

# Acceleron Pharma Inc. (XLRN)

Overweight

Ends 3Q:13 With Cash of \$116.5 Million to Advance Pipeline

## CONCLUSION

Following a recent successful IPO, Acceleron ended 3Q:13 with cash of \$116.5 million, which we estimate is sufficient to fund operations through 2015. We anticipate an update on sotatercept at the American Society of Hematology (ASH) with abstracts out tomorrow. We look for substantive data on both sotatercept and ACE-536, both partnered with Celgene, at the European Hematology Association (EHA) meeting next June. Acceleron has selected 1.2mg/kg as the go forward dose in the Phase II study of dalantercept in combination with axitinib in renal cell carcinoma (RCC) and will report data at ASCO in June 2014. We reiterate our Overweight rating and \$32 price target.

- **Healthy Balance Sheet.** Acceleron raised net proceeds of \$97 million in a successful IPO in September, ending the quarter with cash of \$116.5 million. With Celgene covering all development expenses for sotatercept and ACE-536, Acceleron can focus these funds to advance wholly owned dalantercept.
- **Dalantercept Progress.** While most investors are focused on the Celgene deal and anemia drugs, we are more interested in wholly owned dalantercept. Acceleron has selected 1.2mg/kg of dalantercept in combination with axitinib in the Phase II portion of the RCC study with data likely at ASCO next June. Acceleron intends to begin another Phase I/II combo trial in either lung, liver or colon cancer in 2H:14.
- **Validating Partnerships with Celgene.** Acceleron has an extensive partnership with Celgene that covers both anemia drugs -- sotatercept and ACE-536. Celgene is now responsible for all costs of these drugs going forward. Acceleron retains co-promote rights for both sotatercept and ACE-536 in North America and is due low-to-mid 20% royalties.
- **Potential Blockbuster Anemia Drugs.** Sotatercept is currently in Phase II trials in Beta-thalassemia with dose-escalation data at the ASH meeting in December, as well as MDS. ACE-536 is also in Phase II trials in Beta-Thalassemia and MDS, with substantive data expected at the EHA meeting next June. We anticipate Celgene will begin Phase III trials of sotatercept and/or ACE-536 in either indication in late 2014 or early 2015.

## 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\$21.46

TARGET: US\$32.00

Proj. EV of \$875M + YE:14E net cash

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$32.00
FY13E Rev (mil)	56.7	56.8
FY14E Rev (mil)	—	23.5
FY13E EPS	(0.07)	(0.54)
FY14E EPS	(1.98)	(1.71)
52-Week High / Low	US\$26.73 /	US\$15.00
Shares Out (mil)		28.1
<i>Incl. impact of IPO, green shoe &amp; CELG private placement</i>		
Market Cap. (mil)		US\$603.0
Book Value/Share		US\$2.85
Net Cash Per Share		US\$4.15
Debt to Total Capital		10%
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	39.4x	—	—	—	—	(1.44)	NM
2013E	15.0A	26.4A	4.3A	11.1	56.8	10.6x	0.13A	0.64A	(1.11)A	(0.14)	(0.54)	NM
2014E	3.6	3.6	3.1	13.1	23.5	25.7x	(0.44)	(0.49)	(0.54)	(0.24)	(1.71)	NM

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## INVESTMENT RECOMMENDATION

We reiterate our Overweight rating and a \$32 price target based on a projected enterprise value of \$875 million. We value dalantercept at \$588 million by applying our industry standard 5x multiple to 2021 WW sales in RCC of \$882 million plus \$705 million in sales in a 2nd indication; both are discounted back at 45% through YE:14. We value Acceleron's portion of sotatercept/ACE-536 revenues at \$287 million by applying a 5x multiple to 2019 MDS anemia royalties of \$215 million and 2020 Beta thalassemia royalties of \$221 million; both are discounted back at 45% through YE:14. We believe these discount rates are appropriate for Phase II assets. Positive clinical data could result in a lower discount rate and an increase in our price target.

Acceleron completed a successful IPO on September 18, issuing 6.5 million primary XLRN shares (including a 937,000 green shoe) at \$15.00 per share. In addition, Celgene invested \$10 million at the IPO price in a concurrent private placement. We estimate Acceleron ended 3Q:13 with cash of ~\$117 million. Thus we add YE:14E cash of \$64 million to arrive at a projected market capitalization of \$939 million. We divide this by 29 million YE:14E shares outstanding to arrive at our \$32 price target.

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

11/6/2013

	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QE</u>	<u>2013E</u>	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>
<b>Collaboration Revenue:</b>											
<b>Total Revenues</b>	<b>\$15,254</b>	<b>\$15,012</b>	<b>\$26,428</b>	<b>\$4,270</b>	<b>\$11,125</b>	<b>\$56,835</b>	<b>\$3,625</b>	<b>\$3,625</b>	<b>\$3,100</b>	<b>\$13,100</b>	<b>\$23,450</b>
<b>Operating Expenses:</b>											
Research and Development	35,319	8,780	8,911	8,143	10,000	35,834	11,000	12,000	13,000	14,000	50,000
General and Administrative	8,824	3,096	3,365	3,011	4,000	13,472	4,000	4,500	4,500	5,000	18,000
<b>Total Operating Expenses</b>	<b>\$44,143</b>	<b>\$11,876</b>	<b>\$12,276</b>	<b>\$11,154</b>	<b>\$14,000</b>	<b>\$49,306</b>	<b>\$15,000</b>	<b>\$16,500</b>	<b>\$17,500</b>	<b>\$19,000</b>	<b>\$68,000</b>
<b>Operating Income/(Loss)</b>	<b>(\$28,889)</b>	<b>\$3,136</b>	<b>\$14,152</b>	<b>(\$6,884)</b>	<b>(\$2,875)</b>	<b>\$7,529</b>	<b>(\$11,375)</b>	<b>(\$12,875)</b>	<b>(\$14,400)</b>	<b>(\$5,900)</b>	<b>(\$44,550)</b>
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total Other Income/(Expense) <sup>1</sup>	(1,435)	(1,489)	(1,074)	(11,629)	(1,000)	(15,192)	(1,050)	(1,100)	(1,150)	(1,200)	(4,500)
<b>Pretax Income/(Loss)</b>	<b>(\$30,324)</b>	<b>\$1,647</b>	<b>\$13,078</b>	<b>(\$18,513)</b>	<b>(\$3,875)</b>	<b>(\$7,663)</b>	<b>(\$12,425)</b>	<b>(\$13,975)</b>	<b>(\$15,550)</b>	<b>(\$7,100)</b>	<b>(\$49,050)</b>
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%
<b>Net Income/(Loss)</b>	<b>(\$30,324)</b>	<b>\$1,647</b>	<b>\$13,078</b>	<b>(\$18,513)</b>	<b>(\$3,875)</b>	<b>(\$7,663)</b>	<b>(\$12,425)</b>	<b>(\$13,975)</b>	<b>(\$15,550)</b>	<b>(\$7,100)</b>	<b>(\$49,050)</b>
Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
<b>Net Income/(Loss) per Share</b>	<b>(\$1.44)</b>	<b>\$0.13</b>	<b>\$0.64</b>	<b>(\$1.11)</b>	<b>(\$0.14)</b>	<b>(\$0.54)</b>	<b>(\$0.44)</b>	<b>(\$0.49)</b>	<b>(\$0.54)</b>	<b>(\$0.24)</b>	<b>(\$1.71)</b>
Basic Shares Outstanding <sup>c</sup>	21,062	20,954	20,954	22,250	28,250	23,102	28,500	28,600	28,800	29,000	28,725

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

Note: Acceleron completed its IPO on September 18, 2013 and has not yet provided fully quarterly results for 2012.

1. 2012, 1Q:13 and 2Q:13 Total Other Income/(Expense) line incl. extinguishment of convertible preferred stock and change in fair value of warrants.

2. Shares Outstanding for 2012A, 1Q:13A, 2Q:13A, and 3Q:13A are Piper Jaffray estimates.

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			Count	Percent
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**Analyst Certification — Edward A. Tenthoff, Sr Research Analyst**

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