

# Five Prime Therapeutics

(FPRX-NASDAQ)

**Stock Rating:** Outperform**Industry Rating:** Outperform

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## 3Q13 Update; Key Programs Making Progress

### Event

Five Prime reported 3Q13 operating results today and provided an update on key initiatives. Net loss per share of \$2.74 was wider than consensus of \$0.53 loss. OMED ended 3Q13 with \$86.6 mn cash and believes its cash position and research funding from existing collaborations are sufficient to fund operation into 3Q15. With primary focus on lead biologic candidate FP-1039 (FGF ligand trap), partner GSK has activated 5 of the ~20 clinical sites planned for the three-arm phase 1b trial and has dosed patients in the first two arms (first- and second-line squamous NSCLC with FGFR1 amplification), with preliminary data on-track for 2H14. Wholly owned biologic candidate FPA008 (anti-CSF1R) also progressed well, with FPRX initiating the single ascending dose, healthy volunteer portion of a phase 1 trial ahead of schedule and expecting to progress to dosing rheumatoid arthritis patients by year-end 2014. The company's third biologic candidate FPA144 (anti-FGFR2b) is also on track to enter phase 1 testing by year-end 2014 in gastric cancer with FGFR2b amplification. With focus on collaboration activities driven by its discovery platform, FPRX is in active discussion with several pharma and biotech companies and expects to enter into at least one significant discovery collaboration in 2014. FPRX recently granted ADC Therapeutics the right to develop and commercialize antibody-drug conjugates for an undisclosed target.

### Impact & Analysis

We are maintaining our Outperform rating on shares of Five Prime following 3Q13 results. We continue to believe that FP-1039 and FPA144 in targeted cancer patients with FGFR amplification could drive significant value. With FPA008 entering phase 1, we also expect large pharma interest to emerge in 2015 as rheumatoid arthritis data become available.

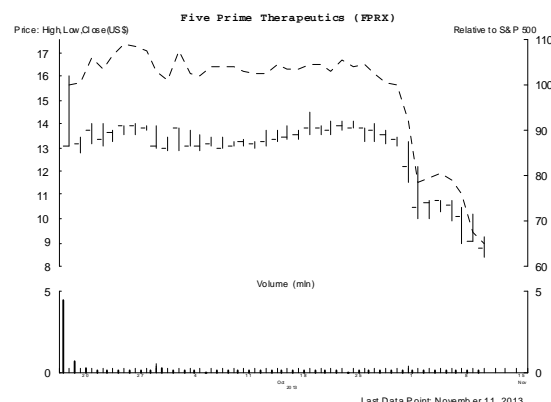
### Valuation & Recommendation

We arrive at our \$24 price target by applying a 20x multiple to 2020 EPS estimate of \$5.65 and discounting at 35%. We rate FPRX shares at Outperform.

### Securities Info

<b>Price (12-Nov)</b>	<b>\$8.49</b>	<b>Target Price</b>	<b>\$24.00</b>
52-Wk High/Low	\$16/\$8	Dividend	--
Mkt Cap (mm)	\$142	Yield	--
Shs O/S (mm, BASIC)	16.7	Float O/S (mm)	5.5
Options O/S (mm)	na	ADVOL (30-day, 000s)	66

### Price Performance



### Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS GAAP	\$0.47	-\$2.50	-\$4.27↓	-\$0.71
P/E			nm	nm
First Call Cons.			-\$2.71	-\$1.42
FCF	NA	NA	NA	NA
P/FCF			na	na
EBITDA (\$mm)	\$20	-\$28	-\$26	-\$13
EV/EBITDA			nm	nm
Rev. (\$mm)	\$65	\$10	\$14	\$32
EV/Rev			3.4x	1.5x
<b>Quarterly EPS</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
2012A	NA	NA	NA	NA
2013E	-\$0.64A	-\$0.64A	-\$2.74A	-\$0.25↑
<b>Balance Sheet Data (30-Jun)</b>				
Net Debt (\$mm)	-\$94	Total Debt/EBITDA		nm
Total Debt (\$mm)	\$0	EBITDA/IntExp		na
Net Debt/Cap.	na	Price/Book		21.2x

Notes: All values in US\$.

Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

### Changes

**Annual EPS**  
2013E -\$2.17 to -\$4.27

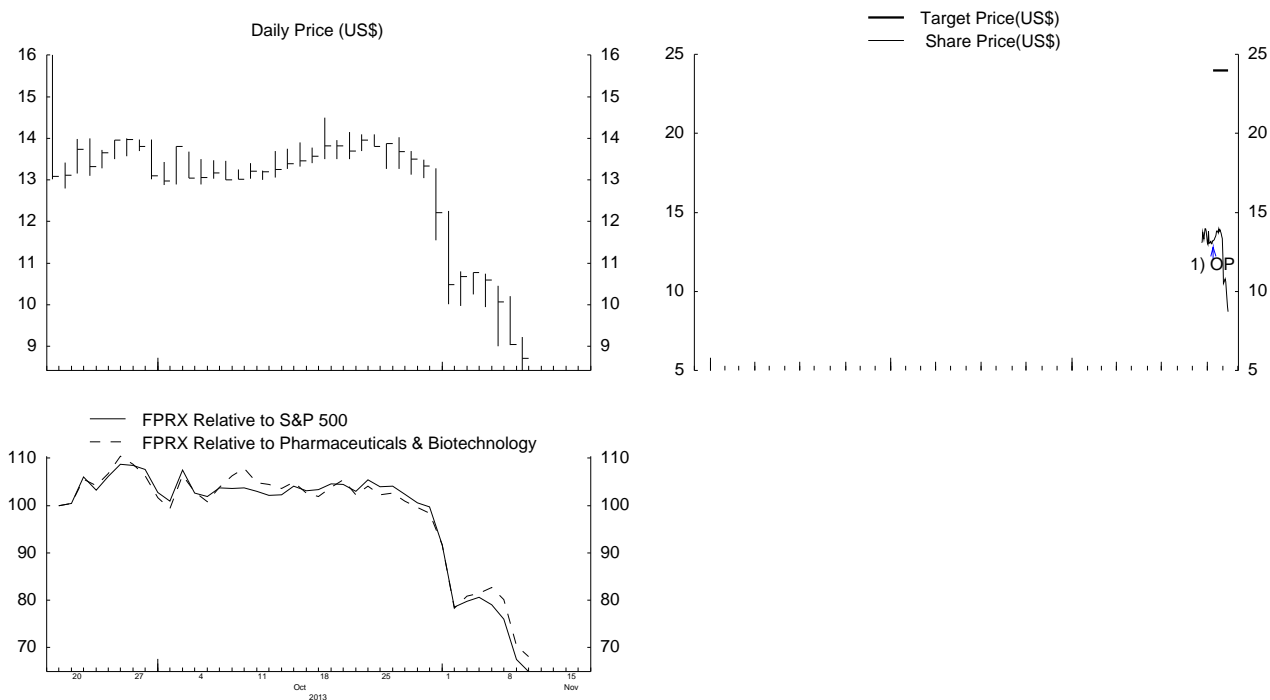
**Quarterly EPS**  
Q4/13E -\$0.44 to -\$0.25

## Exhibit 1: FPRX Income Statement 2012A-2020E

INCOME STATEMENT (\$M)	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>REVENUES</b>													
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12.2	\$ 45.1	\$ 86.6	\$ 128.1	\$ 169.6
Collaboration Revenue	10.0	3.3	3.3	3.5	4.0	14.0	20.0	10.0	12.0	12.0	12.0	12.0	12.0
Other Revenue	-	-	-	-	-	-	32.0	22.0	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>\$ 10.0</b>	<b>\$ 3.3</b>	<b>\$ 3.3</b>	<b>\$ 3.5</b>	<b>\$ 4.0</b>	<b>\$ 14.0</b>	<b>\$ 54.0</b>	<b>\$ 32.0</b>	<b>\$ 24.2</b>	<b>\$ 57.1</b>	<b>\$ 98.6</b>	<b>\$ 140.1</b>	<b>\$ 181.6</b>
<b>EXPENSES (GAAP)</b>													
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.6	\$ 2.3	\$ 5.2	\$ 12.8	\$ 12.7
R&D Expense	28.8	8.3	8.3	8.2	6.5	31.2	34.4	34.8	35.2	35.6	36.0	36.4	36.8
SG&A Expense	9.0	2.4	2.4	2.6	2.0	9.4	10.4	10.8	11.2	11.6	12.0	12.4	12.8
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>37.8</b>	<b>10.6</b>	<b>10.6</b>	<b>10.8</b>	<b>8.5</b>	<b>40.6</b>	<b>44.8</b>	<b>45.6</b>	<b>47.0</b>	<b>49.5</b>	<b>53.2</b>	<b>61.6</b>	<b>62.3</b>
<b>Operating Income</b>	<b>(27.8)</b>	<b>(7.4)</b>	<b>(7.4)</b>	<b>(7.3)</b>	<b>(4.5)</b>	<b>(26.6)</b>	<b>(12.8)</b>	<b>(23.6)</b>	<b>(22.8)</b>	<b>7.6</b>	<b>45.3</b>	<b>78.5</b>	<b>119.2</b>
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(27.8)	(7.4)	(7.4)	(7.3)	(4.5)	(26.6)	(12.8)	(23.6)	(22.8)	7.6	45.3	78.5	119.2
Interest and other income	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.5
Interest and other expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Income (Expense)	0.1	0.2	0.2	0.1	-	0.4	-	-	-	-	-	-	-
Interest and Other Income (Expense)	0.2	0.2	0.2	0.1	0.0	0.6	0.1	0.1	0.1	0.1	0.2	0.3	0.5
Pre-Tax Income	(27.6)	(7.2)	(7.2)	(7.2)	(4.5)	(26.0)	(12.7)	(23.5)	(22.7)	7.7	45.5	78.7	119.7
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income (GAAP)</b>	<b>(27.6)</b>	<b>(7.2)</b>	<b>(7.2)</b>	<b>(7.2)</b>	<b>(4.5)</b>	<b>(26.0)</b>	<b>(12.7)</b>	<b>(23.5)</b>	<b>(22.7)</b>	<b>7.7</b>	<b>45.5</b>	<b>78.7</b>	<b>119.7</b>
EPS (GAAP) (basic)	\$ (2.50)	\$ (0.64)	\$ (0.64)	\$ (2.74)	\$ (0.27)	\$ (4.29)	\$ (0.76)	\$ (1.39)	\$ (1.30)	\$ 0.41	\$ 2.44	\$ 4.12	\$ 6.05
<b>EPS (GAAP) (diluted)</b>	<b>\$ (2.50)</b>	<b>\$ (0.64)</b>	<b>\$ (0.64)</b>	<b>\$ (2.74)</b>	<b>\$ (0.25)</b>	<b>\$ (4.27)</b>	<b>\$ (0.71)</b>	<b>\$ (1.29)</b>	<b>\$ (1.21)</b>	<b>\$ 0.38</b>	<b>\$ 2.28</b>	<b>\$ 3.85</b>	<b>\$ 5.65</b>
Total of Reconciliation Items	1.7	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (20.8)	\$ (7.2)	\$ (7.2)	\$ (7.2)	\$ (4.5)	\$ (26.0)	\$ (12.7)	\$ (23.5)	\$ (22.7)	\$ 7.7	\$ 45.5	\$ 78.7	\$ 119.7
Impact of Adjustments to EPS	-	-	-	-	-	-	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (17.43)	\$ (0.64)	\$ (0.64)	\$ (2.74)	\$ (0.27)	\$ (4.29)	\$ (0.76)	\$ (1.39)	\$ (1.30)	\$ 0.41	\$ 2.44	\$ 4.12	\$ 6.05
EPS (Non-GAAP) (diluted)	\$ (17.43)	\$ (0.64)	\$ (0.64)	\$ (2.74)	\$ (0.25)	\$ (4.27)	\$ (0.71)	\$ (1.29)	\$ (1.21)	\$ 0.38	\$ 2.28	\$ 3.85	\$ 5.65
Weighted average shares outstanding (basic)	11.0	11.2	11.2	2.6	16.7	10.4	16.7	16.9	17.5	18.4	18.7	19.1	19.8
Weighted average shares outstanding (diluted)	11.0	11.2	11.2	2.6	18.0	10.7	18.0	18.1	18.8	19.7	20.0	20.4	21.2

Source: Company reports and BMO Capital Markets.

Five Prime Therapeutics (FPRX)



Last Daily Data Point: November 11, 2013

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Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
Sell	Underperform	4.9%	3.4%	1.1%	6.4%	1.5%	5.6%

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(S) = Speculative investment;

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