Versartis

Equity Research

Company Quick Take

June 24, 2014

Price: $28.87 (06/23/2014)

Price Target: $45.00

OUTPERFORM (1)

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Key Data

Symbol	NASDAQ: VSAR
Market Cap (MM)	$698.5

Solid Results And Long-Duration Profile Remains Intact

The Cowen Insight

The positive 6 month results presented at the ICE/ENDO conference reaffirm VRS-317 as the only potential once-monthly long-acting hGH therapy in development. Given this significant de-risking event and the anticipated near-term initiation of Phase III studies – and our consultants' view of the low clinical risk moving forward – we see significant value creation from these levels.

VRS-317 Profile Remains Exceedingly Attractive

Versartis presented positive 6 month VRS-317 results from a recently completed Phase IIa pediatric GHD study at the ICE/ENDO 2014 annual conference in Chicago. VRS-317 demonstrated efficacy and safety comparable to the highest approved doses of market-leading daily growth hormone therapies, Genotropin and Norditropin. Our consultants believe that the efficacy data looks solid, the adverse event profile is as clean as the currently marketed daily therapies, and that this program leads the competitive field in long-duration therapy, which is where the hGH treatment paradigm is moving. Importantly, with these positive results, we now view the VRS-317 program as significantly de-risked as our consultants indicate that the 6-month efficacy profile should be predictive of the eventual 12 month results in future Phase III pivotal studies. Given the unique long-duration (once or semi-monthly) dosing profile, we believe that this program would be exceedingly attractive to various large pharmaceutical players with already established daily hGH franchises. We would note that our consultants continue to indicate that with either a once-monthly or semi-monthly profile, this remains a potentially transformational product. Management has announced that they will be meeting with the FDA/EMA in Q3 and we expect them to use that feedback to design and begin a pivotal Phase III pediatric GHD clinical trial in early 2015. The final Phase III plans should be shared in late October/early November and we now know that only semi-monthly, and monthly, dosing regimens will be tested in those clinical studies. Assuming a normal timeline to initiate the clinical studies, we could see interim 6 month high velocity (HV) results in 2016, with the final 12 month data in early 2017, and a potential filing later in 2017. In addition to these plans – and given the recent data – the Company has transitioned the VRS-317 patients in the ongoing safety expansion study from a weekly dosing regimen to a higher dose semi-monthly regimen. This should provide valuable insight on safety before deciding what exact doses (mg/kg) to take into Phase III. Also, activities for a Japanese PK/PD bridging study should be initiated in 2015 with a pivotal trial to follow. The bottom line is that we continue to believe that VRS-317, if successfully developed as a long-duration product, would alter the standard of care.

As for the specific data, we believe – via conversations with investors – that there were a few points of misunderstanding: (1) there was some inappropriate cross-trial comparisons to the Opko once-weekly product, which had HV measurement data >12 cm/yr when compared to VRS-317's 8-9 cm/yr. Our consultants noted that this comparison is highly inappropriate as the demographics behind the patient populations were entirely different. He noted that the Opko study was essentially

performed in younger, more severe patients, which should easily achieve higher height velocity measurements than the demographics of the VRS-317 patients, which were older, and had more moderate disease. He indicated that if the VRS-317 study was run in a similar population that the HV results would be much higher. Nonetheless, in our view, Versartis performed the appropriate study for what will ultimately be the target U.S. patient population. Lastly, given the safety and efficacy profile of the relatively low doses studied, Versartis does have the ability to take the VRS-317 doses to higher levels in future studies which could potentially achieve greater HV results**;** (2) there was some concern about the 5 transient IGF-I SDS scores above 2. However, the market-leading daily therapies often have patients transiently score above 2 IGF-I SDSs and therefore this does not appear to be an issue. The clear takeaway is that these issues appear both explainable and un-concerning to experts in the field, and that the profile remains intact.

Specifics Of The ICE/ENDO 2014 Data

Similar to the initial 3 month data, the primary endpoint of repeat weekly, semi-monthly, and monthly dosing of VRS-317 over a 6 month period showed that annualized 6 month height velocity measurements were comparable to age-matched historical controls (on daily injection). Additionally, there was no statistically significant difference between the three dosing regimens, which indicates that the potential once-monthly profile is still intact. Importantly, VRS-317 was safe and well-tolerated in the naive, pre-pubertal children as only mild and transient adverse events, which are typically observed with hGH therapy initiation, were observed. There were no SAEs or unexpected AEs. There were 5 patients with transient excursions of IGF-I SDS scores above 2 in the monthly dosing cohort, but as we stated previously, this is un-concerning. We note that the cutoff of 2 is the Company's own stringent requirement and that the FDA is more concerned about levels reaching 3 (per hGH treatment guidelines), which did not occur in the study. Also, as indicated by "transient excursions," these IGF-I SDS scores subsequently returned to normal. The bottom line is that after an additional 3 months of VRS-317 treatment exposure (up to 6 month total), VRS-317 has demonstrated impressive efficacy, a safety profile that appears to be cleaner than previous long-acting therapies in development, and is still the only long-acting hGH therapy in development with a potential once-monthly profile. Our consultants suggest that the largest unmet need with respect to current daily hGH therapies is compliance/convenience, as a large percentage of treated patients are significantly non-compliant, resulting in decreased height velocity - or more specifically - a lack of efficacy over time.

As for the valuation, with the positive 6 month VRS-317 results and subsequent de-risking, we arrive at a near-term base case, interim valuation of $45 per share. While VSAR shares are unlikely to find their way to those levels immediately, we believe that they should approach our price target as we near Phase III initiation and investors begin to better understand that the risks associated with the 12 month results are relatively low. Further de-risking in Phase III for VRS-317 and assuming commercial success should take the value closer to $65-70. We have included peak sales estimates of $400MM+, $400MM+, and approximately $250MM in the target US, EU, and Japanese pediatric GHD markets, respectively. However, we – and our consultants – believe that these peak sales estimates could likely prove conservative if the once-monthly profile of VRS-317 holds up (which we believe it will) and no safety issues are observed, as use could spread into other indications.

Versartis Is Seeking To Alter/Transform the Standard-Of-Care

VRS-317 is Versartis' lead drug candidate, which is a long-acting recombinant human growth hormone (rhGH) in Phase II development for pediatric growth hormone deficiency (GHD) and adult GHD. Initial data is suggestive of a once-monthly profile, which would give the product a significant commercial advantage when competing with the current daily hGH therapies. Our consultants suggest that the largest unmet need with respect to current daily therapies is compliance/convenience as a large percentage of treated patients are significantly non-compliant resulting in decreased height velocity – or stated more clearly – a lack of efficacy over time. VRS-317, if successfully developed as a once-monthly product, would clearly significantly alter the treatment landscape. According to our physician consultants, Versartis appears to be among the companies (Novo Nordisk; Prolor/OPKO Health) leading the field in long-acting hGH development. Our consultants have stated that Versartis has been the most transparent to-date with VRS-317's clinical progress – and importantly – has experienced no significant safety issues (injection site reactions; lipoatrophy; negative metabolic effects; and/or anti-drug antibodies) that have historically plagued other long-acting hGH programs in development. Worth noting, VRS-317 is the only potential once-monthly formulation in development (vs. once-weekly) giving it a potential significant marketing advantage – and setting the stage to transform the standard-of-care.

Our physician consultants are well aware of VRS-317, believe it is one of the more exciting long-acting hGH programs in development, and believe the management team is by far the most accomplished/experienced in this area.

The Versartis management team appears unparalleled in its experience in this area. Specifically, several of the management team members led or managed clinical trials for the current market-leading hGH products (Norditropin; Nutropin AQ) and were also involved with hGH product manufacturing (Protropin; Nutropin). Additionally, the CEO, Dr. Jeff Cleland, was the team leader through the launch of the only FDA approved long-acting hGH product, Nutropin Depot. Our physician consultants are well aware of the VRS-317 program, believe it is one of the more exciting long-acting hGH programs in development, and believe this management team is of the highest quality in the space. We agree.

The Company has retained worldwide rights for VRS-317 and it fully expects to commercialize VRS-317 in the US and we expect a European commercial strategy to be identified in the next 12-24 months. Our hope is that the European rights are retained to provide maximum value if an acquisition were to be contemplated (which although unnecessary to realize significant value is still a highly probable outcome). VRS-317 has Orphan Drug designation, which entitles Versartis to 7 years of market exclusivity in the US and 10 years in the EU. This protection supplements the current VRS-317 intellectual property, which protects the compound to at least 2026 – and potentially to 2030 and beyond – based upon recently filed patents. Versartis estimates the worldwide daily growth hormone market was approximately $3B in 2012 and has exhibited a 6% average annual growth rate over the past 5 years. By 2018, the worldwide daily hGH market is expected to grow a cumulative 30-40% to $4B+. Importantly, $1.5B, or 50% of the current market is attributed to pediatric GHD, VRS-317's initial indication. The remaining 50% or $1.5B in sales consists of adult GHD, idiopathic short stature (ISS), Turner Syndrome (TS), and others. While Versartis estimates adult GHD, ISS, and TS (excluding other), make up 30% of the overall market or $900MM, our consultants estimate that true adult GHD (on-label) is only 10% of the pediatric market, or $150MM. Of the remaining $1.35B in sales (ISS, TS, and other), our consultants suggest that a very substantial portion of that is due to off-label administration for adults who want to achieve anti-aging or body enhancing effects. We estimate that this could account for up to a third of the total market, or

approximately $900MM. This would suggest that the ISS and TS opportunity is around $450MM in in combined sales.

The $3B global market consists of the three major territories: the US, EU, and Japan. Versartis estimates the US and EU markets make up approximately 35-40% of the global market each, or $1.1-1.2B in sales. In the US, the pediatric market is roughly $450MM or just under 40% of the hGH market, while it is an estimated $550MM or 50% in the EU. The Japanese market is about half the size of the US and EU at $600MM, but interestingly, pediatric GHD accounts for almost the entire market, or 80%+. Thus, while it is only 20% of the global GHD market, it is 30% of the pediatric GHD market, which is increasingly relevant to VRS-317's initial indication and ultimately, commercial opportunity.

We – and our consultants – believe that the entrance of a long-acting growth hormone product would be very competitive and not only cannibalize a sizable portion of the existing market, but it would also expand the market. If VRS-317 is successfully developed and approved, we estimate that it could achieve 35% penetration in the existing US and EU hGH markets within 7 years, which would equate to $320MM and $300MM in sales, respectively. In Japan, we believe that a 20%+ penetration of the market within 5 years is certainly achievable resulting in just under $200MM sales. Stated another way, the initial indication could yield nearly $1B in revenue in relatively short window of commercialization.

Due to the availability of daily rhGH therapies for almost three decades, combined with the inability for drug companies to successfully develop and commercialize new, long-acting rhGH therapies, the worldwide hGH market is well-established, undifferentiated, and highly fragmented. A couple of the early hGH adopters, Novo Nordisk and Pfizer, split >50% of the worldwide market, while the remaining <50% is split by Teva, Genentech/Roche, Merck, Sandoz, and Lilly. Since the clinical efficacy of these daily hGH therapies is largely equivalent, competition within the marketplace is fierce and based upon tertiary issues like company history/reputation, service, and device innovation. We – and our consultants – believe that the entrance of a long-acting growth hormone product would be very competitive and not only cannibalize a sizable portion of the existing market, but it would also expand the market through increased product attractiveness to patients and improved compliance. If VRS-317 is successfully developed and approved, we estimate that it could achieve 35% penetration in the existing US and EU hGH markets within 7 years, which would equate to $320MM and $300MM in sales, respectively. In Japan, we believe that a 20%+ penetration of the market within 5 years is certainly achievable resulting in just under $200MM sales. Stated another way, the initial indication could yield nearly $1B in revenue in a relatively short window of commercialization.

The GHD Market Lacks Innovation – Daily rhGH Injections Have Been The Standard Of Care For Decades

GHD can be treated with daily subcutaneous or intramuscular injections of growth hormone, now available as a recombinant protein produced from bacteria. Treatment may vary depending on the age of the patient and the cause. In children suffering from GHD, the treatment can last multiple years as the patient is growing. For those with the most severe form of GHD, lifelong treatment may be recommended. Adult patients diagnosed with GHD typically receive growth hormone supplements at a reduced dose as compared to the dose administered to children, and the duration of the treatment is contingent on the indication.

As a large peptide molecule, growth hormone needs to be directly injected subcutaneously or intramuscularly to be able to enter the circulatory system as the acidity of the stomach would otherwise degrade the protein. The daily administration of growth hormone can be given with traditional syringes and needles, or with pen injectors. Compared to needle-based methods of injection, needle free injectors have also been developed, which aim to eliminate both the physical and mental discomfort associated with the delivery and significantly improve the ease of use. This is especially important in children, which is the largest market opportunity for GHD and hence, why pediatric GHD is VRS-317's initial indication.

Daily injections of hGH can be a burden for patients – especially children, who tend to be more needle phobic and overall less compliant than adults. Parents basically have to check in on their children to make sure they took their shot every night (365 injections per year) for potentially greater than 7 years (2,500+ injections). Rosenfeld et al (2008) estimates that only 36% of patients are compliant and that 41% and 23% of patients are occasionally non-compliant and completely non-compliant, respectively. Many of these patients are also skeptical of treatment.

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Importantly, compliance has been shown to be correlated to increases in height velocity (HV). More than 2 skipped doses per week – which our consultants note is likely in a substantial portion of patients – can statistically significant reduce height velocity by approximately 50%, which would dramatically reduce the treatment benefit.

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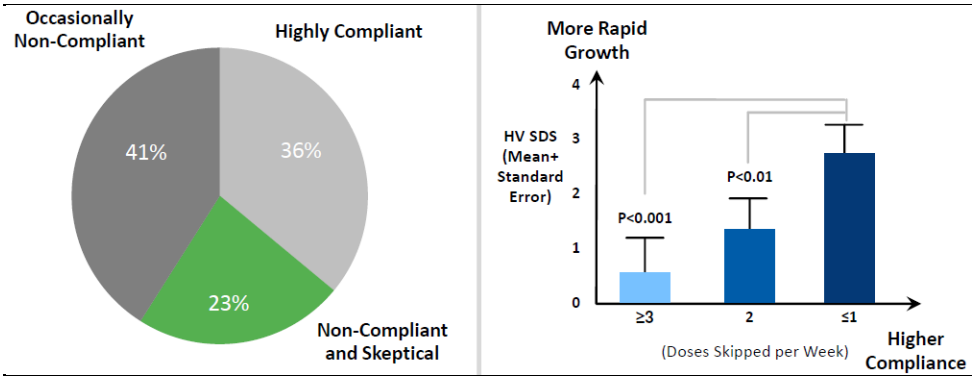
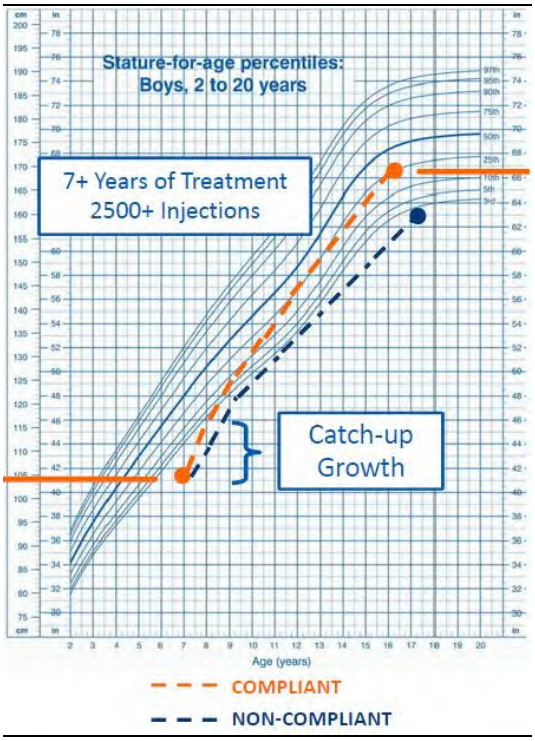
Figure 1 Daily Injections Often Result In Poor Compliance And Suboptimal Outcomes



Source: Company Reports; Rosenfeld et al (2008); Cutfield et al (2011)

Non-compliance with daily hGH injections can also significantly reduce the ability for patients to achieve "catch-up growth." The "catch-up growth" phase is clearly a critical part of the GHD treatment paradigm as it allows patients to reach the second or third decile of height for people of comparative age. Some analyses suggest that non-compliant patients fall well below this target and end up achieving a height well below average and below the bottom of the stature table for people of comparative age.

Figure 2 "Catch Up" Growth Is Critical And Impacted By Compliance



Source: Company Reports; CDC; Health Technology Assessment 2010/ KIGS Database; modified by Cowen and Company

Therefore, for some time now the primary goal of any company interested/involved in the hGH space has been to develop a long-acting growth hormone, which would improve compliance/convenience, and therefore make a more normal stature achievable for a larger percentage of patients, which is the primary objective of hGH therapy.

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VRS-317 Has The Potential To Be The First Long-Acting hGH Product In A World Of Daily Therapies

The hGH market has been established for quite some time now as daily therapies have been available since the 1980's. While early work on hGH therapy began in the 1940's, hGH treatment was only made available by way of extracting hGH from human cadaver pituitary glands from the 1950's on. However, in the 1960's a shortage of hGH extraction began and worsened in the 1970's as autopsies decreased. This marks the beginning of the need for recombinant hGH. Genentech (now Roche) was the early innovator in the space and received approval for Protropin in October 1985 for hypopituitary dwarfism and since then, Pharmacia (now Pfizer) introduced Genotropin, Novo Nordisk introduced Norditropin, and Serono introduced Saizen. Eventually, Genetech (now Roche) introduced a second hGH product, Nutropin, in March 1994 and discontinued Protropin in in 2004.

Important Takeaways From The Development/Commercialization Failure Of Previous Long-Acting Therapies

There were a few main issues with Nutropin Depot that physician consultants believed resulted in its demise: (1) it was originally marketed as a once-monthly therapy and based on clinical data, efficacy and drug exposure was more suggestive of once-weekly therapy, so it provided incomplete coverage and patients were achieving inferior HV results to daily therapies at 6 months; (2) it used a very large 21-gauge needle, which resulted in painful injections; and (3) it was a viscous solution and contained microspheres, which made it stay in the injection site for a long period of time and caused lipoatrophy, or a localized loss of fat tissue over time.

As stated previously, several companies have tried to develop and commercialize long-acting growth hormone products in the past only to have them fail in clinical development or upon commercialization. In December of 1999, Genentech (in collaboration with Alkermes) received approval of Nutropin Depot (somatropin injectable suspension) for pediatric growth hormone insufficiency. This was the first long-acting hGH therapy to reach the market and there was a lot of enthusiasm for it as our consultants note that it was capturing an estimated 70% of new patient starts in the beginning. However, commercialization of Nutropin Depot eventually failed and it was pulled from the market. There were a few main issues with Nutropin Depot that physician consultants believed resulted in its demise: (1) it was originally marketed as a once-monthly therapy and based on clinical data, efficacy and drug exposure was more suggestive of once-weekly therapy, so it provided incomplete coverage and patients were achieving inferior HV results to daily therapies at 6 months; (2) it used a very large 21-gauge needle, which resulted in painful injections; and (3) it was a viscous solution and contained microspheres, which made it stay in the injection site for a long period of time and caused lipoatrophy, or a localized loss of fat tissue over time. This can cause an unsightly-looking dimple at the injection site. Nodules, which are raised bumps in or under the skin greater than 0.5 cm in diameter, were also observed with treatment.

These issues have been reflected in many of the other depot and PEGylated hGH development programs. In fact, many of these programs are no longer active in development. In addition to the issues described above with Nutropin Depot, which have been reflected in other development programs, these products are typically complex to manufacture resulting in lower yields and a higher cost of goods and therefore, a lower profit margin. Additionally, PEGylated hGH products have been known to cause even more severe lipoatrophy; they typically only support a dosing regimen less than one week, have slow absorption due to drug product viscosity, and also results in higher COGS due to post-production modifications.

Clearly, developing long-acting hGH products with existing depot and PEGylation technologies has been incredibly challenging and has not generated any viable products to-date. In this context, our consultants believe that VRS-317's XTEN technology is much more interesting and has a higher chance of clinical success.

Specifically, our physician consultants are unsure if the Ambrx product is still in development after the company's previous partner, Serono, walked away from the program due to AEs observed that were associated with PEGylation of the molecule. Our consultants believe that Serono must have walked away for reasons similar to why Novo Nordisk discontinued a previous long-acting hGH PEGylated candidate. LG has a sustained-release, once-weekly depot product approved in Korea, but it involves a large needle (painful injections), requires mixing it into a cloudy solution, and it delivers a low concentration of hGH, which requires two shots and suboptimal efficacy. Apparently, LG applied to the FDA two years ago, but its application has been put on hold ever since. Our physician consultants believe the Altus was in Phase I before the company went bankrupt and are unsure if it has been moved forward in the clinic or if another company has picked up the rights. Clearly, developing long-acting hGH products with existing depot and PEGylation technologies has been incredibly challenging and has not generated any viable products to-date. In this context, our consultants believe that VRS-317's XTEN technology is much more interesting and has a higher chance of clinical success.

Figure 3 Long-Acting Growth Hormone Products With Significant Tradeoffs No Longer In Development

Type	Depots	PEG-hGH
Companies	Genentech, LG, Altus	Novo Nordisk, Pfizer, Ambrx
Examples of Safety Issues	Injection Site Reactions – Nodules, Lipoatrophy	Severe Lipoatrophy
Dosing Regimen (PK Profile)	Incomplete Coverage for Regimen	Less than One Week, Slow Absorption
Manufacturing	Complex, Lower Yield, Higher COGS	Post-Production Modifications, Higher COGS

Source: Company Reports

VRS-317's Early Clinical Data Is Supportive Of Once-Monthly Dosing

Versartis' VRS-317 clinical program consists of early Phase I and Phase IIa data (3 and 6 month HV endpoints). VRS-317 has a relatively simple and straightforward clinical development and regulatory process. For approval, a single dose-finding trial (just completed Phase I/IIa) is required along with a Phase III trial. A Phase III study could be initiated in early 2015 with potential interim 6 month mean height velocity (HV) results in 2016 and topline 12 month mean HV results in the first half of 2017.

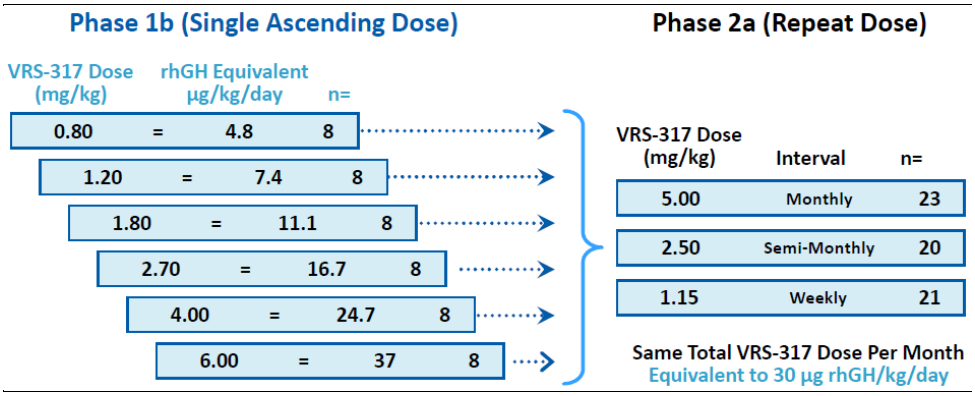
Phase Ib Study Portion Designed To Select Proper Dosing Regimen

The first Phase 1b portion of the completed Phase Ib/IIa study had a single ascending dose design to better elucidate the pharmacokinetics and pharmacodynamics (PK/PD) of VRS-317 and to select a proper dosing regimen. The study enrolled pre-pubertal GHD children (ages 3-11) in the US that were naïve to hGH treatment. In addition to looking at PK/PD, safety and tolerability was observed. In total, 48 patients (8 per dose cohort) will receive a single dose of VRS-317 ranging from 0.8 to 6.0 mg/kg (equivalent to 4.8-37 µg/kg/day of current daily rhGH therapy). Blood samples were taken at 6 points over 30 days and safety monitoring occurred 60 days post-dose.

Phase IIa Study Portion Designed To Select Proper Dosing Interval

The recently completed Phase IIa repeat dose portion of the study (n=64) was a 6 month study looking at height velocity (HV) after 6 months as well as PK, IGF-1 response, and safety data. The 64 patients in the Phase IIa portion of the study were distributed roughly evenly across three cohorts with weekly, semi-monthly, and monthly dosing intervals – all dosing regimens equate to the same total VRS-317 dose per month (equivalent to 30 µg/kg/day of current daily rhGH therapy). After 6 months of treatment, all patients are allowed to continue treatment in a clinical trial extension study.

Figure 4 VRS-317 Phase 1b/2a Study Design



Source: Company Reports

For the Phase IIa study portion, there were no clinically or statistically significant between group differences. Worth noting, the bone age of 6+ years in this patient population is considered normal for pediatric GHD patients, which is delayed roughly 1.5 years. IGF-1 standard deviation scores (SDSs) between -1.5 and -2.0 are also normal in this patient population and this allows for the early "catch-up" growth upon hGH treatment initiation. Impaired GH stimulation tests results are also considered normal for this patient population.

Figure 5 Phase 2a Trial Subject Demographics At Baseline

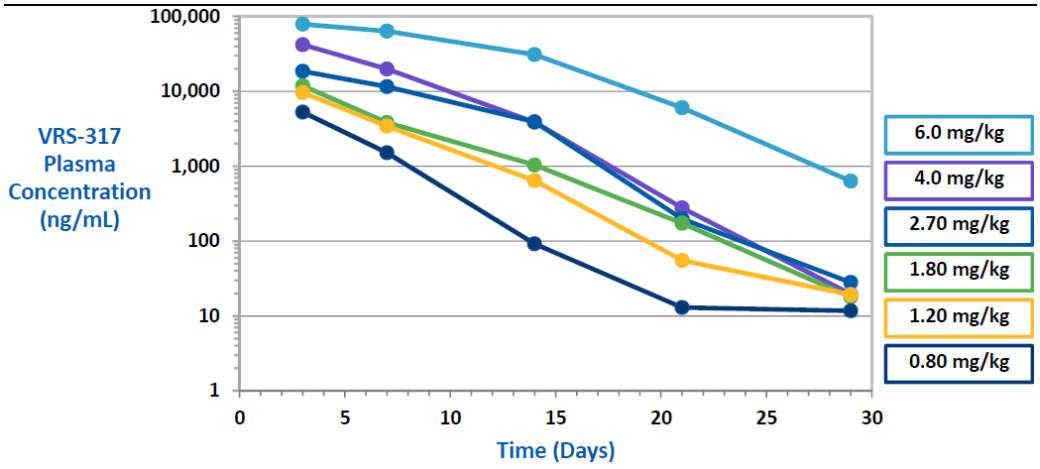
	All Subjects	1.15 mg/kg Weekly	2.5 mg/kg Semimontly	5.0 mg/kg Monthly
# Subjects	64	21	20	23
Age (Screening)	7.83 (2.4)	7.51 (2.3)	7.96 (2.4)	8.01 (2.5)
Males/Females	37/27	10/11	13/7	14/9
Height SDS	-2.51 (0.5)	-2.70 (0.7)	-2.53 (0.4)	-2.33 (0.5)
Weight (kg)	20.8 (6.4)	19.1 (5.3)	21.8 (7.4)	21.4 (6.4)
Bone Age	6.4 (2.4)	6.1 (2.5)	6.6 (2.2)	6.4 (2.6)
GH Stimulation Test	5.4 (2.6)	5.7 (2.0)	4.9 (2.8)	5.5 (2.8)
IGF-I SDS	- 1.72 (0.8)	-1.55 (0.9)	-2.00 (0.8)	-1.62 (0.7)
Phase 1b	44/64	14/21	14/20	16/23
Phase 1b Mean Dose	2.9 (1.8)	2.7 (1.8)	2.9 (1.9)	3.0 (1.8)

Source: Company Reports

Phase Ib PK And IGF-1 Results Provide Rationale For Phase IIa Study Portion Dose Selection

PK results (on the following page) from the Phase Ib portion of the study for the various doses tested demonstrated that adequate VRS-317 levels remained in circulation through 30 days.

Figure 6 Phase 1b VRS-317 Pharmacokinetic Results



Source: Company Reports; modified by Cowen and Company

IGF-1 is a hormone primarily produced by the liver that is a mediator of hGH and stimulates systemic body growth. IGF-1 production is stimulated by hGH, which is produced in the anterior pituitary gland. Therefore, GHD patients (hGH deficient by nature) and patients with short stature commonly have lower than average IGF-1 levels. This is why Versartis measured VRS-317's effect on IGF-1 levels in the Phase Ib portion. IGF-1 standard deviation scores (SDS) are a measure of a range of IGF-1levels in normal children, so a SDS of 0 is considered normal. After administration of a single VRS-317 dose above 2 mg/kg, maximum IGF-1 SDS reached above 0 and into the 0-2 target range. Importantly, no significant IGF-1 overexposure (sustained levels above 2 IGF-1 SDS) was observed. There were only 2 transient time point values of IGF-1 SDS above 2.0 and even these values were barely above – on the order of 2.05 or 2.08 for example. Importantly, the Company is being particularly strict by setting an IGF-1 SDS cutoff of 2. Typically, only an IGF-1 SDS greater than 3 is of concern based upon current hGH treatment guidelines, so VRS-317 still had a large buffer here and we wouldn't expect this to be an issue with the FDA.

A single dose of VRS-317 between 4-6 mg/kg was also enough to achieve the target range of a 1.2-1.6 increase in average monthly IGF-1 SDS levels. Versartis believes that increases of average monthly IGF-1 SDS levels within the target range, which were achieved, are sufficient to support monthly dosing. Additionally, our physician consultants feel that the IGF-1 data to-date "looks very good."

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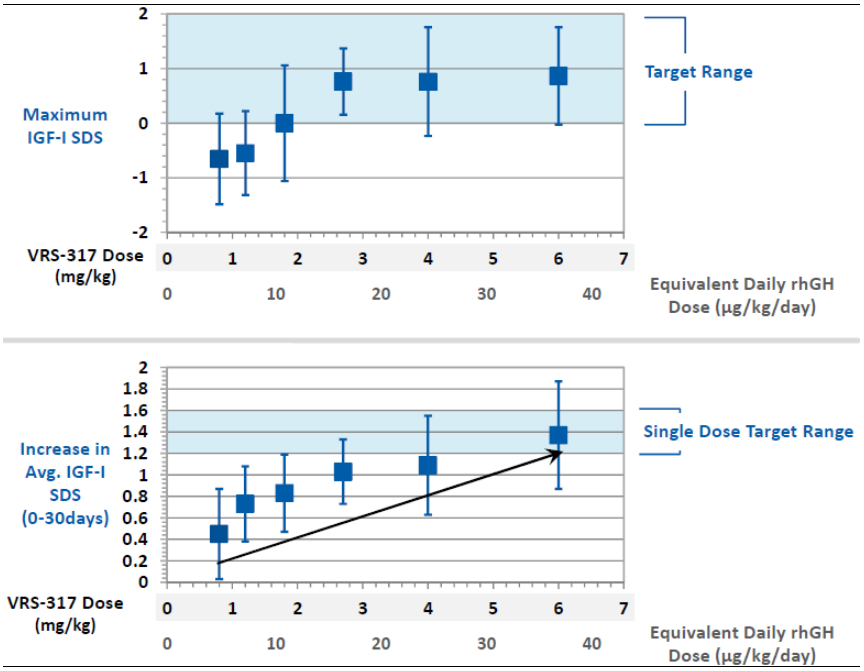
Figure 7 Phase 1b IGF-1 Standard Deviation Score Response To A Single Dose Of VRS-317



Source: Company Reports

Based upon the PK and IGF-1 results described above, Versartis selected the 5 mg/kg VRS-317 dose to go forward into the Phase IIa portion of the ongoing study. The 5 mg/kg VRS-317 dose is equivalent to 30 µg/kg/day of current daily rhGH therapy. This is somewhere in between the labeled dosing ranges for most of the daily hGH products and lower than the average European (33 µg/kg/day) and US (43 µg/kg/day) administered doses. The Company believes this dose should allow for minimal safety and tolerability risk and avoid overexposure of elevated IGF-1 levels.

Figure 8 Current Labeled Pediatric GHD Doses And Phase IIa Dose Selection

	Daily rhGH (µg/kg/Day)
Norditropin (Novo)	24 – 34
Genotropin (Pfizer) & Omnitrope (Sandoz)	24 – 34
Nutropin (Genentech/Roche)	43
Humatrope (Lilly)	26, 43
VRS-317 Phase 2a Dose	30
Average European Dose	**33**
Average US Dose	**43**

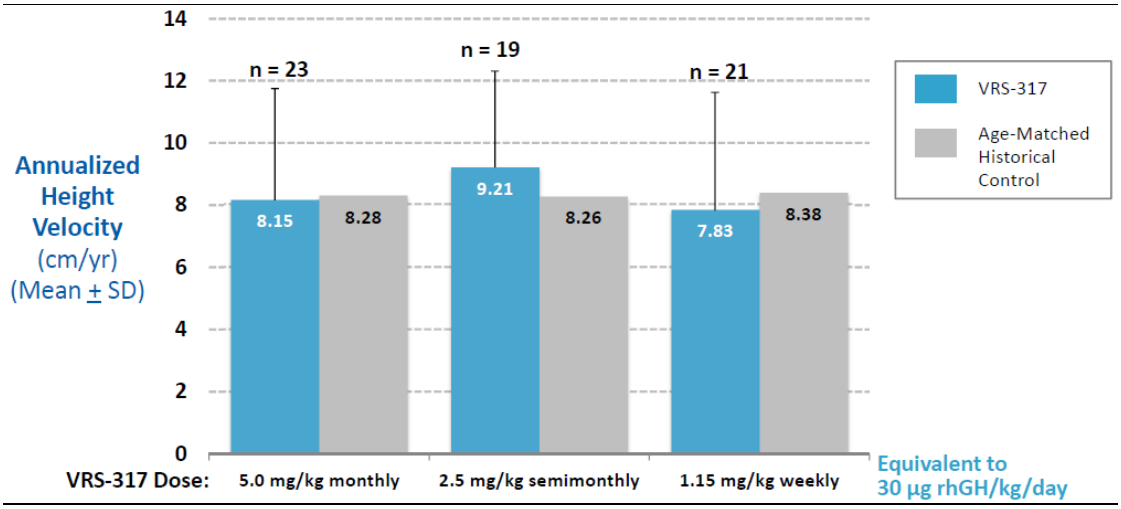
Source: Company Reports

Preliminary Phase IIa Results Demonstrate Once-Monthly Proof-Of-Concept

We – and our consultants – believe this initial data is very promising and not only demonstrates proof-of-concept for VRS-317 as a once-monthly product, but should be somewhat predictive of the 6 month HV results to read out in June.

When compared to age-matched historical controls that were generated from the KIGS Database (~3,000 patients) of 12 month HV measurements from daily 33 µg/kg/day hGH therapy (European dose), the annualized HV measurements (from 3 months) of all three VRS-317 dose regimen cohorts were numerically equivalent.

Figure 9 Preliminary Phase IIa 3 Month Annualized VRS-317 Height Velocity Data



Source: Company Reports

VRS-317's Initial Safety Profile Matches That Of Current, Popular Daily hGH Therapies

Adverse events (AE) through February 28, 2014 have been reported thus far and VRS-317 treatment has been well-tolerated with no serious adverse events or unexpected adverse events occurring. No negative metabolic effects or anti-drug antibodies have been observed either. Importantly, no lipoatrophy or nodules, which has plagued other long-acting hGH products in the past (including Nutropin Depot), were observed.

Adverse events (AE) through February 28, 2014 have been reported thus far and VRS-317 treatment has been well-tolerated with no serious adverse events or unexpected adverse events occurring. No negative metabolic effects or anti-drug antibodies have been observed either. Importantly, no lipoatrophy or nodules, which has plagued other long-acting hGH products in the past (including Nutropin Depot), were observed. About half of VRS-317 treated subjects experienced an AE that was primarily transient and all of them were very mild, or Grade 1, except for 4 patients with transient moderate Grade 2 AEs. A total of 1000 VRS-317 injections have been administered and the primary AE observed was injection site discomfort, which was seen in 36% (23/64) of patients and was less than 30 minutes in duration. There was only one subject who dropped out due to generalized urticarial (i.e. rash) and all other subjects continued in the study. Put simply, we believe the VRS-317 initial safety profile appears to be equivalent to the current daily hGH therapies that dominate the marketplace and our consultants opine.

Figure 10 Phase IIa Adverse Events

ADVERSE EVENT[1]	1.15 mg/kg Weekly	2.5 mg/kg Semimonthly	5.0 mg/kg Monthly
# Subjects	21	20	23
# Subjects with any AE	10	9	10
Injection Site Discomfort[2]	7	8	8
Injection Site Erythema	3	1	2
Injection Site Blanching	0	0	1
Injection Site Bruising	0	0	1
Musculoskeletal Pain	2	1	2
Headache	0	1	1
Dizziness	0	0	1
Maculopapular & Urticarial Rash	0	1	0

Source: Company Reports; modified by Cowen and Company

An extension trial (n=250) for all GHD children that completed the Phase IIa portion of the Phase Ib/IIa study as well as the future Phase III trial is ongoing. These patients will receive VRS-317 treatment until drug approval, so there will be no interruption in their treatment plan, which is critical, especially in the early stages of "catch-up" growth. This should provide Versartis with up to 7 years of patient safety data by the time of approval. Also, switching data from the daily comparator to VRS-317 will be acquired, which should be important when considering that daily hGH-treated patients would switch over once VRS-317 is made available to the marketplace upon approval.

Phase III Program To Be Similar To The Omnitrope/Valtropin Registration Studies

The Phase III registration study can begin as soon as early 2015. We would note that even if for some reason, the once-monthly dosing regimen doesn't provide adequate efficacy and a twice-monthly regimen is taken into Phase III, our consultants believes this will not meaningful impact as a twice-monthly regimen would clearly still be a significant advantage to existing daily therapies. We – and our consultants – still believe it will demonstrate a once-monthly profiled based upon existing data as discussed previously, but we also believe it's comforting to understand that Versartis has significant wiggle room when it comes to the VRS-317 dosing regimen.

The proposed future Phase III clinical trial design for pediatric GHD will be designed similarly to registration studies conducted for the most recently approved hGH products (Sandoz' and Biopartners' Omnitrope and Valtropin registration studies, respectively). Similar to the Phase Ib/IIa study, it will enroll pre-pubertal GHD children naïve to treatment and have similar inclusion/exclusion criteria. The Company has planned for this trial to include sites in the US, Europe, and Canada. 160 GHD children will be enrolled, randomized (age balanced), and treated with two different VRS-317 dosing regimens (likely once-monthly and twice-monthly) for 12 months when compared to an active daily hGH drug control. We suspect the primary endpoint will be similar to the Phase IIa study (mean change in HV), but using a 12 month endpoint. Importantly, the primary endpoint of mean change in HV will be analyzed for

noninferiority, which we believe substantially reduces the clinical risk in Phase III. Especially, when considering the high correlation between 6 and 12 month mean HV results as discussed previously (and the recent positive 6 month results) and the large margin of noninferiority that the FDA allows (2 cm/year). Subjects who complete the trial will roll over to the ongoing extension trial.

Figure 11 Versartis Annual P&L

VERSARTIS - 2013-2032 ESTIMATED ANNUAL EPS BUILDUP ($MM)

	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	CGR	Comments
U.S. VRS-317 pediatric GHD Sales						$40.0	$100.0	$150.0	$200.0	$250.0	$290.0	$320.0	$335.0	$350.0	$370.0	$385.0	$400.0	$415.0	$270.0	$175.0	NM	- VRS-317 in Phase II; Launch expected in 2018
Growth Rate							+150%	+50%	+33%	+25%	+16%	+10%	+5%	+5%	+5%	+4%	+4%	+4%	-35%	-35%		- Rapid growth expected; biologic-type exclusivity
EU VRS-317 pediatric GHD Sales						$40.0	$110.0	$150.0	$200.0	$250.0	$280.0	$300.0	$330.0	$345.0	$360.0	$380.0	$395.0	$410.0	$265.0	$170.0	NM	- VRS-317 in Phase II; Launch expected in 2018
Growth Rate							+175%	+36%	+65%	+50%	+40%	+30%	+10%	+5%	+5%	+5%	+4%	+4%	-35%	-35%		- Solid growth expected
Japan VRS-317 pediatric GHD Sales								$30.0	$110.0	$140.0	$160.0	$180.0	$195.0	$205.0	$215.0	$225.0	$230.0	$235.0	$240.0	$155.0	NM	- VRS-317 Japan plans not clarified yet; Launch expected in 2020
Growth Rate									+65%	+50%	+40%	+30%	+7%	+5%	+5%	+5%	+3%	+3%	+3%	-35%		- Solid growth expected
Total VRS-317 pediatric GHD Sales						$80.0	$210.0	$330.0	$510.0	$640.0	$730.0	$800.0	$860.0	$900.0	$945.0	$990.0	$1,025.0	$1,060.0	$775.0	$500.0	NM	-VRS-317 could garner $1B+ in revenue given attractive profile
Growth Rate								+57%	+55%	+25%	+14%	+10%	+8%	+5%	+5%	+5%	+4%	+3%	-27%	-35%		- Rapid growth expected; biologic-type exclusivity
Other Indications						$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		- Potential in short-stature, adult GHD, Turner Syndrome etc.
Total Versartis Revenues	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$80.0**	**$210.0**	**$330.0**	**$510.0**	**$640.0**	**$730.0**	**$800.0**	**$860.0**	**$900.0**	**$945.0**	**$990.0**	**$1,025.0**	**$1,060.0**	**$775.0**	**$500.0**		
% Change							+163%	+57%	+55%	+25%	+14%	+10%	+8%	+5%	+5%	+5%	+4%	+3%	-27%	-35%		
Cost of Goods	$0.0	$0.0	$0.0	$0.0	$0.0	$8.0	$21.0	$33.0	$51.0	$64.0	$73.0	$80.0	$86.0	$90.0	$94.5	$99.0	$102.5	$106.0	$77.5	$50.0		
Gross Profit	$0.0	$0.0	$0.0	$0.0	$0.0	$72.0	$189.0	$297.0	$459.0	$576.0	$657.0	$720.0	$774.0	$810.0	$850.5	$891.0	$922.5	$954.0	$697.5	$450.0		
Gross Margin						90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%		- Solid margins
SG&A	$4.4	$12.0	$15.0	$25.0	$50.0	$75.0	$115.0	$130.0	$150.0	$170.0	$190.0	$210.0	$230.0	$250.0	$270.0	$290.0	$310.0	$330.0	$250.0	$100.0	+29%	- Salesforce expansion in 2017-18, in preparation for VRS-317 launch
% of Revs							54.8%	39.4%	29.4%	26.6%	26.0%	26.3%	26.7%	27.8%	28.6%	29.3%	30.2%	31.1%	32.3%	20.0%		- 150 reps@$300K adds $45-50MM
R&D	$14.9	$38.0	$40.0	$45.0	$50.0	$75.0	$74.0	$50.0	$50.0	$45.0	$45.0	$40.0	$40.0	$35.0	$35.0	$35.0	$35.0	$35.0	$35.0	$20.0	+5%	- Clinical trial costs in 2014 of approximately $35MM
% of Revs						93.8%	35.2%	15.2%	9.8%	7.0%	6.2%	5.0%	4.7%	3.9%	3.7%	3.5%	3.4%	3.3%	4.5%	4.0%		- Additional clinical trials for VRS-317 indications
Amortization	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	NM	
Operating Expenses	$19.3	$50.0	$55.0	$70.0	$100.0	$150.0	$189.0	$180.0	$200.0	$215.0	$235.0	$250.0	$270.0	$285.0	$305.0	$325.0	$345.0	$365.0	$285.0	$120.0	+19%	
% of Revenues					NM	NM	NM	54.5%	39.2%	33.6%	32.2%	31.3%	31.4%	31.7%	32.3%	32.8%	33.7%	34.4%	36.8%	24.0%		
Operating Income	($19.3)	($50.0)	($55.0)	($70.0)	($100.0)	($78.0)	$0.0	$117.0	$259.0	$361.0	$422.0	$470.0	$504.0	$525.0	$545.5	$566.0	$577.5	$589.0	$412.5	$330.0	NM	- Operating profit expected in 2020
% Operating Margin	NM	NM	NM	NM	NM	NM	NM	35.5%	50.8%	56.4%	57.8%	58.8%	58.6%	58.3%	57.7%	57.2%	56.3%	55.6%	53.2%	66.0%		
Non-Operating Income																						
Interest Income	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Interest Expense	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other Income	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Non-Operating Income	$0.8	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Pretax Income	($18.5)	($50.0)	($55.0)	($70.0)	($100.0)	($78.0)	$0.0	$117.0	$259.0	$361.0	$422.0	$470.0	$504.0	$525.0	$545.5	$566.0	$577.5	$589.0	$412.5	$330.0	NM	
% of Revs	NM	NM	NM	NM	NM	NM	NM	35.5%	50.8%	56.4%	57.8%	58.8%	58.6%	58.3%	57.7%	57.2%	56.3%	55.6%	53.2%	66.0%		
Income Taxes								$41.0	$90.7	$126.4	$147.7	$164.5	$176.4	$183.8	$190.9	$198.1	$202.1	$206.2	$144.4	$115.5	NM	
Income Tax Rate								35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%		
Net Income - Operations	($18.5)	($50.0)	($55.0)	($70.0)	($100.0)	($78.0)	$0.0	$76.1	$168.4	$234.7	$274.3	$305.5	$327.6	$341.3	$354.6	$367.9	$375.4	$382.9	$268.1	$214.5	NM	
% Net Margin	NM	NM	NM	NM	NM	NM	0.0%	23.0%	33.0%	36.7%	37.6%	38.2%	38.1%	37.9%	37.5%	37.2%	36.6%	36.1%	34.6%	42.9%		
Extraordinary Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Reported Net Income	($18.5)	($50.0)	($55.0)	($70.0)	($100.0)	($78.0)	$0.0	$76.1	$168.4	$234.7	$274.3	$305.5	$327.6	$341.3	$354.6	$367.9	$375.4	$382.9	$268.1	$214.5	NM	
Interest Add-Back	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
EPS (GAAP) - Before Ex. Items	($41.10)	($2.65)	($2.25)	($2.75)	($3.85)	($2.90)	$0.00	$2.45	$5.30	$7.15	$8.10	$8.80	$9.15	$9.25	$9.35	$9.40	$9.30	$9.20	$6.25	$4.85	NM	- Profitable in 2020 following the launch of VRS-317
Growth	NM	NM	NM	NM	NM	NM	NM	NM	+116%	+35%	+13%	+9%	+4%	+1%	+1%	+1%	-1%	-1%	-32%	-22%		
EPS - Extraordinary Items	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		
EPS - Reported	($41.10)	($2.65)	($2.25)	($2.75)	($3.85)	($2.90)	$0.00	$2.45	$5.30	$7.15	$8.10	$8.80	$9.15	$9.25	$9.35	$9.40	$9.30	$9.20	$6.25	$4.85	NM	
Shares - Fully Diluted (MM)	0.5	19.0	24.5	25.2	26.0	26.8	27.6	30.9	31.8	32.8	33.8	34.8	35.8	36.9	38.0	39.1	40.3	41.5	42.8	44.1		- Diluted shares; assuming some onward dilution from options

Source: Cowen and Company

Figure 12 Worldwide Pediatric GHD Market Build

US PEDIATRIC GHD MARKET BUILD

	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	CGR	Comments
Nutropin (AQ)														
US Market Share	27%	26%	26%	25%	26%	23%	22%	20%	18%	17%	17%	16%		- Market leader in the US
Estimated Patients ('000)	5.6	5.7	5.7	5.6	5.6	5.4	5.5	5.3	5.2	5.2	5.0	4.9		
Average Price Per Year	$21	$22	$23	$23	$24	$25	$26	$26	$27	$28	$29	$30		- Based upon NuSpin 20 dose
Estimated US Ped Sales ($MM)	$120	$125	$130	$130	$135	$135	$140	$140	$140	$145	$145	$145	+1%	- Assumes 50% pediatric
Genotropin														
US Market Share	19%	19%	18%	18%	17%	17%	16%	16%	16%	16%	14%	14%		
Estimated Patients ('000)	3.1	3.0	2.8	2.7	2.4	2.4	2.1	2.1	2.0	2.0	1.8	1.7		
Average Price Per Year	$27	$28	$29	$30	$31	$32	$33	$34	$35	$36	$37	$38		- Based upon 0.6 mg dose MiniQuick Pen
Estimated US Ped Sales ($MM)	$85	$85	$80	$80	$75	$75	$70	$70	$70	$70	$65	$65	-3%	- Assumes 50% pediatric
Humatrope														
US Market Share	16%	16%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%		
Estimated Patients ('000)	2.7	2.7	2.8	2.7	2.6	2.5	2.5	2.4	2.3	2.2	2.2	2.1		
Average Price Per Year	$26	$26	$27	$28	$29	$30	$31	$31	$32	$33	$34	$35		- Based upon 24 mg dose
Estimated US Ped Sales ($MM)	$70	$70	$75	$75	$75	$75	$75	$75	$75	$75	$75	$75	+1%	- Assumes 50% pediatric
Norditropin Flexpro (Nordiflex)														
US Market Share	17%	18%	19%	20%	21%	22%	23%	24%	26%	26%	27%	28%		
Estimated Patients ('000)	4.8	4.9	5.1	5.2	5.4	5.5	5.6	5.7	5.8	5.6	5.7	5.8		
Average Price Per Year	$16	$16	$17	$17	$18	$18	$19	$19	$20	$20	$21	$22		- Based upon 15 mg Flexpro dose
Estimated US Ped Sales ($MM)	$75	$80	$85	$90	$95	$100	$105	$110	$115	$115	$120	$125	+5%	- Assumes 50% pediatric
VRS-317														
US Market Share						**7%**	**15%**	**21%**	**26%**	**30%**	**33%**	**35%**		- Conservatively assumes 35% penetration within 7 years
Estimated Patients ('000)						**1.3**	**3.2**	**4.5**	**5.8**	**6.9**	**7.6**	**8.0**		
Average Price Per Year						**$30**	**$32**	**$33**	**$35**	**$36**	**$38**	**$40**		- Priced at parity to market leading daily therapies
Estimated US Ped Sales ($MM)						**$40**	**$100**	**$150**	**$200**	**$250**	**$280**	**$320**	**+41%**	- 2018 US launch
Other Daily hGH Therapies														
US Market Share	22%	24%	25%	26%	28%	26%	25%	23%	22%	21%	21%	20%		
Estimated Patients ('000)	4.0	4.5	4.7	4.9	5.2	5.2	5.4	5.4	5.4	5.4	5.4	5.3		
Average Price Per Year	$25	$26	$27	$27	$28	$29	$30	$31	$32	$33	$34	$35		- On the high end of daily hGH therapies
Estimated US Ped Sales ($MM)	$100	$115	$125	$135	$145	$150	$160	$165	$170	$175	$180	$185	+5%	- Other, newer hGH products gaining share
Total US Ped Patients ('000)	**20.2**	**20.8**	**21.1**	**21.1**	**21.2**	**22.3**	**24.2**	**25.4**	**26.4**	**27.2**	**27.6**	**27.8**	**+3%**	**- Treated patients increase with long-acting therapies**
Total US Ped Market Sales ($MM)	**$450**	**$475**	**$495**	**$510**	**$525**	**$575**	**$650**	**$710**	**$770**	**$830**	**$875**	**$915**	**+7%**	**- Long-acting therapies to expand the market**
% Growth		**6%**	**4%**	**3%**	**3%**	**10%**	**13%**	**9%**	**8%**	**8%**	**5%**	**5%**		**- Market growth coming from approval of new agents**

EU PEDIATRIC GHD MARKET OPPORTUNITY

	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	CGR	Comments
Total EU Ped Market Sales ($MM)	$550	$580	$610	$640	$670	$705	$735	$765	$795	$820	$845	$870	+4%	- EU market experiencing modest growth
% Growth		5%	5%	5%	5%	5%	4%	4%	4%	3%	3%	3%		
VRS-317														
EU Market Share						**5.0%**	**15.0%**	**20.0%**	**25.0%**	**30.0%**	**33.0%**	**35.0%**		- Conservatively assumes 35% penetration within 7 years
Estimated EU Ped Sales ($MM)						**$40**	**$110**	**$150**	**$200**	**$250**	**$280**	**$300**	**+40%**	- 2018 EU launch
Other Daily hGH Therapies														
EU Market Share	100.0%	100.0%	100.0%	100.0%	100.0%	95.0%	85.0%	80.0%	75.0%	70.0%	67.0%	65.0%		
Estimated EU Ped Sales ($MM)	$550	$575	$600	$650	$675	$675	$625	$600	$600	$575	$575	$575	**+0%**	

JAPAN PEDIATRIC GHD MARKET OPPORTUNITY

	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	CGR	Comments
Total Japan Ped Market Sales ($MM)	$450	$480	$515	$550	$585	$620	$655	$690	$725	$760	$790	$820	+6%	- More growth to come from new therapies with better efficacy
% Growth		7%	7%	7%	6%	6%	6%	5%	5%	5%	4%	4%		
VRS-317														
Japan Market Share								**5.0%**	**15.0%**	**18.0%**	**20.0%**	**22.0%**		- Conservatively assumes 20%+ penetration within 5 years
Estimated Japanese Ped Sales ($MM)								**$30**	**$110**	**$140**	**$160**	**$180**	**+57%**	- Potential 2020 Japan launch
Other Daily hGH Therapies														
Japan Market Share	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	95.0%	85.0%	82.0%	80.0%	78.0%		- Current therapies don't have great efficacy
Estimated Japan Ped Sales ($MM)	$450	$475	$525	$550	$575	$625	$650	$650	$625	$625	$625	$650	+3%	

WORLDWIDE PEDIATRIC GHD MARKET OPPORTUNITY

	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	CGR	Comments
Total WW Ped Market Sales ($MM)	$1,450	$1,535	$1,620	$1,700	$1,780	$1,900	$2,040	$2,165	$2,290	$2,410	$2,510	$2,605	+5%	- Continued growth to come from long-acting therapies
% Growth		6%	6%	5%	5%	7%	7%	6%	6%	5%	4%	4%		

Source: Cowen and Company; IMS; PriceRx

Valuation Methodology And Risks

Valuation Methodology

Pharmaceuticals/Specialty

For our valuation methodology, we arrive at fair value utilizing a discounted cash flow (DCF) approach to derive our 12-month price target.

Investment Risks

Pharmaceuticals/Specialty

Risks include: (1) growing competitive dynamics in the specialty pharmaceuticals space; (2) the ability of management to execute on external growth by successfully acquiring new strategic, accretive products; (3) the ability to grow organically and keep the product pipeline robust; (4) potential regulatory delays, rejections, or failures of pipeline products; (5) economic sensitivity of any self-pay products or weakening consumer demand; (6) domestic or international pricing pressures for marketed products; and (7) failure to execute on new product launches.

Risks To The Price Target

Versartis is an early stage clinical development company with a single product and with that carries risk. Failure of Versartis to successfully develop VRS-317, for which its valuation is solely predicated on, could result in a significant decrease to its valuation and corresponding share price.

Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
VSAR	Versartis

Analyst Certification

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COWEN AND COMPANY RATING DEFINITIONS

Cowen and Company Rating System effective May 25, 2013

Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

Sell – The fundamentals/valuations of the subject company are deteriorating and the investment return is expected to be 5 to 15 percentage points lower than the general market return

Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

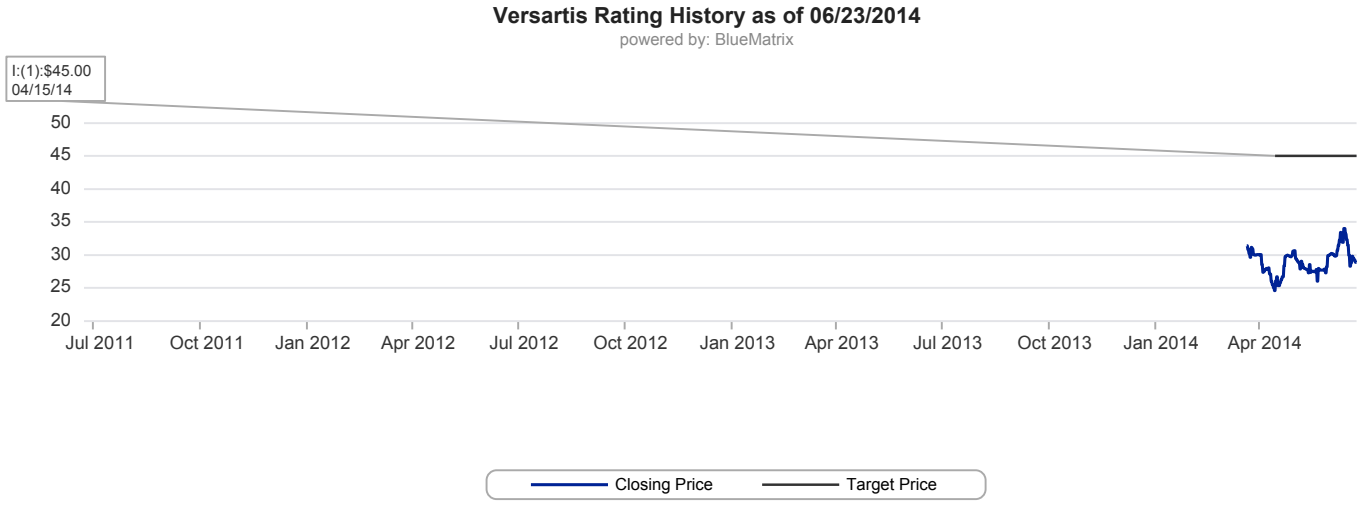
Cowen And Company Rating Definitions

Distribution of Ratings/Investment Banking Services (IB) as of 03/31/14

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	407	57.08%	85	20.88%
Hold (b)	288	40.39%	8	2.78%
Sell (c)	18	2.52%	1	5.56%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

Note: "Buy", "Hold" and "Sell" are not terms that Cowen and Company, LLC uses in its ratings system and should not be construed as investment options. Rather, these ratings terms are used illustratively to comply with FINRA and NYSE regulations.



Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | $xx = Price Target | NA = Not Available | S=Suspended

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