

Acceleron Pharma Inc. (XLRN)

Overweight

Sotatercept In Phase II For ESRD, Received \$7 Million Milestone From Celgene

CONCLUSION

This morning, Acceleron announced receipt of a \$7 million milestone payment for Celgene's initiation of a Phase II study of sotatercept to treat patients with anemia resulting from end stage renal disease (ESRD). The timing of the milestone was in line with our expectation. Acceleron is eligible to receive up to \$360 in milestones from Celgene regarding sotatercept. After the milestone, we estimate that Acceleron has ~\$124 million in cash, which we project is sufficient to fund operations through 2015. We reiterate our Overweight rating.

- Potential Blockbuster Anemia Drugs.** Aside from ESRD, Sotatercept is currently in Phase II trials for Beta-thalassemia and myelodysplastic syndromes (MDS). At the American Society of Hematology meeting two weeks ago, the partners updated dose escalation data in Beta-thalassemia that showed 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 the 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.** Acceleron has an extensive partnership with Celgene that covers both anemia drugs -- sotatercept and ACE-536. Celgene is 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.
- Healthy Balance Sheet.** Acceleron raised net proceeds of \$97 million in a successful IPO in September. This when combined with today's \$7 million milestone from Celgene brings Acceleron to ~\$124 million in cash. With Celgene covering all development expenses for sotatercept and ACE-536, Acceleron 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. Acceleron may require additional capital or could face future unforeseen litigation.

COMPANY DESCRIPTION

Acceleron is developing novel drugs for hematology and cancer.

PRICE: US\$27.62

TARGET: US\$35.00

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

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	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
<i>Incl. impact of IPO, green shoe & CELG private placement</i>		
Market Cap. (mil)		US\$776.1
Book Value/Share		US\$2.85
Net Cash Per Share		US\$4.39
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	50.7x	—	—	—	—	(1.44)	NM
2013E	15.0A	26.4A	4.3A	11.1	56.8	13.7x	0.13A	0.64A	(1.11)A	(0.14)	(0.54)	NM
2014E	3.6	3.6	3.1	13.1	23.5	33.0x	(0.44)	(0.49)	(0.54)	(0.24)	(1.71)	NM

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INVESTMENT RECOMMENDATION

We reiterate our Overweight rating and our price target of \$35 based on a projected enterprise value of \$939 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, 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. After the \$7 million milestone payment received this quarter, we estimate that Acceleron has ~\$124 million in cash. 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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Legend:

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]	347	58.03	74	21.33
HOLD [N]	228	38.13	19	8.33
SELL [UW]	23	3.85	1	4.35

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Analyst Certification — Edward A. Tenthoff, Sr Research Analyst

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