

August 13, 2015

HEALTHCARE/BIO AND SPECIALTY PHARMACEUTICALS

Stock Rating:

OUTPERFORM

12-18 mo. Price Target \$18.00
PRTO - NASDAQ \$14.49

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$20.00-\$8.57
Shares Outstanding 15.0M
Float 5.5M
Market Capitalization \$238.4M
Avg. Daily Trading Volume 42,532
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)	(0.35)	(0.39)	(1.32)	NM
2016E	--	--	--	--	(2.45)	NM

Proteon Therapeutics

Phase 1 PAD Results; Future Upside Potential Beyond AVF

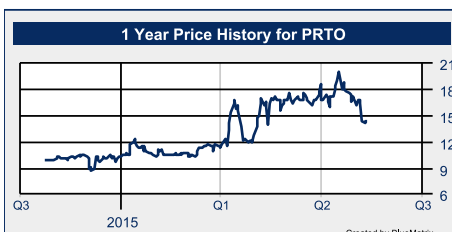
SUMMARY

After the close, Proteon announced top-line results from a single-center Phase 1 trial of vonapanitase (PRT-201) in 14 patients undergoing balloon angioplasty due to symptomatic peripheral arterial disease (PAD). The company will hold back the detailed data for presentation at an upcoming medical meeting (not uncommon), but the press release states that the application of PRT-201 was procedurally successful and generally well tolerated. Proteon is evaluating options for taking PRT-201 forward in clinical development for PAD, and we expect additional clarity on future plans in the coming months.

KEY POINTS

- We do not include the PAD indication in our estimates for PRT-201 and valuation. While development is early and data are sparse at this time, the encouraging top-line results provide future upside potential for the drug beyond AV fistula maintenance (currently in two Phase 3 trials).

Stock Price Performance



Company Description

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

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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 PRT-201 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 PRT-201 is derived from a sum-of-the-parts analysis of the company's development pipeline drugs, namely PRT-201. We value PRT-201 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

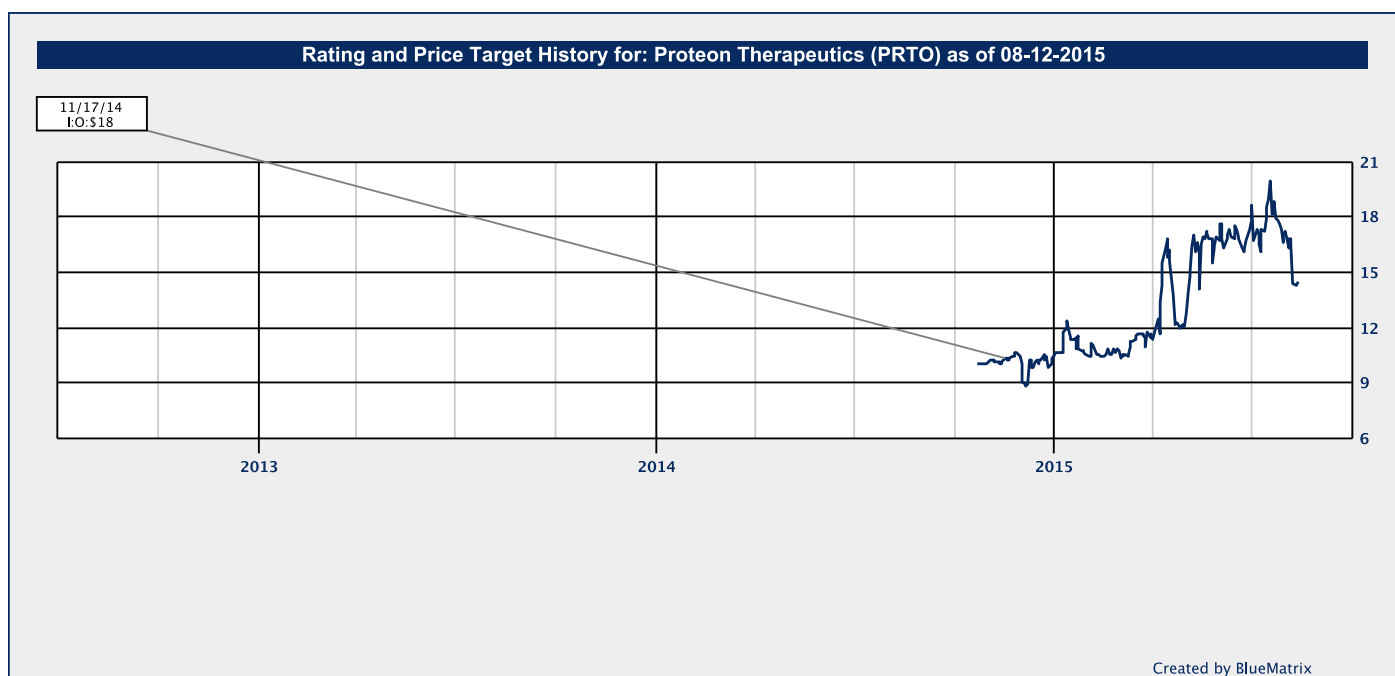
We would expect a material decline in PRT-201 shares in the event of unsuccessful US phase 3 programs for PRT-201. Our estimates assume the drug launching in 2018 based on a regulatory filing of a single pivotal study demonstrating efficacy in AVF. If the first Phase 3 study is positive, but the p-value associated with the primary endpoint isn't strong enough to support registration on a single pivotal, PRT-201 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. PRT-201 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.

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Rating	Count	IB Serv/Past 12 Mos.		Count	Percent
		Percent			
OUTPERFORM [O]	330	56.12		144	43.64
PERFORM [P]	251	42.69		89	35.46
UNDERPERFORM [U]	7	1.19		3	42.86

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