

Five Prime Therapeutics

(FPRX-NASDAQ)

Stock Rating: Outperform
Industry Rating: Outperform

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Jim Birchenough, M.D.**415-591-2129**

BMO Capital Markets Corp

jim.birchenough@bmo.com

Chuck Whitesell / Nick Abbott, PhD / Yanan Zhu, PhD

BMO Capital Markets Corp.

212-885-4120 / 206-542-2492 / 415-591-2141

charles.whitesell@bmo.com / nick.abbott@bmo.com /

yanan.zhu@bmo.com

Broadening Pipeline, Lead FGFR Programs on Track

Event

Five Prime Therapeutics (FPRX) reported 2Q14 operating results late yesterday. Net loss per share of (\$0.46) was wider than (\$0.27) consensus. FPRX ended 2Q14 with \$140.6mm in cash, sufficient to fund operations for more than two years. With respect to the company's FGF ligand-trap FP-1039, partner GSK continues to enroll all three arms of a phase 1b trial, including first- and second-line FGFR1 gene-amplified squamous non-small cell lung cancer (NSCLC) and first-line mesothelioma. Initial dose-escalation results from the NSCLC arms are expected by year-end 2014, and FPRX noted combinability of FP-1039 with chemotherapy as an important readout that could provide advantage over small molecule pan-FGFR inhibitors. With respect to anti-CSF1R mAb FPA008, phase 1 data in healthy volunteers are expected to read out in 4Q14, with dosing in rheumatoid arthritis patients expected to start by year-end 2014. FPRX also expects to select a second indication for FPA008 by year-end 2014, with areas of interest including cancer (FPA008 + immune checkpoint inhibitors), pigmented villonodular synovitis or PVNS, and fibrotic diseases such as idiopathic pulmonary fibrosis (IPF). Additional highlights from the call included phase 1 initiation for FPA144 (anti-FGFR2b) in gastric cancer by year-end 2014, and the selection of an undisclosed cancer immunotherapy target for antibody generation by Adimab.

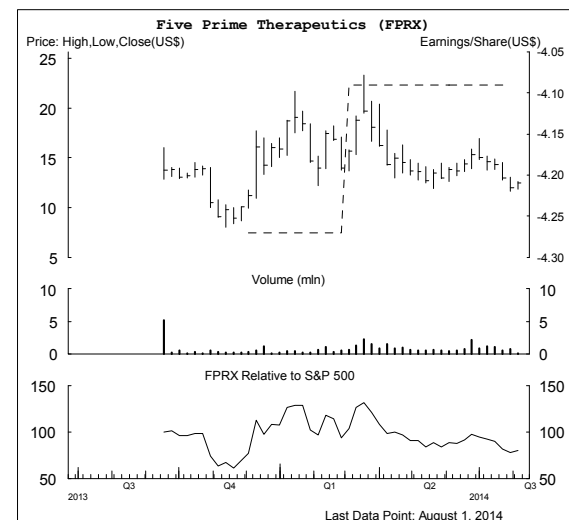
Impact & Analysis

We maintain our Outperform rating on shares of Five Prime following review of 2Q14 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. In addition, with further leverage of FPRX's extensive protein library and target discovery platform into immunoncology, we expect further upside potential as visibility emerges on novel immune checkpoint pathways with partner BMY.

Valuation & Recommendation

We arrive at our \$28 price target by applying a 20x multiple to 2020 EPS estimate of \$5.65 and discounting at 35%. We rate FPRX shares at Outperform.

Price (5-Aug) \$12.38 **52-Week High** \$23.33
Target Price \$28.00 **52-Week Low** \$8.02



(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	-\$2.50	-\$5.23	-\$1.78↓	-\$1.52↓
P/E			na	na
CFPS	na	na	na	na
P/CFPS			na	na
Rev. (\$mm)	\$10	\$14	\$15	\$12
EV (\$mm)	na	\$210	\$210	\$210
EBITDA (\$mm)	-\$28	-\$29	-\$38	-\$34
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2012A	NA	NA	NA	NA
2013A	-\$0.64	-\$0.64	-\$2.74	-\$0.43
2014E	-\$0.46a	-\$0.46a	-\$0.43↓	-\$0.43
Dividend	\$0.00			0.0%
Book Value	\$3.84			3.2x
Shares O/S (mm)	21.5			\$266
Float O/S (mm)	9.0			\$112
Wkly Vol (000s)	774			\$11.7
Net Debt (\$mm)	-\$94			na
Yield				0.0%
Price/Book				3.2x
Mkt. Cap (mm)				\$266
Float Cap (mm)				\$112
Wkly \$ Vol (mm)				\$11.7
Next Rep. Date				na

Notes: Quarterly EPS may not sum due to share count. All values in US\$

First Call Mean Estimates: FIVE PRIME THERAPEUTICS INC (US\$) 2014E: -\$1.43; 2015E: -\$1.27

Changes

Annual EPS

2014E -\$0.70 to -\$1.78
 2015E -\$1.23 to -\$1.52

Quarterly EPS

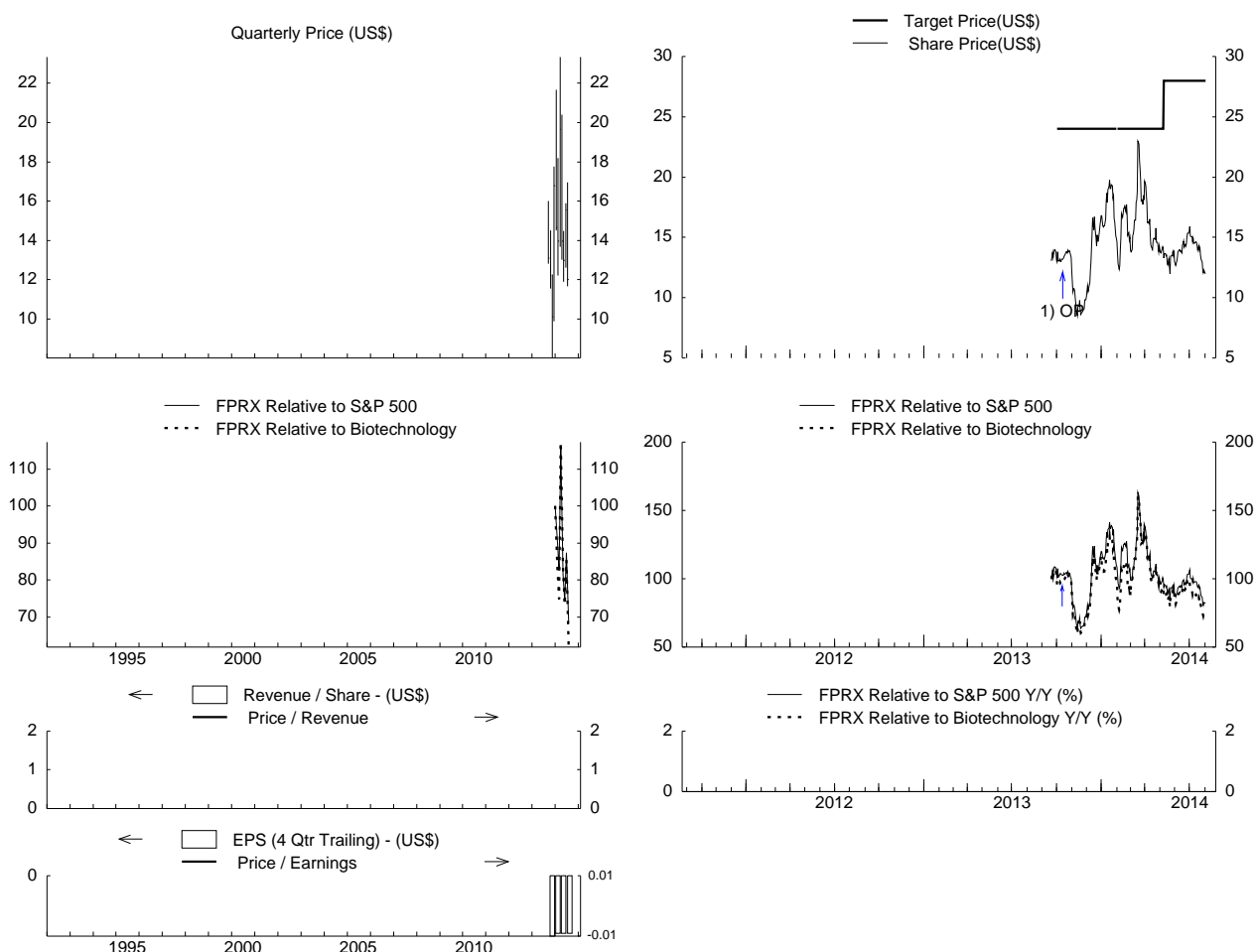
Q3/14E \$0.09 to -\$0.43

Exhibit 1: FPRX Income Statement 2014E-2020E

INCOME STATEMENT (\$M)	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES											
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12.2	\$ 45.1	\$ 86.6	\$ 128.1	\$ 169.6
Collaboration Revenue	3.5	5.0	3.1	3.1	14.6	12.1	6.9	6.9	4.7	4.0	3.6
Other Revenue	-	-	-	-	-	-	-	-	-	-	25.0
TOTAL REVENUES	\$ 3.5	\$ 5.0	\$ 3.1	\$ 3.1	\$ 14.6	\$ 12.1	\$ 19.1	\$ 52.0	\$ 91.3	\$ 132.1	\$ 198.2
EXPENSES (GAAP)											
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.2	\$ 0.9	\$ 1.7	\$ 2.6	\$ 2.3
R&D Expense	8.9	11.9	7.0	7.0	34.8	34.8	35.2	35.7	37.0	40.0	36.0
SG&A Expense	3.3	3.0	5.5	5.5	17.3	10.8	11.2	11.8	13.0	14.0	12.0
Other	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	12.2	14.9	12.5	12.5	52.1	45.6	46.6	48.4	51.7	56.6	50.3
Operating Income	(8.7)	(9.9)	(9.4)	(9.5)	(37.5)	(33.5)	(27.6)	3.6	39.6	75.5	147.9
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-
EBIT	(8.7)	(9.9)	(9.4)	(9.5)	(37.5)	(33.5)	(27.6)	3.6	39.6	75.5	147.9
Interest and other income	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.6
Interest and other expense	(0.0)	-	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other Income (Expense)	-	-	0.1	0.1	0.2	0.5	0.5	0.5	0.5	0.1	-
Interest and Other Income (Expense)	0.0	0.1	0.2	0.2	0.4	0.7	0.6	0.7	0.7	0.4	0.5
Pre-Tax Income	(8.6)	(9.9)	(9.2)	(9.3)	(37.0)	(32.8)	(26.9)	4.3	40.3	76.0	148.4
Income Taxes	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	\$ (8.6)	\$ (9.9)	\$ (9.2)	\$ (9.3)	\$ (37.0)	\$ (32.8)	\$ (26.9)	\$ 4.3	\$ 40.3	\$ 76.0	\$ 148.4
EPS (GAAP) (basic)	\$ (0.46)	\$ (0.46)	\$ (0.43)	\$ (0.43)	\$ (1.78)	\$ (1.52)	\$ (1.17)	\$ 0.17	\$ 1.67	\$ 3.14	\$ 5.65
EPS (GAAP) (diluted)	\$ (0.46)	\$ (0.46)	\$ (0.43)	\$ (0.43)	\$ (1.78)	\$ (1.52)	\$ (1.17)	\$ 0.17	\$ 1.67	\$ 3.14	\$ 5.65
Total of Reconciliation Items	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (8.6)	\$ (9.9)	\$ (9.2)	\$ (9.3)	\$ (37.0)	\$ (32.8)	\$ (26.9)	\$ 4.3	\$ 40.3	\$ 76.0	\$ 148.4
Impact of Adjustments to EPS	-	-	-	-	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (0.46)	\$ (0.46)	\$ (0.43)	\$ (0.43)	\$ (1.78)	\$ (1.52)	\$ (1.17)	\$ 0.17	\$ 1.67	\$ 3.14	\$ 5.65
EPS (Non-GAAP) (diluted)	\$ (0.46)	\$ (0.46)	\$ (0.43)	\$ (0.43)	\$ (1.78)	\$ (1.52)	\$ (1.17)	\$ 0.17	\$ 1.67	\$ 3.14	\$ 5.65
Weighted average shares outstanding (basic)	18.8	21.5	21.5	21.5	20.8	21.6	23.3	24.3	24.2	24.2	26.2
Weighted average shares outstanding (diluted)	18.8	21.5	21.5	21.5	20.8	21.6	23.3	24.3	24.2	24.2	26.2

Source: Company reports and BMO Capital Markets

Five Prime Therapeutics (FPRX)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
2013	-4.27	na na	0.00	0.0 0.0	0	3.5	5.1 2.3	
Range*		na na		0.0 0.0			5.1 2.3	
Current*	-4.09	na	0.00	0.0	0	3.8	3.1	na

FPRX - Rating as of 17-Sep-13 = NR

Date	Rating Change	Share Price
1 11-Oct-13	NR to OP	\$13.19

* Current EPS is the 4 Quarter Trailing to Q1/2014.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (August 1, 2014): \$12.00
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology: We arrive at our price target by applying a 20x multiple to 2020 EPS estimate of \$5.65 and discounting at 35%.

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Distribution of Ratings (June 30, 2014)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.1%	21.1%	67.5%	43.3%	58.6%	55.4%
Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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