

Five Prime Therapeutics, Inc.

FPRX - BUY - 3Q13 Results; Clinical Progress with FP-1039 and FPA008

November 13, 2013

On 11/12, FPRX reported 3Q13 net loss of (\$7.2M) vs. our (\$5.2M) est. Encouragingly, FPRX reported that Ph.I/II trials of FP-1039 in FGFR1 amplified NSCLC and FPA008 in healthy vols/RA remain on track for 2H14 interim readouts. We believe FPRX is an attractive LT story, primarily based on FP-1039's substantial potential in FGFR+ cancers, and we view recent weakness in the stock (down -27% since trading on 9/18 vs. NBI down -3%) as an outstanding entry point.

Ph.Ib trial of '1039 in FGFR1+ cancers progressing well; first results in ~2H14. FPRX reported that dosing in the 1st-/2nd-line NSCLC arms of the Ph.Ib trial have begun, with 5/20 planned trial sites open. We expect relatively rapid trial enrollment, given high unmet need in FGFR+ NSCLC. Based on Ph.I results and strong mechanistic rationale, we continue to expect '1039 to show promising preliminary NSCLC efficacy results in this trial in 2H14.

First Ph.I results for FPA008 in healthy volunteers expected in 2H14. FPRX expects to complete single/multiple ascending dosing in healthy volunteers and report key early safety results from the Ph.I trial in 2H14. The company will start dosing in RA pts by YE'14. We view the earliest FPA008 safety results as an important milestone for FPRX, given potential concerns regarding immunosuppressive side effects.

Financial guidance held steady. FPRX expects OpEx of \$28-30M for '13, ending with \$73-75M in cash & equivalents by YE'13. We believe this cash is adequate to fund the company through the FP-1039/FPA008 Ph.I/II results in 2H14 and initial Ph.I results for FPA008 in RA, expected mid-'15.

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FPRX BUY

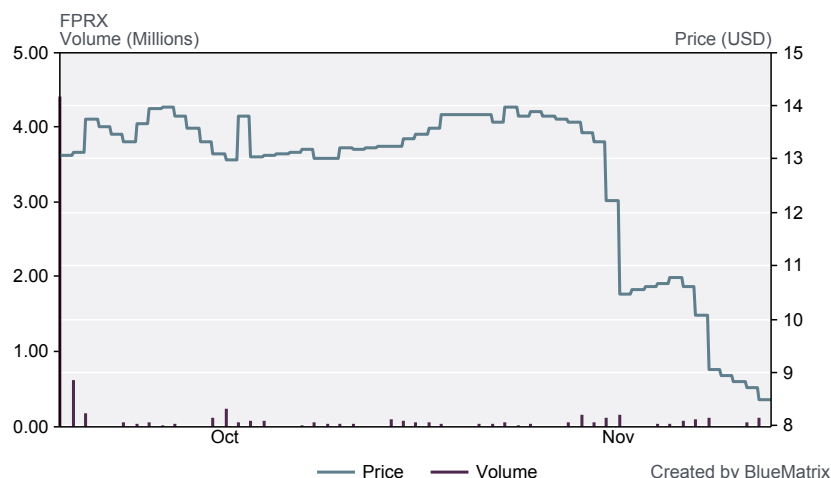
EARNINGS RELEASE

SHARE PRICE \$8.49
PRICE TARGET \$20.00

EPS (\$)	1Q	2Q	3Q	4Q	FY
(FY Dec)					
2012	—	—	—	—	(1.87)
P/E					NM
2013	(0.47)	(0.47)	(2.74)	(0.23)E	(2.00)E
Prior	—	—	(0.28)	(0.20)E	(1.34)E
P/E					NM
2014	—	—	—	—	(0.97)E
Prior	—	—	—	—	(1.00)E
P/E					NM

Market Data

52-Week Range	\$8.02 - \$16.00
Shares Out (M)	16.7
Market Cap (M)	\$142



Five Prime Therapeutics Inc.

	2013				Prior					
	2012A	1QA	2QA	3QA	3QE	4QE	2013E	2014E	2015E	2016E
Income Statement										
Revenues:										
Collaboration Revenue	9,983	3,262	3,262	3,482	6,120	7,460	17,466	22,300	40,640	28,454
FP-1039 Revenue (2)	-	-	-	-	-	-	-	-	-	-
Total operating revenue	9,983	3,262	3,262	3,482	6,120	7,460	17,466	22,300	40,640	28,454
Operating expenses:										
Cost of goods	-	-	-	-	-	-	-	-	-	-
Research & development	28,778	8,258	8,258	8,193	7,050	7,560	32,268	35,495	38,512	42,748
Selling, general & administrative	9,009	2,389	2,389	2,607	4,490	4,550	11,935	12,532	13,472	15,492
Total operating expenses	37,787	10,647	10,647	10,800	11,540	12,110	44,203	48,027	51,983	58,241
Income (Loss) from operations	(27,804)	(7,385)	(7,385)	(7,318)	(5,420)	(4,650)	(26,737)	(25,727)	(11,343)	(29,787)
Other income (expense)	209	224	224	84	225	195	727	796	845	1,015
Pretax income (loss)	(27,595)	(7,161)	(7,161)	(7,234)	(5,195)	(4,455)	(26,010)	(24,930)	(10,498)	(28,772)
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(27,595)	(7,161)	(7,161)	(7,234)	(5,195)	(4,455)	(26,010)	(24,930)	(10,498)	(28,772)
Basic & diluted net loss per share	(\$1.87)	(\$0.47)	(\$0.47)	(\$2.74)	(\$0.28)	(\$0.23)	(\$2.00)	(\$0.97)	(\$0.37)	(\$0.94)
Basic & diluted common shares outstanding (1)	14,724	15,100	15,315	2,637	18,825	19,000	13,013	25,600	28,450	30,618

(1) Reflects conversion of preferred stock to common stock

(2) Probability adjusted estimates

Source: Company documents and Guggenheim Securities, LLC

Valuation and Risks

Our \$20 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 2% terminal growth rate 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								
		1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%
Discount rate	14.50%	\$ 22.03	\$ 22.43	\$ 22.84	\$ 23.26	\$ 23.71	\$ 24.17	\$ 24.65	\$ 25.15	\$ 25.68
	14.75%	\$ 21.23	\$ 21.60	\$ 21.99	\$ 22.39	\$ 22.81	\$ 23.25	\$ 23.70	\$ 24.18	\$ 24.67
	15.00%	\$ 20.46	\$ 20.81	\$ 21.18	\$ 21.56	\$ 21.96	\$ 22.37	\$ 22.80	\$ 23.25	\$ 23.71
	15.25%	\$ 19.72	\$ 20.06	\$ 20.41	\$ 20.77	\$ 21.14	\$ 21.53	\$ 21.94	\$ 22.36	\$ 22.80
	15.50%	\$ 19.01	\$ 19.33	\$ 19.66	\$ 20.01	\$ 20.36	\$ 20.73	\$ 21.11	\$ 21.51	\$ 21.93
	15.75%	\$ 18.34	\$ 18.64	\$ 18.95	\$ 19.28	\$ 19.62	\$ 19.97	\$ 20.33	\$ 20.71	\$ 21.10
	16.00%	\$ 17.69	\$ 17.98	\$ 18.27	\$ 18.58	\$ 18.90	\$ 19.23	\$ 19.58	\$ 19.93	\$ 20.30
	16.25%	\$ 17.07	\$ 17.34	\$ 17.62	\$ 17.92	\$ 18.22	\$ 18.53	\$ 18.86	\$ 19.20	\$ 19.55
	16.50%	\$ 16.47	\$ 16.73	\$ 17.00	\$ 17.28	\$ 17.56	\$ 17.86	\$ 18.17	\$ 18.49	\$ 18.82
	16.75%	\$ 15.89	\$ 16.14	\$ 16.40	\$ 16.66	\$ 16.94	\$ 17.22	\$ 17.51	\$ 17.82	\$ 18.13

Source:Guggenheim Securities, LLC

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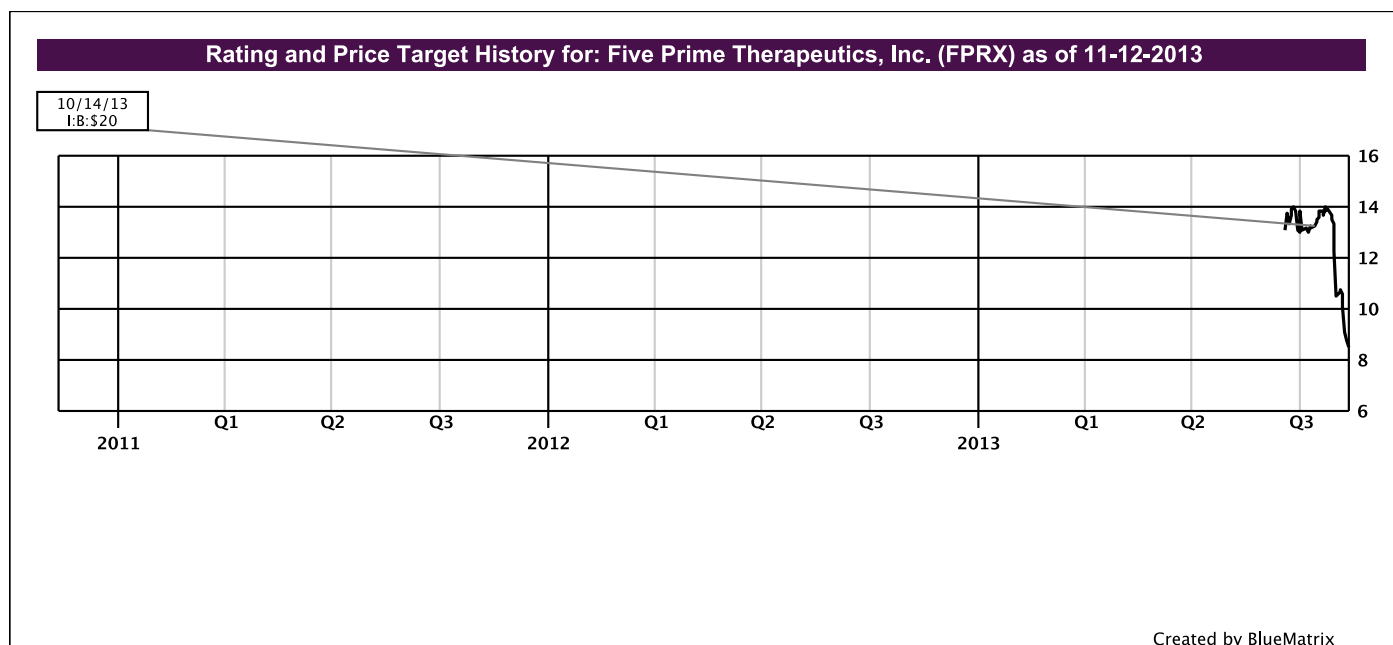
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