March 3, 2015

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	$20.00
LOXO - NASDAQ	$13.60

3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	$16.45-$9.90
Shares Outstanding	15.9M
Float	6.5M
Market Capitalization	$226.2M
Avg. Daily Trading Volume	28,745
Dividend/Div Yield	NA/NM
Book Value	NA
Fiscal Year Ends	Dec
2014E ROE	NA
LT Debt	$0.0M
Preferred	$0.0M
Common Equity	$108M
Convertible Available	No

Trading range since August 1, 2014 IPO.

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2014E	--	--	(0.24)	(0.25)	(0.90)	NM
2015E	--	--	--	--	(1.10)	NM

Loxo Oncology

First LOXO-101 Human Data March 18; Pre-clinical Pipe Partially Unveiled

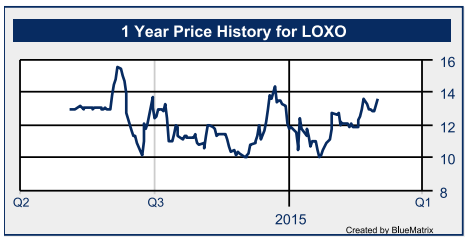
SUMMARY

On the 3/2 update call, management provided incremental detail on the data disclosure plan for LOXO-101 and announced 3 new pre-clinical targets (RET/FGFR/FLT3). On LOXO-101, initial data from the solid tumor Phase 1a are expected in the AACR abstract (March 18, 1 PM ET). However, given the "all-comers" dose escalation and an apparent abstract focus on safety/PK, we see preliminary Phase 1b data (YE15/1H16) specifically enrolling TRK+ pts as more important for the stock. On new targets, beyond RET/FGFR/FLT3, two more targets remain undisclosed (possibly given competitive dynamics). Broad features of Loxo's strategy vs. competitors in pursuing RET/FGFR/FLT3 appear to include: **1)** minimizing off-target activity, **2)** achieving best-in-class oral pharmacology, and **3)** potentially improving isoform selectivity.

KEY POINTS

- **LOXO-101 Phase 1a "all-comers".** Management indicated LOXO-101 has been "well-behaved" from a safety perspective so far, an important positive for a first-in-human trial. While TRK+ pts are not expected in the Phase 1a, any early TRK + data, if positive, could drive earlier than expected upside.
- **LOXO-101 Phase 1b (TRK+ only).** Management indicated not to expect a specific announcement on the Phase 1b start (guidance is 2H15). That said, timing suggests Loxo could generate initial response data by YE15, though we may have to wait for a solid tumor conference in 1Q16/1H16 to see the data.
- **Financials.** Press release expected March 27 on 4Q14/YE14 results, including 2015 cash burn guidance. However, management noted that current spend falls within the original IPO budgeting framework and the runway remains "into 2017".
- **Catalysts. 1)** LOXO-101 Phase 1a data (AACR abstract March 18 and conference April 18-22), **2)** potential proof-of-concept for LOXO-101 in TRK+ pts (YE15/1H16), **3)** updates on new pre-clinical programs (2H15), **4)** narrow Array collaboration new targets to 4-5 (January 2016), **5)** new targets Phase 1 start (1H16).

Stock Price Performance



Company Description

Loxo Oncology is developing targeted drugs for the treatment of cancer in genetically defined patient populations. The company's lead product candidate, LOXO-101, is an oral, selective and potent inhibitor of TRK, a family of signaling molecules that appear to play an important role in the development of a range of cancers.

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Investment Thesis

Loxo is an early-stage biotechnology company executing a business plan for targeted cancer drugs that benefits from **1)** clear precedent for clinical and commercial success, **2)** a rapid development path and **3)** well-defined chemistry, potency and selectivity around the target of interest (TRK). However, Loxo has yet to generate clinical data. Therefore, the investment thesis relies heavily on a belief that Loxo's targeted approach to the treatment of TRK-translocations will mirror a trajectory for successfully commercialized targeted agents, a prime example being Xalkori. We believe this thesis has merit and provides indirect proof-of-concept that lead asset LOXO-101 should generate enriched efficacy in TRK+ tumors.

Price Target Calculation

We value Loxo using a discounted cash flow (DCF) analysis with a weighted average cost of capital (WACC) of 15% and a 0% terminal growth rate post 2032, generating a price target of $20 and yielding a terminal value of ~$68 million. Our valuation framework utilizes a 15% discount rate for pre-commercial stage companies that have not achieved clear Phase 2 proof-of-concept.

Key Risks to Price Target

Key risks to our price target include: **1)** Loxo has not generated any clinical data for LOXO-101, and the investment thesis relies entirely on preclinical results, conviction in a novel mechanism, and precedent from approved drugs targeting fusion oncogenes. **2)** Limited clinical efficacy for LOXO-101 and/or unacceptable toxicity in Phase 1a/1b may indicate further development is unwarranted. **3)** More rapid development and approval of competitive TRK inhibitors (for example, RXDX-101) could pressure LOXO-101's share of the TRK market.

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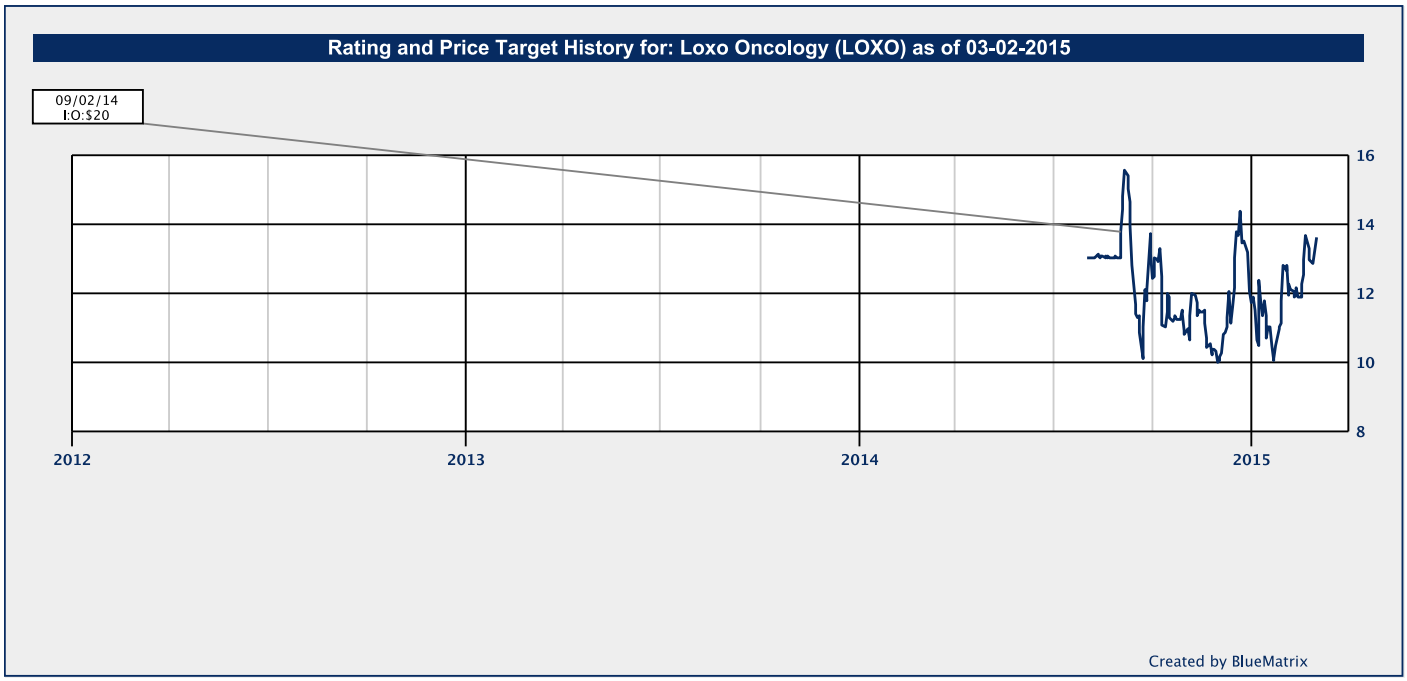

All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

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			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
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PERFORM [P]	249	42.93	93	37.35
UNDERPERFORM [U]	8	1.38	1	12.50

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