

Five Prime Therapeutics, Inc.

FPRX - BUY - 4Q13 Results; Buy Ahead of Key '1039 and '008 Ph.I Results in 2H14

March 26, 2014

On 3/25, FPRX reported 4Q13 net loss of (\$7.3M) vs. our (\$4.5M) est. Importantly, the company continues to expect interim results from Ph.I/Ib trials of FP-1039 in FGFR1 amplified NSCLC and FPA008 in healthy volunteers in 2H14. FPRX/GSK (NC, \$54.03) will now focus enrollment in Arm C of the Ph.I/Ib '1039 trial on FGF-2 overexpressing mesothelioma, which we view as a solid strategy. We view FPRX as an attractive LT investment, primarily based on FP-1039's significant potential and the company's growing focus on immuno-oncology.

Expect positive Ph.I/Ib NSCLC results for '1039 in 2H14. FPRX/GSK will report interim data from the dose escalation portion of the 1st-/2nd-line NSCLC Ph.I/Ib trial arms in 2H14. Based on positive Ph.I results and strong mechanistic rationale in FGFR1-amplified tumors, we expect efficacy signals at the highest doses. We believe FPRX/GSK's decision to focus Arm C of the Ph.I/Ib trial on mesothelioma opens the possibility of combining '1039 with GSK's GSK'098, which has shown encouraging activity in this cancer.

Preliminary Ph.I results for FPA008 in healthy volunteers in 2H14. FPRX remains on track to announce key initial safety data from the healthy volunteer portion of an ongoing Ph.I trial of '008 in 2H14, and the company plans to begin enrolling rheumatoid arthritis (RA) pts by YE'14. We continue to view the early safety data for '008 as a key milestone for FPRX, given our questions regarding the drug's potential for immunosuppressive side effects.

Recent announced collaboration with BMY (NC, \$52.54) should be a substantial LT value driver for FPRX. We believe this collaboration substantially increases FPRX's profile in immuno-oncology (IO) and should accelerate development of the company's proprietary IO candidates. Although FPRX's IO programs are currently preclinical, we expect the company to make rapid progress to the clinic, based both on BMY's backing and FPRX's protein therapeutics expertise.

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FPRX BUY

EARNINGS RELEASE

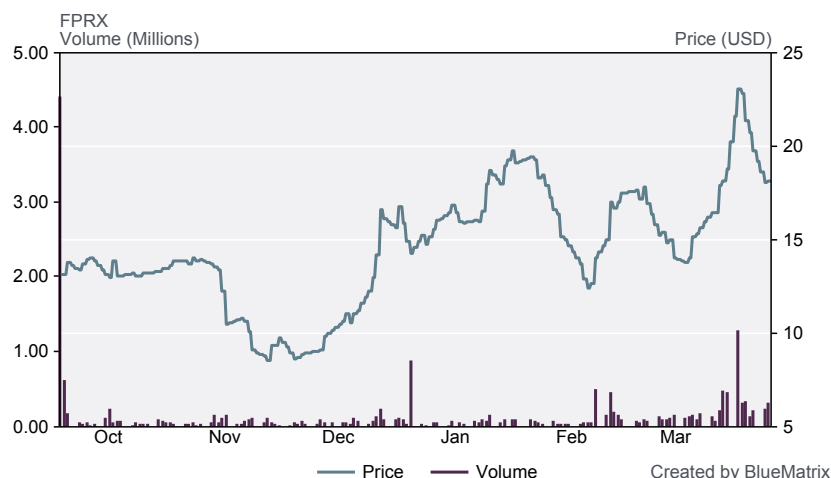
Investment Thesis: Growth

SHARE PRICE \$18.11
PRICE TARGET \$28.00

EPS (\$) (FY Dec)	1Q	2Q	3Q	4Q	FY
2013	(0.47)	(0.47)	(2.74)	(0.43)	(5.23)
Prior	—	—	—	(0.23)	(2.00)
P/E					NM
2014	(0.36)E	(0.28)E	(0.22)E	(0.18)E	(0.98)E
Prior	(0.34)E	—	—	—	(0.97)E
P/E					NM
2015	—	—	—	—	(0.38)E
Prior	—	—	—	—	(0.37)E
P/E					NM

Market Data

52-Week Range	\$8.02 - \$23.33
Shares Out (M)	20.3
Market Cap (M)	\$367
ADV (3 mo; 000)	141



Five Prime Therapeutics Inc.

Five Prime Therapeutics Inc.	2013						2014									
Amounts in thousands, except per-share figures	2012A	1QA	2QA	3QA	4QA	Prior 4QE	2013A	1QE	2QE	3QE	4QE	2014E	2015E	2016E	2017E	
Income Statement																
Revenues:																
Collaboration Revenue	9,983	3,262	3,262	3,482	3,785	7,460	13,791	4,310	5,120	6,130	6,740	22,300	40,640	28,454	55,200	
FP-1039 Revenue (2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,206	
Total operating revenue	9,983	3,262	3,262	3,482	3,785	7,460	13,791	4,310	5,120	6,130	6,740	22,300	40,640	28,454	67,406	
Operating expenses:																
Cost of goods	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Research & development	28,778	8,258	8,258	8,193	8,077	7,560	32,785	8,519	8,696	9,016	9,264	35,495	38,512	42,748	45,527	
Selling, general & administrative	9,009	2,389	2,389	2,607	3,042	4,550	10,427	3,008	3,070	3,183	3,271	12,532	13,472	15,492	16,887	
Total operating expenses	37,787	10,647	10,647	10,800	11,119	12,110	43,212	11,527	11,766	12,199	12,535	48,027	51,983	58,241	62,413	
Income (Loss) from operations	(27,804)	(7,385)	(7,385)	(7,318)	(7,334)	(4,650)	(29,421)	(7,217)	(6,646)	(6,069)	(5,795)	(25,727)	(11,343)	(29,787)	4,992	
Other income (expense)	209	224	224	84	17	195	549	190	193	204	209	796	778	951	810	
Pretax income (loss)	(27,595)	(7,161)	(7,161)	(7,234)	(7,317)	(4,455)	(28,872)	(7,027)	(6,453)	(5,865)	(5,585)	(24,930)	(10,566)	(28,836)	5,803	
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net income (loss)	(27,595)	(7,161)	(7,161)	(7,234)	(7,317)	(4,455)	(28,872)	(7,027)	(6,453)	(5,865)	(5,585)	(24,930)	(10,566)	(28,836)	5,803	
Basic & diluted net loss per share	(\$1.87)	(\$0.47)	(\$0.47)	(\$2.74)	(\$0.43)	(\$0.23)	(\$5.23)	(\$0.36)	(\$0.28)	(\$0.22)	(\$0.18)	(\$0.98)	(\$0.38)	(\$0.95)	\$0.19	
Basic & diluted common shares outstanding (1)	14,724	15,100	15,315	2,637	16,835	19,000	5,523	19,697	23,045	26,963	31,547	25,313	28,163	30,331	30,981	

(1) Reflects conversion of preferred stock to common stock

(2) Probability adjusted estimates

Source: Company documents and Guggenheim Securities, LLC

Changes to our model

Based on 4Q13 results, we update EPS estimates for 1Q14/ 2014/ 2015 to (\$0.36)/ (\$0.98)/ (\$0.38) from (\$0.34)/ (\$0.97)/ (\$0.37), respectively.

Valuation and Risks

Our \$28 price target is based on a forward, 10-year DCF of probability-adjusted sales estimates for FP-1039 in NSCLC. We assign a 50% probability of clinical/commercial success for FP-1039 in FGFR1+ stage III/IV squamous NSCLC. Given positive Ph.I results for the biologic in this setting, we believe this is an appropriate, if not conservative, probability adjustment. Our valuation applies a 15.5% discount rate to reflect the relatively early stage of FPRX's lead program and a 5.25% terminal growth rate (2% prior) to reflect the company's strong collaboration profile and its proprietary drug discovery platform to continue to identify new protein therapeutic targets.

Key risks to our price target include, but are not limited to, negative clinical trial results, either related to safety or efficacy, for FPRX's drug candidates; failure to gain U.S./E.U. regulatory approval for FP-1039, FPA008, or FPA144; emerging clinical results for competitive therapies to these therapies in NSCLC/RA/GC; failure of FPRX's collaborative partners, most importantly GSK, to adequately advance development of clinical candidates; failure of FPRX to generate adequate financing; challenges to FPRX's intellectual property positions; and lower-than-expected U.S./ROW sales of FP-1039.

		Terminal growth rate									
		4.25%	4.50%	4.75%	5.00%	5.25%	5.50%	5.75%	6.00%	6.25%	
Discount rate	14.50%	\$ 30.66	\$ 31.27	\$ 31.92	\$ 32.60	\$ 33.31	\$ 34.07	\$ 34.87	\$ 35.71	\$ 36.61	
	14.75%	\$ 29.42	\$ 29.99	\$ 30.59	\$ 31.22	\$ 31.88	\$ 32.59	\$ 33.32	\$ 34.11	\$ 34.93	
	15.00%	\$ 28.24	\$ 28.77	\$ 29.33	\$ 29.92	\$ 30.54	\$ 31.19	\$ 31.87	\$ 32.60	\$ 33.36	
	15.25%	\$ 27.12	\$ 27.62	\$ 28.15	\$ 28.69	\$ 29.27	\$ 29.87	\$ 30.51	\$ 31.18	\$ 31.89	
	15.50%	\$ 26.07	\$ 26.53	\$ 27.02	\$ 27.53	\$ 28.07	\$ 28.63	\$ 29.22	\$ 29.85	\$ 30.50	
	15.75%	\$ 25.06	\$ 25.50	\$ 25.96	\$ 26.43	\$ 26.93	\$ 27.46	\$ 28.01	\$ 28.59	\$ 29.20	
	16.00%	\$ 24.11	\$ 24.52	\$ 24.95	\$ 25.39	\$ 25.86	\$ 26.35	\$ 26.86	\$ 27.40	\$ 27.97	
	16.25%	\$ 23.20	\$ 23.59	\$ 23.99	\$ 24.40	\$ 24.84	\$ 25.30	\$ 25.78	\$ 26.28	\$ 26.81	
	16.50%	\$ 22.34	\$ 22.70	\$ 23.07	\$ 23.47	\$ 23.88	\$ 24.30	\$ 24.75	\$ 25.22	\$ 25.71	
	16.75%	\$ 21.52	\$ 21.86	\$ 22.21	\$ 22.58	\$ 22.96	\$ 23.36	\$ 23.78	\$ 24.22	\$ 24.67	

Source:Guggenheim Securities, LLC

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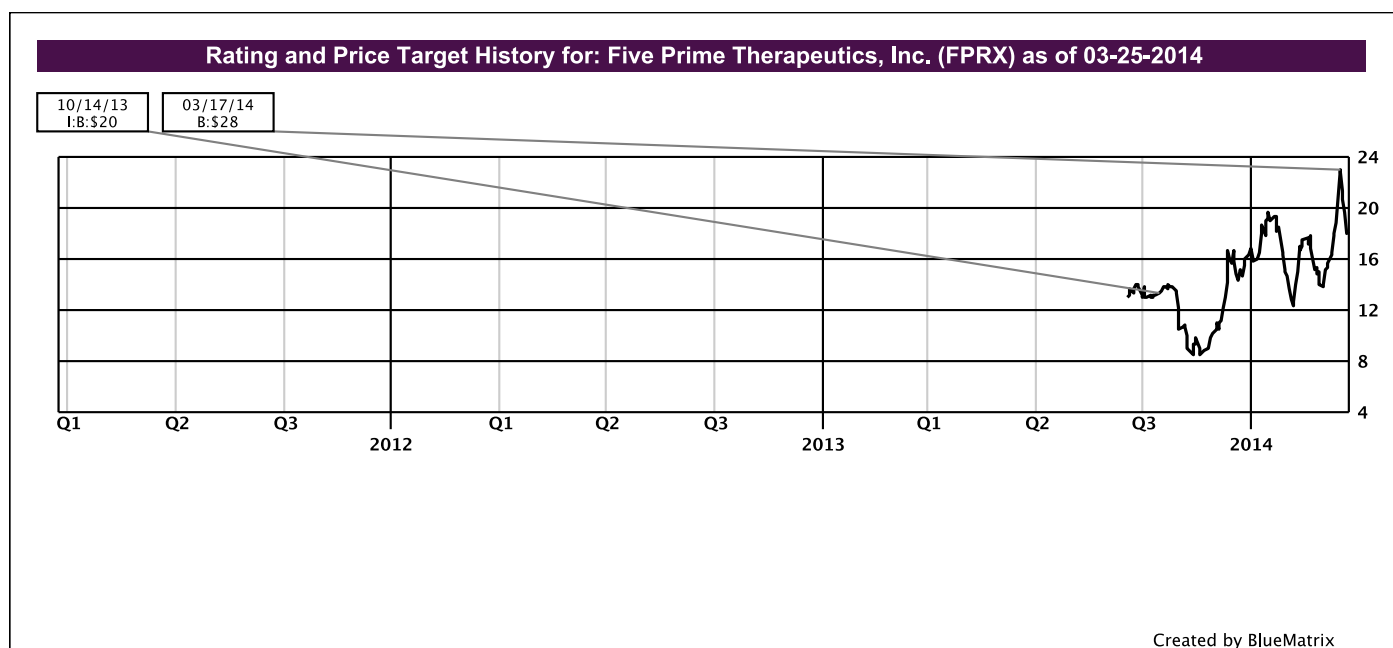
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