

COMPANY NOTE

Estimate Change

USA | Healthcare | Biotechnology

August 12, 2014

Jefferies

Radius Health (RDUS) In-line 2Q14 Net Loss; Abaloparatide-SC Ph3 Data On Track for Late-December

Key Takeaway

Ph3 data for lead product abaloparatide-SC in osteoporosis is on track by YE14. We view Ph3 success as highly likely (primary endpoint of new vertebral fracture reduction vs. placebo). However, potential for better efficacy in some measures vs. Forteo (~\$1.25B in 2013 sales) is not factored into current share price (EV of ~\$280M), providing attractive risk/reward profile.

~In-line 2Q14 net loss of \$12.6M vs. our loss estimate of ~\$13.3M. There was no revenue and OpEx of \$13.7M was ~in-line, including R&D of ~\$10.6M (vs. ours of \$10.2M) and G&A of \$3.1M (vs. ours of \$2.6M). We estimate RDUS' cash at end-2Q14 of \$79M sufficient into ~2016.

Ph3 data for lead product abaloparatide-SC (18-month fracture data) in osteoporosis on track to be reported in 4Q14 (late-December; last patient visit to occur in Nov). Lead product abaloparatide-SC (PTHrP) is the most advanced anabolic (bone formation) agent in development for osteoporosis (potential NDA filing in ~mid-2015). We continue to view highly likely Ph3 success (primary endpoint of new vertebral fracture reduction vs. placebo) for regulatory approval. However, advantages of abaloparatide-SC vs. Forteo in non-vertebral fracture risk reduction is key to commercial success (Forteo, ~\$1.25B in 2013 sales).

Details on the second part design of Ph1 for RAD1901 in ER+ BCBM expected in September; on track to begin by YE14. RAD1901 (a SERD) is the only product targeting ER-positive breast cancer with brain metastasis (BCBM; ~12K U.S. pts). While details are yet-to-be finalized, it would enroll ~20 pts, with PET imaging data as efficacy assessment.

Upcoming events for RDUS include: (1) additional abaloparatide data at American Society for Bone and Mineral Research (ASBMR) on 9/12-9/15/14 in Houston, TX; (2) topline Ph3 data for abaloparatide-SC in late-Dec. 2014 (18-month fracture risk reduction data); (3) initiation of second part of ongoing Phase 1 for RAD1901 in ER-positive BCBM by YE14; (4) abaloparatide-SC 24-months data (6-months extension from the Phase 3) in 2Q15; (5) potential U.S./EU regulatory filings for abaloparatide-SC in ~mid-2015; and (6) potential U.S./EU approval for abaloparatide-SC in 2016/2017, respectively.

Valuation/Risks

Our \$17 PT is based on an NPV analysis of abaloparatide-SC U.S./EU sales/royalty. Risks for RDUS are primarily on abaloparatide-SC, including: (1) clinical/regulatory delays/failure; (2) slow commercial uptake and/or competition and (3) general industry risks.

| USD | Prev. | 2014E | Prev. | 2015E | Prev. | 2016E | Prev. | 2017E |
|-------------------------------------|--------|----------|--------|--------|--------|--------|--------|--------|
| Rev. (MM) | -- | 0.0 | -- | 0.0 | -- | 31.5 | -- | 26.3 |
| EPS | | | | | | | | |
| Mar | -- | (50.45)A | -- | -- | -- | -- | -- | -- |
| Jun | (0.54) | (2.22)A | -- | -- | -- | -- | -- | -- |
| Sep | (0.48) | (0.51) | -- | -- | -- | -- | -- | -- |
| Dec | (0.51) | (0.53) | -- | -- | -- | -- | -- | -- |
| FY Dec | (2.41) | (3.11) | (1.44) | (1.50) | (1.14) | (1.16) | (1.73) | (1.76) |
| EPS: RDUS completed its IPO in 2Q14 | | | | | | | | |

BUY

Price target \$17.00

Price \$12.07

Financial Summary

| | |
|----------------------|----------|
| Book Value (MM): | \$39.7 |
| Book Value/Share: | \$1.34 |
| Net Debt (MM): | (\$79.0) |
| Long-Term Debt (MM): | \$25.0 |
| Cash/Share: | \$2.66 |
| Cash (MM): | \$79.0 |

Market Data

| | |
|---------------------------|------------------|
| 52 Week Range: | \$17.32 - \$7.46 |
| Total Entprs. Value (MM): | \$279.5 |
| Market Cap. (MM): | \$358.5 |
| Shares Out. (MM): | 29.7 |
| Float (MM): | 5.4 |
| Avg. Daily Vol.: | NA |

*General: Above figures for Financial Summary and Market Data reflect post-IPO estimates

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Price Performance

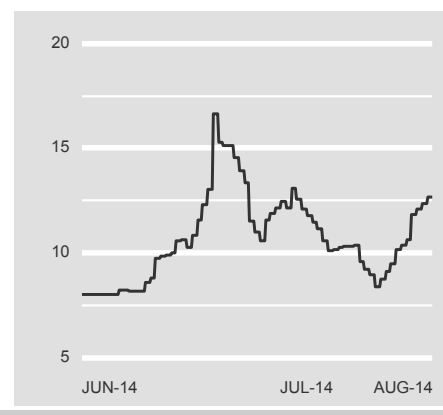


Chart 1: Radius Health's Product Pipeline

| Product | Description | Indication | Status | Marketing rights | Patent expiry |
|---------------|--|--|---|--|---|
| Abaloparatide | Synthetic peptide analog of parathyroid hormone-related protein (PTHrP) | Fracture prevention in osteoporosis; subcutaneous (SC) formulation | Phase 3 randomized (1:1:1) ACTIVE study (began in 4/11, with enrollment completed in 3/13) comparing 1x daily abaloparatide-SC (80ug) vs. Forteo (20ug) vs. placebo in PMO women (n=2,463) with primary endpoint of new vertebral fractures vs. placebo at 18 mo and secondary endpoints including BMD of lumbar spine, hip, and femoral neck, non-vertebral fractures, and # of hypercalcemic events; enrollment completed in 3/13 with potential topline 18-mo fracture data in late-December 2014; potential U.S./EU regulatory filings in ~mid-2015 (including 24 mo fracture data) & U.S./EU approval in 2016/2017, respectively 6-months extension study begun in 10/12 for pts enrolled in Phase 3 (n=1200); pts in either abaloparatide-SC and placebo arms to receive alendronate (generic Fosamax), with endpoints including vertebral fractures at 24 mo and safety; potential data in 2Q15 | Radius (worldwide ex-Japan, ex-France, with Ipsen co-promote in France); Ipsen (Japan) | In U.S./EU, CoM expires on 3/29/16 (potential Hatch-Waxman extension into 2021 in U.S.); formulation patent expires on 11/8/27 & method of treatment patent expires on 3/26/28 in the U.S.; pending method of treatment patent expires on 10/3/27 in EU |
| | | Fracture prevention in osteoporosis; transdermal (TD) patch | Phase 2 randomized, placebo-controlled parallel group dose-finding data comparing three doses 1x daily abaloparatide-SC (20ug, 40ug, 80ug) in pts with PMO (n=270) with primary endpoint of changes in marker of bone metabolism & changes in spine BMD at 24 wks announced in 8/09 Phase 2 randomized, double-blind study comparing three doses of 1x daily abaloparatide-TD (50ug, 100ug, 150ug) vs. abaloparatide-SC (80ug) vs. placebo (n=250; primary endpoint of % increase in BMD at 6mo from baseline) announced in 1/14 with statistically significant increases in both BMD at lumbar spine & hip over placebo for 100ug and 150ug doses; currently optimizing transdermal patch dose & formulation to achieve comparable PK profile to abaloparatide-SC; if comparable, upon potential approval of SC version, planning single Phase 3 non-inferiority bridging study comparing abaloparatide-SC vs. abaloparatide-TD, with endpoints including lumbar spine BMD at 12 mo | Radius | In U.S./EU, CoM expires on 3/29/16 (potential Hatch-Waxman extension into 2021 in U.S.); pending patents on microneedle application expire in 2032 |
| RAD1901 | Oral selective estrogen receptor (ER-alpha) down-regulator (SERD)/selective estrogen receptor modulator (SERM) | ER-positive breast cancer with brain metastases (high dose); vasomotor symptoms (low dose) | Second part of ongoing Phase 1 in ER-positive mBC with brain metastases expected to begin in late-2014 with potential data in ~2015 (study design details in ~Sept 2014); first part of two-part Phase 1 study in healthy patients to determine MTD began in 2Q14 with potential data in ~3Q14 Seeking partnership for vasomotor symptoms indication; Phase 2 for randomized, double-blind study comparing four doses of RAD1901 (10mg, 25mg, 50mg, 100mg) vs. placebo in postmenopausal women (n=100; primary endpoint of % change in frequency of hot flashes over time) completed in 2010 with statistically significant reduction in frequency of moderate/severe hot flashes with 10mg dose | Radius (worldwide ex-Japan); Eisai (Japan) | In U.S., two CoM patents expire on 12/25/23 and 8/18/26; in EU, pending patents expire in 2023 |
| RAD140 | Non-steroidal selective androgen receptor modulator | N/A | Preclinic | Radius | In U.S., pending CoM expires in 2029 |

PMO=post-menopausal osteoporosis; BMD=bone mineral density; PK=pharmacokinetics

Source: Company reports and Jefferies

Radius Health (RDUS)

Income Statement

(\$ in thousands except per share)

| | 2013 | 1Q14 | 2Q14 | 3Q14E | 4Q14E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|---------|---------|---------|---------|---------|-----------|
| Revenues | | | | | | | | | | | | | | | | | |
| Abaloparatide-SC for PMO (U.S.) | | | | | | | | - | 26,299 | 88,123 | 152,791 | 199,465 | 243,168 | 252,968 | 263,162 | 273,768 | 284,801 |
| Growth y/y | | | | | | | | | | 235% | 73% | 31% | 22% | 4% | 4% | 4% | 4% |
| Growth q/q | | | | | | | | | | | | | | | | | |
| Royalty for abaloparatide-SC for PMO (EU) | | | | | | | | | - | 5,418 | 17,794 | 30,241 | 38,697 | 46,241 | 47,152 | 48,081 | 49,028 |
| Growth y/y | | | | | | | | | | | 228% | 70% | 28% | 19% | 2% | 2% | 2% |
| RAD1901 for ER+ BCBM (U.S./EU) | | | | | | | | | | | 9,076 | 45,927 | 98,169 | 149,840 | 198,229 | 235,066 | 235,066 |
| Growth y/y | | | | | | | | | | | 406% | 114% | 53% | 32% | 19% | 19% | 19% |
| Other revenues | | | | | | | | 31,500 | | | | | | | | | |
| Total Revenues | - | - | - | - | - | - | - | 31,500 | 26,299 | 93,541 | 170,585 | 238,782 | 327,792 | 397,378 | 460,155 | 520,078 | 568,895 |
| % growth y/y | | | | | | | | | | 255.7% | 82.4% | 40.0% | 37.3% | 21.2% | 15.8% | 13.0% | 9.4% |
| Expenses | | | | | | | | | | | | | | | | | |
| Cost of Goods Sold | | - | - | - | - | - | - | - | 4,734 | 13,219 | 21,391 | 27,020 | 34,691 | 43,118 | 51,059 | 60,604 | 67,085 |
| % gross margin (Including royalties to Ipsen & Eisai) | | | | | | | | | 82.0% | 85.0% | 86.0% | 86.5% | 85.7% | 83.0% | 80.6% | 77.9% | 76.4% |
| R&D | 60,536 | 9,717 | 10,618 | 11,000 | 11,646 | 42,981 | 31,806 | 25,444 | 24,172 | 24,172 | 25,381 | 27,919 | 30,711 | 33,782 | 37,160 | 40,876 | 44,964 |
| % growth y/y | 10.1% | | | | | -29.0% | -26.0% | -20.0% | -5.0% | 0.0% | 5.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% |
| % of total revenues | | | | | | | | | | 25.8% | 14.9% | 11.7% | 9.4% | 8.5% | 8.1% | 7.9% | 7.9% |
| SG&A | 6,829 | 2,139 | 3,070 | 3,100 | 3,164 | 11,473 | 16,635 | 38,262 | 55,479 | 61,027 | 73,233 | 84,217 | 92,639 | 100,050 | 108,054 | 116,699 | 126,035 |
| % growth y/y | -27.9% | | | | | 68.0% | 45.0% | 130.0% | 45.0% | 10.0% | 20.0% | 15.0% | 10.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| % of total revenues | | | | | | | | | 211.0% | 65.2% | 42.9% | 35.3% | 28.3% | 25.2% | 23.5% | 22.4% | 22.2% |
| Restructuring cost | | | | | | | | | | | | | | | | | |
| Total Expenses | 67,365 | 11,856 | 13,688 | 14,100 | 14,809 | 54,453 | 48,441 | 63,706 | 84,385 | 98,418 | 120,004 | 139,156 | 158,041 | 176,950 | 196,273 | 218,179 | 238,084 |
| Income (loss) from Operations (EBIT) | (67,365) | (11,856) | (13,688) | (14,100) | (14,809) | (54,453) | (48,441) | (32,206) | (58,087) | (4,877) | 50,581 | 99,626 | 169,750 | 220,428 | 263,882 | 301,899 | 330,811 |
| % growth y/y | | | | | | | | | | | | | | | | | |
| Operating margin | | | | | | | | | | | 29.7% | 41.7% | 51.8% | 55.5% | 57.3% | 58.0% | 58.1% |
| Other Income (Expense), Net | 6,675 | (2,632) | 1,079 | (1,100) | (1,247) | (3,900) | (3,000) | (13,800) | (12,600) | (6,300) | 500 | 1,000 | 2,000 | 3,000 | 4,000 | 5,000 | 6,000 |
| Earnings (Loss) Before Taxes | (60,690) | (14,488) | (12,609) | (15,200) | (16,056) | (58,353) | (51,441) | (46,006) | (70,687) | (11,177) | 51,081 | 100,626 | 171,750 | 223,428 | 267,882 | 306,899 | 336,811 |
| Provision for Taxes | - | | | | | - | - | - | - | - | - | 5,031 | 17,175 | 33,514 | 53,576 | 76,725 | 84,203 |
| Tax Rate | | | | | | | | | | | 0.0% | 5.0% | 10.0% | 15.0% | 20.0% | 25.0% | 25.0% |
| Net Income (Loss) | (60,690) | (14,488) | (12,609) | (15,200) | (16,056) | (58,353) | (51,441) | (46,006) | (70,687) | (11,177) | 51,081 | 95,595 | 154,575 | 189,914 | 214,305 | 230,174 | 252,608 |
| Extinguishment of preferred stock | | | | | | | | | | | | | | | | | |
| Accretion of preferred stock | (17,471) | (4,969) | (4,031) | | | (9,000) | | | | | | | | | | | |
| Earnings to preferred stockholders | | | | | | | | | | | | | | | | | |
| Net Income (Loss) to Common Stockholders | (78,161) | (19,457) | (16,640) | (15,200) | (16,056) | (67,353) | (51,441) | (46,006) | (70,687) | (11,177) | 51,081 | 95,595 | 154,575 | 189,914 | 214,305 | 230,174 | 252,608 |
| EPS (LPS) - Basic | (203.91) | (50.45) | (2.22) | (0.51) | (0.53) | (3.11) | (1.50) | (1.16) | (1.76) | (0.28) | 1.25 | 2.31 | 3.71 | 4.51 | 5.04 | 5.36 | 5.82 |
| EPS (LPS) - Diluted | (203.91) | (50.45) | (2.22) | (0.51) | (0.53) | (3.11) | (1.50) | (1.16) | (1.76) | (0.28) | 1.11 | 2.06 | 3.30 | 4.02 | 4.49 | 4.77 | 5.19 |
| % growth y/y (diluted) | | | | | | | | | | | | | | | | | |
| Shares - Basic | 383 | 386 | 7,500 | 29,750 | 30,048 | 21,686 | 34,348 | 39,691 | 40,088 | 40,489 | 40,894 | 41,303 | 41,716 | 42,133 | 42,555 | 42,980 | 43,410 |
| Shares - Diluted | 383 | 386 | 7,500 | 29,750 | 30,048 | 21,686 | 34,348 | 39,691 | 40,088 | 40,489 | 45,894 | 46,353 | 46,817 | 47,285 | 47,758 | 48,235 | 48,718 |
| Cash, Cash Equivalents & Investments | 12,303 | 29,558 | 79,021 | 67,821 | 56,765 | 56,765 | 73,324 | 121,318 | 50,631 | 39,454 | 90,535 | 186,130 | 340,705 | 530,619 | 744,924 | 975,098 | 1,227,706 |

Source: Jefferies and Company financials

Company Description

Radius Health, Inc. is a biopharmaceutical company focused on developing therapies for osteoporosis and other endocrine diseases. The company's lead product is abaloparatide-SC (BA058), a novel synthetic peptide analog of parathyroid hormone-related protein (PTHrP), with topline data readout for ongoing Phase 3 for osteoporosis expected in December 2014. Additional pipeline products include a transdermal patch of abaloparatide, abaloparatide-TD; RAD1901, an oral selective estrogen receptor down-regulator/degrader (SERD) for the treatment of breast cancer brain metastases and vasomotor symptoms; and RAD140, a nonsteroidal selective androgen receptor modulator. Radius was founded in 2003 and is headquartered in Cambridge, Massachusetts.

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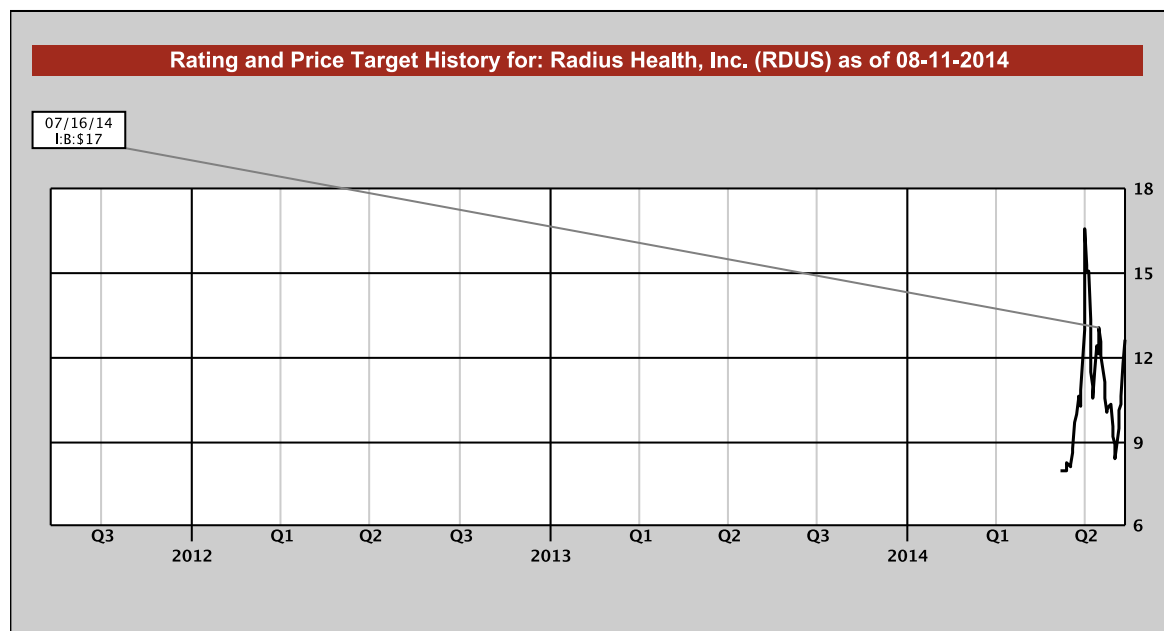
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Other Companies Mentioned in This Report

- Radius Health, Inc. (RDUS: \$12.07, BUY)

**Distribution of Ratings**

| Rating | Count | Percent | IB Serv./Past 12 Mos. | |
|--------------|-------|---------|-----------------------|---------|
| | | | Count | Percent |
| BUY | 970 | 51.65% | 254 | 26.19% |
| HOLD | 761 | 40.52% | 123 | 16.16% |
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