Today's Changes	Annual EPS	Annual Revenue	Target
	2014E $(3.00) from $(4.38)	No changes	$45.00 from $36.00

Versartis

VSAR : NASDAQ : US$31.49

BUY

Target: US$45.00 ↑

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COMPANY STATISTICS:

Forecast Return:	43%
Market Cap (M):	US$733.7
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	-	0.0A	0.0
	Q2	-	0.0	0.0
	Q3	-	0.0	0.0
	Q4	-	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:

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

EXPECT POSITIVE SIX-MONTH DATA AT ENDO; RAISING PT TO $45

Investment highlights

Expect VRS-317 six-month growth data to meet expectations

We anticipate VRS-17 will show six-month growth rates similar to historical controls, boosting shares. Importantly, approved once-daily growth hormone products show a slight decrease in Height Velocity (HV) at six months versus three months, a trend which we anticipate for VRS-317. Versartis will use the same one-year annual growth data previously shown at three months for VRS-317.

Once-monthly vs. twice monthly dose data important

Monthly dosing for VRS-317 would position Versartis to be highly differentiated versus once-weekly competitors in development. We expect positive results for both the 1x and 2x monthly dose for VRS-317, supporting a substantial move in share price.

Continue to expect clean safety

We do not expect to see immunogenicity or injection site reaction concerns for VRS-317 at the six-month treatment point. Nodule formation or lipoatrophy have not been seen to date. Injection site reactions have been mild and transient, with most patients having none.

Raising price target to $45 based on increased confidence

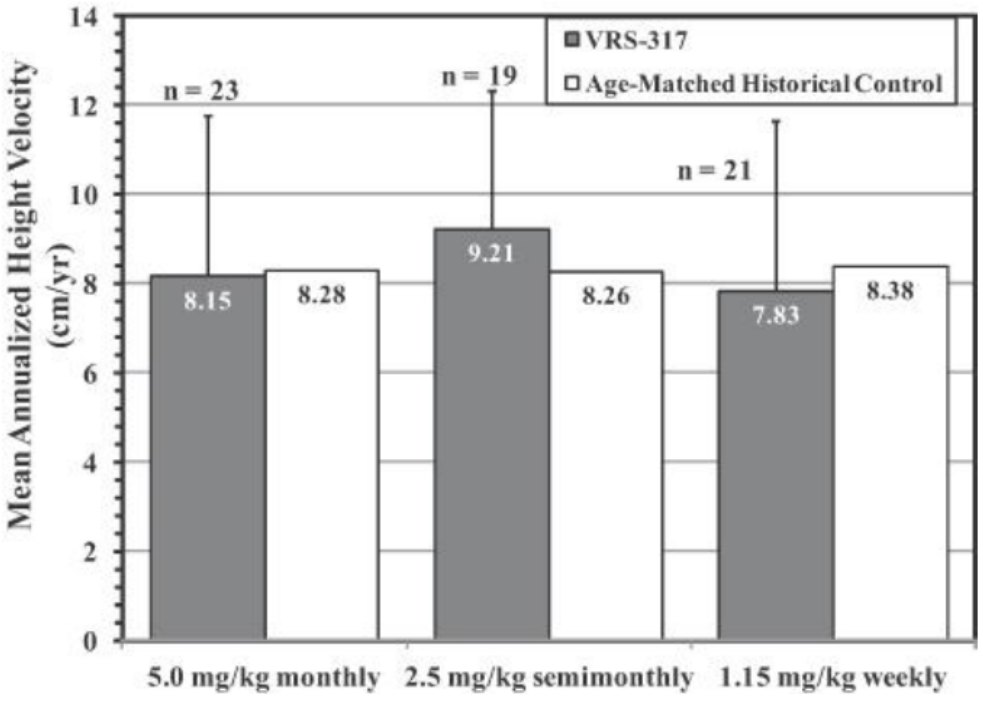
We are increasing our price target to $45 based on higher confidence of positive six-month growth rate data in children for VRS-317. Our probability of approval increases to 65% from 55%. We continue to forecast $1B US peak sales for VRS-317.

EXPECT POSITIVE SIX-MONTH GROWTH DATA FOR VRS-317

We expect to see Height Velocity (HV) data for VRS-317 in children at six months consistent with historical controls, similar to the three-month readout (Figure 1). Importantly, Versartis will use the same age-matched historical control data utilized for the three-month readout, as only annualized data are available.

We believe Versartis will show good results for both the 1x monthly and 2x monthly doses, although the company may still choose to take both doses into Phase 3. A once-monthly dose would be highly differentiated from the competition, in our view, and provide meaningful upside for Versartis. We will specifically look at the trend for IGF-SDS levels for the monthly dose to see if levels are remaining elevated in order to support once monthly dosing.

Figure 1: Three-month Phase 2 data – Height Velocity vs. historical controls

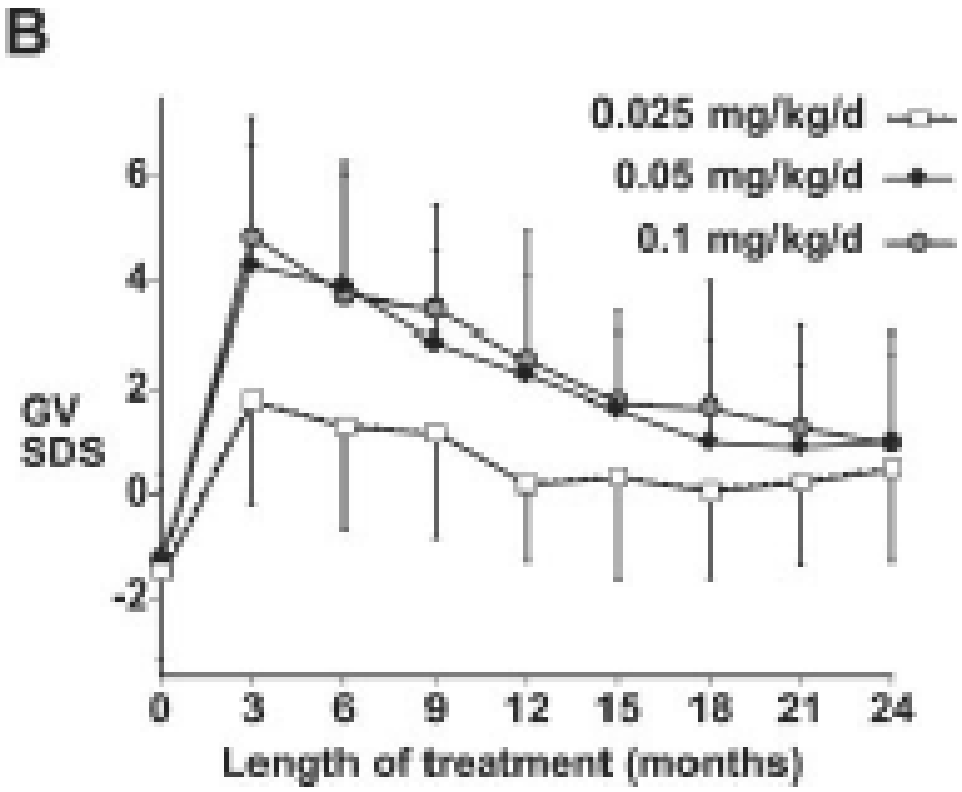


Source: Versartis S-1 filing

HEIGHT VELOCITY MODERATES AFTER THREE MONTHS, EXPECT LOWER VELOCITY AT SIX MONTHS

Data for approved once-daily human growth hormones suggests Height Velocity (HV) for VRS-317 is likely to be numerically lower at six months versus three months. Data show that this trend is well established and normal for pediatric growth hormone patients. As an example, in Figure 2, Growth Velocity SD data for Norditropin in an n=111 study of pediatric growth are lower at 12 vs. 6 months and also at 6 vs. 3 months. (Figure 2). Importantly, we would expect VRS-317 to show a similar trend in terms of a potentially numerically lower Height Velocity at six months versus three months. Several other daily rhGH therapy studies have been conducted in pediatric Growth Hormone Deficiency patients, and have shown an average decrease in mean height velocity of 0.3 cm/yr from three months to six months, and an additional decrease of 0.6 cm/yr from six months to 12 months.

Figure 2: Norditropin Growth Velocity SD scores, n=111 patients



Source: Journal of Clinical Endocrinology & Metabolism 87(1):90-98, 2002

SAFETY DATA SHOULD BE CLEAN – FOCUS ON IMMUNOGENICITY, INJECTION SITE RXNS, IGF-I LEVELS

We do not expect any surprises with respect to safety data for VRS-317 at six months. However, we will look closely at available data on immunogenicity, and especially injection site reactions. Importantly, a large proportion of injection site reactions were attributed to n=7 children at the three-month mark, suggesting that the per patient rate of injection site reactions may decrease over time as well as in a larger study. Versartis reported an injection site reaction of ~22% in over 465 injections administered to date, all grade 1 and transient (< 30 min).

We also look for a positive trend for IGF-I levels at the monthly dose at six months. IGF-I levels that remain high in the monthly dosing group would lend further support to 1x monthly dosing, in our view. In addition, we will look for any changes in hemoglobin or glucose levels, which are closely monitored in growth hormone deficient patients.

EXPECT LIGHT COMPETITOR DATA, NO EFFICACY

Prolor and Novo will discuss their once-weekly growth hormones in development, but abstracts do not suggest any efficacy data will be presented. Prolor has submitted three abstracts, with one describing the pK and pD profile of MOD-4023 dosed once weekly. Three doses were studies, 0.25. 0.48, and 0.66 mg/kg per week. Data suggest that IGF-1 and IGF-1 SDS following MOD-4023 increased at a dose proportional manner, and remained in the normal range for up to 1 week. By contract, IGF-1 levels for VRS-317 remained in the normal range for at least three weeks. Also, Prolor's study was conducted in Greece, Hungary, and Slovakia, where baseline levels of IGF-1 are much lower than in Europe or the US. This results in a higher numerical growth velocity due to very different baseline levels versus the US and EU. The primary reason is that growth hormones are not generally available in Eastern Europe, thus baseline IGF-1 levels are much lower.

Novo will be presenting data for its reversible albumin bound growth hormone derivative in adults focusing on pK, pD, and IGF-1 and IGFBP-3. The n=32 patient study was a randomized, open-label, active controlled, multiple dose, dose-escalating, sequential dose group trial for NNC0195-0092. The study tested doses of 0.02, 0.04, 0.08, and 0.12 mg/kg. In each n=8 dose cohort, patients were dosed with NNC0195-0092 (n=6), or daily growth hormone (n=2). Data suggested a dose-dependent response, but no height velocity data will be presented at this time since the study is early and dose-ranging.

RAISING PRICE TARGET TO $45

We are raising our price target to $45 based on greater confidence in positive data for VRS-317 at six months in pediatrics. We have increased our probability of success to 65% from 55%, and our price target rises to $45 from $36.

Figure 3: VSAR 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, LLC

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.

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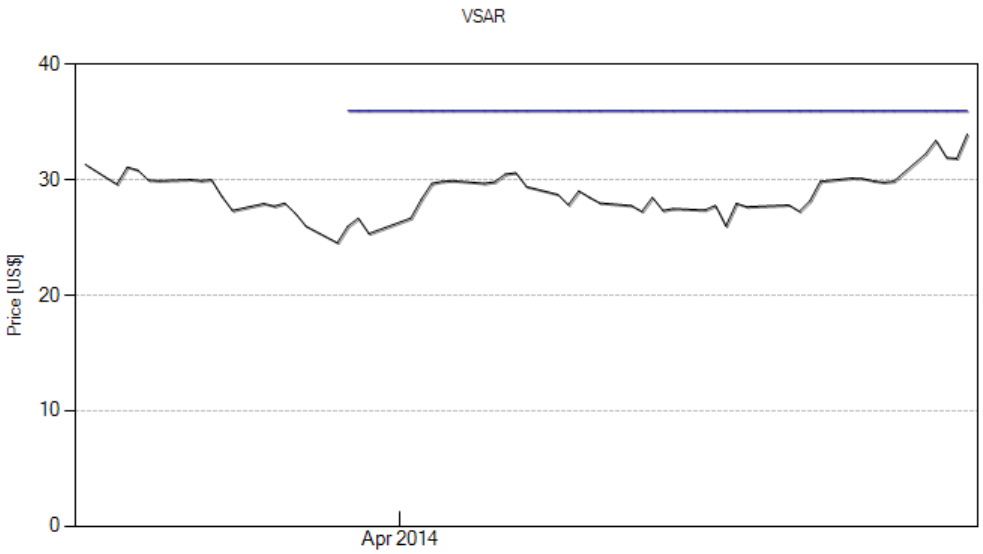
Site Visit: An analyst has not visited Versartis' material operations.

Price Chart:*



	Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1)	04/15/2014	Newman	Buy	36.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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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Company	Disclosure
Versartis	1A, 2, 3, 5, 7

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