

## US Equity Research

3 March 2015

## BUY

unchanged

PRICE TARGET US\$70.00

unchanged

Price (2-Mar) US\$44.18

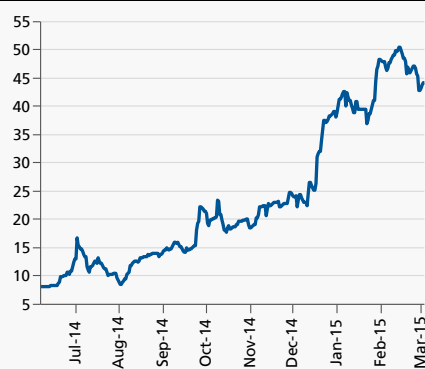
Ticker RDUS-NASDAQ

52-Week Range (US\$): 7.46 - 51.22  
 Avg Daily Vol (M) : 242.3  
 Shares Out. (M) : 29.7  
 Market Cap (US\$M): 1,314

| FYE Dec            | 2013A  | 2014E   | 2015E  | 2016E  |
|--------------------|--------|---------|--------|--------|
| Revenue (US\$M)    | 0.0    | 0.0     | 0.0    | 82.1   |
| EPS Adj&Dil (US\$) | (3.97) | (54.05) | (3.06) | (1.52) |

| Quarterly Revenue | Q1   | Q2   | Q3   | Q4  |
|-------------------|------|------|------|-----|
| 2013A             | -    | -    | -    | -   |
| 2014E             | 0.0A | 0.0A | 0.0A | 0.0 |
| 2015E             | 0.0  | 0.0  | 0.0  | 0.0 |
| 2016E             | -    | -    | -    | -   |

| Quarterly EPS Adj&Dil | Q1       | Q2      | Q3      | Q4     |
|-----------------------|----------|---------|---------|--------|
| 2013A                 | -        | -       | -       | -      |
| 2014E                 | (50.45)A | (2.22)A | (0.59)A | (0.79) |
| 2015E                 | (0.68)   | (0.88)  | (0.75)  | (0.75) |
| 2016E                 | -        | -       | -       | -      |



Source: FactSet

Radius is a biotechnology company focused on drugs for endocrine disorders, including osteoporosis.

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## Company Update

## Radius Abaloparatide ENDO preview, March 5-8 San Diego, expect additional color on phase 3 study

### Complete phase 3 Abaloparatide data to be presented at ENDO

Radius will present full phase 3 data from the Abaloparatide ACTIVE trial, along with posters and presentations regarding the effects of Abaloparatide on bone mass/formation in animal models, at the annual Endocrine Society (ENDO) meeting this week. We believe this meeting is a positive for Radius as it gives more visibility on the recent phase 3 trial in all three cohorts (Abaloparatide, Forteo, and placebo) in efficacy and safety. Additionally, we believe the meeting will give physicians and investors an opportunity to speak with KOLs on the ACTIVE trial, possibly generating momentum and upswing to the stock. We plan on speaking with multiple physicians in this space, especially on their thoughts regarding the efficacy data for Abaloparatide vs. Forteo, and will update the street by early next week.

### Updates on safety key, preliminary data looks clean

We await updates on safety for Abaloparatide at the ENDO conference, which we believe remains key for physicians as they chose between the Abaloparatide vs. standard of care Forteo for their patients. Safety data for the Abaloparatide group was positive in the phase 3 trial, with only dizziness showing slightly higher incidence rates of 10% vs. 6.1% in the placebo arm and 7.3% in the Forteo group, while abaloparatide arm had less hypercalcemia than Forteo (6% vs. 10.8%). We look for additional safety details to be presented.

### ACTIVE trial demonstrates strong fracture reduction data

We continue to believe the ACTIVE trial establishes a high bar for success against competitors, with an 86% reduction in the incidence of vertebral fractures for Abaloparatide vs. 80% for Forteo at 18 months ( $p < 0.0001$ ). Additionally, Abaloparatide showed a 43% fracture reduction vs. only 28% reduction in the placebo arm at non-vertebral fractures, which is a significant numerical difference, in our opinion. We believe the ENDO meeting will give us further color on these data and more importantly, we plan to interact with KOLs to gather their interpretation of the results, which we believe is critical for drug commercialization.

### Maintain BUY, \$70 price target

We maintain our BUY rating with a \$70 price target. We expect the ENDO meeting this week to bring visibility for the company's Abaloparatide program to cause near term upswing for Radius. Additionally, we look forward to data for RAD1901, the company's selective estrogen receptor degrader (SERD), in metastatic breast cancer patients by ASCO. If response rates in these patients are positive, we believe this can be a significant driver for the stock.

Figure 1: RDUS income statement

| Revenues                           | 2013A           | 1Q14A            | 2Q14A           | 3Q14A           | 4Q14E           | 2014E            | 2015E           | 2016E           | 2017E          | 2018E          | 2019E          | 2020E          |
|------------------------------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|----------------|----------------|----------------|----------------|
| abaloparatide - US                 |                 |                  |                 |                 |                 |                  |                 | 82,120          | 239,867        | 357,419        | 465,944        | 583,042        |
| abaloparatide - Ex-US              |                 |                  |                 |                 |                 |                  |                 | -               | 90,548         | 204,751        | 251,503        | 298,717        |
| <b>Total</b>                       |                 |                  |                 |                 |                 |                  |                 | <b>82,120</b>   | <b>330,415</b> | <b>562,170</b> | <b>717,447</b> | <b>881,759</b> |
| Income Statement                   | 2013A           | 1Q14A            | 2Q14A           | 3Q14A           | 4Q14E           | 2014E            | 2015E           | 2016E           | 2017E          | 2018E          | 2019E          | 2020E          |
| <b>Total Revenue</b>               | -               | -                | -               | -               | -               | -                | -               | 82,120          | 264,315        | 457,747        | 594,210        | 738,375        |
| COGS                               | -               | -                | -               | -               | -               | -                | -               | 16,424          | 52,863         | 91,549         | 118,842        | 147,675        |
| <b>Gross Profit</b>                | -               | -                | -               | -               | -               | -                | -               | 65,696          | 211,452        | 366,198        | 475,368        | 590,700        |
| <b>Operating Expenses</b>          |                 |                  |                 |                 |                 |                  |                 |                 |                |                |                |                |
| Research and development           | 60,536          | 9,717            | 10,618          | 13,817          | 14,926          | 49,078           | 74,464          | 59,354          | 55,796         | 65,122         | 84,196         | 117,620        |
| abaloparatide-SC                   | 45,977          | 8,107            | 9,728           | 10,132          | 12,158          | 40,126           | 27,052          | 18,937          | 13,256         | 13,256         | 13,256         | 13,256         |
| abaloparatide-TD                   | 11,459          | 185              | 278             | 523             | 785             | 1,770            | 31,380          | 21,966          | 15,376         | 10,763         | 7,534          | 5,274          |
| RAD1901                            | -               | -                | -               | 1,027           | 1,000           | 2,027            | 12,100          | 14,520          | 23,232         | 37,171         | 59,474         | 95,158         |
| RAD140                             | -               | -                | -               | -               | -               | -                | -               | -               | -              | -              | -              | -              |
| other                              | 3,100           | 1,425            | 1,710           | 819             | 983             | 4,937            | 3,932           | 3,932           | 3,932          | 3,932          | 3,932          | 3,932          |
| General and administrative         | 6,829           | 2,139            | 3,070           | 2,836           | 2,700           | 10,745           | 13,200          | 57,484          | 85,902         | 102,993        | 133,697        | 166,134        |
| <b>Total Operating Expense</b>     | <b>67,365</b>   | <b>11,856</b>    | <b>13,688</b>   | <b>16,653</b>   | <b>17,626</b>   | <b>59,823</b>    | <b>87,664</b>   | <b>116,838</b>  | <b>141,698</b> | <b>168,115</b> | <b>217,893</b> | <b>283,754</b> |
| EBITDA                             |                 |                  |                 |                 |                 |                  |                 |                 |                |                |                |                |
| <b>Operating income</b>            | <b>(67,365)</b> | <b>(11,856)</b>  | <b>(13,688)</b> | <b>(16,653)</b> | <b>(17,626)</b> | <b>(59,823)</b>  | <b>(87,664)</b> | <b>(51,142)</b> | <b>69,754</b>  | <b>198,083</b> | <b>257,475</b> | <b>306,946</b> |
| Other income (expense), net        | 9,085           | (2,233)          | 1,727           | (802)           | (802)           | (2,110)          | (5,824)         | (2,110)         | (5,824)        | (2,110)        | (5,824)        | (2,110)        |
| Loss on retirement of note payable |                 |                  | (203)           |                 |                 |                  |                 |                 |                |                |                |                |
| Interest (expense) income, net     | (2,410)         | (399)            | (445)           | 24              | 24              | (796)            | (1,544)         | (796)           | (1,544)        | (796)          | (1,544)        | (796)          |
| Accretion of preferred stock       |                 | (4,969)          | (4,031)         |                 |                 |                  |                 |                 |                |                |                |                |
| <b>Pre-tax income (GAAP)</b>       | <b>(60,690)</b> | <b>(19,457)</b>  | <b>(16,640)</b> | <b>(17,431)</b> | <b>(18,404)</b> | <b>(71,932)</b>  | <b>(95,032)</b> | <b>(54,048)</b> | <b>62,386</b>  | <b>195,177</b> | <b>250,107</b> | <b>304,040</b> |
| <b>Pre-tax income (non-GAAP)</b>   |                 |                  |                 |                 |                 |                  |                 |                 |                |                |                |                |
| Taxes (GAAP)                       | -               | -                | -               | -               | -               | -                | -               | -               | 23,083         | 72,215         | 92,540         | 112,495        |
| Tax rate (GAAP)                    | 37%             | 37%              | 37%             | 37%             | 37%             | 37%              | 37%             | 37%             | 37%            | 37%            | 37%            | 37%            |
| <b>Net Income (GAAP)</b>           | <b>(60,690)</b> | <b>(19,457)</b>  | <b>(16,640)</b> | <b>(17,431)</b> | <b>(18,404)</b> | <b>(71,932)</b>  | <b>(95,032)</b> | <b>(54,048)</b> | <b>39,303</b>  | <b>122,961</b> | <b>157,568</b> | <b>191,545</b> |
| <b>GAAP EPS (diluted)</b>          | <b>(\$3.97)</b> | <b>(\$50.45)</b> | <b>(\$2.22)</b> | <b>(\$0.59)</b> | <b>(\$0.79)</b> | <b>(\$54.05)</b> | <b>(\$3.06)</b> | <b>(\$1.52)</b> | <b>\$1.05</b>  | <b>\$3.14</b>  | <b>\$3.83</b>  | <b>\$4.43</b>  |
| Diluted shares outstanding         | 15,278          | 386              | 7,500           | 29,746          | 23,200          | 15,208           | 31,539          | 35,562          | 37,340         | 39,207         | 41,167         | 43,226         |

Source: Company Reports, Canaccord Genuity estimates

Figure 2: RDUS valuation

| Product                    | Peak Sales (\$MM) | Year | NPV at launch | Estimated launch | Time to launch | Probability Adjustment | Current Value (\$MM) | Scenario probability | Value / Share (NPV) | Value / Share (EV/Sales) |
|----------------------------|-------------------|------|---------------|------------------|----------------|------------------------|----------------------|----------------------|---------------------|--------------------------|
| <b>abaloparatide</b>       |                   |      |               |                  |                |                        |                      |                      |                     |                          |
| US                         | \$822             | 2022 | \$1,364       | 6/1/2016         | 1.3            | 85%                    | \$966                | 100%                 | \$33                | \$47                     |
| Ex-US - co-promote         | \$346             | 2021 | \$429         | 1/1/2017         | 1.8            | 85%                    | \$271                | 50%                  | \$5                 | \$11                     |
| Ex-US - royalty            | \$346             | 2021 | \$201         | 1/1/2017         | 1.8            | 85%                    | \$139                | 50%                  | \$2                 | \$11                     |
| <b>Total abaloparatide</b> |                   |      |               |                  |                |                        | <b>\$1,238</b>       |                      | <b>\$40</b>         | <b>\$69</b>              |
| <b>RAD-1901</b>            |                   |      |               |                  |                |                        |                      |                      |                     |                          |
| US                         | \$467             | 2023 | \$670         |                  |                | 35%                    | \$234                |                      | \$8                 | \$10                     |
| Ex-US                      | \$427             | 2023 | \$188         |                  |                | 35%                    | \$66                 |                      | \$0                 | \$9                      |
| <b>Total RAD-1901</b>      |                   |      |               |                  |                |                        | <b>\$300</b>         |                      | <b>\$8</b>          | <b>\$19</b>              |
| <b>Total Product Value</b> |                   |      |               |                  |                |                        | <b>\$1,238</b>       |                      | <b>\$48</b>         | <b>\$87</b>              |
| Cash                       |                   |      |               |                  |                |                        | 70                   |                      | \$2                 | \$2                      |
| <b>Total Equity Value</b>  |                   |      |               |                  |                |                        | <b>1,308</b>         |                      | <b>\$51</b>         | <b>\$90</b>              |
| Shares Outstanding (MM)    |                   |      |               |                  |                |                        | 29                   |                      |                     |                          |
|                            |                   |      |               |                  |                |                        |                      |                      | Average             | <b>\$70</b>              |

|                |      |
|----------------|------|
| Risk-Free Rate | 3.0% |
| Beta           | 1.8  |
| Risk Premium   | 5%   |
| Discount Rate  | 12%  |
| EV/Sales       | 4.25 |

Source: Company Reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

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### Target Price / Valuation Methodology:

Radius Health - RDUS

Our \$70 price target is based on the average of our probability adjusted NPV and EV/S methodologies.

### Risks to achieving Target Price / Valuation:

Radius Health - RDUS

Risks to our outlook and price target include the following: the Phase 3 study for abaloparatide in osteoporosis may be negative, or fail to meet investor expectations, resulting in downside to shares and our price target. Also, Phase 3 data may be positive in terms of efficacy, but show an unexpected safety signal, also resulting in downside to our price target. Antibody formation was seen in Phase 2 studies, with one patient showing potential evidence of neutralizing antibodies. Even assuming positive Phase 3 data for subcutaneous abaloparatide in osteoporosis, FDA approval may be delayed or may not occur at all, also resulting in downside to shares and our price target. FDA may also grant approval, but require large, lengthy and expensive post-approval studies, which could also result in downside to shares and our price target. Clinical data from other osteoporosis products including anti-sclerostin antibodies from Amgen, Merck, Eli Lilly and Novartis could be viewed as superior to abaloparatide, pressuring shares. Competition from existing and new osteoporosis products could also result in lower revenues than expected, leading to downside to our estimates and the share price. Although unlikely, a paragraph 4 challenge could be filed against Lilly's Forteo, a molecule closely related to abaloparatide, which investors may interpret as increasing risk for abaloparatide, and pressuring Radius shares. Forteo was approved as an NDA, where the ANDA pathway is well established. Even though Forteo is essentially a biologic, since it is a peptide, it is feasible although unlikely that a generic challenger could emerge. FDA has approved a generic version of Lovenox, a biologic approved via the NDA pathway, although the process took many years. If a generic version of Forteo were to reach the market, usage of abaloparatide could decline, resulting in downside to our estimates and price target. Also, if FDA were to approve a generic version of Copaxone, a peptide used to treat multiple sclerosis, investors may see increased risk of a generic challenge and approval for abaloparatide, as both products are classified as NDA filings for biologic peptides. A transdermal microneedle formulation for abaloparatide may not be feasible, which investors may view as negative for life cycle management and commercial competitive positioning for Radius, pressuring shares. Even if a microneedle formulation can be developed to show equal efficacy to the subcutaneous formulation, FDA may require a full clinical study versus a bridging study, which would require additional funding and time to approval.

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| Rating          | Coverage Universe |        | IB Clients |
|-----------------|-------------------|--------|------------|
|                 | #                 | %      | %          |
| Buy             | 575               | 58.14% | 33.91%     |
| Hold            | 323               | 32.66% | 17.03%     |
| Sell            | 42                | 4.25%  | 2.38%      |
| Speculative Buy | 49                | 4.95%  | 55.10%     |
|                 | 989*              | 100.0% |            |

\*Total includes stocks that are Under Review

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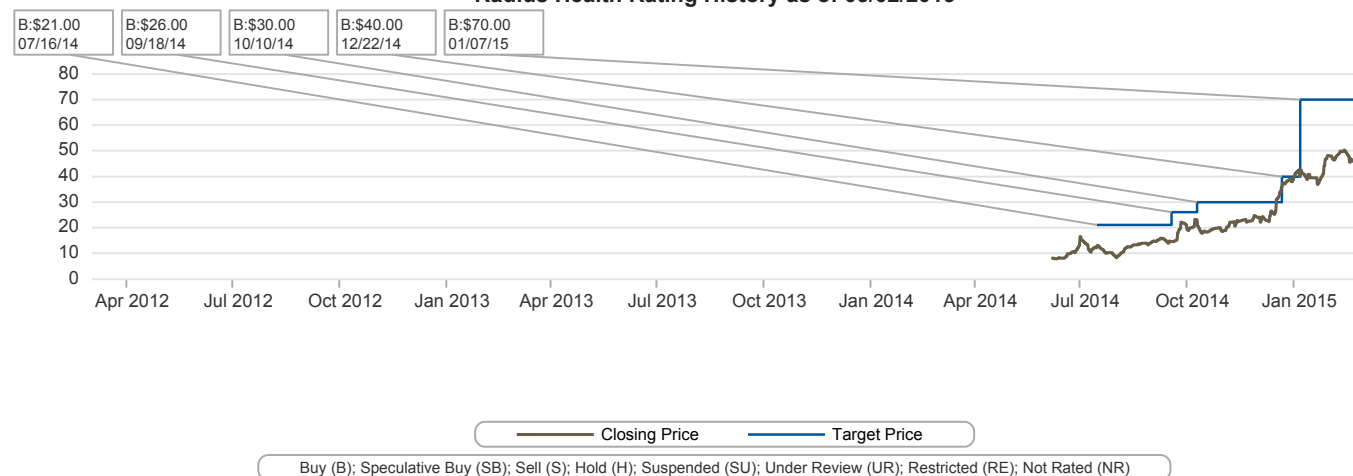
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