

COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Biotechnology

March 17, 2014

Jefferies

Five Prime Therapeutics, Inc. (FPRX) First Immuno-oncology Deal with BMJ Very Positive

Key Takeaway

We view its first immuno-oncology deal with BMJ as quite positive given BMJ's expertise/lead position, validating FPRX's immune checkpoint discovery platform. FPRX will receive \$41M in cash + \$9.5M research funding from BMJ, aside from potential milestones & royalties. Concomitantly, FPRX is developing multiple proprietary immunology/oncology targets, with one potentially entering clinic in ~2016.

Immunotherapy leader BMJ as its first immunotherapy partner validates potential for FPRX immunology-oncology discovery platform. This morning Five Prime and Bristol-Myers Squibb (BMJ, \$54.00, Hold) announced an oncology immunotherapy collaboration (initial 3-yr research period with an option to extend it twice for one year each); under which, BMJ obtains exclusive worldwide rights to develop/commercialize products against protein targets in two undisclosed immune checkpoint pathways. While not disclosing the targets for competitive reasons, no drug candidate for these two targets is currently in clinical development. Drug candidates developed against these undisclosed targets may be studied either as single agents or in combination with existing or potential BMJ immune-oncology therapies (Yervoy/ipilimumab, nivolumab).

FPRX will receive a \$20M upfront payment, \$21M equity investment by BMJ, \$9.5M in research funding over three yrs and up to ~\$300M in potential milestones per collaboration target. For the \$21M equity investment, BMJ will acquire 4.9% of FPRX's outstanding shares at ~30% premium (~900K shares). Additionally, FPRX is entitled to receive tiered mid-single-digit to low-double-digit royalty payments on net sales of each resulting product.

FPRX still retains a considerable # of proprietary targets (one IND filing in ~2016); although not ruling out additional partnerships in the area, with its ample cash (~\$149M by our estimates), it's interested in further developing on its own. Discussion with FPRX indicates there were multiple partners for this deal, including one broader in scope and greater in financial deal terms. However, FPRX chose BMJ for expertise and its desire to retain more targets.

Valuation/Risks

Our \$28 PT is based on ~\$8/sh for FP-1039 in FGFR1-amplified cancers, ~\$2.50/sh for FPA008 in RA, ~\$1.50/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.

USD	Prev.	2012A	Prev.	2013E	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	10.0	--	11.5	12.1	17.5	20.8	28.0
Cons. EPS	--	--	(3.16)	(5.18)	--	(1.58)	(1.35)	(1.37)
EPS								
Mar	--	NA	--	NA	(0.53)	(0.44)	--	--
Jun	--	NA	--	NA	(0.55)	(0.35)	--	--
Sep	--	NA	--	(2.74)A	(0.57)	(0.37)	--	--
Dec	--	NA	--	(0.60)	(0.61)	(0.40)	--	--
FY Dec	--	NA	--	(5.79)	(2.26)	(1.56)	(1.75)	(1.39)

EPS: FPRX completed its IPO in 3Q13

BUY

Price target \$28.00

(from \$20.00)

Price \$18.75

Financial Summary

Book Value (MM):	\$64.7
Book Value/Share:	\$3.17
Net Debt (MM):	(\$149.1)
Long-Term Debt (MM):	\$0.0
Cash/Share:	\$7.38
Cash (MM):	\$149.1

Market Data

52 Week Range:	\$21.68 - \$8.02
Total Entprs. Value (MM):	\$229.7
Market Cap. (MM):	\$378.8
Shares Out. (MM):	20.2
Float (MM):	9.0
Avg. Daily Vol.:	114,453

Eun K. Yang, Ph.D. *

Equity Analyst

(212) 284-2264 eyang@jefferies.com

John Ryan, M.D. *

Equity Associate

(212) 336-7328 jryan2@jefferies.com

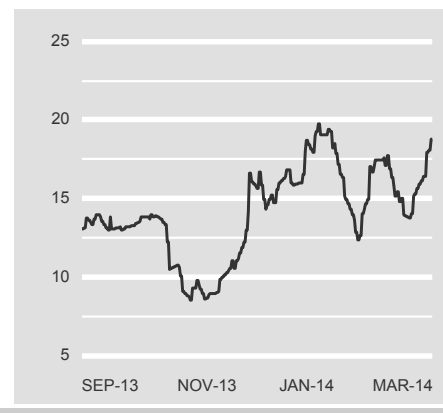
Eileen Flowers, Ph.D. *

Equity Associate

(212) 284-2192 eflowers@jefferies.com

* Jefferies LLC

Price Performance



Scenarios

Target Investment Thesis

- Proprietary technology platform with early clinical data flow in 2H14
- Estimated cash of ~\$149M sufficient into 2H17 and projected profitability in ~2022
- Our PT of ~\$28 is based on probability-adjusted NPV of \$8/sh for FP-1039 in FGFR1-amplified cancers, ~\$2.50/sh for FPA008 in RA, ~\$1.50/sh for FPA144 in FGFR2-amplified gastric cancer, and ~\$16/sh for technology value

Upside Scenario

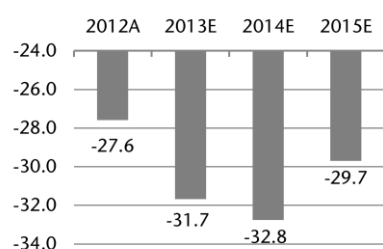
- Clinical/regulatory success of FP-1039 in FGFR1-amplified squamous NSCLC
- If FP-1039 gets U.S./EU/Asia regulatory approval in FGFR1-amplified squamous NSCLC, our NPV analysis puts a fair value for FPRX shares at ~\$45/sh

Downside Scenario

- Delay/failure in clinical testing and regulatory approval of FP-1039 in FGFR1-amplified solid tumors, FPA008 in RA, FPA144 in FGFR2-amplified gastric cancer
- If FP-1039, FPA008, and FPA144 are not successful, FPRX shares could trade down to our estimated technology value level (at ~\$16/sh)

Long Term Analysis

Net Income/Loss (\$ in MM)



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

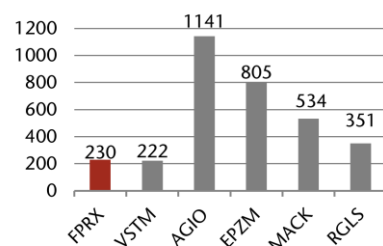
LT revenue CAGR ('20-'25)	64%
Organic Revenue Growth	64%
Acquisition Contribution	0%
Operating Margin Expansion	N/A

Other Considerations

To date, FPRX's protein discovery platform technology has generated >\$250M in revenue (including the BMY deal); FPRX expects at least one additional research/discovery deal per year. We view FPRX's ability to continue to generate new protein targets/therapeutics is well suited for long-term investment, aside from its early stage of clinical development.

Peer Group

Enterprise Value (\$ in MM)



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
FPRX	Buy	\$28
VSTM	Buy	\$21
AGIO	NC	NC
EPZM	NC	NC
MACK	NC	NC
RGLS	NC	NC

Catalysts

- Top-line Phase 1b data for FP-1039 in squamous NSCLC and other solid tumors in 2H14
- Phase 1 preliminary safety/PK/PD/biomarker data for FPA008 in healthy volunteers & progress to dosing active RA pts by YE14 (with data in 2015)
- Phase 1 initiation for FPA144 in FGFR2-amplified gastric cancer in 2H14, with data potentially by YE15

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.

Eun K. Yang, Ph.D., Equity Analyst, (212) 284-2264, eyang@jefferies.com

Our estimated current cash of ~\$149M should be sufficient into ~2017, including ~\$41M from BMY (\$20M upfront and \$21M in equity investment).

We are amortizing the \$20M upfront payment beginning in 2Q14 over five years based on its initial research agreement of three years, with BMY's option to extend the agreement for additional two one-year periods. For \$9.5M in research funding, we are amortizing over three years, beginning in 2Q14. Additionally, we have added ~900K shares to basic share counts in 2Q14 from BMY's equity investment in 4.9% of FPRX shares at ~30% premium (at ~\$23.33/sh).

Raising our PT to \$28 (from \$20 previously) on increased technology value of ~\$16/sh (from ~\$6/sh previously).

Based on the positive development in its early immunology-oncology discovery platform, we now assume a technology value of \$350M (vs. \$100M previously). Also included in our revised \$28 PT (aside from ~\$16/sh for technology) are \$12/sh for three products in development in cancer, including ~\$8/sh for FP-1039 in FGFR1-amplified cancers (from ~\$9/sh previously; 60% probability-adjusted for squamous NSCLC & 50% probability-adjusted for other solid tumors), ~\$2.50/sh for FPA008 in RA (from \$3/sh previously; 50% probability-adjusted), ~\$1.50/sh for FPA144 in FGFR2-amplified gastric cancer (from \$2/sh previously; 50% probability-adjusted), and \$16/sh for technology value (from \$6/sh previously) at a 12% annual discount rate.

Upcoming events for FPRX include: (1) Top-line Phase 1b data for FP-1039 in squamous NSCLC and other solid tumors in 2H14; (2) Phase 1 preliminary safety/PK/PD/biomarker data for FPA008 in healthy volunteers & progress to dosing active RA patients by YE14 (with data in 2015); and (3) Phase 1 initiation for FPA144 in FGFR2-amplified gastric cancer in 2H14, with data potentially by YE15

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

	2012	1Q13	2Q13	3Q13	4Q13E	2013E	1Q14E	2Q14E	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	9,983	2,975	3,549	3,482	1,518	11,524	3,025	4,815	4,815	4,815	17,470	27,960	37,160	14,790	64,000	106,000	20,000	20,000	20,000	20,000	20,000	20,000	
Others																							
Total Revenues	9,983	2,975	3,549	3,482	1,518	11,524	3,025	4,815	4,815	4,815	17,470	27,960	37,160	14,790	64,000	106,631	41,845	100,439	176,373	277,878	388,444	490,235	
% growth y/y						15.4%					51.6%	60.0%	32.9%	-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	28,778	7,930	8,585	8,193	8,962	33,670	9,200	9,500	9,800	10,221	38,721	44,529	50,763	57,362	64,246	71,313	79,157	87,864	97,529	108,258	119,083	129,801	
% growth y/y	-15.5%					17.0%					15.0%	15.0%	14.0%	13.0%	12.0%	11.0%	11.0%	11.0%	11.0%	11.0%	10.0%	9.0%	
SG&A	9,009	2,392	2,386	2,607	2,705	10,090	2,750	2,800	2,900	3,154	11,604	13,228	14,948	16,741	18,583	20,441	22,485	24,734	27,207	29,928	32,921	36,213	
% growth y/y	-19.7%					12.0%					15.0%	14.0%	13.0%	12.0%	11.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Total Expenses	37,787	10,322	10,971	10,800	11,667	43,760	11,950	12,300	12,700	13,374	50,324	57,757	65,711	74,104	82,829	91,754	101,642	112,598	124,737	138,186	152,004	166,014	
Income (loss) from Operations (EBIT)	(27,804)	(7,347)	(7,422)	(7,318)	(10,149)	(32,236)	(8,925)	(7,485)	(7,885)	(8,559)	(32,854)	(29,797)	(28,551)	(59,314)	(18,829)	14,877	(59,798)	(12,159)	51,637	139,693	236,440	324,221	
% growth y/y																							
Interest income	88	15	13	84	18	130	25	25	25	25	100	100	100	100	100	100	100	100	200	1,000	2,000	2,000	
Other income (expense), net	121	285	135			420																	
Earnings (Loss) Before Taxes	(27,595)	(7,047)	(7,274)	(7,234)	(10,131)	(31,686)	(8,900)	(7,460)	(7,860)	(8,534)	(32,754)	(29,697)	(28,451)	(59,214)	(18,729)	14,977	(59,698)	(12,059)	51,837	140,693	238,440	326,221	
Income taxes (benefits)																-	-	-	-	5,184	21,104	47,688	81,555
Tax rate															0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	15.0%	20.0%	25.0%
Net Income (loss)	(27,595)	(7,047)	(7,274)	(7,234)	(10,131)	(31,686)	(8,900)	(7,460)	(7,860)	(8,534)	(32,754)	(29,697)	(28,451)	(59,214)	(18,729)	14,977	(59,698)	(12,059)	46,653	119,589	190,752	244,666	
GAAP EPS (LPS) - Basic	(23.05)	(5.73)	(5.87)	(2.74)	(0.60)	(5.79)	(0.44)	(0.35)	(0.37)	(0.40)	(1.56)	(1.39)	(1.31)	(2.29)	(0.72)	0.57	(2.08)	(0.42)	1.60	4.05	6.40	8.12	
GAAP EPS (LPS) - Diluted	(23.05)	(5.73)	(5.87)	(2.74)	(0.60)	(5.79)	(0.44)	(0.35)	(0.37)	(0.40)	(1.56)	(1.39)	(1.31)	(2.29)	(0.72)	0.51	(2.08)	(0.38)	1.45	3.68	5.81	7.39	
Pro Forma EPS (LPS)																							
% growth y/y																							
Shares - Basic	1,197	1,229	1,240	2,637	16,800	5,477	20,267	21,187	21,208	21,229	20,973	21,442	21,656	25,873	26,131	26,393	28,657	28,943	29,233	29,525	29,820	30,118	
Shares - Diluted	1,197	1,229	1,240	2,637	16,800	5,477	20,267	21,187	21,208	21,229	20,973	21,442	21,656	25,873	26,131	29,393	28,657	31,943	32,233	32,525	32,820	33,118	
Cash, cash equivalents & investments	38,015	37,509	28,196	86,637	76,506	76,506	149,106	141,646	133,786	125,251	125,251	95,554	67,104	82,890	64,161	79,138	66,440	54,381	101,034	220,623	411,375	656,041	

Source: Company reports and Jefferies

Company Description

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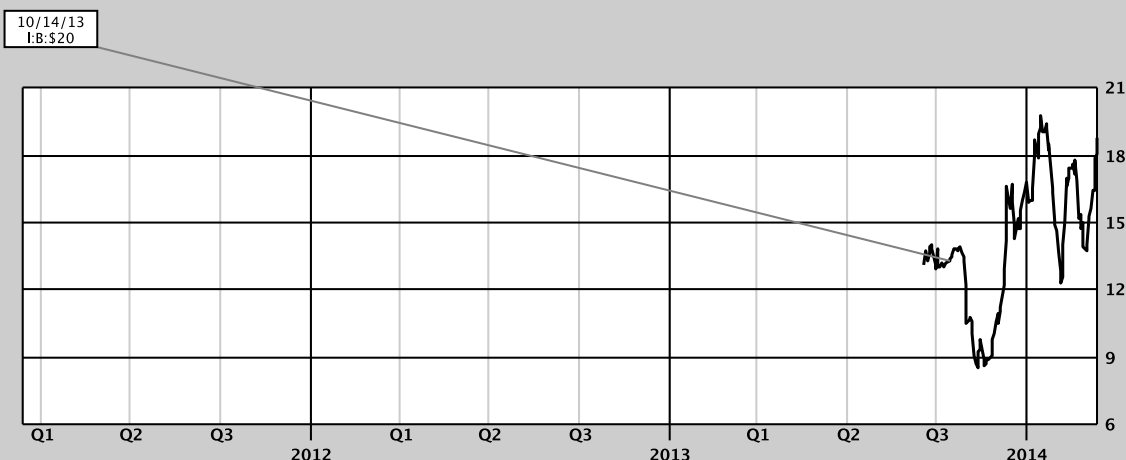
Risk which may impede the achievement of our Price Target

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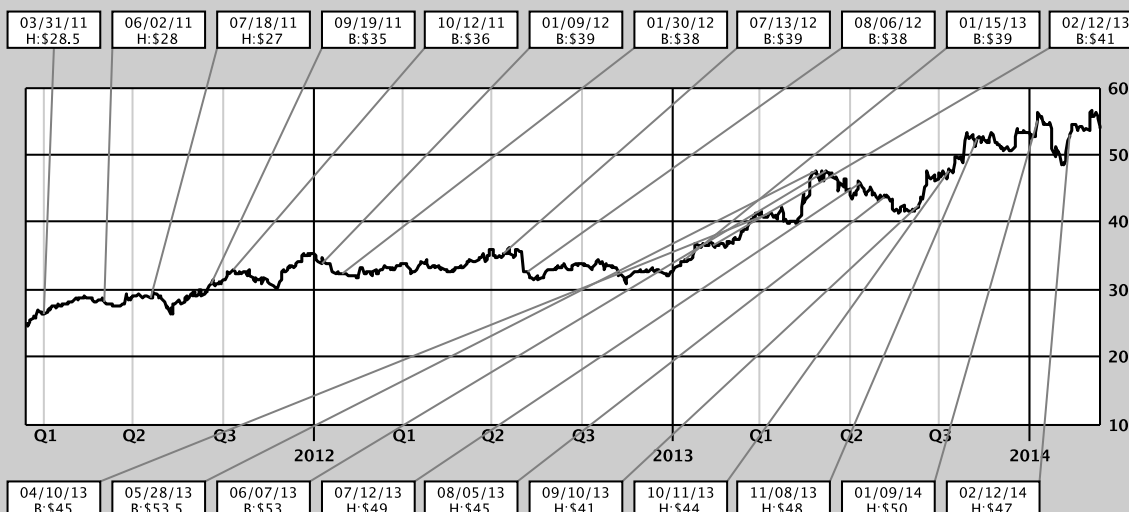
Other Companies Mentioned in This Report

- Bristol-Myers Squibb (BMY: \$54.00, HOLD)
- GlaxoSmithKline Plc (GSK LN: p1,637.50, HOLD)
- UCB (UCB BB: €57.64, UNDERPERFORM)
- Verastem Inc. (VSTM: \$12.34, BUY)

Rating and Price Target History for: Five Prime Therapeutics, Inc. (FPRX) as of 03-14-2014



Rating and Price Target History for: Bristol-Myers Squibb (BMY) as of 03-14-2014



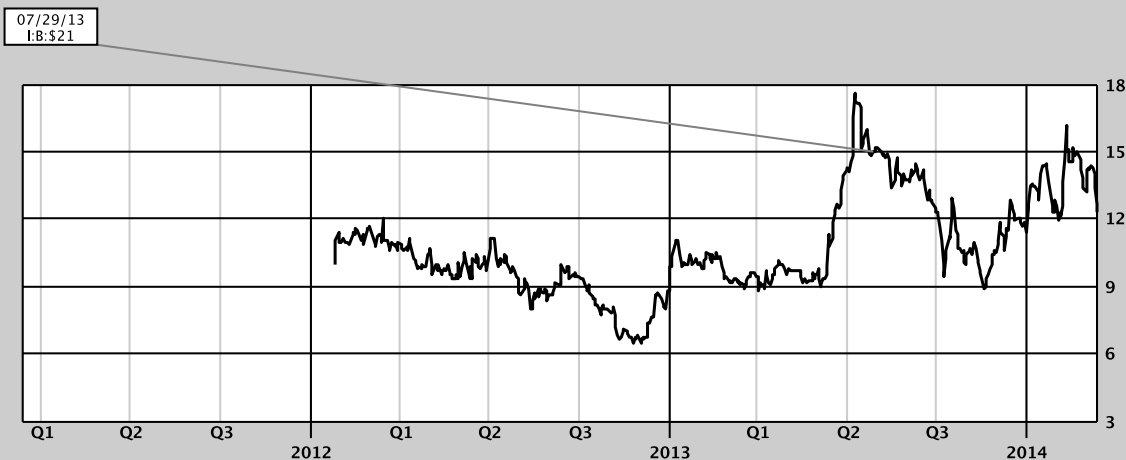
Rating and Price Target History for: GlaxoSmithKline Plc (GSK LN) as of 03-14-2014



Rating and Price Target History for: UCB (UCB BB) as of 03-14-2014



Rating and Price Target History for: Verastem Inc. (VSTM) as of 03-14-2014



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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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HOLD	764	42.44%	134	17.54%
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