

Acceleron Pharma Inc. (XLRN)

Acceleron Gives Pipeline Update at Competitor Healthcare Conference

MARKET DATA

Price	\$22.83
52-Week Range:	\$16.78 - \$26.73
Shares Out. (M):	26.5
Market Cap (\$M):	\$605.0
Average Daily Vol. (000):	70.0
Cash (M):	\$116
Cash/Share:	\$4.13
Enterprise Value (M):	\$842
Float (M):	24.3
LT Debt (M):	\$14

Source: Thomson Reuters and JMP Securities LLC

MARKET OUTPERFORM | Price: \$22.83 | Target Price: \$32.00

INVESTMENT HIGHLIGHTS

Dalantercept moving forward in HCC, while plans for pivotal trials with sotatercept or ACE-536 remain intact; reiterate Market Outperform rating on Acceleron Pharma and \$32 price target based on DCF, CAGR and comparable company valuation methodologies. Speaking at a competitor's healthcare conference this morning, Acceleron management announced plans to initiate a Phase II combination study of dalantercept plus Nexavar (sorafenib) in hepatocellular carcinoma (HCC) during 1H14 – one to two quarters ahead of prior guidance. In addition, the company noted that one of two Phase II single-agent dalantercept studies being conducted by Gynecologic Oncologic Group (GOG) in ovarian cancer is fully enrolled in its initial stage, with results anticipated during 1Q14. A second GOG study in endometrial cancer was recently discontinued for insufficient activity; we point out the bar was unusually high in this study (>50% ORR), and one which Avastin was also unable to attain. Plans to initiate the randomized portion of the Phase II trial of dalantercept plus Inlyta (axitinib) in second-line RCC (the primary value driver for the program) during 1Q14 were reaffirmed. Guidance toward updated Phase II sotatercept results in β -thalassemia at ASH (December 9th) was reiterated, including new data from the third and potentially fourth dosing cohorts of 0.5 and 0.75mg/kg as well as longer follow-up in patients multiply dosed at 0.1 and 0.3mg/kg. In our opinion, the addition of the two higher dose groups increases the likelihood that sotatercept is able to produce a 1.5g/dl increase in hemoglobin (Hgb) in patients with β -thalassemia, a bogey we believe investors are closely scrutinizing. Plans to initiate registration directed studies of sotatercept or ACE-536 in β -thalassemia and/or MDS by year-end 2014/1Q15 remain unchanged.

FY DEC	2012A	2013E	2014E
Revenue (\$M) 1Q	--	\$15.0A	\$4.9
2Q	--	\$26.4A	\$12.2
3Q	--	\$4.3A	\$5.4
4Q	--	\$4.7	\$20.9
FY	\$15.3	\$50.4	\$43.4
EPS 1Q	--	\$0.12A	(\$0.33)
2Q	--	\$0.44A	(\$0.09)
3Q	--	(\$5.62)A	(\$0.34)
4Q	--	(\$0.32)	\$0.13
FY	(\$1.43)	(\$0.82)	(\$0.57)
P/E	NM	NM	NM

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



Acceleron represents a compelling opportunity in the biotech space over the course of the next several years. Our view is drawn from the company's focus and understanding of TGF beta biology, as well as developmental and commercialization advantages offered through its strategic partnership with Celgene (CELG, MO, \$175 PT). In our opinion, the company's first wave of product candidates, validated by Celgene's significant investment, is but the tip of the iceberg that, over time, should create significant value for shareholders. We believe the program will garner favorable mention at the Celgene ASH analyst and investor event on Sunday, December 8. Acceleron will also host its own investor event on Monday, December 9.

FIGURE 1. Upcoming Milestones

Timing	Drug	Milestones
4Q13	Sotatercept	Update from Sotatercept Phase II trial in β -thalassemia at ASH (Dec. 9)
4Q13/1Q14	Sotatercept	Initiation of Phase II trial in patients with end stage renal disease (ESRD)
4Q13/1Q14	Dalantercept	Preliminary data from Phase II, GOG-sponsored trials in ovarian cancer
1Q14	Sotatercept & ACE-536	Initiation of RP2D expansion cohorts in ongoing β -thalassemia Phase II trials
1Q14	Dalantercept	Preliminary data from dose-escalation stage of Phase II RCC trial in combination with axitinib; start of randomized stage versus axitinib alone
2Q14	Sotatercept & ACE-536	Presentation of dose escalation Phase II results in β -thalassemia and MDS
3Q14	Dalantercept	Initiation of Phase II trial(s) in additional indication(s)
4Q14	Sotatercept & ACE-536	Final results from Phase II trials in β -thalassemia and MDS
4Q14	Sotatercept & ACE-536	Initiation of Phase III trial in β -thalassemia and/or MDS
4Q14	ACE-083	Initiation of Phase I trial in muscular dystrophy

Source: JMP Securities LLC and Company Reports

Company Description

Acceleron Pharma (XLRN) is a Cambridge, MA biotechnology company focused on the discovery, development, and commercialization of its ligand trap fusion proteins directed against components of TGF β signaling pathway. These fusion proteins have shown clinical potential in the treatment of anemia disorders related to β -thalassemia and myelodysplastic syndromes, as well as in the treatment of solid cancers, muscle wasting disorders, and other indications impacted by dysregulated TGF β .

Since 2008, the company has benefited by robust strategic collaboration with Celgene related to its development lead programs, sotatercept and ACE-536, entitling the company to full reimbursement on both programs and eligibility for up to \$567MM in development, regulatory, and commercial milestones, and a $\geq 20\%$ royalty on worldwide sales, by our estimates. Sotatercept and ACE-536 are currently in Phase II trials for the treatment of β -thalassemia and low/intermediate-1 MDS with pivotal Phase III trials expected to initiate in the first half of 2014.

Dalantercept, the company's wholly owned, clinical-stage fusion protein, is directed against ALK1, a key mediator of tumor angiogenesis that functions independently from the VEGF axis. Dalantercept is currently in Phase II evaluation for the treatment of second-line RCC in combination with TKI therapy.

Investment Risks

Clinical. Drug development is an inherently risky business. Clinical trials always carry a risk of failure and Acceleron's assets (sotatercept, ACE-536, Dalantercept, or future drug candidates) may fail to demonstrate meaningful enough levels of efficacy in current or future clinical trials.

Regulatory and commercial. The ability of Acceleron or its partners to market its drugs depends on those drugs obtaining approval from the FDA and foreign regulatory agencies. Failure to achieve approval or delays in the timelines to approval could negatively impact the company's share price.

Competitive. Hereditary anemic disorders represent an increasingly competitive field and Acceleron faces competition from companies with development-stage drug candidates addressing similar biologic mechanisms, and from companies attempting to broaden the applicable indications for products already approved for use. Some of these companies may possess substantially greater R&D and commercial resources than Acceleron or its partners. As such, there is no assurance Acceleron will be competitive or differentiated from other drug products.

Partners. Acceleron has formed development and commercial partnerships with Celgene and is highly dependent on these partnerships for non-dilutive sources of capital, and for the potential commercialization of sotatercept and/or ACE-536. Changes to these partnership arrangements could have a substantially negative impact to the company's share price.

Financial. Following its IPO, we estimate that Acceleron will end 4Q13 with approximately \$87MM in cash and cash equivalents - adequate resources to fund operations into 2015, according to Acceleron financial guidance. We anticipate that Acceleron is likely to seek additional equity financing in the form of a secondary offering in order to complete the development of its drug candidates, creating dilution risk for existing shareholders.

JMP FACTS AND DISCLOSURES

Analyst Certification:

The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts, circumstances or events that may subsequently come to my/our attention. Signed Michael G. King and Eric Joseph

JMP Securities Disclosures:

JMP Securities currently makes a market in the securities of Accelaron Pharma Inc. and Celgene Corporation

JMP Securities was manager or co-manager of a public offering, and received compensation for doing so, for Accelaron Pharma Inc. in the past 12 months.

JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

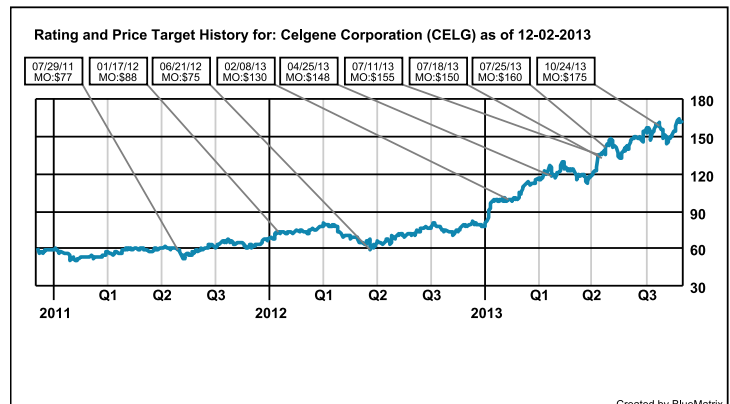
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of December 2, 2013)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	235	56.76%	Buy	235	56.76%	87	37.02%
MARKET PERFORM	Hold	137	33.09%	Hold	137	33.09%	24	17.52%
MARKET UNDERPERFORM	Sell	5	1.21%	Sell	5	1.21%	0	0%
COVERAGE IN TRANSITION		37	8.94%		37	8.94%	0	0%
TOTAL:		414	100%		414	100%	111	26.81%

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



JMP Disclaimer:

JMP Securities LLC (the “Firm”) compensates research analysts, like other Firm employees, based on the Firm’s profitability, which includes revenues from the Firm’s institutional sales, trading, and investment banking departments as well as on the quality of the services and activities performed that are intended to benefit the Firm’s institutional clients. These data have been prepared by JMP Securities LLC for informational purposes only and are based on information available to the public from sources that we believe to be reliable, but we do not guarantee their accuracy or completeness. Any opinions and projections expressed herein reflect our judgment at this date and are subject to change without notice. These data are neither intended nor should be considered as an offer to sell or a solicitation or a basis for any contract for the purchase of any security or other financial product. JMP Securities LLC, its affiliates, JMP Group LLC, Harvest Capital Strategies LLC, and their respective partners, directors, officers, and associates may have a long or short position in, may act as a market maker for, or may purchase or sell a position in the securities mentioned herein. JMP Securities LLC or its affiliates may be performing, have performed, or seek to perform investment banking, advisory, or other services and may have acted as manager or co-manager for a public offering of securities for any company mentioned herein. The reader should assume that JMP Securities LLC will solicit business from the company covered in this report. Members of our Sales and Trading Department provide oral and/or written market opinions and trading strategies to our clients that reflect their personal opinions about stocks that are the subject of the firm’s research reports. Our research analysts discuss trading strategies with clients and complete surveys from clients that sometimes reflect short-term expectations for the price of the securities that are the subject of research reports. Those trading strategies and survey responses are distinct from the analysts’ fundamental rating for the stock, which is based upon the analysts’ view compared to other stocks under coverage for the relevant time period. © Copyright 2013. All rights reserved by JMP Securities LLC. JMP Securities LLC is a member of FINRA, NASDAQ, and SIPC.

Jeffrey H. Spurr
Director of Research
(415) 835-3903

RESEARCH PROFESSIONALS

FINANCIAL SERVICES

Alternative Asset Managers

Devin Ryan (212) 906-3578

Commercial & Specialty Finance

Christopher York (415) 835-8965
Hannah Kim, CFA (415) 835-8962

Consumer Finance

David M. Scharf (415) 835-8942
Jeremy Frazer (312) 768-1796

Financial Processing & Outsourcing

David M. Scharf (415) 835-8942
Jeremy Frazer (312) 768-1796

Insurance

Matthew J. Carletti (312) 768-1784
Christine Worley (312) 768-1786

Investment Banks & Brokers

Devin Ryan (212) 906-3578

Mortgage Finance

Steven C. DeLaney (404) 848-7773
Trevor Cranston, CFA (415) 869-4431
Charter Robinson (757) 613-8955
Benjamin Zucker (212) 906-3529

HEALTHCARE

Biotechnology

Liisa A. Bayko (312) 768-1785
Heather Behanna, PhD (312) 768-1795
Andrew Prigodich (312) 768-1788
Jason N. Butler, PhD (212) 906-3505
Christopher T. Radom, PhD (212) 906-3519
Caroline Palomeque (212) 906-3509
Michael G. King, Jr. (212) 906-3520
Eric Joseph (212) 906-3514
Joseph A. Knowles (212) 906-3525

Healthcare Services & Facilities

Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963
Arthur Kwok (415) 835-8908

Medical Devices & Supplies

David Turkaly (212) 906-3563
John Gillings (212) 906-3564

Medical Devices & Molecular Diagnostics

J. T. Haresco, III, PhD (415) 869-4477
Marie T. Casey, PhD (415) 835-3955

REAL ESTATE

Housing & Land Development

Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963
Bharathwajan Iyengar (415) 835-3902

Lodging

Whitney Stevenson (212) 906-3538

Property Services

Mitch Germain (212) 906-3546
Whitney Stevenson (212) 906-3538

REITs: Healthcare

Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963
Arthur Kwok (415) 835-8908

REITs: Office, Industrial, & Diversified

Mitch Germain (212) 906-3546
Peter Lunenburg (212) 906-3537

TECHNOLOGY

Communications Equipment & Internet Security

Erik Suppiger (415) 835-3918
John Lucia (415) 835-3920

Internet & Digital Media

Ronald V. Josey III (212) 906-3528

Software

Patrick Walravens (415) 835-8943
Peter Lowry (415) 869-4418
Caitlin Schields (415) 835-8960
Greg McDowell (415) 835-3934

Wireless & Cloud Computing Technologies

Alex Gauna (415) 835-8998
Michael Wu (415) 835-8996

ADDITIONAL CONTACTS

Thomas R. Wright
Director of Equities
(212) 906-3599

Dan Wychulis
Director of Institutional Sales
(617) 235-8530

600 Montgomery Street, Suite 1100
San Francisco, CA 94111
www.jmpsecurities.com