the upcoming National Kidney Foundation Spring Clinical meeting on April 23rd. Single doses of 0.3 and 0.5mg/kg sotatercept showed peak mean hemoglobin change of 0.5 and 0.9g/dL versus 0.1g/dL for placebo at 28-days. Sotatercept was well tolerated, with only mild-to-moderate AEs that were unrelated to the therapy.
- Potential Blockbuster Anemia Drugs.** Celgene has already initiated a larger two-part Phase II ESRD 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 MDS with updated data expected at the European Hematology Association (EHA) meeting in June. Celgene will begin a Phase III trial in Beta-thalassemia around year-end triggering a milestone. Celgene is responsible for all costs of these drugs going forward with Acceleron retaining co-promote rights in North America and low-to-mid 20% royalties.
- Dalantercept Data at ASCO.** Acceleron 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 at the American Society of Oncology (ASCO) meeting in June.

### 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. Acceleron may require additional capital or could face future unforeseen litigation.

### COMPANY DESCRIPTION

Acceleron is developing novel drugs for hematology and cancer.

PRICE: US\$33.87

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
FY14E Rev (mil)	—	23.5
FY15E Rev (mil)	—	20.4
FY14E EPS	—	(1.58)
FY15E EPS	—	(2.01)
<hr/>		
52-Week High / Low	US\$57.89 / US\$15.00	
Shares Out (mil)	31.1	
<i>Incl. impact of recent 2.76M share offering</i>		
Market Cap. (mil)	US\$1,053.4	
Avg Daily Vol (ooo)	268	
Book Value/Share	US\$6.01	
Net Cash Per Share	US\$7.24	
<i>Pro forma 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
2013A	15.0	26.4	4.3	11.5	57.2	18.4x	0.08	0.62	(0.86)	(0.64)	(0.96)	NM
2014E	3.6	3.6	3.1	13.1	23.5	44.8x	(0.41)	(0.45)	(0.50)	(0.22)	(1.58)	NM
2015E	—	—	—	—	20.4	51.6x	—	—	—	—	(2.01)	NM

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

4/2/2014

	2012A	1QA	2QA	3QA	4QA	2013A	1QE	2QE	3QE	4QE	2014E	2015E
Total Revenues	\$15,254	\$15,012	\$26,428	\$4,270	\$11,521	\$57,231	\$3,638	\$3,638	\$3,100	\$13,100	\$23,476	\$20,400
<b>Operating Expenses:</b>												
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	60,000
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	20,000
<b>Total Operating Expenses</b>	<b>\$44,143</b>	<b>\$11,876</b>	<b>\$12,276</b>	<b>\$11,154</b>	<b>\$14,972</b>	<b>\$50,278</b>	<b>\$15,000</b>	<b>\$16,500</b>	<b>\$17,500</b>	<b>\$19,000</b>	<b>\$68,000</b>	<b>\$80,000</b>
<b>Operating Income/(Loss)</b>	<b>(\$28,889)</b>	<b>\$3,136</b>	<b>\$14,152</b>	<b>(\$6,884)</b>	<b>(\$3,451)</b>	<b>\$6,953</b>	<b>(\$11,362)</b>	<b>(\$12,862)</b>	<b>(\$14,400)</b>	<b>(\$5,900)</b>	<b>(\$44,524)</b>	<b>(\$59,600)</b>
Operating Margin	NM	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)	(5,100)
<b>Pretax Income/(Loss)</b>	<b>(\$32,582)</b>	<b>\$1,647</b>	<b>\$13,078</b>	<b>(\$18,513)</b>	<b>(\$18,110)</b>	<b>(\$21,898)</b>	<b>(\$12,362)</b>	<b>(\$13,912)</b>	<b>(\$15,500)</b>	<b>(\$7,050)</b>	<b>(\$48,824)</b>	<b>(\$64,700)</b>
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Income Tax	0	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%	0.0%
<b>Net Income/(Loss)</b>	<b>(\$32,582)</b>	<b>\$1,647</b>	<b>\$13,078</b>	<b>(\$18,513)</b>	<b>(\$18,110)</b>	<b>(\$21,898)</b>	<b>(\$12,362)</b>	<b>(\$13,912)</b>	<b>(\$15,500)</b>	<b>(\$7,050)</b>	<b>(\$48,824)</b>	<b>(\$64,700)</b>
Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Other Items	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net income applicable to common shareholders<sup>1</sup></b>	<b>(\$32,582)</b>	<b>\$1,647</b>	<b>\$13,078</b>	<b>(\$18,513)</b>	<b>(\$18,110)</b>	<b>(\$21,898)</b>	<b>(\$12,362)</b>	<b>(\$13,912)</b>	<b>(\$15,500)</b>	<b>(\$7,050)</b>	<b>(\$48,824)</b>	<b>(\$64,700)</b>
<b>Net Income/(Loss) per Share</b>	<b>(\$1.55)</b>	<b>\$0.08</b>	<b>\$0.62</b>	<b>(\$0.86)</b>	<b>(\$0.64)</b>	<b>(\$0.96)</b>	<b>(\$0.41)</b>	<b>(\$0.45)</b>	<b>(\$0.50)</b>	<b>(\$0.22)</b>	<b>(\$1.58)</b>	<b>(\$2.01)</b>
Basic Shares Outstanding <sup>2</sup>	21,062	20,954	20,954	21,500	28,123	22,898	30,000	31,000	31,250	31,500	30,938	32,125

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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SELL [UW]	21	3.57	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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