

US Equity Research

29 January 2015

BUY

unchanged

PRICE TARGET US\$70.00

unchanged

Price (29-Jan) US\$46.55

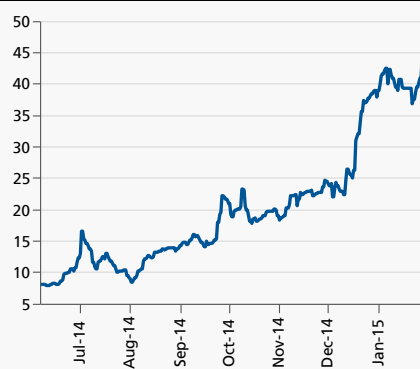
Ticker RDUS-NASDAQ

52-Week Range (US\$): 7.46 - 48.09
 Avg Daily Vol (M) : 214.3
 Shares Out. (M) : 29.7
 Market Cap (US\$M): 1,385

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	-	-	-	-



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

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Company Update

Abaloparatide phase 3 Late-Breaker oral presentation at ICE/ENDO, extension data Q2/15, NDA filing H2/15

Phase 3 Abaloparatide trial to be presented at ICE ENDO, March 5-8

Radius reported that Abaloparatide, the company's synthetic human parathyroid hormone, was selected for Late-Breaker oral presentation at the International Society of Endocrinology and the Endocrine Society (ICE/ENDO) in San Diego on March 5-8, which we believe is positive as it gives more visibility and color on the recent phase 3 ACTIVE trial. We may expect further detail on all three arms (Abaloparatide, Forteo, and placebo) in both efficacy and safety standpoint. We remind investors that the ACTIVE trial already demonstrated a high 86% reduction in the incidence of vertebral fractures vs. 80% for Forteo, along with improved fracture reduction at non-vertebral sites (43% vs. 28%) and statistically significant difference in time to first fracture vs. Forteo, which we believe is favorable during drug commercialization.

ACTIVEExtend results expected by Q2/15, on track for NDA submission in H2/15

We expect results for the ACTIVEExtend trial by Q2/15, which is a 6 month extension study with standard of care alendronate following completion of 18 months of either Abaloparatide or placebo from the prior ACTIVE trial. We believe data here continues to be important since prior injectable osteoporosis drugs, like Forteo and Prolia, were studied for a minimum of 24 months prior to approval. Radius is planning on submitting regulatory filings by H2/15.

RAD1901 first-look data in metastatic breast cancer patients possible in 2015

First-look data for RAD1901 may be presented in estrogen receptor (ER) metastatic breast cancer patients at ASCO in June, with more detailed data at San Antonio Breast Cancer Symposium by December. We expect to see response rates and possibly data in patients with brain metastases, which we believe will 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
Total								82,120	330,415	562,170	717,447	881,759
Income Statement	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total Revenue	-	-	-	-	-	-	-	82,120	264,315	457,747	594,210	738,375
COGS	-	-	-	-	-	-	-	16,424	52,863	91,549	118,842	147,675
Gross Profit	-	-	-	-	-	-	-	65,696	211,452	366,198	475,368	590,700
Operating Expenses												
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
Total Operating Expense	67,365	11,856	13,688	16,653	17,626	59,823	87,664	116,838	141,698	168,115	217,893	283,754
EBITDA												
Operating income	(67,365)	(11,856)	(13,688)	(16,653)	(17,626)	(59,823)	(87,664)	(51,142)	69,754	198,083	257,475	306,946
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)									
Pre-tax income (GAAP)	(60,690)	(19,457)	(16,640)	(17,431)	(18,404)	(71,932)	(95,032)	(54,048)	62,386	195,177	250,107	304,040
Pre-tax income (non-GAAP)												
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%
Net Income (GAAP)	(60,690)	(19,457)	(16,640)	(17,431)	(18,404)	(71,932)	(95,032)	(54,048)	39,303	122,961	157,568	191,545
GAAP EPS (diluted)	(\$3.97)	(\$50.45)	(\$2.22)	(\$0.59)	(\$0.79)	(\$54.05)	(\$3.06)	(\$1.52)	\$1.05	\$3.14	\$3.83	\$4.43
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 and 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)
abaloparatide										
US	\$822	2022	\$1,364	6/1/2016	1.3	85%	\$955	100%	\$33	\$47
Ex-US - co-promote	\$346	2021	\$429	1/1/2017	1.9	85%	\$268	50%	\$5	\$11
Ex-US - royalty	\$346	2021	\$201	1/1/2017	1.9	85%	\$138	50%	\$2	\$11
Total abaloparatide							\$1,224		\$40	\$69
RAD-1901										
US	\$467	2023	\$670			35%	\$234		\$8	\$10
Ex-US	\$427	2023	\$188			35%	\$66		\$0	\$9
Total RAD-1901							\$300		\$8	\$19
Total Product Value							\$1,224		\$48	\$87
Cash							70		\$2	\$2
Total Equity Value							1,294		\$50	\$90
Shares Outstanding (MM)							29			
									Average	\$70

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

Source: Canaccord Genuity Estimates

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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.

Distribution of Ratings:

Global Stock Ratings (as of 01/29/15)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	600	58.65%	32.83%
Hold	329	32.16%	14.29%
Sell	46	4.50%	2.17%
Speculative Buy	48	4.69%	60.42%
	1023*	100.0%	

*Total includes stocks that are Under Review

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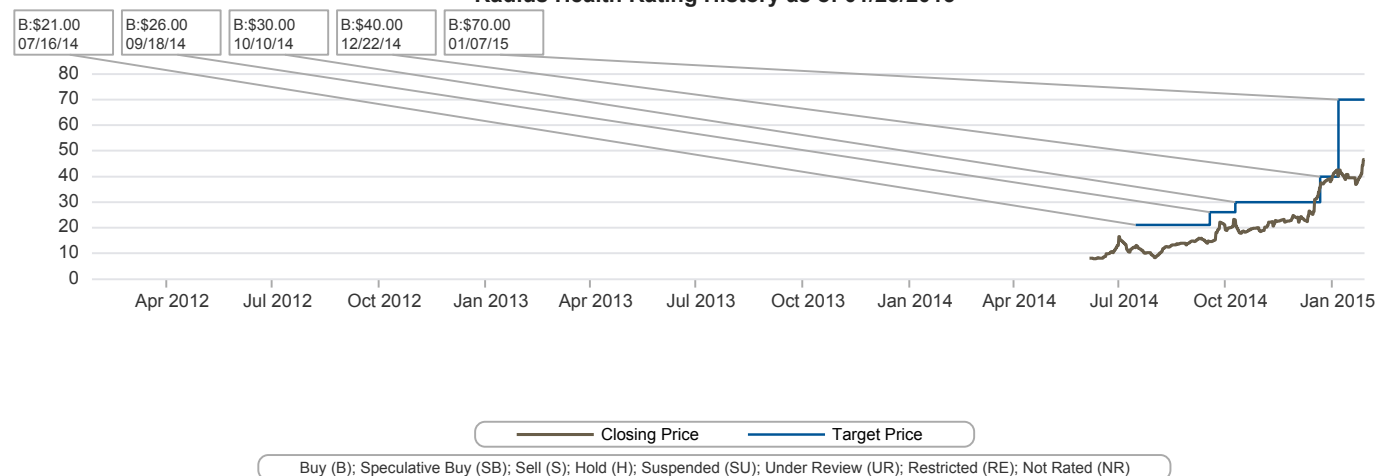
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