

Accelaron Pharma Inc. (XLRN)

Overweight

Sotatercept Shows Hemoglobin Benefit In ESRD Patients, Reiterate Overweight

CONCLUSION

After the close, Celgene and partner Accelaron announced an upcoming presentation of Phase IIa data evaluating 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. A single administration of sotatercept showed modest, dose-dependent hemoglobin benefit. We look for additional details at the upcoming Kidney meeting as well as data for sotatercept in MDS and Beta-thalassemia at the EHA meeting in June. We reiterate our Overweight rating and price target of \$65.

- ESRD Sotatercept Data Shows Hemoglobin Benefit.** Celgene and partner Accelaron announced preliminary Phase II data on sotatercept in ESRD in dialysis patients in a poster presentation at the National Kidney Foundation Spring Clinical meeting on April 23rd. Single doses of 0.3 and 0.5mg/kg sotatercept showed 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. The trial is still enrolling and could include up to 56 patients, and will proceed to 0.7mg/kg dose.
- 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 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.

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\$42.50

TARGET: US\$65.00

Proj. EV of \$1.9B + YE14E net cash

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$65.00
FY13A Rev (mil)	—	57.2
FY14E Rev (mil)	—	23.5
FY13A EPS	—	(0.96)
FY14E EPS	—	(1.58)
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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\$1,317.5	
Avg Daily Vol (ooo)	246	
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	86.1x	—	—	—	—	(1.55)	NM
2013A	15.0	26.4	4.3	11.5	57.2	23.0x	0.08	0.62	(0.86)	(0.64)	(0.96)	NM
2014E	3.6	3.6	3.1	13.1	23.5	56.1x	(0.41)	(0.45)	(0.50)	(0.22)	(1.58)	NM

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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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S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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			Count	Percent
BUY [OW]	352	59.16	81	23.01
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SELL [UW]	20	3.36	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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