

Proteon Therapeutics, Inc. (PRT0)

Reports 2Q15 Results; Announces Encouraging Data from Phase I Study

MARKET DATA

Price	\$13.48
52-Week Range:	\$8.57 - \$20.00
Shares Out. (M):	16.4
Market Cap (\$M):	\$221.1
Average Daily Vol. (000):	45.0
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

MARKET OUTPERFORM | Price: \$13.48 | Target Price: \$22.00

INVESTMENT HIGHLIGHTS

Proteon Therapeutics reported 2Q15 results and highlighted positive top-line results in its Phase I study of peripheral arterial disease; reiterate our Market Outperform rating and \$22 price target based on a synthesis of our discounted cash flow and compound annual growth valuation methodologies. PRT0 reported encouraging top-line results from its Phase I study of vonapanitase in peripheral arterial disease, suggesting that catheter-based treatment with vonapanitase was technically feasible and well tolerated. We do not currently model the contribution of vonapanitase in PAD and consider these encouraging results as upside to our valuation. The company plans to present full results at an upcoming medical meeting, at which further details will be forthcoming.

Summary of 2Q15 results. We remind investors that as an early clinical stage company, PRT0's performance is primarily derived through the progression of vonapanitase, against developmental milestones, and not necessarily through financial results. The company reported a net loss of \$5.1MM, slightly greater than our estimate of \$4.8MM, primarily due to lower than expected operating costs associated with R&D. Operating expenses for 2Q15 were \$5.0MM versus JMP at \$4.9MM, with \$3.1MM in R&D spending, greater than our estimate of \$2.8MM due to higher than anticipated costs associated with the ongoing Phase III trial. PRT0 ended the quarter with \$74.7MM in cash and cash equivalents, guiding to a sufficient cash runway into 2018. Results and changes to our model are presented in Figures 2 and 3. The company indicated that the first Phase III trial is on pace to complete enrollment by year end and it continues to expect data in 1Q17. The company also indicated that the second Phase III study of vonapanitase has begun enrollment.

Proteon 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, over 130,000 AVF surgeries are currently 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.

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)
Previous FY		NC	(\$1.20)	(\$2.13)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



FIGURE 1. Upcoming Catalysts

Timing	Program	Catalyst
2H15	PRT-201	Results from Phase I trial in PAD presented at major medical meeting
1Q17	PRT-201	Top-line Data from Phase III

Source: Company Presentations

FIGURE 2. Changes to Our Model

PRTO	2Q15		3Q15 est		4Q15 est		FY15 est		FY16 est	
	Est	Actual	JMP old	JMP New	JMP old	JMP New	JMP old	JMP New	JMP old	JMP New
Total revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
R&D	2.8	3.1	2.9	3.2	3.0	3.4	22.3	12.4	22.1	37.1
SG&A	2.1	1.9	2.2	2.0	2.3	2.1	7.2	7.9	13.7	12.7
Total operating expense	4.9	5.0	5.1	5.2	5.3	5.5	29.5	20.3	35.8	49.8
Net income (loss)	(4.8)	(5.1)	(5.1)	(5.2)	(5.3)	(5.5)	(29.5)	(20.3)	(35.8)	(49.8)
Shares outstanding (diluted)	16.4	16.4	16.4	16.4	16.4	16.4	12.9	16.4	16.8	16.8
GAAP EPS (diluted)	(\$0.29)	\$ (0.31)	(\$0.31)	\$ (0.32)	(\$0.32)	\$ (0.33)	(\$1.20)	\$ (1.23)	(\$2.13)	\$ (2.97)

Source: JMP Securities LLC, Company filings

FIGURE 3. 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
<i>% change</i>															
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
<i>Margin(%)</i>								-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
Provision for income taxes					-	-	-	-	4.7	8.1	41.9	103.8	181.3	230.1	237.4
<i>% Tax Rate</i>					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
<i>After Tax Margin(%)</i>								-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, Company filings

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 PRT0 for \$550MM.

Financial. PRT0 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, PRT0 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.

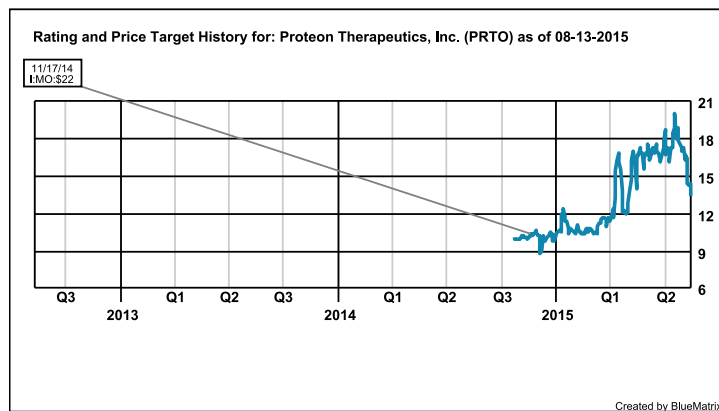
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of August 14, 2015)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months				
				Regulatory Equivalent	# Co's Under Coverage	% of Total	% of Co's With This Rating	
MARKET OUTPERFORM	Buy	288	62.34%	Buy	288	62.34%	87	30.21%
MARKET PERFORM	Hold	144	31.17%	Hold	144	31.17%	16	11.11%
MARKET UNDERPERFORM	Sell	8	1.73%	Sell	8	1.73%	0	0%
COVERAGE IN TRANSITION		21	4.55%		21	4.55%	4	19.05%
TOTAL:		462	100%		462	100%	107	23.16%

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.



JMP Disclaimer:

JMP Securities LLC (the "Firm") compensates research analysts, like other Firm employees, based on the Firm's profitability, which includes revenues from the Firm's institutional sales, trading, and investment banking departments as well as on the quality of the services and activities performed that are intended to benefit the Firm's institutional clients. These data have been prepared by JMP Securities LLC for informational purposes only and are based on information available to the public from sources that we believe to be reliable, but we do not guarantee their accuracy or completeness. Any opinions and projections expressed herein reflect our judgment at this date and are subject to change without notice. These data are neither intended nor should be considered as an offer to sell or a solicitation or a basis for any contract for the purchase of any security or other financial product. JMP Securities LLC, its affiliates, JMP Group LLC, Harvest Capital Strategies LLC, and their respective partners, directors, officers, and associates may have a long or short position in, may act as a market maker for, or may purchase or sell a position in the securities mentioned herein. JMP Securities LLC or its affiliates may be performing, have performed, or seek to perform investment banking, advisory, or other services and may have acted as manager or co-manager for a public offering of securities for any company mentioned herein. The reader should assume that JMP Securities LLC will solicit business from the company covered in this report. Members of our Sales and Trading Department provide oral and/or written market opinions and trading strategies to our clients that reflect their personal opinions about stocks that are the subject of the firm's research reports. Our research analysts discuss trading strategies with clients that sometimes reflect short-term expectations for the price of the securities that are the subject of research reports. These trading strategies are distinct from the analysts' fundamental rating for the stock, which is based upon the analysts' view compared to other stocks under coverage for the relevant time period. © Copyright 2015. All rights reserved by JMP Securities LLC. JMP Securities LLC is a member of FINRA, NASDAQ, and SIPC.

Jeffrey H. Spurr
Director of Research
 (415) 835-3903

RESEARCH PROFESSIONALS

FINANCIAL SERVICES

Alternative Asset Managers

Devin Ryan	(212) 906-3578
Brian McKenna	(212) 906-3545

Commercial & Specialty Finance

Christopher York	(415) 835-8965
Andrius Ellner	(415) 835-8962

Consumer Finance

David M. Scharf	(415) 835-8942
Douglas Greiner	(212) 906-3525

Financial Processing & Outsourcing

David M. Scharf	(415) 835-8942
Douglas Greiner	(212) 906-3525

Insurance

Matthew J. Carletti	(312) 768-1784
Christine Worley	(312) 768-1786
Solomon Mindlin	(312) 768-1788

Investment Banks & Brokers

Devin Ryan	(212) 906-3578
Brian McKenna	(212) 906-3545

Mortgage Operating Companies

REITs: Agency, Hybrid, & Commercial Mortgage

Steven C. DeLaney	(404) 848-7773
Trevor Cranston, CFA	(415) 869-4431
Charter Robinson	(757) 613-8955
Benjamin Zucker	(212) 906-3529

HEALTHCARE

Animal Health

J. T. Haresco, III, PhD	(415) 869-4477
-------------------------	----------------

Biotechnology

Liisa A. Bayko	(312) 768-1785
Masha Chapman	(415) 835-8944
Bhumika Sharma, PhD	(312) 768-1795
Jason N. Butler, PhD	(212) 906-3505
Harry Jenq, PhD	(212) 906-3509
Michael G. King, Jr.	(212) 906-3520
Bryan Czyzewski, PhD	(212) 906-3577
Eric Ekland	(212) 906-3540
Naureen Quibria, PhD	(212) 906-3514

Healthcare Services & Facilities

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Brian Riley	(415) 835-8908

Life Science Tools & Diagnostics

J. T. Haresco, III, PhD	(415) 869-4477
-------------------------	----------------

Medical Devices & Supplies

David Turkaly	(212) 906-3563
John Gillings	(212) 906-3564

Specialty Pharmaceuticals

Donald Ellis	(212) 906-3507
Nazibur Rahman	(212) 906-3519

REAL ESTATE

Housing & Land Development

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Bharathwajan Iyengar	(415) 835-3902

Lodging & Leisure

Robert A. LaFleur	(212) 906-3510
Whitney Stevenson	(212) 906-3538

Property Services

Mitch Germain	(212) 906-3546
Peter Lunenburg	(212) 906-3537

REITs: Healthcare, Residential, & Specialty

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Brian Riley	(415) 835-8908

REITs: Diversified, Industrial, Office, & Retail

Mitch Germain	(212) 906-3546
Peter Lunenburg	(212) 906-3537

Residential Services

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963
Bharathwajan Iyengar	(415) 835-3902

TECHNOLOGY

Internet Security & Communications Infrastructure

Erik Suppiger	(415) 835-3918
John Lucia	(415) 835-3920

Internet & Digital Media

Ronald V. Josey III	(212) 906-3528
Ignatius Njoku	(415) 835-8960
Andrew Boone, CFA	(415) 835-3957
Shweta Khajuria	(415) 835-8916

Software

Patrick Walravens	(415) 835-8943
Peter Lowry	(415) 869-4418
Mathew Spencer	(415) 835-8930
Greg McDowell	(415) 835-3934
Rishi Jaluria	(415) 835-3961

Wireless & Cloud Computing Technologies

Alex Gauna	(415) 835-8998
------------	----------------

ADDITIONAL CONTACTS

Thomas R. Wright
Director of Equities
 (212) 906-3599

Thomas Healy
Head of Institutional Sales
 (212) 906-3533

600 Montgomery Street, Suite 1100
 San Francisco, CA 94111
www.jmpsecurities.com