

Morgan Stanley & Co. LLC

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June 24, 2014

Stock Rating
Overweight

Industry View
In-Line

Versartis, Inc.

6 Month VRS-317 Data Solid

Versartis presented 6 month VRS-317 data in pediatric growth hormone (GH) deficient patients at the ENDO mtg. **Overall, we view these data as reinforcing the attractive profile of VRS-317** – competitive efficacy, safety without the issues seen with prior long acting GH in devt, and potentially 90+% fewer injections/yr (@ go forward intervals) vs. the daily dosed standard of care. We expect similarly strong data both in Ph 2 at 12 mo follow-up and in the 1 yr Ph 3 trial starting 1H15.

Efficacy: VRS-317 showed strong annualized height velocity data at 6 mos that was similar to age-matched historical controls from Pfizer's KIGS database (Ex. 1). The 6 mo height velocity is slightly lower than at 3 mo (difference of ~0.2-0.5). This small delta is expected given that "catch-up" growth tends to be stronger in the first 3 mos and wanes over time. We expect that 6 mo data will lead to solid 12 mo data, and do not expect any major changes vs. the current growth trajectory.

Safety: Safety is consistent with 3 mo data. There were 5 pts in the monthly VRS-317 arm (none in other arms) with IGF-1 SDS levels above 2, but these were transient and in-line with our view of daily GH safety in pediatric pts. There were no IGF-1 SDS levels of above 3 (highest level was 2.6), which is viewed as a "red flag". Further, there continues to be no lipotrophy or nodules.

Next Steps: We look forward to continued dosing in the Ph 2 extension study, esp. as the company's prior FDA hold on new supply is lifted. Mgmt is transitioning pts currently receiving weekly VRS-317 to semi-monthly dosing at a higher, undisclosed dose – we see room to dose higher based on safe IGF levels at the current semi-monthly dose. We expect Ph 3 trial details in 2H14, including two diff. VRS-317 doses/dosing frequencies to be used vs. daily growth hormone.

Competitor: OPKO topline 6 mo data for their weekly GH in peds. The data are not comparable to VRS-317 given cross-trial baseline pt differences. **Specifically, base height and age are keys for predicting growth trends with daily GH, with differences making cross trial comparisons tricky and often inaccurate.** That being said, the OPKO drug looks active, with >12 cm annualized growth rates at 6 mos. However, key questions remain, incl. how a) the growth compares to the daily GH control arm and b) the complete safety profile, including IGF-1 SDS levels, compares to daily GH given that the mid and high OPKO doses seem equivalent to daily GH doses above the labelled ones.

Key Ratios and Statistics

Reuters: **VSAR.O** Bloomberg: **VSAR US**

Biotechnology / United States of America

Shr price, close (Jun 23, 2014)	\$28.87
Mkt cap, curr (mm)	\$700
52-Week Range	\$36.86-23.51

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June 24, 2014

Versartis, Inc.

Exhibit 1

VRS-317 3 and 6 Month Efficacy and Safety Data

	VRS-317 1.15 mg/kg Weekly	Historical Control	VRS-317 2.5 mg/kg Semi-Monthly	Historical Control	VRS-317 5 mg/kg Monthly	Historical Control
n	21		19		23	
Bone Age	6.1		6.6		6.4	
Height SDS	-2.7		-2.53		-2.33	
IGF-1 SDS	-1.55		-2		-1.62	
Efficacy						
Annualized Height Velocity, 6 months*	7.6	8.4	8.7	8.3	7.9	8.3
Difference vs. Historical Control	-0.8		0.4		-0.4	
Annualized Height Velocity, 3 months*	7.8	8.4	9.2	8.3	8.2	8.3
Difference vs. Historical Control	-0.6		1.0		-0.1	
Annualized Height Velocity, 6 vs. 3 months	-0.2		-0.5		-0.3	
Maximal IGF-1 SDS	0.4		0.6		0.9	
Maximal IGF-1 SDS Change from Baseline	2		2.5		2.4	
Average IGF-1 SDS Change from Baseline	1.1		1.1		1.1	
Safety						
% Patients with AE	52%		53%		52%	
% Patients with Musculoskeletal Pain	10%		5%		9%	
% Patients with Headache	0%		5%		4%	

*Historical control annualized height velocity is at 12 months

Source: Company Data, Morgan Stanley Research

Company Description

Versartis is a pharmaceutical company focused on endocrine disorders. Their lead drug, VRS-317, is a long-acting version of growth hormone. It is currently in development for pediatric growth hormone deficiency.

Biotechnology/United States of America**Industry View: In-Line****GICS Sector: Health Care**

Strategist's Recommended Weight: 19.0%

S&P 500 Weight: 13.2%



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(as of May 31, 2014)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1065	35%	360	38%	34%
Equal-weight/Hold	1307	43%	451	48%	35%
Not-Rated/Hold	110	4%	24	3%	22%
Underweight/Sell	538	18%	105	11%	20%
Total	3,020		940		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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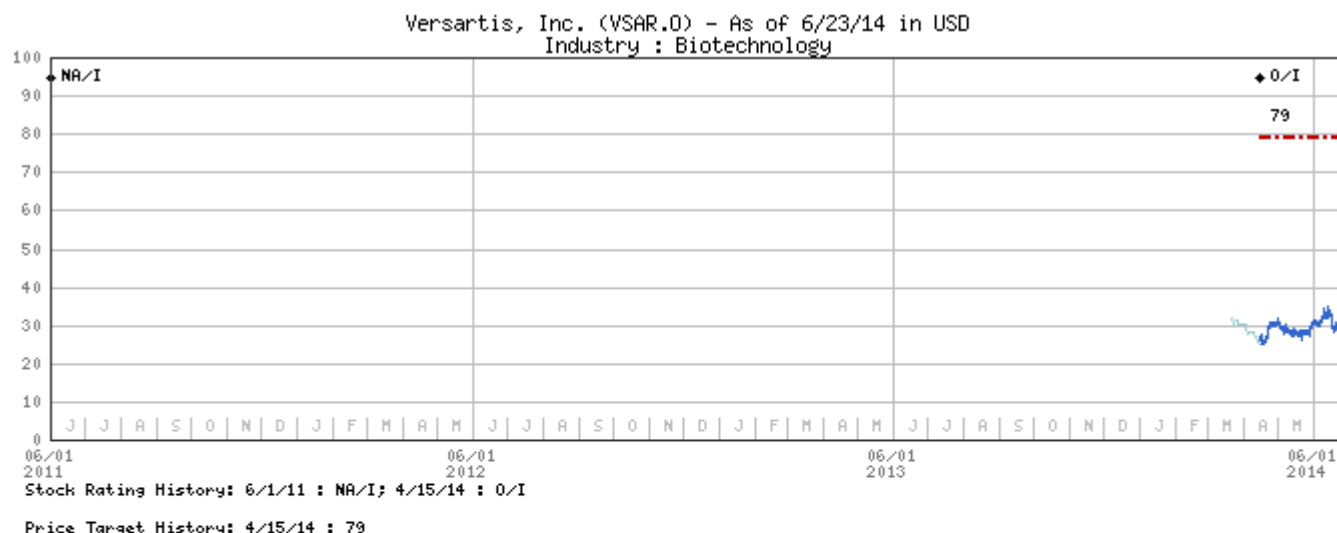
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Stock Price, Price Target and Rating History (See Rating Definitions)

June 24, 2014

Versartis, Inc.



Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage:Biotechnology

Company (Ticker)	Rating (as of)	Price* (06/23/2014)
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David Friedman, M.D.

AMAG Pharmaceuticals, Inc. (AMAG.O)	E (11/21/2011)	\$20.41
Akebia Therapeutics Inc (AKBA.O)	O (04/14/2014)	\$28.68
Alexion Pharmaceuticals (ALXN.O)	O (09/07/2010)	\$161.66
Alnylam Pharmaceuticals (ALNY.O)	E (01/14/2014)	\$67.03
Auxilium Pharmaceuticals (AUXL.O)	U (03/06/2014)	\$21.07
Chimerix Inc (CMRX.O)	O (05/06/2013)	\$22.78
Cubist Pharmaceuticals Inc. (CBST.O)	O (11/13/2013)	\$71.15
GW Pharmaceuticals PLC (GWPH.O)	O (04/22/2014)	\$93.77
Idenix Pharmaceuticals, Inc. (IDIX.O)	E (03/18/2011)	\$24.06
Incyte Corporation (INCY.O)	U (01/23/2013)	\$56.13
InterMune (ITMN.O)	E (09/07/2010)	\$45.2
Ironwood Pharmaceuticals, Inc. (IRWD.O)	E (04/24/2013)	\$15.01
Lexicon Pharmaceuticals, Inc. (LXRX.O)	U (06/11/2013)	\$1.62
NPS Pharmaceuticals (NPSP.O)	++	\$33.27
Neurocrine Biosciences Inc (NBIX.O)	E (01/08/2014)	\$14.92
Ophthotech Corp (OPHT.O)	O (10/21/2013)	\$42.62
Portola Pharmaceuticals Inc (PTLA.O)	O (06/17/2013)	\$29.37
Relypsa, Inc. (RLYP.O)	O (12/10/2013)	\$23.74
Synageva Biopharma Corp (GEVA.O)	O (04/20/2012)	\$101.72
Theravance Inc (THRX.O)	U (07/22/2013)	\$29.97
Ultragenyx Pharmaceutical Inc (RARE.O)	O (02/25/2014)	\$44.77
Versartis, Inc. (VSAR.O)	O (04/15/2014)	\$28.87
Vertex Pharmaceuticals (VRTX.O)	E (05/08/2012)	\$66.61
XenoPort Inc (XNPT.O)	U (06/11/2013)	\$4.71

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Amgen Inc. (AMGN.O)	O (03/26/2014)	\$119.13
Biogen Idec Inc. (BIIB.O)	O (03/26/2014)	\$313.46
Celgene Corp (CELG.O)	E (03/26/2014)	\$170.99
Gilead Sciences Inc. (GILD.O)	E (03/26/2014)	\$80.8
Pharmacyclics Inc. (PCYC.O)	E (03/26/2014)	\$89.63
Regeneron Pharmaceuticals Inc. (REGN.O)	E (03/26/2014)	\$280.22