

## Today's Changes

## Annual EPS

2014E (\$2.79) from (\$3.00)

## Versartis

VSAR : NASDAQ : US\$19.43

BUY

Target: US\$45.00

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## COMPANY STATISTICS:

Forecast Return:	131.6%
Market Cap (M):	US\$452.0
52-week Range:	16.15 - 36.86
Avg. Daily Vol. (000s):	56.3

## EARNINGS SUMMARY:

FYE Dec	2013A	2014E	2015E
Revenue (M):	0.0	0.0	0.0
EPS:	(1.99)	(2.79)	(2.34)

Revenue (M):	Q1	0.0A	0.0A	0.0
	Q2	0.0A	0.0A	0.0
	Q3	0.0A	0.0	0.0
	Q4	0.0A	0.0	0.0
Total		0.0	0.0	0.0
EPS:	Q1	-	(16.13)A	(0.49)
	Q2	-	(0.36)A	(0.55)
	Q3	-	(0.60)	(0.64)
	Q4	-	(0.43)	(0.68)
Total		(1.99)	(2.79)	(2.34)

## SHARE PRICE PERFORMANCE:

Versartis, Inc. (NASDAQ: VSAR)

Nov 5, 2014 Open: 20.200 High: 20.200 Vol: 29,673  
 Time: 16:00 Last: 19.430 Low: 18.900 Chg: 0.780 (+4.18%) ▲



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

## VSAR DISCUSSES FDA MEETING AND PHASE 3 DESIGN FOR VRS-317 TODAY, EXPECT RESPONSE ON DOSE

## Investment highlights

## Expect response on higher semi-monthly dose

VSAR plans on discussing the current FDA meeting on the phase 3 design for VRS-317 in children, possibly including the semi-monthly dose vs. a control daily growth hormone (GH) dosing. We remind investors that prior phase 2a trial studied 1.15 mg/kg weekly, 2.5 mg/kg semi-monthly, and 5 mg/kg monthly, while company guidance indicates a higher semi-monthly dose for phase 3 trials.

## Safety very encouraging to date

Phase 2a data showed minimum adverse events in all doses, demonstrating positive proof of concept with this technology given the fact that high bolus doses of GH normally would cause severe side effects in patients. VRS-317 also had low injection site reactions, a side effect that plagued previous long acting GH analogues. Additionally, there were minimum incidences of high IGF-1 levels (8%), which we find encouraging from a PK standpoint since it is important to maintain a safe, elevated IGF-1 level without high variations in peaks and troughs.

## Lack of head-to-head data vs. 1x daily manageable

Although prior phase 1b/2a data did not have a 1x daily comparator arm, comparison to age-matched historical control with high dose daily Genotropin and Norditropin shows comparable 6 month height velocity results. We view this as a positive going forward in phase 3 designs.

## Maintain \$45 price target, BUY rating

We maintain our BUY rating with a \$45 price target based on a probability adjusted net present valuation.

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5 November 2014

Figure 1: VSAR valuation

Product	Peak Sales (\$MM)	Peak Year	Current Value (\$MM)	Probability Adjustment	Value / Share
US					
Pediatrics - GHD	\$ 443	2027	\$360	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		\$910		\$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					\$980
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	Nov -14				

Source: Canaccord Genuity estimates, Company reports

5 November 2014

Figure 2: VSAR income statement

Income Statement (\$000's)	2012A	2013A	Mar-14A	Jun-14A	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total revenues									-	17,859	273,992	635,385	924,102
Cost of goods sold								-	-	1,429	21,919	50,831	73,928
Gross profit	-	-	-	-	-	-	-	-	-	16,430	252,073	584,554	850,173
Operating expenses													
R&D	10,963	14,855	4,869	5,622	10,185	7,350	28,026	40,950	42,000	37,000	30,879	69,892	101,651
SG&A	1,936	4,428	2,714	2,877	4,365	3,150	13,106	17,550	19,000	31,500	54,798	101,662	147,856
Total expenses	12,899	19,283	7,583	8,499	14,550	10,500	45,000	58,500	61,000	68,500	85,677	171,554	249,507
Depreciation & amortization							(3,868)						
EBITDA	(12,899)	(19,283)	(7,583)	(8,499)	(14,550)	(10,500)	(45,000)	(58,500)	(61,000)	(52,070)	166,395	413,000	600,666
Operating income	(12,899)	(19,283)	(7,583)	(8,499)	(14,550)	(10,500)	(41,132)	(58,500)	(61,000)	(52,070)	166,395	413,000	600,666
							(41,132)						
Interest income		1		40									
Interest expense	393	128	-	-	-	-	-	-	-	-	-	-	-
Other (expense) / income, net	(75)	(913)	(11,843)	(141)			(11,984)	-	-	-	-	-	-
Interest & other	318	(786)	(11,843)	(101)	-	-	(11,984)	-	-	-	-	-	-
Taxes								-	-	-	58,238	140,420	198,220
Tax rate			37%	37%	37%	37%		37%	37%	37%	35%	34%	33%
Net income - GAAP	(13,217)	(18,497)	(19,426)	(8,600)	(14,550)	(10,500)	(53,076)	(58,500)	(61,000)	(52,070)	108,157	272,580	402,446
Deemed dividend			(25,559)										
Net loss attributable to common shareholders			(44,985)										
Adjustments to net income			(36,902)	500	500	500	(35,402)	2,000	2,000	2,000	2,000	2,000	2,000
Foreign Currency Adjustment		-											
Net income - Adjusted	(13,217)	(18,497)	(8,083)	(8,100)	(14,050)	(10,000)	(40,233)	(56,500)	(59,000)	(50,070)	110,157	274,580	404,446
GAAP EPS	(\$9.97)	(\$1.99)	(\$16.13)	(\$0.36)	(\$0.60)	(\$0.43)	(\$2.79)	(\$2.34)	(\$2.39)	(\$1.91)	\$3.89	\$9.62	\$13.92
Adjusted EPS excl. options expense	(\$9.97)	(\$1.99)	(\$2.90)	(\$0.33)	(\$0.58)	(\$0.41)	(\$2.12)	(\$2.26)	(\$2.31)	(\$1.84)	\$3.96	\$9.69	\$13.99
Diluted shares outstanding	1,325	9,300	2,788	24,194	24,250	24,500	19,000	24,994	25,494	27,244	27,788	28,344	28,911

Source: Canaccord Genuity estimates, Company reports

**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, semi-monthly, 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 semi-monthly 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.

## APPENDIX: IMPORTANT DISCLOSURES

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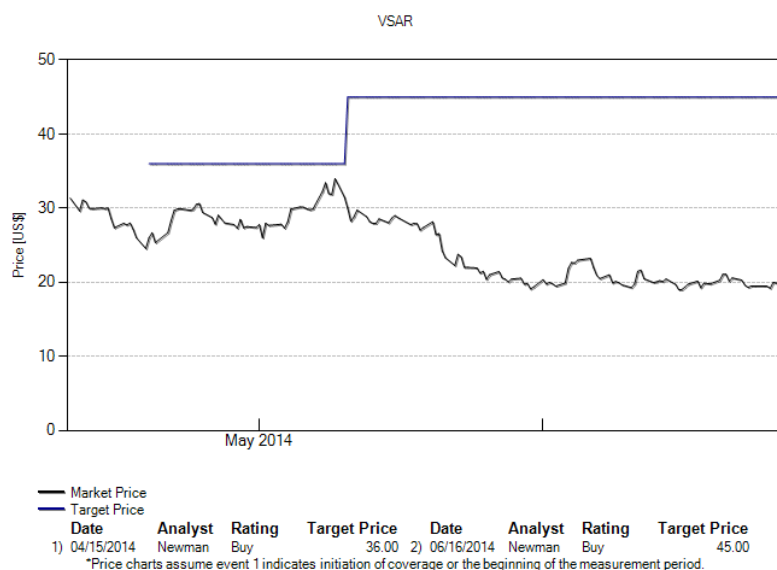
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**Site Visit:**

An analyst has not visited Versartis' material operations.

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

Global Stock Ratings  
(as of 1 October 2014)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	627	60.2%	36.7%
Speculative Buy	53	5.1%	54.7%
Hold	317	30.5%	13.9%
Sell	43	4.1%	2.3%
	1041	100.0%	

\*Total includes stocks that are Under Review

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