

Accelaron Pharma Inc. (XLRN)

Overweight

Follow-up on Positive Sotatercept Data at ASH: Increasing Price Target to \$35

CONCLUSION

We were impressed by the data that Accelaron and partner Celgene presented at the American Society of Hematology (ASH) meeting on Monday and are increasing our price target to \$35 from \$32 by lowering our discount rate on sotatercept in Beta-Thalassemia. The two higher doses of 0.3mg/kg and 0.5mg/kg sotatercept showed the majority (84%) of patients of non-transfusion dependent (NTD) achieved at least a 1g/dL increase in hemoglobin (Hb) levels while 16% and 33% achieved at least a 2g/dL increase in Hb, respectively. Sotatercept maintains a clean safety profile and escalation continuing to 7.5mg/kg cohort. We anticipate full Phase II Beta-thalassemia and MDS data at the European Hematology Association (EHA) meeting next June. Accelaron ended 3Q:13 with cash of \$116.5 million, which we estimate is sufficient to fund operations through 2015. We reiterate our Overweight rating.

- Potential Blockbuster Anemia Drugs.** Sotatercept is currently in Phase II trials in Beta-thalassemia. At ASH, the partners updated dose escalation data (Poster #3448) showing the drug to be well tolerated with only 3/25 patients showing Grade 2 or higher toxicity including 1 bone pain, 1 superficial thrombophlebitis and 1 ventricular extrasystoles. Importantly, the majority (84% each) of NTD patients in the higher 0.3mg/kg and 0.5mg/kg doses achieved at least a 1g/dL increase in Hb levels while 16% on the 0.3mg/kg and 33% on the 0.5mg/kg doses achieved at least a 2g/dL increase in Hb. These are impressive results with escalation continuing to 7.5mg/kg cohort. We anticipate full Phase II Beta-thalassemia and MDS data at the European Hematology Association (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.
- Validating Partnerships with Celgene.** Accelaron 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. Accelaron retains co-promote rights for both sotatercept and ACE-536 in North America and is due low-to-mid 20% royalties.
- Healthy Balance Sheet.** Accelaron 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, Accelaron can focus these funds to advance wholly owned dalantercept.

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\$28.07

TARGET: US\$35.00

Proj. EV of \$939M + YE:14E net cash

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	US\$32.00	US\$35.00
FY13E Rev (mil)	—	56.8
FY14E Rev (mil)	—	23.5
FY13E EPS	—	(0.54)
FY14E EPS	—	(1.71)

52-Week High / Low	US\$31.43 / US\$15.00
Shares Out (mil)	28.1

Incl. impact of IPO, green shoe @ CELG

private placement	
Market Cap. (mil)	US\$788.8
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	51.6x	—	—	—	—	(1.44)	NM
2013E	15.0A	26.4A	4.3A	11.1	56.8	13.9x	0.13A	0.64A	(1.11)A	(0.14)	(0.54)	NM
2014E	3.6	3.6	3.1	13.1	23.5	33.6x	(0.44)	(0.49)	(0.54)	(0.24)	(1.71)	NM

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INVESTMENT RECOMMENDATION

We reiterate our Overweight rating and are increasing our price target to \$35 from \$32 based on a projected enterprise value of \$939 million, up from \$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 \$350 million, up from \$287 million, by applying a 5x multiple to 2019 MDS anemia royalties of \$215 million and 2020 Beta thalassemia royalties of \$221 million. We use a 45% discount rate in MDS and a lower 35% discount rate in Beta-thalassemia due to the positive data at ASH. 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 \$1.0 billion. We divide this by 29 million YE:14E shares outstanding to arrive at our \$35 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>
Collaboration Revenue:											
Total Revenues	\$15,254	\$15,012	\$26,428	\$4,270	\$11,125	\$56,835	\$3,625	\$3,625	\$3,100	\$13,100	\$23,450
Operating Expenses:											
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
Total Operating Expenses	\$44,143	\$11,876	\$12,276	\$11,154	\$14,000	\$49,306	\$15,000	\$16,500	\$17,500	\$19,000	\$68,000
Operating Income/(Loss)	(\$28,889)	\$3,136	\$14,152	(\$6,884)	(\$2,875)	\$7,529	(\$11,375)	(\$12,875)	(\$14,400)	(\$5,900)	(\$44,550)
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total Other Income/(Expense) ¹	(1,435)	(1,489)	(1,074)	(11,629)	(1,000)	(15,192)	(1,050)	(1,100)	(1,150)	(1,200)	(4,500)
Pretax Income/(Loss)	(\$30,324)	\$1,647	\$13,078	(\$18,513)	(\$3,875)	(\$7,663)	(\$12,425)	(\$13,975)	(\$15,550)	(\$7,100)	(\$49,050)
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)	(\$30,324)	\$1,647	\$13,078	(\$18,513)	(\$3,875)	(\$7,663)	(\$12,425)	(\$13,975)	(\$15,550)	(\$7,100)	(\$49,050)
Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net Income/(Loss) per Share	(\$1.44)	\$0.13	\$0.64	(\$1.11)	(\$0.14)	(\$0.54)	(\$0.44)	(\$0.49)	(\$0.54)	(\$0.24)	(\$1.71)
Basic Shares Outstanding ^c	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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I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	348	58.39	76	21.84
HOLD [N]	225	37.75	17	7.56
SELL [UW]	23	3.86	1	4.35

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Analyst Certification — Edward A. Tenthoff, Sr Research Analyst

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