

Reason for report:
EARNINGS

ELEVEN BIOTHERAPEUTICS, INC.

2Q14 Update: Pipeline Remains On Track to Deliver Multiple Catalysts NTM

• **Bottom Line:** This morning, EBIO reported 2Q14 financial results that were relatively in-line with our sales and net loss ests -- \$0.8m/(-\$8m) vs. our \$0.1m/(-\$8m), respectively. The top-line contribution increased Y/Y (from \$0.2m) due to revenue recognized from the Thrombogenics collaboration, which began in May 2013. EBIO reaffirmed the timing for data releases for all its pipeline products, notably: (1) EBI-005 for dry eye – the first Phase 3 study will report top-line data in early 2015, and EBIO “continues to enroll patients” in the study; and (2) EBI-005 for allergic conjunctivitis remains on track to report top-line proof-of-concept Phase 2 data in 4Q14. EBIO ended 2Q with \$45m in cash, and the company’s burn is ~\$8m/quarter with runway to 1Q16. We remain OP and value EBIO at \$19/share, driven mainly by our risk-adjusted DCF for EBI-005.

• **Allergic conjunctivitis data represents a free call option for investors, in our view, & could diversify story away from dry eye.** We currently do not include allergic conjunctivitis (AC) sales for '005 in our sales or valuation, given it is pre-proof-of-concept. However, the market for '005 could be ~\$500m in peak sales, and we view upcoming Ph 2 data as an important de-risking step for the product. The Ph 2 study is (1) powered to show a statistically significant response on the primary endpoint of ocular itching, and mgmt believes AC has similar mechanistic underpinnings as dry eye, which was the rationale for studying '005 in AC; (2) if successful, mgmt plans to use an already validated clinical model for pivotal testing & focus on more severe/chronic patients.

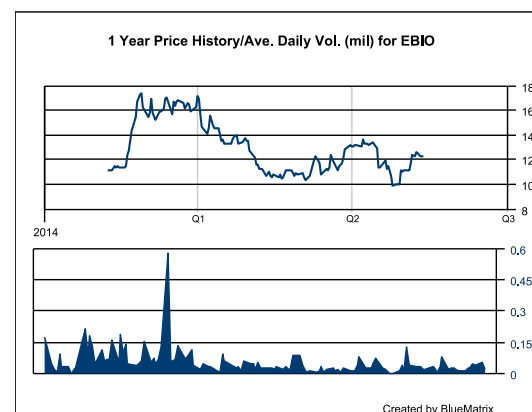
• **No new updates on EBI-005 for dry eye disease.** EBI-005 for the dry eye indication is the primary driver of our valuation. Development of '005 for dry eye includes the continued enrollment of patients in its first Phase 3 study looking at EBI-005 for treatment of dry eye disease; top-line data are still expected by early 2015. On the CC, mgmt stated that the timing & nature of the 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 was in-line at \$8m/qtr. & sufficient to get EBIO to pre-BLA stage for '005.** This quarter, EBIO updated that it expects to have sufficient cash (\$45m end-2Q) to get to 1Q'16, which is pre-BLA. On the 1Q14 CC, mgmt stated that if AC and dry eye studies are both positive, then in 2015 it 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 dry eye, so share appreciation would more than offset any potential dilution from another capital raise.

Key Stats:

(NASDAQ:EBIO)

S&P 600 Health Care Index:	1,293.21
Price:	\$12.32
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):	\$198.4
Book Value/Share:	\$0.00
Cash Per Share:	\$2.80
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	0.8A	0.7	0.7	2.7	(\$0.80)A	(\$0.51)A	(\$0.45)	(\$0.36)	(\$1.93)	NM
2014E - Old	0.6A	0.1	0.1	0.2	1.0	(\$0.80)A	(\$0.47)	(\$0.48)	(\$0.45)	(\$2.04)	NM
2015E - New	--	--	--	--	1.0	--	--	--	--	(\$1.53)	NM
2015E - Old	--	--	--	--	0.6	--	--	--	--	(\$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, EBI-005 has the potential to be a very long-tailed asset, with pending patents projected to expire in 2034 and EBI-005 could enjoy additional exclusivity owing to the fact that it is a biologic.

CHANGES TO MODEL

EPS & Total Sales Forecasts (2013-19E) (\$MM, except per share data)

Total Sales Forecasts 2013-19E							
	2013	2014E	2015E	2016E	2017E	2018E	2019E
New	1	3	1	-	36	112	180
Old	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>36</u>	<u>112</u>	<u>180</u>
Difference	-	2	-	-	-	-	-
Total EPS Forecasts 2013-19E							
	2013	2014E	2015E	2016E	2017E	2018E	2019E
New	(0.39)	(1.93)	(1.53)	(1.57)	(2.89)	0.54	3.19
Old	<u>(0.39)</u>	<u>(2.04)</u>	<u>(1.53)</u>	<u>(1.57)</u>	<u>(2.89)</u>	<u>0.54</u>	<u>3.19</u>
Difference	-	0.11	-	-	-	-	-

Source: Leerink Partners, LLC 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 2023E sales (year of peak market share) discounted back 9 periods at 15% WACC & 55% 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

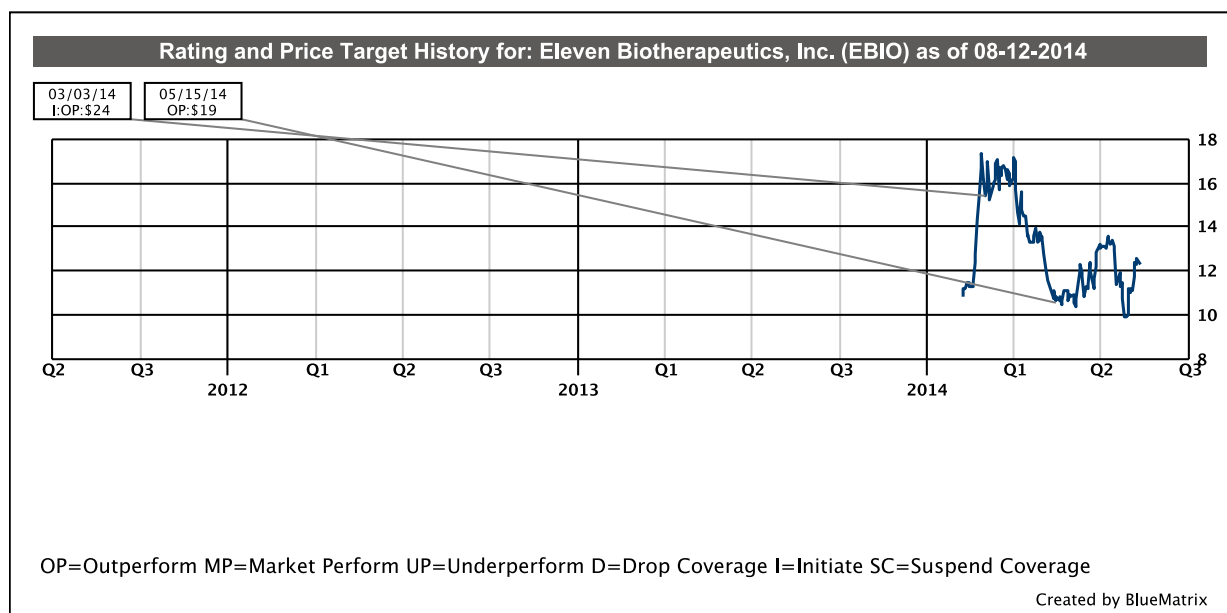
I, Jason M. Gerberry, JD, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

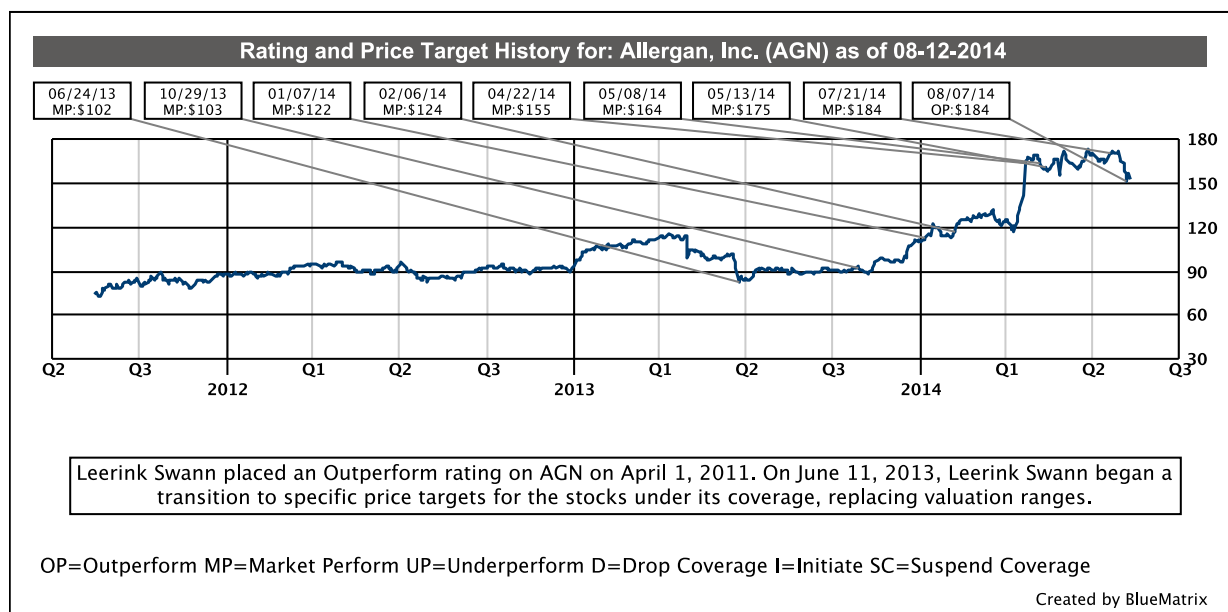
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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	138	69.00	50	36.20
HOLD [MP]	62	31.00	2	3.20
SELL [UP]	0	0.00	0	0.00

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.

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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.

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