

Today's Changes	Annual EPS	Annual Revenue	Rating/Target
	2014E \$2.65 from \$2.79	No changes	No changes

Versartis

VSAR : NASDAQ : US\$19.34

BUY

Target: US\$45.00

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COMPANY STATISTICS:

Forecast Return:	131.6%
Market Cap (M):	US\$452.0
52-week Range:	16.15 - 36.86
Avg. Daily Vol. (000s):	56.3

EARNINGS SUMMARY:

FYE Dec	2013A	2014E	2015E
Revenue (M):	0.0	0.0	0.0
EPS:	(1.99)	(2.65)	(2.34)

Revenue (M):	Q1	0.0	0.0A	0.0
	Q2	0.0	0.0A	0.0
	Q3	0.0	0.0A	0.0
	Q4	0.0	0.0	0.0
Total		0.0	0.0	0.0
EPS:	Q1	-	(16.13)A	(0.49)
	Q2	-	(0.36)A	(0.55)
	Q3	-	(0.57)A	(0.64)
	Q4	-	(0.35)	(0.68)
Total		(1.99)	(2.65)	(2.34)

SHARE PRICE PERFORMANCE:



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

VRS-317 HEADS INTO PHASE 3 TRIAL IN PEDS EARLY 2015 WITH HIGHER SEMI-MONTHLY DOSE

Investment highlights

3.5 mg/kg semi-monthly dose chosen for Phase 3 trial in peds

The company will use the 3.5 mg/kg semi-monthly dose going forward into their Phase 3 based on PK/PD data demonstrating incremental increases in IGF-1 levels without overshooting the two standard deviations threshold, which was seen at the 5 mg/kg monthly dose in the Phase 2b trials. We believe this sets the trial up for success from an improved efficacy standpoint without compromising the safety aspect seen with peaks in IGF-1 levels.

Expect positive six-month height velocity data mid-2016

We expect positive data in this non-inferiority trial with the higher semi-monthly dose, given the fact that prior Phase 2b data reported an 8.7 cm/yr increase in height velocity with the 2.5 ug/kg semi-monthly dose vs. 8.3 cm/yr in historical daily high dose growth hormone. The comparator arm for Phase 3 trials will use the highest dose of daily growth hormone (34 ug/kg/d), which we believe is manageable since the historical controls with 30 – 33 ug/kg/d dosing resulted in similar efficacy when compared to the lower semi-monthly dosing.

Phase 2/3 trial for VRS-317 in adult GHD to start 2H15

The company plans on initiating their Phase 2/3 registration study of VRS-317 for adult GHD in 2H15, with potential to penetrate a ~\$200M market. Similar to their previous Phase 1b dose ascending trial in pediatrics, VSAR will does escalate VRS-317 and titrate based on IGF-1 levels.

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7 November 2014

Figure 1: VSAR Income statement

Income Statement (\$000's)	2012A	2013A	Mar-14A	Jun-14A	Sep-14A	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Total revenues									-	17,859	273,992	635,385	924,102	1,066,948	1,174,795
Cost of goods sold								-	-	1,429	21,919	50,831	73,928	85,356	93,984
Gross profit	-	-	-	-	-	-	-	-	-	16,430	252,073	584,554	850,173	981,592	1,080,811
Operating expenses															
R&D	10,963	14,855	4,869	5,622	10,515	5,949	26,955	40,950	42,000	37,000	30,879	69,892	101,651	117,364	129,227
SG&A	1,936	4,428	2,714	2,877	3,577	2,550	11,718	17,550	19,000	31,500	54,798	101,662	147,856	170,712	187,967
Total expenses	12,899	19,283	7,583	8,499	14,092	8,499	45,000	58,500	61,000	68,500	85,677	171,554	249,507	288,076	317,195
Depreciation & amortization							(6,327)								
EBITDA	(12,899)	(19,283)	(7,583)	(8,499)	(14,092)	(8,499)	(45,000)	(58,500)	(61,000)	(52,070)	166,395	413,000	600,666	693,516	763,617
Operating income	(12,899)	(19,283)	(7,583)	(8,499)	(14,092)	(8,499)	(38,673)	(58,500)	(61,000)	(52,070)	166,395	413,000	600,666	693,516	763,617
							(38,673)								
Interest income		1		40	50										
Interest expense	393	128	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (expense) / income, net	(75)	(913)	(11,843)	(141)	208		(11,776)	-	-	-	-	-	-	-	-
Interest & other	318	(786)	(11,843)	(101)	258	-	(11,776)	-	-	-	-	-	-	-	-
Taxes								-	-	-	58,238	140,420	198,220	221,925	236,721
Tax rate			37%	37%	37%	37%		37%	37%	37%	35%	34%	33%	32%	31%
Net income - GAAP	(13,217)	(18,497)	(19,426)	(8,600)	(13,834)	(8,499)	(50,359)	(58,500)	(61,000)	(52,070)	108,157	272,580	402,446	471,591	526,895
Deemed dividend			(25,559)												
Net loss attributable to common shareholders			(44,985)												
Adjustments to net income			(36,902)	500	-	500	(35,902)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Foreign Currency Adjustment			-												
Net income - Adjusted	(13,217)	(18,497)	(8,083)	(8,100)	(13,834)	(7,999)	(38,016)	(56,500)	(59,000)	(50,070)	110,157	274,580	404,446	473,591	528,895
GAAP EPS	(\$9.97)	(\$1.99)	(\$16.13)	(\$0.36)	(\$0.57)	(\$0.35)	(\$2.65)	(\$2.34)	(\$2.39)	(\$1.91)	\$3.89	\$9.62	\$13.92	\$15.99	\$17.52
Adjusted EPS excl. options expense	(\$9.97)	(\$1.99)	(\$2.90)	(\$0.33)	(\$0.57)	(\$0.33)	(\$2.00)	(\$2.26)	(\$2.31)	(\$1.84)	\$3.96	\$9.69	\$13.99	\$16.06	\$17.58
Diluted shares outstanding	1,325	9,300	2,788	24,194	24,195	24,500	19,000	24,994	25,494	27,244	27,788	28,344	28,911	29,489	30,079

Source: Company reports, Canaccord Genuity estimates

7 November 2014

Figure 2: VSAR Valuation

Product	Peak Sales (\$MM)	Peak Year	Current Value (\$MM)	Probability Adjustment	Value / Share
US					
Pediatrics - GHD	\$ 443	2027	\$362	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		\$912		\$25
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					\$981
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	Nov -14				

Source: Canaccord Genuity

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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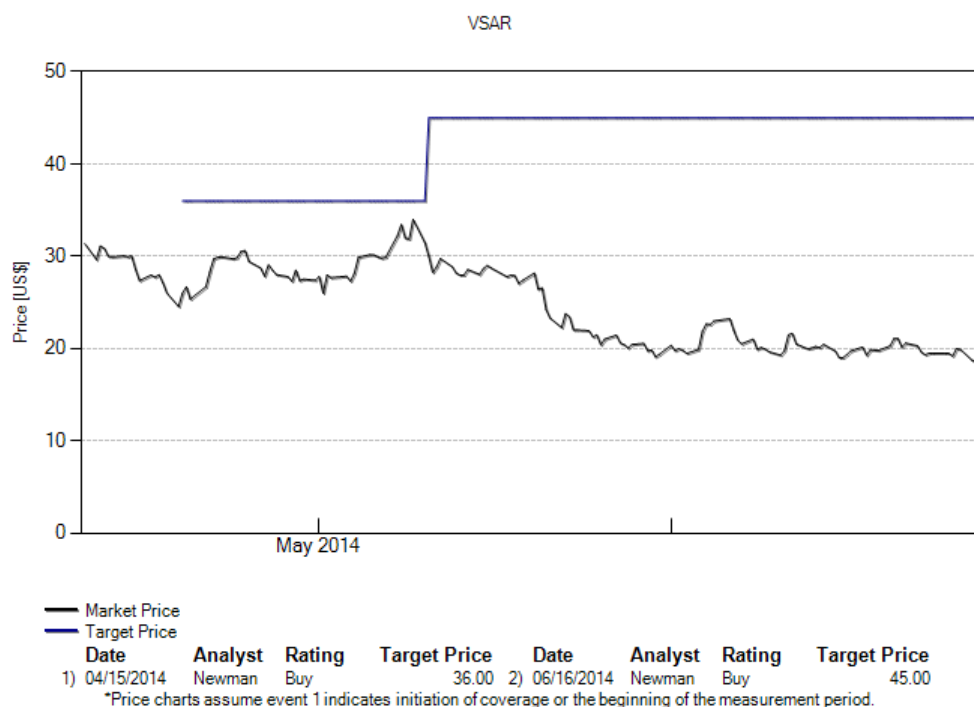
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Site Visit:

An analyst has not visited Versartis' material operations.

Price Chart:*
Distribution of Ratings:
 Global Stock Ratings
 (as of 1 October 2014)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	627	60.2%	36.7%
Speculative Buy	53	5.1%	54.7%
Hold	317	30.5%	13.9%

Sell	43	4.1%	2.3%
	1041	100.0%	

*Total includes stocks that are Under Review

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