

Reason for report:
COMPANY UPDATE

ELEVEN BIOTHERAPEUTICS, INC.

EBI-005 Ph.2 Data In Allergic Conjunctivitis Mixed, But Positive On Balance

• **Bottom Line:** Ph. 2 data reported this morning by EBIO's EBI-005 for treatment of allergic conjunctivitis (AC) was mixed but overall positive on balance -- demonstrating drug activity through reduction of ocular itching and establishing a clinical model going forward. While the proof-of-concept study didn't show a stat sig benefit on the primary endpoint of ocular itching using an environmental chamber ("EEC test"), the drug did show a stat sig benefit on the pre-specified secondary endpoint which employed a direct allergen challenge ("CAPT test"; ~1/3 of subjects). Given that the CAPT model is the more widely accepted clinical model, we are ultimately encouraged by the data, particularly ss improvements during both of the final two assessment periods. We continue to view the market opportunity for AC as \$500m in the US. Next up, mgmt will make a decision on AC study timing/design early next yr, presumably after the Ph. 3 dry eye study reads out. We remain OP with a \$19/shr PT.

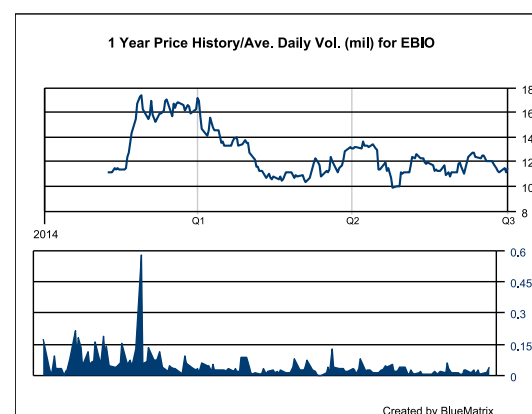
• **Mixed efficacy data, but positive on balance.** As noted, EBIO missed its primary efficacy endpoint of ocular itching using the EEC model. However, a couple things with the EEC model are worth noting: (1) environmental chamber studies can produce variable responses & multi-hr exposure to allergens is questionably representative of real world exposure, which explains why drug developers have mixed views on its utility; (2) assuming a drug has activity, the CAPT model doesn't require a large patient number to demonstrate a drug response. On the CC, mgmt commented that EEC models are not typically used in pivotal trials for ophthalmic products. Overall, we're overall encouraged by '005's drug activity based on stat sig reduction in ocular itching (CAPT), particularly during the last two assessment periods when inflammation (not histamine) is causing the disease symptoms. Also, we are encouraged to see '005 show significant benefits on other pre-specified exploratory endpoints of ocular tearing and associated nasal symptoms.

• **Today's results provide some positive read through to EBIO's Ph. 3 dry eye trial.** We are encouraged by '005's activity at the 5mg dose in the AC pt population and view the reduction in ocular itching in the CAPT model as a positive. Ocular itching is also found in dry eye although the mechanism behind its cause is different (from AC), but in both diseases IL-1 (which '005 blocks) is a primary modulator of inflammation. In our view, the AC study provides some corroborative clinical data for dry eye disease (DED). Last, '005 was well tolerated in pts and demonstrated a favorable safety profile, which is consistent with past studies.

• **Next steps for the AC program likely to come after '005's Phase 3 trial in dry eye.** Mgmt noted on the CC they will decide the path forward for the AC program by early next year. It is unclear whether EBIO will run a second Ph. 2 trial in AC or proceed straight to Ph. 3 based on today's results. Our view is mgmt will likely wait for the read out of the Ph. 3 dry eye trial before deciding next steps for AC.

Key Stats: (NASDAQ:EBIO)

S&P 600 Health Care Index:	1,269.56
Price:	\$11.51
Price Target:	\$19.00
Methodology:	DCF analysis, 17.5% WACC
52 Week High:	\$19.33
52 Week Low:	\$9.50
Shares Outstanding (mil):	16.1
Market Capitalization (mil):	\$185.3
Book Value/Share:	\$0.00
Cash Per Share:	\$2.80
Dividend (ann):	\$0.00
Dividend Yield:	0.0%



Dec 11	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2013A	0.0	0.0	0.0	0.0	0.0	(\$0.08)	(\$0.09)	(\$0.09)	(\$0.08)	(\$0.39)	NM
2014E	0.6A	0.8A	0.7	0.7	2.7	(\$0.80)A	(\$0.51)A	(\$0.45)	(\$0.36)	(\$1.93)	NM
2015E	--	--	--	--	1.0	--	--	--	--	(\$1.53)	NM

Source: Company Information and Leerink Partners LLC Research
Revenues in MM

INVESTMENT THESIS

We rate EBIO shares Outperform. We expect that EBIO shares will appreciate upon receipt of Ph. 3 top-line data for EBI-005 for treatment of dry eye disease, most likely in early 2015. The market for dry eye disease therapy is large and there remains a paucity of topical anti-inflammatory drugs that are both potent and tolerable. Based on improved understanding of the pathophysiology of dry eye, EBI-005 was developed to inhibit IL-1, which if left unchecked will promote expression of the other key inflammatory factors that exacerbate dry eye. Lastly, '005 has the potential to be a very long-tailed asset, with pending patents projected to expire in 2034 and 005 could enjoy additional exclusivity owing to the fact that it is a biologic.

VALUATION

Our ~\$19 price target on EBIO shares is based on our risk-adjusted DCF through 2034 discounted at 17.5% WACC. Using our sales forecasts and applying a 5x multiple to 2023 sales (year of peak market share) discounted back 9 periods at 17.5% WACC & 55% probability of success (POS) translates to \$19. Our current valuation is solely predicated on EBI-005 for dry eye and we view label expansion to allergic conjunctivitis as upside.

RISKS TO VALUATION

Risks to our EBIO valuation include (1) EBI-005 drives our valuation and failure to demonstrate efficacy in Phase 3 trials would significantly reduce our valuation; (2) pipeline competitors develop more competitive product profiles, making it difficult for '005 to capture market share; and (3) generic threats to AGN's Restasis somehow materialize, making pricing/reimbursement for DED drugs more challenging.

EBIO Annual P&L Summary (Adj. Basis)
 (figures in \$m, except per share data)

	2012	2013	1Q14	2Q14	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026	CAGR 19-24E
EBI-005 (IL-1 blockade; dry eye disease)	-	-	-	-	-	-	-	-	-	36	112	180	265	367	465	562	583	605	628	27%
EBI-005 (IL-1 blockade; allergic conjunctivitis)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	na
Collaboration revenue	-	0.8	0.6	0.8	0.7	0.7	2.7	0.6	-	-	-	-	-	-	-	-	-	-	-	na
Total Rev (MM)	-	0.8	0.6	0.8	0.7	0.7	2.7	1	-	36	112	180	265	367	465	562	583	605	628	27%
% y/y growth	na	na	na	na	na	na	na	na	na	nm	208%	61%	47%	39%	27%	21%	4%	4%	4%	
COGS	-	-	-	-	-	-	-	-	-	5	13	18	26	37	47	56.2	58.3	60.5	62.8	27%
% of sales	nm	0%	na	na	na	na	0%	0%	nm	15%	12%	10%	10%	10%	10%	10%	10%	10%	10%	
Gross Income	-	0.8	0.6	0.8	0.7	0.7	2.7	0.6	-	31	98	162	238	331	419	505.4	524.7	544.8	565.6	27%
% of net sales	nm	1					100.0%	100.0%	nm	85.0%	88.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	
EBI-005 clinical development costs	8.7	7.6	4.1	5.1	5.5	5.3	20.0	15.0	15.0	8.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0%
Employee costs & other study costs	6.6	6.5	1.7	1.7	1.5	1.6	6.5	6.5	6.8	7.2	7.5	7.9	8.3	8.7	9.1	9.6	10.1	10.6	11.1	5%
Other programs	-	-	-	-	-	-	-	-	-	3.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Total R&D	15.3	14.1	5.8	6.8	7.0	6.9	26.5	21.5	21.8	18.2	13.5	14.9	15.3	15.7	16.1	16.6	17.1	17.6	18.1	3%
% of sales	nm	nm	na	na	na	na	981%	3583%	nm	50%	12%	8%	6%	4%	3%	3%	3%	3%	3%	
G&A	4.2	3.5	1.9	2.1	1.5	0.5	6.0	6.2	6.6	17.5	20.0	21.4	22.9	24.5	26.2	28.1	30.0	32.1	34.4	7%
% of sales	nm	422%	na	na	na	na	222%	1033%	nm	48%	18%	12%	9%	7%	6%	5%	5%	5%	5%	
Sales reps cost	-	-	-	-	-	-	-	-	-	25	26	28	29	30	32	34	35	37	39	5%
Marketing costs	-	-	-	-	-	-	-	-	-	30	28	29	31	32	34	36	38	39	41	5%
Total S&M	-	-	-	-	-	-	-	-	-	55	54	57	60	63	66	69	73	76	80	5%
Total operating expenses	19.5	17.6	7.8	8.8	8.5	7.4	32.5	27.7	28.5	90.7	87.8	93.3	98.0	103.0	108.3	113.9	119.8	126.0	132.6	
Operating (loss)/gain	(19.5)	(16.8)	(7.2)	(8.0)	(7.8)	(6.8)	(29.8)	(27.1)	(28.5)	(59.8)	10.6	68.5	140.1	227.7	310.4	391.5	404.9	418.8	433.0	43%
% of sales	nm	nm	na	na	na	na	-1104%	-4517%	nm	-164%	10%	38%	53%	62%	67%	70%	69%	69%	69%	
Other income	(0.0)	(0.1)	0.051	0	(0)	(0.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	na
Interest expense/income	(0.2)	(0.7)	(0.084)	(0)	(0)	(0.2)	(0.7)	(0.7)	(0.7)	(0.7)	1.0	1.0	2.0	3.0	4.0	5.0	10.0	11.0	12.0	58%
Net financial expense	(0.2)	(0.8)	(0.0)	(0)	(0)	(0)	(0.7)	(0.7)	(0.7)	(0.7)	1.0	1.0	2.0	3.0	4.0	5.0	10.0	11.0	12.0	58%
Pre-tax Income	(19.7)	(17.5)	(7.2)	(8.1)	(8.1)	(7.0)	(30.5)	(27.8)	(29.2)	(60.5)	11.6	69.5	142.1	230.7	314.4	396.5	414.9	429.8	445.0	43%
% Pre-tax Margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	-166.3%	10.4%	38.7%	53.7%	62.8%	67.6%	70.6%	71.2%	71.0%	70.8%	
Taxes (benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	81	110	139	145	150	156	na
% Tax rate	0.0%	0.0%	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
Preferred stock dividends	(3.1)	(3.6)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Income/(loss) (MM)	(23)	(21)	(8)	(8)	(8)	(7)	(31)	(28)	(29)	(60)	12	70	142	150	204	258	270	279	289	31%
% of net sales	NM	NM	N/M	N/M	N/M	N/M	NM	nm	nm	-166.3%	10.4%	38.7%	53.7%	40.8%	43.9%	45.9%	46.3%	46.1%	46.0%	
Basic & Diluted EPS	(\$0.50)	(\$0.39)	(\$0.80)	(\$0.51)	(\$0.45)	(\$0.36)	(\$1.93)	(\$1.53)	(\$1.57)	(\$2.89)	\$0.54	\$3.19	\$6.39	\$6.62	\$8.84	\$10.93	\$11.21	\$11.38	\$11.56	29%
Y/Y	NM	NM					NM	NM	NM	83%	-119%	486%	100%	3%	34%	24%	3%	2%	2%	
Weighted Avg Basic & Diluted Shares (MM)	45.2	54.2	9.6	16.1	18.2	19.3	15.8	18.2	18.5	20.9	21.4	21.8	22.2	22.7	23.1	23.6	24.1	24.5	25.0	2%
% growth	NM	20%					-71%	15%	2%	13%	2%	2%	2%	2%	2%	2%	2%	2%	2%	

Source: Company reports and Leerink Research estimates

Disclosures Appendix

Analyst Certification

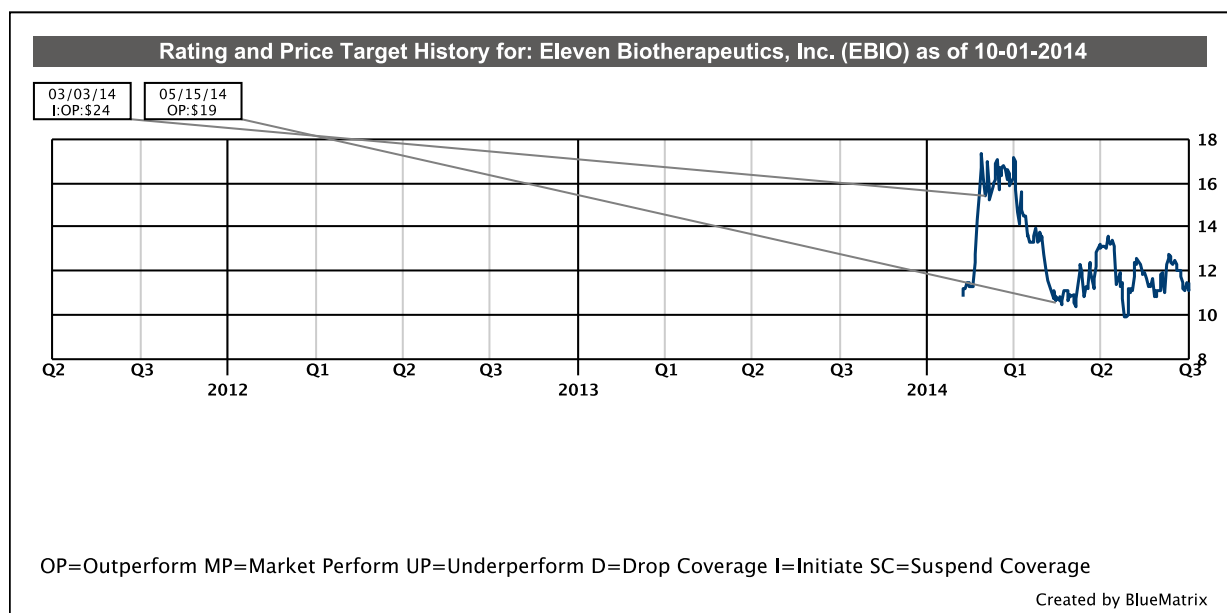
I, Jason M. Gerberry, JD, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

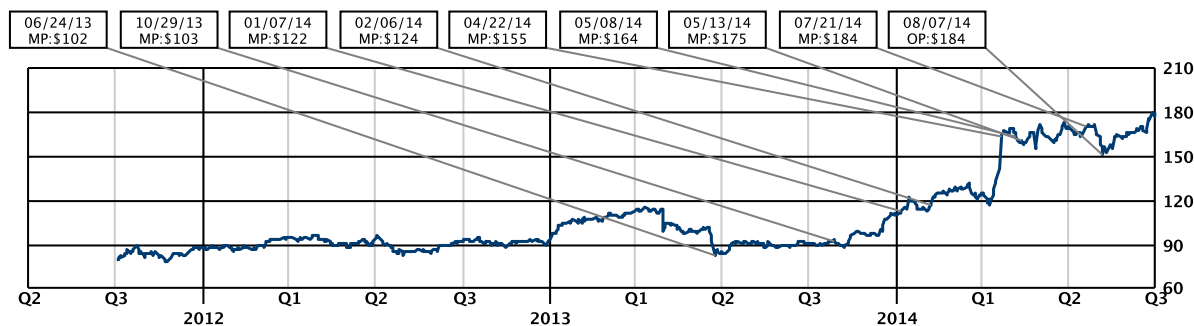
Valuation

Our ~\$19 price target on EBIO shares is based on our risk-adjusted DCF through 2034 discounted at 17.5% WACC. Using our sales forecasts and applying a 5x multiple to 2023 sales (year of peak market share) discounted back 9 periods at 17.5% WACC & 55% probability of success (POS) translates to \$19. Our current valuation is solely predicated on EBI-005 for dry eye and we view label expansion to allergic conjunctivitis as upside.

Risks to Valuation

Risks to our EBIO valuation include (1) EBI-005 drives our valuation and failure to demonstrate efficacy in Phase 3 trials would significantly reduce our valuation; (2) pipeline competitors develop more competitive product profiles, making it difficult for '005 to capture market share; and (3) generic threats to AGN's Restasis somehow materialize, making pricing/reimbursement for DED drugs more challenging.



Rating and Price Target History for: Allergan, Inc. (AGN) as of 10-01-2014


Leerink Swann placed an Outperform rating on AGN on April 1, 2011. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Distribution of Ratings/Investment Banking Services (IB) as of 06/30/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	138	69.00	50	36.20
HOLD [MP]	62	31.00	2	3.20
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

Important Disclosures

This information (including, but not limited to, prices, quotes and statistics) has been obtained from sources that we believe reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All information is subject to change without notice. This is provided for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy any product to which this information relates. The Firm, its officers, directors, employees, proprietary accounts and affiliates may have a position, long or short, in the securities referred to in this report, and/or other related securities, and from time to time may increase or decrease the position or express a view that is contrary to that contained in this report. The Firm's salespeople, traders and other professionals may provide oral or written market commentary or trading strategies that are contrary to opinions expressed in this report. The Firm's proprietary accounts may make investment decisions that are inconsistent with the opinions expressed in this report. The past performance of securities does not guarantee or predict future performance. Transaction strategies described herein may not be suitable for all investors. Additional information is available upon request by contacting the Editorial Department at One Federal Street, 37th Floor, Boston, MA 02110.

Like all Firm employees, analysts receive compensation that is impacted by, among other factors, overall firm profitability, which includes revenues from, among other business units, Institutional Equities, and Investment Banking. Analysts, however, are not compensated for a specific investment banking services transaction.

MEDACorp is a network of healthcare professionals, attorneys, physicians, key opinion leaders and other specialists accessed by Leerink and it provides information used by its analysts in preparing research.

In the past 12 months, the Firm has received compensation for providing investment banking services to Eleven Biotherapeutics, Inc. .

Leerink Partners LLC makes a market in Eleven Biotherapeutics, Inc.

Leerink Partners LLC is willing to sell to, or buy from, clients the common stock of Allergan, Inc. on a principal basis.

Leerink Partners LLC has acted as the manager for a public offering of Eleven Biotherapeutics, Inc. in the past 12 months.

©2014 Leerink Partners LLC. All rights reserved. This document may not be reproduced or circulated without our written authority.

Leerink Partners LLC Equity Research			
--------------------------------------	--	--	--

Director of Equity Research	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink.com
Associate Director of Research	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink.com
Healthcare Strategy	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink.com
	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink.com
Biotechnology	Howard Liang, Ph.D.	(617) 918-4857	howard.liang@leerink.com
	Joseph P. Schwartz	(617) 918-4575	joseph.schwartz@leerink.com
	Michael Schmidt, Ph.D.	(617) 918-4588	michael.schmidt@leerink.com
	Gena Wang, Ph.D., CFA	(212) 277-6073	gena.wang@leerink.com
	Jonathan Chang, Ph.D.	(617) 918-4015	jonathan.chang@leerink.com
	Paul Matteis	(617) 918-4585	paul.matteis@leerink.com
	Richard Goss	(617) 918-4059	richard.goss@leerink.com
Life Science Tools and Diagnostics	Dan Leonard	(212) 277-6116	dan.leonard@leerink.com
	Justin Bowers, CFA	(212) 277-6066	justin.bowers@leerink.com
Pharmaceuticals/Major	Seamus Fernandez	(617) 918-4011	seamus.fernandez@leerink.com
	Ario Arabi	(617) 918-4568	ario.arabi@leerink.com
	Aneesh Kapur	(617) 918-4576	aneesh.kapur@leerink.com
Specialty Pharmaceuticals	Jason M. Gerberry, JD	(617) 918-4549	jason.gerberry@leerink.com
Medical Devices, Cardiology & Orthopedics	Danielle Antalffy	(212) 277-6044	danielle.antalffy@leerink.com
	Puneet Souda	(212) 277-6091	puneet.souda@leerink.com
	Richard Newitter	(212) 277-6088	richard.newitter@leerink.com
	Ravi Misra	(212) 277-6049	ravi.misra@leerink.com
Healthcare Services	Ana Gupte, Ph.D.	(212) 277-6040	ana.gupte@leerink.com
Healthcare Technology & Distribution	David Larsen, CFA	(617) 918-4502	david.larsen@leerink.com
	Christopher Abbott	(617) 918-4010	chris.abbott@leerink.com
Sr. Editor/Supervisory Analyst	Mary Ellen Eagan, CFA	(617) 918-4837	maryellen.eagan@leerink.com
Supervisory Analysts	Robert Egan		bob.egan@leerink.com
	Amy N. Sonne		amy.sonne@leerink.com
Editorial	Cristina Diaz-Dickson	(617) 918-4548	cristina.diaz-dickson@leerink.com
Research Assistant	Carmen Augustine	(212) 277-6012	carmen.augustine@leerink.com

Boston		
New York	One Federal Street, 37th Floor	San Francisco
299 Park Avenue, 21 st floor	Boston, MA 02110	201 Spear Street, 16 th Floor
New York, NY 10171	(800) 808-7525	San Francisco, CA 94105
(888) 778-1653		(800) 778-1164