COMPANY NOTE

Estimate Change

USA | Healthcare | Biotechnology

August 5, 2014

Jefferies

Five Prime Therapeutics, Inc. (FPRX)
Slightly Wider 2Q14 Net Loss; Early Clinical Data Readout On Track by YE14

BUY
Price target $28.00
Price $12.38

EQUITY RESEARCH AMERICAS

Key Takeaway

Slightly wider net loss of $9.9M on higher OpEx; end-2Q14 cash of ~$141M sufficient into ~2017 (<$30M in cash usage for FY14). With early clinical data on track by YE14, including Ph1b for GSK-partnered FP-1039 & Ph1 safety/ biomarker data for proprietary FPA008, we view FPRX as attractive at current EV of ~$130M for meaningful potential upside.

Slightly wider 2Q14 net loss of $9.9M (vs. our loss estimate of $8.0M) on ~in-line collaboration revenues of $5.0M (vs. ours of $5.4M) and slightly higher OpEx of $14.9M (vs. ours of $13.4M). OpEx (R&D/SG&A) included R&D of $11.9M (vs. ours of $10.1M) and SG&A of $3.0M (vs. ours of $3.3M), resulting in a LPS of $0.46 (vs. ours of $0.42). Current cash of ~$141M should be sufficient into ~2017.

Third arm of GSK-run Ph1b trial for FP-1039 (1st-line malignant pleural mesothelioma in combo with chemotherapy; Arm C) now enrolling; Ph1b dose escalation portion data (Arms A+B) on track by YE14. FPRX notes that partner GlaxoSmithKline (GSK LN, Hold) has opened additional clinical sites (specializing in mesothelioma treatment). Arm C enrolls all-comer mesothelioma pts (not selected for FGFR1 amplification) & will be retrospectively analyzed for FGF2 levels & FGFR1 amplification.

Ph1 dosing in healthy volunteers now complete for proprietary FPA008 (anti-CSF1R mAb) for RA; second indication on track to be announced by YE14. With single/multiple ascending dosing (SAD/MAD) portion in healthy volunteer cohort now complete, data (safety and biomarkers such as CD16+ monocytes, macrophage, bone turnover, CSF, IL-34) is expected by YE14. FPRX notes potential other indications for FPA008 include pigmented villonodular synovitis (PVNS), cancer, or fibrotic disease.

For cancer immunotherapy, collaborator Adimab now working to produce antibody candidate for an undisclosed checkpoint target selected by FPRX (potentially ~3-6 months for completion). FPRX notes it selected Adimab as partner for quality/high affinity of antibodies and target search speed (faster in contrast to older technologies). Although not disclosing the target for competitive reasons, FPRX indicates disclosure potentially in ~2015.

Valuation/Risks

Our $28 PT is based on ~$8/sh for FP-1039 in FGFR1-amplified cancers, ~$3/sh for FPA008 in RA, ~$1/sh for FPA144 in FGFR2-amplified gastric cancer, and ~$16/sh for technology value at a 12% annual discount rate. Risks include: (1) early-clinical stage & distant profitability; and (2) inherent uncertainty in drug development.

Financial Summary	
Book Value (MM):	**$100.9**
Book Value/Share:	**$4.69**
Net Debt (MM):	**($140.6)**
Long-Term Debt (MM):	**$0.0**
Cash/Share:	**$6.54**
Cash (MM):	**$140.6**
Market Data	
52 Week Range:	**$23.33 - $8.02**
Total Entprs. Value (MM):	**$125.6**
Market Cap. (MM):	**$266.2**
Shares Out. (MM):	**21.5**
Float (MM):	**11.4**
Avg. Daily Vol.:	**170,388**

USD	*Prev.*	**2013A**	*Prev.*	**2014E**	*Prev.*	**2015E**	*Prev.*	**2016E**
Rev. (MM)	--	13.8	--	19.8	--	29.2	--	37.2
Cons. EPS	--	--	*(1.00)*	(1.45)	*(1.18)*	(1.51)	*0.30*	(0.58)
EPS								
Mar	--	NA	--	(0.46)A	--	--	--	--
Jun	--	NA	*(0.42)*	(0.46)A	--	--	--	--
Sep	--	(2.74)	*(0.49)*	(0.47)	--	--	--	--
Dec	--	(0.43)	*(0.56)*	(0.47)	--	--	--	--
FY Dec	--	(5.23)	*(1.93)*	(1.85)	*(2.15)*	(1.97)	*(2.34)*	(2.15)

EPS: FPRX completed its IPO in 3Q13

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Price Performance

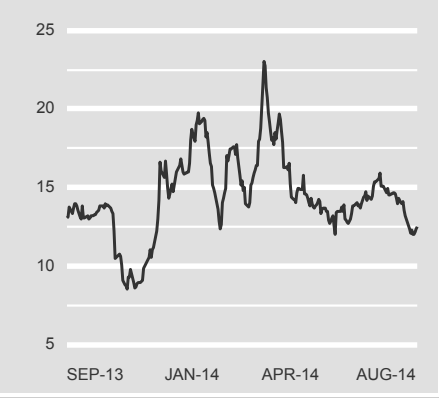

Chart 1: Five Prime's Product Portfolio

Product	Description	Indication	Status	Marketing Rights	Patent Expiry
FP-1039 (GSK3052230)	Fibroblast growth factor (FGF) ligand trap	FGFR1 gene-amplified solid tumors (e.g., squamous non-small cell lung cancer)	Ph1b dose escalation portion data by YE14 (Arms A + B); Ph1b open-label, non-randomized, 3-arm study (n=up to 120) evaluating FP-1039 + paclitaxel/carboplatin (Arm A: 1st-line NSCLC); FP-1039 + docetaxel (Arm B: 2nd-line NSCLC) (all metastatic squamous NSCLC with FGFR1 amplification +) started in 7/13; & FP-1039 + permetrexed/cisplatin (Arm C: 1st-line malignant pleural mesothelioma all comers) started in 02/14 Phase 1 open-label, non-randomized, dose-ranging study (n=39) demonstrated safety and tolerability across tested dose range (IV infusion of 0.5-16.0 mg/kg for a total of 4 weekly infusions) in pts with a variety of solid tumors; study completed in 5/11	GlaxoSmithKline (U.S./EU/Canada); Five Prime (co-promotion option in U.S.; RoW rights outside of EU and Canada)	In U.S./EU, composition of matter patent through 2026; specific dosage regimens patent allowed (projected expiry in 2031); pending patent on methods of treatment and selecting patients (projected expiry in 2032)
FPA008	Anti-CSF-1R (colony stimulating factor-1 receptor) humanized monoclonal antibody	Rheumatoid arthritis (RA) and other inflammatory/ autoimmune diseases	Healthy volunteer Ph1 data & progress to dosing in RA pts by YE14; SAD/MAD dosing completed in 2Q14; Ph1 trial for safety, tolerability and early clinical activity in healthy volunteers (in SAD, 5 dosing cohorts (n=8/cohort); in MAD, 3-4 cohorts (n=8/cohort) and RA pts (n=~36, MTX +/-FPA008) started on 10/31/13; FPRX expects to identify a second indication for FPA008 by YE14	Five Prime (worldwide)	In U.S./EU (pending), composition of matter patent through 2031; methods of treatment patent pending (projected expiry in 2031-2033)
FPA144	Anti-FGFR2b humanized monoclonal antibody	FGFR2-amplified gastric cancer	Ph1 to begin by YE14 with data by YE15 for safety and early clinical activity (response rate) in gastric cancer pts (FGFR2b amplification/overexpression)	Five Prime (worldwide)	In U.S./EU (pending), composition of matter patent through 2029; methods of treatment patent pending, with projected expiration in 2029
Cancer immunotherapy	Undisclosed target	Cancer	On 8/5/14, Adimab in process to identify fully human Ab directed to this undisclosed target	Five Prime (worldwide)/ Adimab	

FGFR= fibroblast growth factor receptor

Source: Company reports and Jefferies

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FivePrime Therapeutics, Inc. (FPRX)
Income Statement
($ in thousands except per share)

	2013	1Q14	2Q14	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Royalty Revenues																	
FP-1039 for solid tumors											631	9,657	35,592	73,932	131,047	196,398	252,419
% growth y/y													*268.6%*	*107.7%*	*77.3%*	*49.9%*	*28.5%*
FPA008 for RA											-	10,060	32,002	52,285	74,815	93,533	112,466
% growth y/y														*63.4%*	*43.1%*	*25.0%*	*20.2%*
FPA144 for gastric cancer											-	2,128	12,845	30,156	52,016	78,513	105,351
% growth y/y														*134.8%*	*72.5%*	*50.9%*	*34.2%*
Collaboration revenues	13,791	3,546	4,981	5,390	5,853	19,770	29,160	37,160	14,790	64,000	106,000	20,000	20,000	20,000	20,000	20,000	20,000
Others																	
Total Revenues	**13,791**	**3,546**	**4,981**	**5,390**	**5,853**	**19,770**	**29,160**	**37,160**	**14,790**	**64,000**	**106,631**	**41,845**	**100,439**	**176,373**	**277,878**	**388,444**	**490,235**
% growth y/y	*38.1%*					*43.4%*	*47.5%*	*27.4%*	*-60.2%*	*332.7%*	*66.6%*	*-60.8%*	*140.0%*	*75.6%*	*57.6%*	*39.8%*	*26.2%*
Expenses																	
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	-	-						
Gross margin																	
R&D	32,785	8,926	11,873	12,300	12,800	45,899	57,374	67,701	76,502	84,917	93,409	100,882	108,952	117,669	127,082	137,249	148,229
% growth y/y	*17.0%*					*40.0%*	*25.0%*	*18.0%*	*13.0%*	*11.0%*	*10.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*
SG&A	10,427	3,280	3,024	3,150	3,163	12,617	14,888	16,823	18,505	19,986	21,585	23,311	25,176	27,190	29,366	31,715	34,252
% growth y/y	*12.0%*					*21.0%*	*18.0%*	*13.0%*	*10.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*
Total Expenses	43,212	12,206	14,897	15,450	15,963	58,516	72,261	84,524	95,008	104,903	114,994	124,193	134,129	144,859	156,448	168,964	182,481
Income (loss) from Operations (EBIT)	**(29,421)**	(8,660)	(9,916)	(10,060)	(10,110)	**(38,746)**	**(43,101)**	**(47,364)**	**(80,218)**	**(40,903)**	**(8,363)**	**(82,349)**	**(33,689)**	**31,514**	**121,430**	**219,480**	**307,755**
% growth y/y																	
Interest and other income, net	549	16	50	50	50	166	200	200	200	200	200	200	200	200	1,000	2,000	2,000
Earnings (Loss) Before Taxes	(28,872)	(8,644)	(9,866)	(10,010)	(10,060)	(38,580)	(42,901)	(47,164)	(80,018)	(40,703)	(8,163)	(82,149)	(33,489)	31,714	122,430	221,480	309,755
Income taxes (benefits)										-	-	-	-	-	6,122	22,148	46,463
Tax rate														0.0%	5.0%	10.0%	15.0%
Net Income (loss)	**(28,872)**	**(8,644)**	**(9,866)**	**(10,010)**	**(10,060)**	**(38,580)**	**(42,901)**	**(47,164)**	**(80,018)**	**(40,703)**	**(8,163)**	**(82,149)**	**(33,489)**	**31,714**	**116,309**	**199,332**	**263,292**
GAAP EPS (LPS) - Basic	**(5.23)**	**(0.46)**	**(0.46)**	**(0.47)**	**(0.47)**	**(1.85)**	**(1.97)**	**(2.15)**	**(2.84)**	**(1.43)**	**(0.25)**	**(2.34)**	**(0.95)**	0.89	3.22	5.46	7.15
GAAP EPS (LPS) - Diluted	(5.23)	(0.46)	(0.46)	(0.47)	(0.47)	(1.85)	(1.97)	(2.15)	(2.84)	(1.43)	(0.25)	(2.34)	(0.95)	**0.82**	**2.97**	**5.05**	**6.61**
Pro Forma EPS (LPS)																	
% growth y/y																	
Shares - Basic	5,523	18,841	21,465	21,486	21,508	20,825	21,723	21,940	28,160	28,441	32,726	35,053	35,403	35,757	36,115	36,476	36,841
Shares - Diluted	5,523	18,841	21,465	21,486	21,508	20,825	21,723	21,940	28,160	28,441	32,726	35,053	35,403	38,757	39,115	39,476	39,841
Cash, cash equivalents & investments	75,722	128,930	140,581	130,571	120,511	120,511	77,610	30,446	74,428	33,725	108,562	73,413	39,924	71,638	187,947	387,280	650,571

Source: Company reports and Jefferies

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Company Description

Five Prime Therapeutics, Inc. is an early clinical stage biotechnology company focused on discovering and developing new protein therapeutics in cancer and inflammatory diseases. Five Prime's product candidates include FP-1039/GSK3052230, a biologic (FGF ligand trap) for trapping and neutralizing cancer-promoting fibroblast growth factors (FGFs) involved in cancer cell proliferation and new blood vessel formation, which is partnered with GlaxoSmithKline; FPA008, an antibody that inhibits colony stimulating factor-1 receptor (CSF-1R); and FPA144, an antibody for inhibiting FGF receptor 2b (anti-FGFR2b mAb). In addition, Five Prime has early drug discovery partnerships with GlaxoSmithKline, UCB Pharma S.A, and Bristol-Myers Squibb. Founded in 2001 and IPOed in September 2013, Five Prime is headquartered in San Francisco, California.

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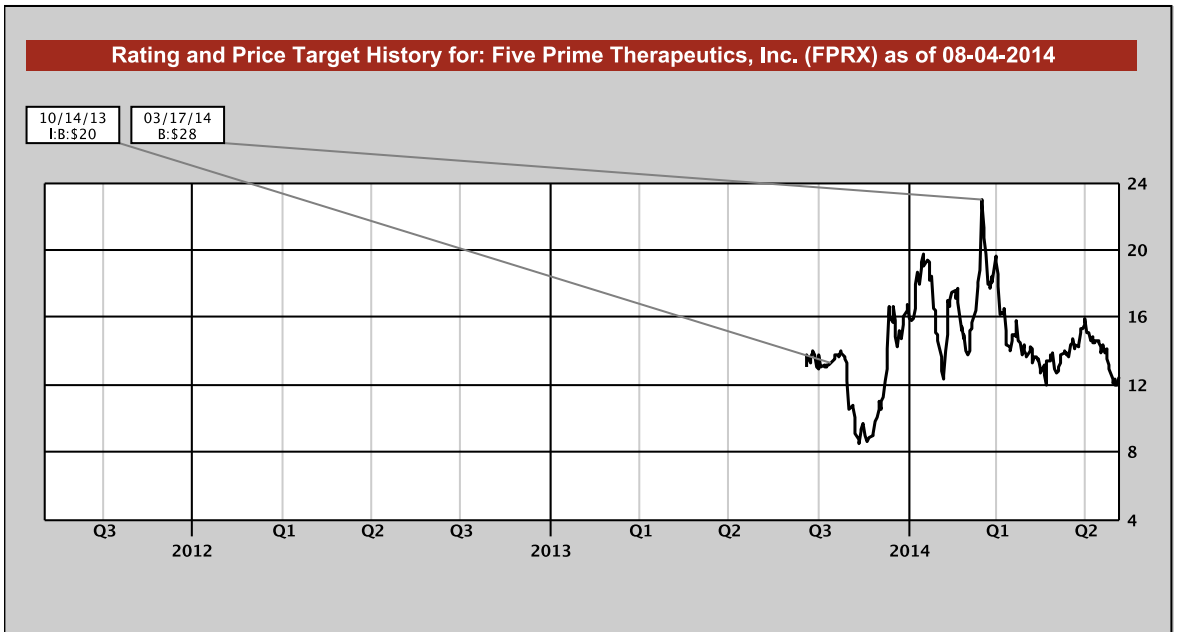
- GlaxoSmithKline Plc (GSK LN: p1,445.50, HOLD)



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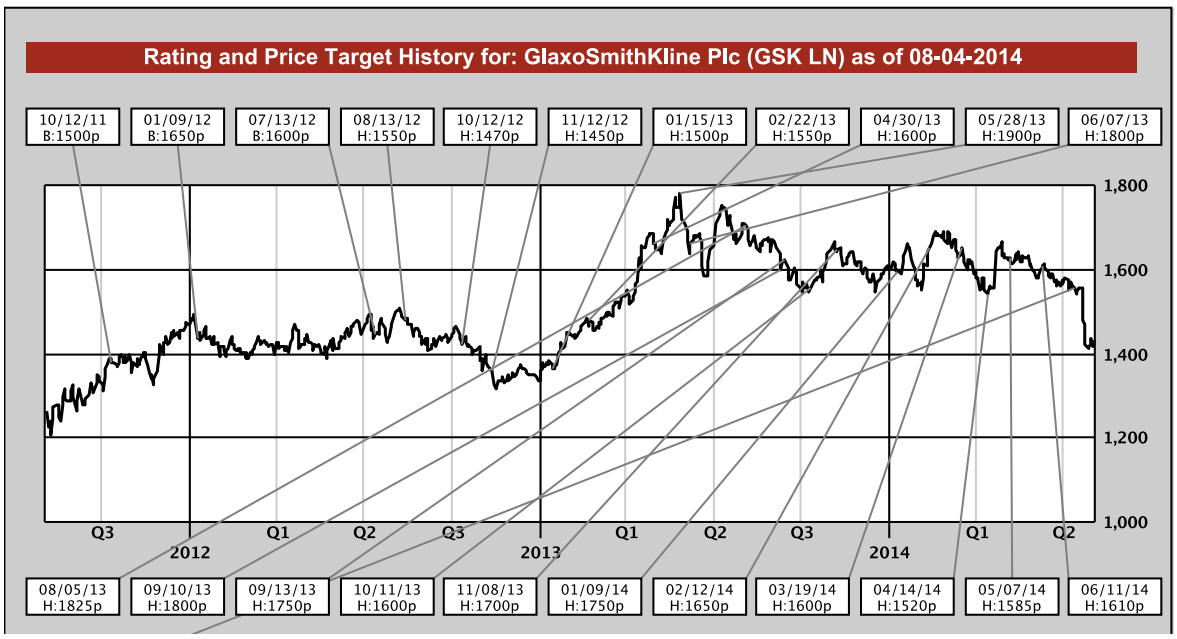

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