August 17, 2015

HEALTHCARE/BIO AND SPECIALTY PHARMACEUTICALS

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	$18.00
PRTO - NASDAQ	$13.23

3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	$20.00-$8.57
Shares Outstanding	15.0M
Float	5.5M
Market Capitalization	$217.8M
Avg. Daily Trading Volume	43,501
Dividend/Div Yield	NA/NM
Book Value	$2.42
Fiscal Year Ends	Dec
2015E ROE	NA
LT Debt	NA
Preferred	$123.9M
Common Equity	$(109)M
Convertible Available	No

Trading range is as of 10/22/14 IPO.

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2013A	--	--	--	--	(3.07)	NM
2014A	(0.65)	(0.65)	(31.03)	0.59	(3.16)	NM
2015E	(0.28)A	(0.31)A	(0.35)	(0.39)	(1.33)	NM
Prior (E)	--	--	--	--	*(1.32)*	*NM*
2016E	--	--	--	--	(2.47)	NM
Prior (E)	--	--	--	--	*(2.45)*	*NM*

Proteon Therapeutics

2Q15 Update; Phase 3 AVF Trials Underway and Add'l Upside in PAD

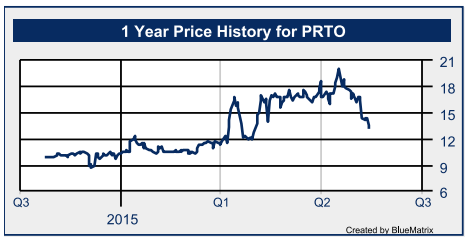
SUMMARY

We are updating our model following 2Q15. Operating expenses were higher y/y due primarily to the two ongoing Phase 3 trials of vonapanitase (PRT-201) in AVF and were in line with our estimates. Proteon recently reported that the first patient in the second Phase 3 trial of vonapanitase in AVF had been treated as well as top-line results of vonapanitase in patients with symptomatic PAD (Phase 1). The first of the two Phase 3 trials in AVF is expected to report data in 1Q17, and if data is positive, we expect the company to apply for U.S. approval in 3Q17 based on data from this trial.

KEY POINTS

- Proteon ended 2Q15 with cash and cash equivalents of $74.7M, which the company expects to provide runway into 2018.
- Enrollment in the first of two Phase 3 trials of vonapanitase in AVF has gone according to schedule and the company expects to complete enrollment by YE2015 and to report data in 1Q17. Proteon recently announced that the first patient had been treated in the second Phase 3 AVF trial (link here).
- Proteon recently reported that vonapanitase was well-tolerated in symptomatic patients with peripheral artery disease following completion of the Phase 1 trial (link here). If successful, the use of vonapanitase in this indication represents additional upside.
- Upcoming events include: 1) completion of enrollment of first Phase 3 AVF trial by YE2015; 2) presentation of Phase 1 PAD data ~2H15; and 3) top-line data of first Phase 3 trial in AVF in 1Q17.
- We reiterate Outperform and $18 PT.

Stock Price Performance



Company Description

Proteon Therapeutics is a development stage biopharmaceutical company focused on therapies for treating patients with renal and vascular diseases.

Akiva Felt
415-399-5728
Akiva.Felt@opco.com

Exhibit 1: Anticipated Upcoming Milestones for Proteon Therapeutics (PRTO)

Expected Date	Event Description
~~Aug-15~~	~~Initiate second Phase 3 trial for vonapanitase in radiocephalic AVF~~
~~3Q15~~	~~Follow-up data from Phase 1 PAD study of vonapanitase (PRT-201)~~
2H15	Presentation of Phase 1 PAD data at a medical conference
2H15	Complete enrollment in first Phase 3 trial for vonapanitase in radiocephalic AVF
2016/2017	Potential business development relating to ex-US rights of vonapanitase
1Q17	Potential release of top-line data from first Phase 3 vonapanitase study
3Q17	Potential filing for U.S. approval of vonapanitase based on first Phase 3 study
1H18	Potential approval of vonapanitase in Radiocephalic AVF placements (on first study)
2Q18	Potential release of top-line data from second Phase 3 vonapanitase study
2H18	Anticipate launch of vonapanitase in U.S. if approved on results of first study
2H19	Anticipate launch of vonapanitase in U.S. if results of both Phase 3 studies are required

Source: Company Documents and Oppenheimer & Co.

Proteon Therapeutics (PRTO)

Oppenheimer & Co.

($000's) [FY - DEC]

	2012A	2013A	2014A					2015E					2016E	2017E
	FY:12A	FY:13A	Q1A	Q2A	Q3A	Q4A	FY:14A	Q1A	Q2A	Q3E	Q4E	FY:15E	FY:16E	FY:17E
Revenues from Product Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PRT-201 AVF Hemodialysis (US)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PRT-201 AVF Hemodialysis (EU)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Licensing revenue and Milestones	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	$ -	$ -	$ -	$ -	$ 2,948	$ -	$ 2,948	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cost of Goods	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross profit	-	-	-	-	2,948	-	2,948	-	-	-	-	-	-	-
Operating expenses														
Research and development	5,907	3,994	1,393	1,393	1,773	1,874	6,432	2,633	3,090	3,634	4,360	13,717	32,771	16,386
Selling, general and administrative	2,089	3,128	828	828	1,041	1,399	4,096	1,987	1,891	2,191	2,213	8,281	10,172	14,241
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	7,996	7,122	2,221	2,221	2,814	3,273	10,528	4,620	4,981	5,824	6,573	21,998	42,943	30,626
Operating income	(7,996)	(7,122)	(2,221)	(2,221)	134	(3,273)	(7,580)	(4,620)	(4,981)	(5,824)	(6,573)	(21,998)	(42,943)	(30,626)
Interest income (expense), net	-	(861)	(429)	(429)	10	14	(833)	40	37	37	37	151	83	46
Other income (expense)	(6,107)	(6,048)	(48)	(48)	(5,325)	10,495	5,071	-	(128)	-	-	(128)	-	-
Pre-tax income	(14,103)	(14,031)	(2,697)	(2,697)	(5,181)	7,236	(3,342)	(4,580)	(5,072)	(5,787)	(6,536)	(21,975)	(42,860)	(30,581)
Income tax expense (benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	($14,103)	($14,031)	($2,697)	($2,697)	($5,181)	$7,236	($3,342)	($4,580)	($5,072)	($5,787)	($6,536)	($21,975)	($42,860)	($30,581)
Accretion of redeemable convert			(1,705)	(1,705)	(2,277)	(656)	(6,342)	-	-	-	-	-	-	-
Basic shares outstanding	231	4,566	6,763	6,763	240	11,445	3,065	16,449	16,450	16,600	16,750	16,562	17,350	17,162
Diluted shares outstanding	231	4,566	6,763	6,763	240	12,295	3,065	16,449	16,450	16,600	16,750	16,562	17,350	17,162
GAAP EPS (basic and diluted)	($61.16)	($3.07)	($0.65)	($0.65)	($31.03)	$0.59	($3.16)	($0.28)	($0.31)	($0.35)	($0.39)	($1.33)	($2.47)	($1.78)
Cash and Equivalents	$ 7,471	$ 5,152	$ -	$ 25,416	$ 21,686	$ 83,595	$ 83,595	$ 79,525	$ 74,736	$ 57,821	$ 51,765	$ 51,765	$ 14,489	$ (14,937)

Source: Oppenheimer & Co. Inc., Company Reports

Investment Thesis

Our bullish investment thesis stems from our belief that vonapanitase (PRT-201) is poised to become standard of care during hemodialysis access procedures if Phase 3 clinical studies are successful. In our view, the company's current market valuation does not fully reflect the full potential of PRT-201 to take meaningful share in the sizable hemodialysis access market. While the clinical trial risk associated with Phase 3 is appreciable, we believe PRTO shares represent a significantly favorable risk/reward proposition for investors with appropriate risk and time horizons.

Price Target Calculation

Our 12- to 18-month $18 price target for PRTO is derived from a sum-of-the-parts analysis of the company's development pipeline drugs, namely PRT-201. We value PRTO using a sum-of-parts probability-adjusted net present value (pNPV) approach, calculating anticipated profits from PRT-201 discounted at 10.5% through 2031 with no terminal value. We then adjust for clinical and regulatory risk by assigning an estimated probability of success. We currently assign a 54% probability of approval for PRT-201.

Key Risks to Price Target

We would expect a material decline in PRTO shares in the event of unsuccessful US phase 3 programs for PRT-201. Our estimates assume the drug launching in 2018 based on a regulatory filing of a single pivotal study demonstrating efficacy in AVF. If the first Phase 3 study is positive, but the p-value associated with the primary endpoint isn't strong enough to support registration on a single pivotal, PRTO will need to wait for data from the second trial before seeking approval. In this scenario, the drug would then be launched roughly one year later than our current estimates. PRTO may also be subject to liquidity risk due to low trading volume which could add to volatility if a large shareholder were to sell a sizable amount of stock.

Important Disclosures and Certifications

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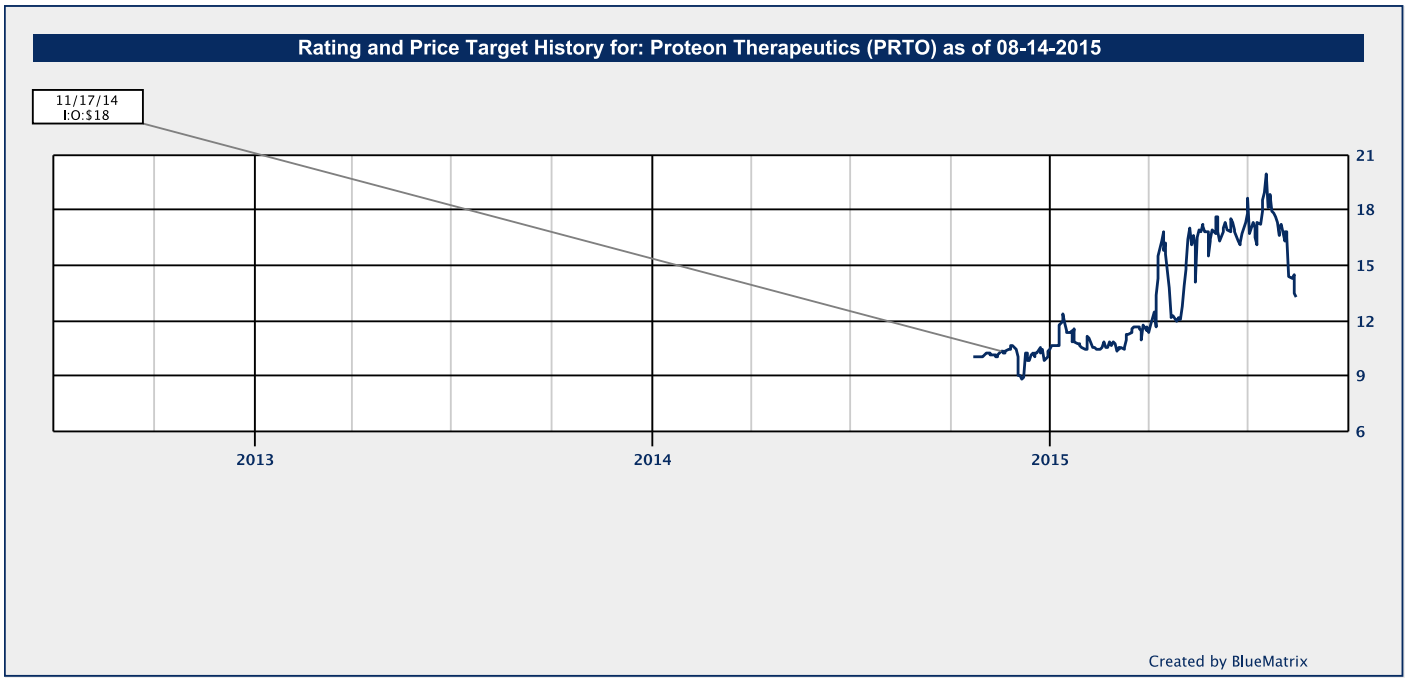

All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

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Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

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Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide

			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
OUTPERFORM [O]	330	56.22	144	43.64
PERFORM [P]	250	42.59	88	35.20
UNDERPERFORM [U]	7	1.19	3	42.86

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In the past 12 months Oppenheimer & Co. Inc. has received compensation for investment banking services from PRTO.

In the past 12 months Oppenheimer & Co. Inc. has managed or co-managed a public offering of securities for PRTO.

In the past 12 months Oppenheimer & Co. Inc. has provided investment banking services for PRTO.

Additional Information Available

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