

Versartis

VSAR : NASDAQ : US\$28.91

BUY

Target: US\$45.00

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COMPANY STATISTICS:

Market Cap (M): US\$673.6
 52-week Range: 23.51 - 36.30
 Avg. Daily Vol. (000s): 121.8

EARNINGS SUMMARY:

FYE Dec	2013A	2014E	2015E
Revenue (M):	0.0	0.0	0.0
EPS:	(1.99)	(3.00)	(2.34)

Revenue (M):	Q1	0.0	0.0A	0.0
	Q2	0.0	0.0	0.0
	Q3	0.0	0.0	0.0
	Q4	0.0	0.0	0.0
Total		0.0	0.0	0.0
EPS:	Q1	-	(16.13)A	(0.49)
	Q2	-	(0.52)	(0.55)
	Q3	-	(0.60)	(0.64)
	Q4	-	(0.43)	(0.68)
Total		(1.99)	(3.00)	(2.34)

SHARE PRICE PERFORMANCE:

Versartis, Inc. (NASDAQ: VSAR)

Jun 23, 2014 Open: 29.220 High: 30.620 Vol: 247,708
 Time: 14:59 Last: 28.910 Low: 28.128 Chg: -0.840 (-2.82%) ▼



Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Versartis is a development-stage biotechnology company focused on the development and commercialization of its primary drug candidate, VRS-317 for growth hormone treatment. Versartis aims to develop a drug given less frequently in order to decrease injection burden, potentially leading to increased compliance and better treatment outcomes.

All amounts in US\$ unless otherwise noted.

Life Sciences -- Biotechnology

PROLOR MOD-4023 GROWTH RATES INFLATED BY VERY LOW BASELINE; NOT COMPARABLE TO VRS-317

Investment highlights

Prolor baseline inflates growth rates for MOD-4023

Prolor's >12 cm/yr growth rate is inflated based on a much lower baseline versus VRS-317; therefore, we do not believe MOD-4023 data are comparable to VRS-317. Baseline Height Standard Deviation (SDS) levels, IGF-1 SDS levels, and Growth Hormone stimulation levels were much lower than VRS-317, resulting in higher growth velocity. Also, MOD-4023 is dosed 1x/week, whereas VRS-317 may be dosed 1x/month.

Prolor study run in Eastern Europe, inflating growth rates

Prolor conducted its Phase 2 study in Eastern Europe, where patients are severely growth hormone deficient, which is well known to give very high growth rates. Versartis conducted its Phase 2 study in US patients, who are more representative of the normal population.

Await safety data for MOD-4023 tomorrow; none to date

We await safety details for Prolor's 1x weekly MOD-4023 which should be discussed on a webcast tomorrow morning (June 24) pre-market. Importantly, Prolor has not shown an adverse events table to date, and we are curious to learn more about the drug's safety profile. Versartis' VRS-317 has shown very clean safety to date, critical to moving forward.

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PROLOR BASELINE SIGNIFICANTLY DIFFERENT THAN VERSARTIS

As shown in Figure 1, baseline value for Prolor's MOD-4023 in terms of Height Standard Deviation (SDS), IGF-1 Standard Deviation (SDS), and Growth hormone stimulation are all lower than VRS-317. It is well known that patients starting at a lower Height SDS and IGF-1 SDS level will have higher height velocities. Also, patients who have lower values for growth stimulation tests tend to grow faster than those with higher values. However, because these patients start at a lower Height SDS level, they end up at a Height SDS level poorer than those in the Versartis trial. Put another way, very short patients who grow faster do not fare as well as taller patients who grow at a moderate rate.

Figure 1: Baseline levels for VRS-317 vs. MOD-4023

	Versartis VRS-317			Prolor MOD-4023 (1x weekly only)		
	1.15 mg/kg weekly	2.5 mg/kg semi-monthly	5.0 mg/kg monthly	0.25 mg/kg/wk	0.48 mg/kg/wk	0.66 mg/kg/wk
n	21	20	23	13	13	13
Age (screening)	7.51 (2.3)	7.96 (2.4)	8.01 (2.5)	6.23 (2.2)	6.15 (2.3)	6.31 (2.2)
Males/Females	10/11	13/7	14/9			
Height SDS	-2.70 (0.7)	-2.53 (0.4)	-2.33 (0.5)	-3.64 (1.0)	-3.69 (0.8)	-4.21 (1.5)
Weight (kg)	19.1 (5.3)	21.8 (7.4)	21.4 (6.4)			
Bone Age	6.1 (2.5)	6.6 (2.2)	6.4 (2.6)			
GH Stimulation Test	5.7 (2.0)	4.9 (2.8)	5.5 (2.8)	3.93 (3.1)	4.00 (2.2)	3.83 (3.0)
IGF-I SDS	-1.55 (0.9)	-2.00 (0.8)	-1.62 (0.7)	-2.21 (0.8)	-2.15 (0.8)	-1.97 (0.8)

Source: ENDO 2014, Versartis, Prolor

Figure 2: Versartis valuation

Product	Peak Sales (\$MM)	Peak Year	Current Value (\$MM)	Probability Adjustment	Value / Share
US					
Pediatrics - GHD	\$ 443	2027	\$357	65%	\$10
Adults - GHD	\$ 108	2027	\$92	65%	\$2
Turner Syndrome	\$ 83	2027	\$69	65%	\$2
ISS + Other	\$ 464	2027	\$389	65%	\$10
Total	\$ 1,099		\$907		\$24
EU - Co-Promote					
Pediatrics - GHD	\$ 203	2027	\$258	65%	\$7
Adults - GHD	\$ 60	2027	\$74	65%	\$2
Turner Syndrome	\$ 37	2027	\$46	65%	\$1
Other	\$ 80	2027	\$99	65%	\$3
Total	\$ 381		\$478		\$13
Japan - Royalties					
Pediatrics - GHD	\$ 60	2027	\$79	65%	\$2
Adults - GHD	\$ 3	2027	\$23	65%	\$1
Other	\$ 13	2027	\$18	65%	\$0
Total	\$ 75		\$120		\$3
Net Cash					\$100
Total Equity Value					\$978
Shares Outstanding					24
Value Per Share					\$45
Risk-Free	2.0%				
Beta	1.5				
Risk premium	8%				
Total discount rate	14%				
Effective Discount Rate	22%				
Date	Jun-14				

Source: Canaccord Genuity

Investment risks

Primary risks to our rating and price target include the following: VRS-317 may not produce positive Phase 2a data at its six-month readout for monthly, semimonthly, or weekly dosing, even if positive data is produced Phase 3 data may not be positive and the FDA may not approve VRS-317 for any indication,

future litigation may delay or reduce revenues, and increased competition may reduce revenues below our current estimates.

VRS-317 may not show positive Phase 2a data at its six-month readout in June 2014, and even if it does, weekly or semi-monthly dosing may prove to be a more viable treatment option. If dosing is reduced from a monthly treatment to semimonthly or weekly, VRS-317's competitive advantage versus current and future competitors will be reduced. We see the strength of VRS-317 in its monthly dosing and do not believe patients and doctors will view a semi-monthly treatment option as a very meaningful difference from weekly dosing, should currently in development products be approved.

Litigation from Novo, Roche, or Pfizer may delay VRS-317's entry onto the market, assuming positive data and FDA approval. Depending on the extent of the delay, revenues may be greatly reduced and future cash flows diminished as we expect Versartis' VRS-317 patents will expire in 2030.

Future competition in the growth hormone market may increase, lowering estimated market share for VRS-317 and reducing revenues for Versartis. Should another long-acting growth hormone product be introduced, we expect revenues could be negatively impacted. Growth hormone treatment is a field dominated by several players and new entrants could result in strong competition.

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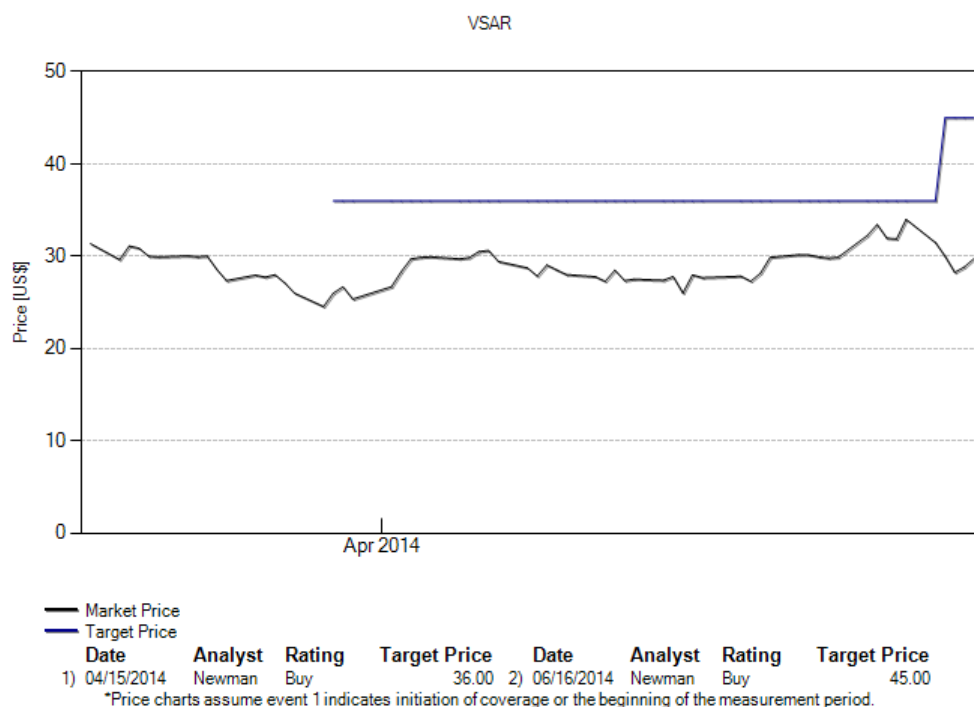
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Site Visit:

An analyst has not visited Versartis' material operations.

Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 31 March 2014)

Coverage Universe			IB Clients %
Rating	#	%	
Buy	580	58.7%	37.1%
Speculative Buy	43	4.4%	55.8%
Hold	317	32.1%	13.2%
Sell	45	4.6%	4.4%
	988*	100.0%	

*Total includes stocks that are Under Review

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