

Reason for report:

EARNINGS

## ELEVEN BIOTHERAPEUTICS, INC.

### 1Q14 EPS: Pipeline Progressing on Track

• **Bottom Line:** This morning, EBIO reported 1Q14 financial results which were relatively in-line on sales (\$0.6m vs. our \$0m) and slightly worse of our 1Q cash burn (-\$7.7m vs. our -\$5.8m). The top-line contribution included collaboration from Thrombogenics from an upfront payment that should amortize over 30-months. Other key updates included (1) enrollment of the EBI-005 allergic conjunctivitis (AC) trial has completed and the company remains on track to report top-line Phase 2 data by 4Q'14; (2) cash runway was shortened slightly, to 1Q'16 (from 2H'16). We are only making slight tweaks to our 2014 quarterly forecasts, adding in collaboration revenue from Thrombogenics and slightly increasing our G&A in the next few yrs. We remain OP; we are reducing our price target to \$19/shr (from \$24) to reflect a higher discount rate due to a generally greater risk aversion in the market.

• **Allergic conjunctivitis offers investors a near-term catalyst.**

While investor focus on EBIO centers on EBI-005 Phase 3 data in dry eye, EBIO also plans to have proof-of-concept data for '005 in allergic conjunctivitis later this year. The study is powered to show a statistically significant response on the primary endpoint of ocular itching. Mgmt has noted that they believe pts with chronic inflammation tend to have the same mechanism as dry eye, which was the impetus for bringing '005 forward in AC. As we noted in our [initiation](#), the AC opportunity could be substantial with target pts (those refractory to anti-histamines and mast cell stabilizers) making up an est 5-20% of all AC patients (~500k-2m pts) who currently get treated with steroids.

• **No major updates on EBI-005 for dry eye disease.** EBIO continues to enroll pts in its first Phase 3 study looking at EBI-005 for treatment of dry eye disease; top-line data are still expected by early 2015. On the CC, mgmt stated: timing & nature of second Phase 3 will be determined once the first pivotal study reads out. Based on improved understanding of the pathophysiology of dry eye, we believe EBI-005 (inhibits IL-1) targets key cytokines in the inflammatory cascade that exacerbate dry eye improving the drug's odds of Phase 3 success.

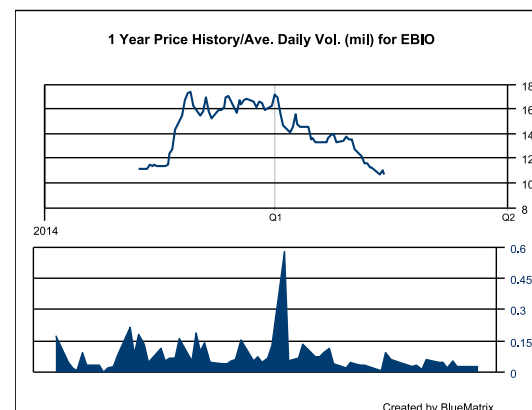
• **Cash burn is a touch ahead of prior plan, but positive clinical data would put EBIO in a position of strength at time of next financing.**

This qtr, EBIO updated that it expects to have sufficient cash (\$54m end of 1Q) to get to 1Q'16, which is pre-BLA. On the CC, mgmt stated that if AC and dry eye studies are both positive then in 2015 they will consider all sources of funding, including non-dilutive financing. In our view – if EBIO needs to raise capital again, it will presumably have two positive Ph. 3 datasets for the dry eye, so the company would be dealing from a position of strength and we don't anticipate such a cap raise being dilutive to current shareholders.

## Key Stats:

(NASDAQ:EBIO)

<b>S&amp;P 600 Health Care Index:</b>	<b>1,213.11</b>
<b>Price:</b>	<b>\$10.66</b>
Price Target:	\$19.00 from \$24.00
Methodology:	DCF analysis, 17.5% WACC
52 Week High:	\$19.33
52 Week Low:	\$10.00
Shares Outstanding (mil):	15.4
Market Capitalization (mil):	\$164.2
Book Value/Share:	\$0.00
Cash Per Share:	\$3.50
Dividend (ann):	\$0.00
Dividend Yield:	0.0%



Dec Yr	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 - New	0.6A	0.1	0.1	0.2	1.0	(\$0.80)A	(\$0.47)	(\$0.48)	(\$0.45)	(\$2.04)	NM
2014E - Old	0.0	0.0	0.0	0.0	0.0	(\$0.36)	(\$0.48)	(\$0.56)	(\$0.56)	(\$1.96)	NM
2015E - New	--	--	--	--	0.6	--	--	--	--	(\$1.53)	NM
2015E - Old	--	--	--	--	0.0	--	--	--	--	(\$1.44)	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.

## CHANGES TO MODEL

### EPS & Total Sales Forecasts (2014-19E) (\$MM, except per share data)

Total Sales Forecasts 2014-18E							
	2013	2014E	2015E	2016E	2017E	2018E	2019E
New	0.82	1	1	-	36	112	180
Old	0.82	-	-	-	36	112	180
Difference	-	1	1	-	-	-	-
Total EPS Forecasts 2014-18E							
	2013	2014E	2015E	2016E	2017E	2018E	2019E
New	(\$0.39)	(\$2.04)	(\$1.53)	(\$1.57)	(\$2.89)	\$0.54	\$3.19
Old	(0.39)	(1.96)	(1.44)	(1.45)	(2.89)	0.54	3.19
Difference	-	(0.08)	(0.09)	(0.13)	-	-	-

Source: Leerink estimates;

## 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&amp;L Summary (Adj. Basis)

## EBIO Annual Product Summary

(figures in \$m, except per share data)

	2012A	2013	1Q14	2Q14E	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)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collaboration revenue	-	0.8	0.6	0.1	0.1	0.2	1.0	0.6	-	-	-	-	-	-	-	-	-	-	-	na
<b>Total Rev (MM)</b>	-	<b>0.8</b>	<b>0.6</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>1.0</b>	<b>1</b>	<b>-</b>	<b>36</b>	<b>112</b>	<b>180</b>	<b>265</b>	<b>367</b>	<b>465</b>	<b>562</b>	<b>583</b>	<b>605</b>	<b>628</b>	27%
% y/y growth	na	na	na	na	na	na	na	na	na	nm	208%	61%	47%	39%	27%	21%	4%	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%	10%
Gross Income	-	0.8	0.6	0.1	0.1	0.2	1.0	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%	90.0%
EBI-005 clinical development costs	8.7	7.6	4.1	5.0	5.5	5.4	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	5%
Total R&D	15.3	14.1	5.8	6.7	7.0	7.0	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	2718%	3583%	nm	50%	12%	8%	6%	4%	3%	3%	3%	3%	3%	3%
G&A	4.2	3.5	1.9	1.3	1.5	1.3	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	615%	1033%	nm	48%	18%	12%	9%	7%	6%	5%	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	8.0	8.5	8.2	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	
<b>Operating (loss)/gain</b>	<b>(19.5)</b>	<b>(16.8)</b>	<b>(7.2)</b>	<b>(7.9)</b>	<b>(8.4)</b>	<b>(8.1)</b>	<b>(31.5)</b>	<b>(27.1)</b>	<b>(28.5)</b>	<b>(59.8)</b>	<b>10.6</b>	<b>68.5</b>	<b>140.1</b>	<b>227.7</b>	<b>310.4</b>	<b>391.5</b>	<b>404.9</b>	<b>418.8</b>	<b>433.0</b>	43%
% of sales	nm	nm	na	na	na	na	-3233%	-4517%	nm	-164%	10%	38%	53%	62%	67%	70%	69%	69%	69%	69%
<b>Net financial expense</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>(0.0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0.7)</b>	<b>(0.7)</b>	<b>(0.7)</b>	<b>(0.7)</b>	<b>1.0</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>	<b>4.0</b>	<b>5.0</b>	<b>10.0</b>	<b>11.0</b>	<b>12.0</b>	58%
<b>Pre-tax Income</b>	<b>(19.7)</b>	<b>(17.5)</b>	<b>(7.2)</b>	<b>(8.0)</b>	<b>(8.7)</b>	<b>(8.3)</b>	<b>(32.2)</b>	<b>(27.8)</b>	<b>(29.2)</b>	<b>(60.5)</b>	<b>11.6</b>	<b>69.5</b>	<b>142.1</b>	<b>230.7</b>	<b>314.4</b>	<b>396.5</b>	<b>414.9</b>	<b>429.8</b>	<b>445.0</b>	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%	35.0%
Preferred stock dividends	(3.1)	(3.6)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Net Income/(loss) (MM)</b>	<b>(23)</b>	<b>(21)</b>	<b>(7.7)</b>	<b>(8)</b>	<b>(9)</b>	<b>(8)</b>	<b>(32)</b>	<b>(28)</b>	<b>(29)</b>	<b>(60)</b>	<b>12</b>	<b>70</b>	<b>142</b>	<b>150</b>	<b>204</b>	<b>258</b>	<b>270</b>	<b>279</b>	<b>289</b>	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%	
<b>Basic &amp; Diluted EPS</b>	<b>(\$0.50)</b>	<b>(\$0.39)</b>	<b>(\$0.80)</b>	<b>(\$0.47)</b>	<b>(\$0.48)</b>	<b>(\$0.45)</b>	<b>(\$2.04)</b>	<b>(\$1.53)</b>	<b>(\$1.57)</b>	<b>(\$2.89)</b>	<b>\$0.54</b>	<b>\$3.19</b>	<b>\$6.39</b>	<b>\$6.62</b>	<b>\$8.84</b>	<b>\$10.93</b>	<b>\$11.21</b>	<b>\$11.38</b>	<b>\$11.56</b>	<b>29%</b>
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	17.1	18.2	18.3	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%	2%

Source: Company reports and Leerink Research estimates

## Disclosures Appendix

### Analyst Certification

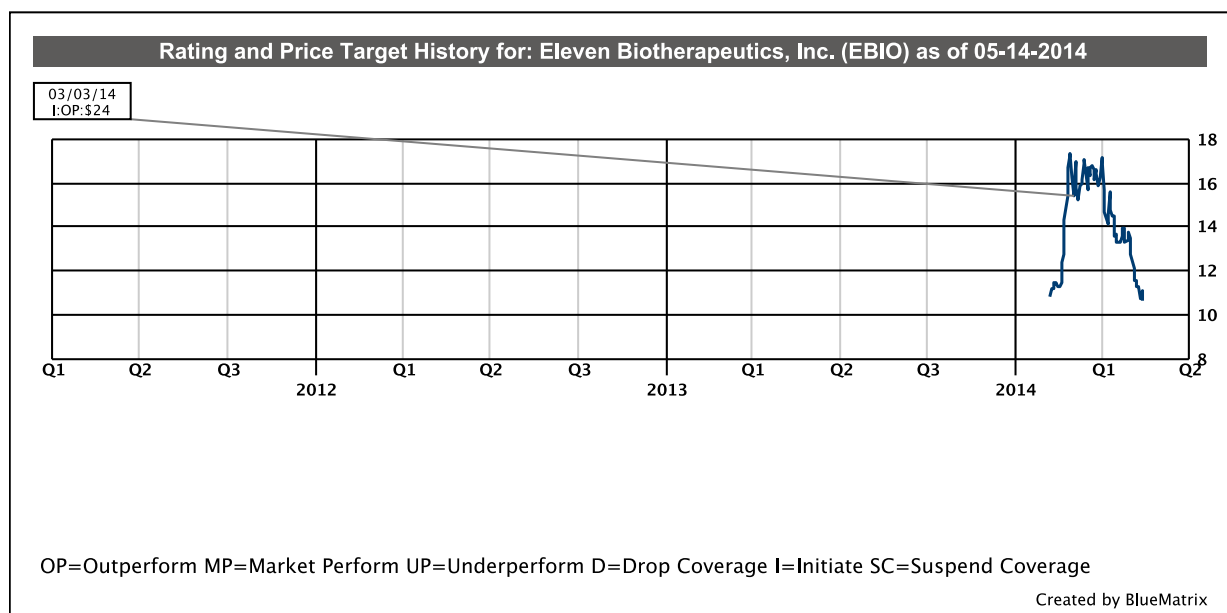
I, Jason M. Gerberry, JD, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

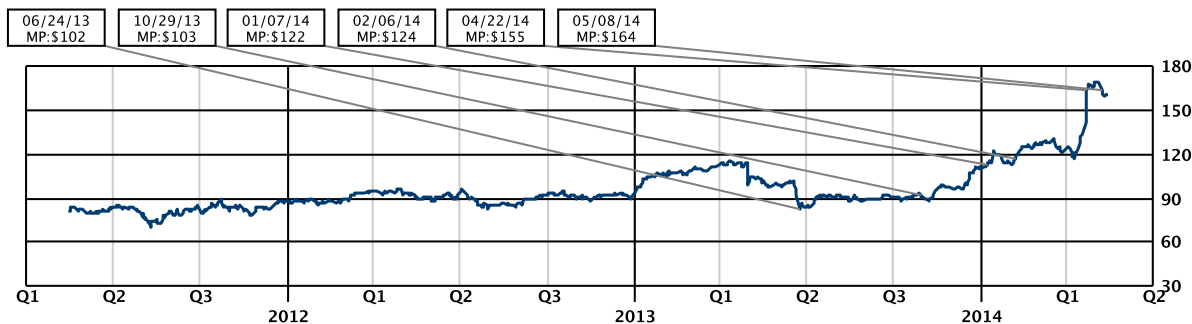
### Valuation

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**Rating and Price Target History for: Allergan, Inc. (AGN) as of 05-14-2014**


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 03/31/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	131	68.23	46	35.11
HOLD [MP]	61	31.77	3	4.92
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

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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.**

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Leerink Partners LLC Equity Research			
Director of Equity Research	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink
Associate Director of Research	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink
Healthcare Strategy	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink
	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink
Biotechnology	Howard Liang, Ph.D.	(617) 918-4857	howard.liang@leerink
	Joseph P. Schwartz	(617) 918-4575	joseph.schwartz@leerink
	Marko Kozul, M.D.	(415) 905-7221	marko.kozul@leerink
	Michael Schmidt, Ph.D.	(617) 918-4588	michael.schmidt@leerink
	Gena Wang, Ph.D., CFA	(212) 277-6073	gena.wang@leerink
	Jonathan Chang, Ph.D.	(617) 918-4015	jonathan.chang@leerink
	Paul Matteis	(617) 918-4585	paul.matteis@leerink
	Richard Goss	(617) 918-4059	richard.goss@leerink
Life Science Tools and Diagnostics	Dan Leonard	(212) 277-6116	dan.leonard@leerink
	Justin Bowers, CFA	(212) 277-6066	justin.bowers@leerink
Pharmaceuticals/Major	Seamus Fernandez	(617) 918-4011	seamus.fernandez@leerink
	Ario Arabi	(617) 918-4568	ario.arabi@leerink
	Aneesh Kapur	(617) 918-4576	aneesh.kapur@leerink
Specialty Pharmaceuticals, Generics	Jason M. Gerberry, JD	(617) 918-4549	jason.gerberry@leerink
	Christopher W. Kuehnle, JD	(617) 918-4851	chris.kuehnle@leerink
Medical Devices, Cardiology & Orthopedics	Danielle Antalffy	(212) 277-6044	danielle.antalffy@leerink
	Richard Newitter	(212) 277-6088	richard.newitter@leerink
	Ravi Misra	(212) 277-6049	ravi.misra@leerink
Healthcare Services	Ana Gupte, Ph.D.	(212) 277-6040	ana.gupte@leerink
Healthcare Technology & Distribution	David Larsen, CFA	(617) 918-4502	david.larsen@leerink
	Christopher Abbott	(617) 918-4010	chris.abbott@leerink
Sr. Editor/Supervisory Analyst	Mary Ellen Eagan, CFA	(617) 918-4837	maryellen.eagan@leerink
Supervisory Analysts	Robert Egan		bob.egan@leerink
	Amy N. Sonne		amy.sonne@leerink
Editorial	Cristina Diaz-Dickson	(617) 918-4548	cristina.diaz-dickson@leerink

**New York**  
299 Park Avenue, 21<sup>st</sup> floor  
New York, NY 10171  
(888) 778-1653

**Boston**  
**One Federal Street, 37<sup>th</sup> Floor**  
**Boston, MA 02110**  
**(800) 808-7525**

**San Francisco**  
201 Spear Street, 16<sup>th</sup> Floor  
San Francisco, CA 94105  
(800) 778-1164