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Proteon Therapeutics, Inc. (PRTO)

Phase I Data Demonstrate Feasibility of Vonapanitase Therapy in Peripheral Artery Disease

MARKET DATA

Price	$14.38
52-Week Range:	$8.57 - $20.00
Shares Out. (M):	16.4
Market Cap ($M):	$235.8
Average Daily Vol. (000):	16.0
Cash (M):	$75
Cash/Share:	$4.67
Enterprise Value (M):	$159
Float (M):	15.3
LT Debt (M):	$0
Short Interest:	2.8%

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2014A	2015E	2016E
Revenue ($M)	1Q	--	$0.0A	--
	2Q	$0.0	$0.0A	--
	3Q	$2.9	$0.0	--
	4Q	$0.0	$0.0	--
	FY	**$2.9**	**$0.0**	**$0.0**
EPS	1Q	--	($0.28)A	--
	2Q	($1.30)	($0.31)A	--
	3Q	($31.03)	($0.32)	--
	4Q	$1.38	($0.33)	--
	FY	**($3.16)**	**($1.23)**	**($2.97)**

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

MARKET OUTPERFORM | Price: $14.38 | Target Price: $22.00

INVESTMENT HIGHLIGHTS

Today, Proteon Therapeutics announced Phase I data, indicating that vonapanitase can be safely administered via a drug-delivery catheter to atherosclerotic arteries following angioplasty; reiterate our Market Outperform rating and $22 price target derived through a synthesis of discounted cash flow and compound annual growth valuation methodologies. Today's data, presented at the 27th Transcatheter Cardiovascular Therapeutics (TCT) annual scientific symposium, reiterated the top-line announcement from August. Fourteen peripheral artery disease (PAD) patients enrolled in the open-label, single center, dose-escalation study and received a single dose of vonapanitase following successful balloon angioplasty of the superficial femoral or popliteal artery. We look forward to the presentation of additional PAD data at the PRTO R&D day in New York City on November 20, 2015.

Vonapanitase is a recombinant human elastase that digests elastin fibers in blood vessel walls. When applied to the outside of the vessel, vonapanitase acts locally to cleave the elastin fibers, triggering wound healing responses while inhibiting the migration of cells from the vessel wall into the inner lining of the vessel. While the migration of cells to the inner lining is part of the natural healing response, it can also result in occlusion of the vessel. Vonapanitase thus has the potential to improve outcomes from surgical or endovascular procedures in which vessel injury can lead to blockages in blood vessels and reduced blood flow.

Proteon Therapeutics is focused on the development of vonapanitase for the improvement of vascular access outcomes in patients undergoing radiocephalic surgery in preparation for hemodialysis. Current guidelines set forth by KDOQI, CMS, and the Fistula First Initiative state that arteriovenous fistulas (AVF) is the preferred method of vascular access, with significantly reduced infections and morbidity commonly associated with arteriovenous grafts or temporary catheter use. According to Proteon and JMP estimates, currently over 130,000 AVF surgeries are performed each year in the U.S., with over half of the procedures failing due to neointimal hyperplasia. There are no current therapies to improve AVF success rates which, in our view, is supportive of a >$1 billion market opportunity. PRTO is currently enrolling patients in two Phase 3 multicenter, randomized, double-blind, placebo-controlled clinical trials in CKD patients undergoing surgical creation of a radiocephalic AVF for hemodialysis.

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FIGURE 1. Upcoming Catalysts

Timing	Program	Catalyst
4Q15	vonapanitase	Phase I data in peripheral artery disease, R&D day, November 20
1Q17	vonapanitase	Top-line Data from Phase III

Source: JMP Securities LLC and Company Reports

FIGURE 2. Income Statement

Proteon Income Statement	1Q15A	2Q15A	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenues	-	-	-	-	-	-	-	**91.2**	**230.8**	**263.5**	**399.1**	**642.6**	**951.8**	**1,168.0**	**1,256.4**
% change															
Research and development	2.6	3.1	3.2	3.4	12.4	37.1	74.25	111.37	133.64	157.70	181.35	208.55	239.84	275.81	317.19
Selling, general and administrative	2.0	1.9	2.0	2.1	7.9	12.7	17.2	23.2	38.2	42.1	54.7	73.8	99.7	119.6	137.5
Operating Profit (Loss)	(4.6)	(5.0)	(5.2)	(5.5)	**(20.3)**	(49.8)	(91.4)	(54.3)	31.2	32.5	119.6	296.6	517.9	657.2	677.9
Margin(%)								*-59.5%*	*13.5%*	*12.3%*	*30.0%*	*46.2%*	*54.4%*	*56.3%*	*54.0%*
Investment Income					0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.2	0.3	0.5
Interest Expense	0.0	0.0	0.0	0.0	0.2										
Other income (expense)		(0.1)			(0.1)										
Total other income	0.0	(0.1)	0.0	0.0	0.06	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.2	0.3	0.5
Pretax income	**(4.6)**	**(5.1)**	**(5.2)**	**(5.5)**	**(20.3)**	**(49.8)**	**(91.4)**	**(54.2)**	**31.2**	**32.6**	**119.7**	**296.7**	**518.1**	**657.5**	**678.4**
Provsion for income taxes					-	-	-	-	4.7	8.1	41.9	103.8	181.3	230.1	237.4
% Tax Rate					*0.0%*	*0.0%*	*0.0%*	*0.0%*	*15.0%*	*25.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*
Net profit (loss) and comprehensive income	**(4.6)**	**(5.1)**	**(5.2)**	**(5.5)**	**(20.3)**	**(49.8)**	**(91.4)**	**(54.2)**	**26.5**	**24.4**	**77.8**	**192.8**	**336.8**	**427.4**	**441.0**
After Tax Margin(%)								*-59.4%*	*11.5%*	*9.3%*	*19.5%*	*30.0%*	*35.4%*	*36.6%*	*35.1%*
Accretion of redeemable convertible preferred stock to redemption value															
Net profit (loss) attributable to common stock	**(4.6)**	**(5.1)**	**(5.2)**	**(5.5)**	**(20.3)**	**(49.8)**	**(91.4)**	**(54.2)**	**26.5**	**24.4**	**77.8**	**192.8**	**336.8**	**427.4**	**441.0**
Basic shares outstanding	16.4	16.4	16.4	16.4	16.4	16.8	17.1	23.9	24.4	24.9	25.4	25.9	26.4	26.9	27.5
Diluted shares outstanding	16.4	16.4	16.4	16.4	16.4	16.8	17.1	23.9	25.6	26.1	26.6	27.2	27.7	28.3	28.8
Basic GAAP EPS	**$ (0.28)**	**$ (0.31)**	**$ (0.32)**	**$ (0.33)**	**$ (1.23)**	**$ (2.97)**	**$ (5.34)**	**$ (2.27)**	**$ 1.09**	**$ 0.98**	**$ 3.07**	**$ 7.45**	**$ 12.76**	**$ 15.87**	**$ 16.06**
Diluted GAAP EPS	**$ (0.28)**	**$ (0.31)**	**$ (0.32)**	**$ (0.33)**	**$ (1.23)**	**$ (2.97)**	**$ (5.34)**	**$ (2.27)**	**$ 1.04**	**$ 0.94**	**$ 2.92**	**$ 7.10**	**$ 12.15**	**$ 15.12**	**$ 15.29**

Source: JMP Securities LLC and Company Reports

Company Description

Proteon is a late-stage biopharmaceutical company engaged in the development of novel therapeutics to treat patients with vascular and renal disease. The company is developing a novel therapy to improve the outcomes of vascular access surgeries for dialysis patients. The company's lead product, PRT-201, is a recombinant human elastase solution applied to the exposed blood vessel during a surgical procedure to prevent remodeling of the blood vessel that can reduce vascular diameter and blood flow, resulting in high failure rates and fallback to ineffective and high-risk access methods, such as catheters. PRT-201 has completed Phase II clinical development, and demonstrated clinical efficacy in a subset of vascular access procedures known as radiocephalic arteriovenous fistulas (AVF).

Investment Risks

Potential risks to our price target include, but are not limited to, clinical, regulatory, commercial and competitive factors.

Clinical and regulatory. If PRT-201 were to fail to show adequate efficacy in its Phase III trials, the FDA may not provide marketing approval in the U.S. If PRT-201 were to demonstrate unexpected serious adverse effects, this would also prevent market approval or potentially limit the scope of the intended market. Additionally, if the FDA and EMEA do not approve PRT-201, Proteon's stock price would likely suffer.

Partnering. Proteon plans to commercialize PRT-201. If it becomes necessary for it to develop and market any of its programs due to the inability to garner a partner, it may be difficult to develop an internal commercial structure. Management has limited experience in commercialization and marketing activities. In early 2014, Novartis declined its option to buy PRTO for $550MM.

Financial. PRTO currently derives revenue capital raised through financing. The company sold ~6,110,000 shares in October 2014, raising gross proceeds of ~$61.1MM. We expect this funding to be able to carry the company to 2017. Like most non-profitable biotechnology companies, PRTO will likely need to seek additional financing, exposing current investors to dilutive risk.

JMP FACTS AND DISCLOSURES

Analyst Certification:

The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts,circumstances or events that may subsequently come to my/our attention. Signed Michael G. King

JMP Securities Disclosures:

JMP Securities currently makes a market in the security of Proteon Therapeutics, Inc.

JMP Securities was manager or co-manager of a public offering of securities for Proteon Therapeutics, Inc. (PRTO) in the past 12 months, and received compensation for doing so.

JMP Securities expects to receive OR intends to seek compensation for investment banking services from Proteon Therapeutics, Inc. in the next 3 months.

JMP Securities Investment Opinion Definitions:

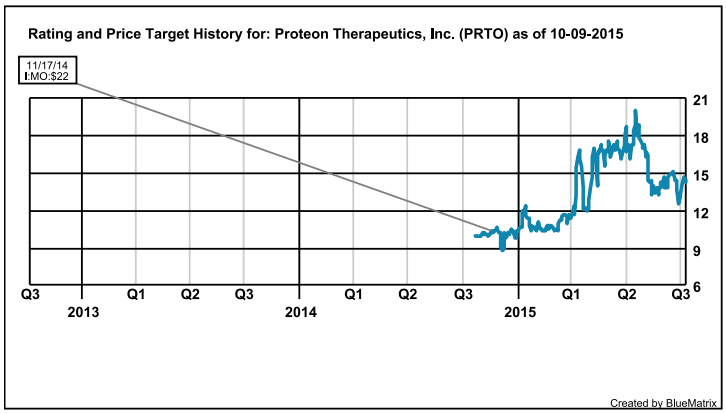
Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.
Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of October 12, 2015)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	307	*64.50%*	Buy	307	*64.50%*	89	*28.99%*
MARKET PERFORM	Hold	147	*30.88%*	Hold	147	*30.88%*	13	*8.84%*
MARKET UNDERPERFORM	Sell	5	*1.05%*	Sell	5	*1.05%*	0	*0%*
COVERAGE IN TRANSITION		17	*3.57%*		17	*3.57%*	0	*0%*
TOTAL:		476	*100%*		476	*100%*	102	*21.43%*

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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