Proteon Therapeutics, Inc. (PRTO)

Announces 1Q15 Financial Results

MARKET DATA

Price	$14.04
52-Week Range:	$8.57 - $17.26
Shares Out. (M):	0.2
Market Cap ($M):	$2.8
Average Daily Vol. (000):	12.0
Cash (M):	$81
Cash/Share:	$335.86
Enterprise Value (M):	$180
Float (M):	15.0
LT Debt (M):	$0
Short Interest:	0.7%

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2014A	2015E	2016E
Revenue ($M)	1Q	--	$0.0A	--
	2Q	$0.0	$0.0	--
	3Q	$2.9	$0.0	--
	4Q	$0.0	$0.0	--
	FY	**$2.9**	**$0.0**	**$0.0**
EPS	1Q	--	($0.28)A	--
	2Q	($1.30)	($0.29)	--
	3Q	($31.03)	($0.31)	--
	4Q	$1.38	($0.32)	--
	FY	**($3.16)**	**($1.20)**	**($2.13)**
	Previous FY	NC	($2.29)	($4.18)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

MARKET OUTPERFORM | Price: $14.04 | Target Price: $22.00

INVESTMENT HIGHLIGHTS

Proteon Therapeutics reported 1Q15 results and outlined upcoming milestones; reiterate Market Outperform and $22 price target through a synthesis of discounted cash flow, and compound annual growth valuation methodologies. We remind investors that as an early clinical stage company, PRTO performance is primarily derived through the progression of vonapanitase, against developmental milestones, and not necessary through financial results. The company reported a net loss of $4.6MM, better than our estimates of $6.7MM primarily due to lower-than-expected operating costs associated with R&D. Operating expenses for 1Q15 were $6.7MM versus JMP estimates of $4.6MM with $2.6MM in R&D spending, lower than our estimates of $5MM due to lower-than-anticipated costs associated with the ongoing Phase III trial. PRTO ended the quarter with $79.5MM in cash and cash equivalents, guiding to cash runway into 2018. Results and changes to our model are presented in Figures 2 and 3. The company indicated that the first Phase III trial is on pace to complete enrollment prior to the end of 2015 with final data readout in 1Q17. The second Phase III study of vonapanitase is on track to begin enrollment in 2Q15. Additionally, the company is advancing vonapanitase in the treatment of PAD and will be presenting results from the Phase I clinical study in the 2H15.

Proteon Therapeutics is focused on the development of vonapanitase for the improvement of vascular access outcomes in patients undergoing radiocephalic surgery in preparation for hemodialysis. Current guidelines set forth by KDOQI, CMS, and the Fistula First Initiative state that arteriovenous fistulas (AVF) is the preferred method of vascular access, with significantly reduced infections and morbidity commonly associated with arteriovenous grafts or temporary catheter use. According to Proteon and JMP estimates, currently over 130,000 AVF surgeries are performed each year in the U.S., with over half of the procedures failing due to neointimal hyperplasia. There are no current therapies to improve AVF success rates, which, in our view, is supportive of a >$1 billion market opportunity.

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FIGURE 1. Upcoming Catalysts

Timing	Program	Catalyst
1H15	PRT-201	Initiate second Phase III clinical trial in U.S.
2H15	PRT-201	Results from Phase I trial in PAD
1Q17	PRT-201	Top-line Data from Phase III

Source: Company Presentations

FIGURE 2. Changes to our model

PRTO	1Q15		2Q15 est		3Q15 est		4Q15 est		FY15 est	
	Est	Actual	JMP old	JMP New	JMP old	JMP New	JMP old	JMP New	JMP old	JMP New
Total revenue	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
R&D	5.0	2.6	5.5	2.8	5.8	2.9	6.0	3.0	22.3	11.3
SG&A	1.7	2.0	1.8	2.1	1.8	2.2	2.0	2.3	7.2	8.6
Total operating expense	**6.7**	**4.6**	**7.3**	**4.9**	**7.6**	**5.1**	**8.0**	**5.3**	**29.5**	**19.9**
Net income (loss)	**(6.7)**	**(4.6)**	**(7.3)**	**(4.8)**	**(7.6)**	**(5.1)**	**(8.0)**	**(5.3)**	**(29.5)**	**(19.8)**
Shares outstanding (diluted)	12.9	16.4	12.9	16.4	12.9	16.4	12.9	16.4	12.9	16.4
GAAP EPS (diluted)	**($0.52)**	**$ (0.28)**	**($0.56)**	**$ (0.29)**	**($0.59)**	**$ (0.31)**	**($0.62)**	**$ (0.32)**	**($2.29)**	**$ (1.20)**

Source: JMP Securities LLC

FIGURE 3. Income Statement

Proteon Income Statement	2013A	1-2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Product Sales and Royalties																
PRT201 - US Sales		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 91.2	$ 141.6	$ 127.0	$ 202.2	$ 376.7	$ 498.1	$ 560.4	$ 580.0
PRT201 - EU Sales		-	-	-	-	-	-	-	-	89.2	133.2	192.8	259.8	445.6	593.3	658.4
Total Sales	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**91.2**	**230.8**	**260.2**	**395.0**	**636.5**	**943.7**	**1,153.7**	**1,238.4**
PRT201 - JPN Royalties					-	-	-	-	-	-	3.4	4.1	6.1	8.1	14.3	18.1
Deferred Revenue Realized			2.9													
Total Revenues	**-**	**-**	**2.9**	**-**	**-**	**-**	**-**	**-**	**91.2**	**230.8**	**263.5**	**399.1**	**642.6**	**951.8**	**1,168.0**	**1,256.4**
% change																
COGS	-	-	-	-	-	-	-	-	10.9	27.69	31.2	43.4	63.6	94.4	115.4	123.8
Gross Profit	-	-	2.9	-	-	-	-	-	80.3	203.1	232.3	355.7	579.0	857.4	1,052.6	1,132.6
Research and development	4.0	2.8	1.8	1.9	6.5	22.3	43.5	86.97	120.02	144.02	158.42	177.44	195.18	214.70	234.02	252.74
Selling, general and administrative	3.1	1.66	1.04	1.15	3.8	7.2	11.6	15.6	21.1	34.8	38.3	49.7	67.2	90.7	108.8	125.1
Operating Profit (Loss)	**(7.1)**	(4.4)	0.1	(3.0)	**(7.4)**	**(29.5)**	(55.1)	(102.6)	(60.8)	24.3	35.6	128.5	316.6	552.1	709.8	754.8
Margin(%)									*-66.7%*	*10.5%*	*13.5%*	*32.2%*	*49.3%*	*58.0%*	*60.8%*	*60.1%*
Investment Income	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.5
Interest Expense	(0.9)	(0.9)	0.0	(0.9)		(3.4)										
Other income (expense)	0.1	(0.1)	(5.3)		(5.4)	-										
Total other income	(0.8)	(1.0)	(5.3)	-	(6.3)	(3.39)	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.5
Pretax income	**(7.9)**	(5.4)	(5.2)	(3.0)	**(13.6)**	**(29.5)**	**(55.0)**	**(102.5)**	**(60.8)**	**24.3**	**35.6**	**128.5**	**316.7**	**552.2**	**710.1**	**755.3**
Provsion for income taxes					-	-	-	-	-	3.6	8.9	45.0	110.8	193.3	248.5	264.3
% Tax Rate					*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*15.0%*	*25.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*
Net profit (loss) and comprehensive income	**(7.9)**	(5.4)	(5.2)	(3.0)	**(13.6)**	**(29.5)**	**(55.0)**	**(102.5)**	**(60.8)**	**20.6**	**26.7**	**83.6**	**205.9**	**358.9**	**461.6**	**490.9**
After Tax Margin(%)									*-66.6%*	*8.9%*	*10.1%*	*20.9%*	*32.0%*	*37.7%*	*39.5%*	*39.1%*
Accretion of redeemable convertible preferred stock to redemption value	(6.1)	(3.4)	(2.3)													
Net profit (loss) attributable to common stockholders	**(14.0)**	**(8.8)**	**(7.5)**	**(3.0)**	**(13.6)**	**(29.5)**	**(55.0)**	**(102.5)**	**(60.8)**	**20.6**	**26.7**	**83.6**	**205.9**	**358.9**	**461.6**	**490.9**
Basic shares outstanding	4.6	6.8	0.2	12.9	12.9	12.9	13.1	13.4	20.1	20.5	20.9	21.3	21.8	22.2	22.7	23.1
Diluted shares outstanding	4.6	6.8	0.2	12.9	12.9	12.9	13.1	13.4	20.1	21.5	22.0	22.4	22.9	23.3	23.8	24.3
Basic GAAP EPS	**$ (1.73)**	**$ (1.30)**	**$ (31.03)**	**$ (0.24)**	**$ (1.06)**	**$ (2.29)**	**$ (4.19)**	**$ (7.65)**	**$ (3.02)**	**$ 1.01**	**$ 1.28**	**$ 3.91**	**$ 9.45**	**$ 16.16**	**$ 20.37**	**$ 21.24**
Diluted GAAP EPS	**$ (1.73)**	**$ (1.30)**	**$ (31.03)**	**$ (0.24)**	**$ (1.06)**	**$ (2.29)**	**$ (4.19)**	**$ (7.65)**	**$ (3.02)**	**$ 0.96**	**$ 1.22**	**$ 3.73**	**$ 9.00**	**$ 15.39**	**$ 19.40**	**$ 20.23**

Source: Company Reports and JMP Securities LLC

Company Description

Proteon is a late-stage biopharmaceutical company engaged in the development of novel therapeutics to treat patients with vascular and renal disease. The company is developing a novel therapy to improve the outcomes of vascular access surgeries for dialysis patients. The company's lead product, PRT-201, is a recombinant human elastase solution applied to the exposed blood vessel during a surgical procedure to prevent remodeling of the blood vessel that can reduce vascular diameter and blood flow, resulting in high failure rates and fallback to ineffective and high-risk access methods, such as catheters. PRT-201 has completed Phase II clinical development, and demonstrated clinical efficacy in a subset of vascular access procedures known as radiocephalic arteriovenous fistulas (AVF). We estimate greater than 137,000 AVF procedures will be performed in the U.S. in 2015. The company initiated the first of two Phase III trials by the end of 2014, and a second Phase III trial by 1H2015.

Investment Risks

Potential risks to our price target include, but are not limited to, clinical, regulatory, commercial and competitive factors.

Clinical and regulatory. If PRT-201 were to fail to show adequate efficacy in its Phase III trials, the FDA may not provide marketing approval in the U.S. If PRT-201 were to demonstrate unexpected serious adverse effects, this would also prevent market approval or potentially limit the scope of the intended market. Additionally, if the FDA and EMEA do not approve PRT-201, Proteon's stock price would likely suffer.

Partnering. Proteon plans to commercialize PRT-201. If it becomes necessary for it to develop and market any of its programs due to the inability to garner a partner, it may be difficult to develop an internal commercial structure. Management has limited experience in commercialization and marketing activities. In early 2014, Novartis declined its option to buy PRTO for $550MM.

Financial. PRTO currently derives revenue capital raised through financing. The company sold ~6,110,000 shares in October 2014, raising gross proceeds of ~$61.1MM. As a result, it is projected to finish 4Q14 with ~$60.3MM in cash, equivalents, and marketable securities. We expect this funding to be able to carry the company to 2017. Like most non-profitable biotechnology companies, PRTO will likely need to seek additional financing,, exposing current investors to dilutive risk.

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Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.
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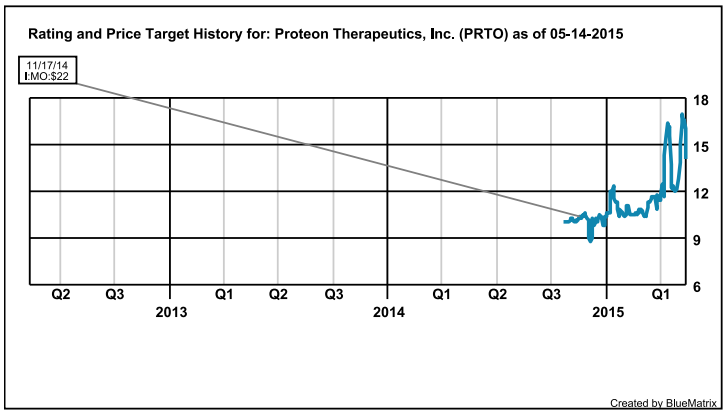
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	279	*62.00%*	Buy	279	*62.00%*	95	*34.05%*
MARKET PERFORM	Hold	140	*31.11%*	Hold	140	*31.11%*	17	*12.14%*
MARKET UNDERPERFORM	Sell	9	*2.00%*	Sell	9	*2.00%*	0	*0%*
COVERAGE IN TRANSITION		21	*4.67%*		21	*4.67%*	4	*19.05%*
TOTAL:		450	*100%*		450	*100%*	116	*25.78%*

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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