May 15, 2015

HEALTHCARE/BIO AND SPECIALTY PHARMACEUTICALS

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	$18.00
PRTO - NASDAQ	$14.04

3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	$17.26-$8.57
Shares Outstanding	15.0M
Float	5.5M
Market Capitalization	$231.0M
Avg. Daily Trading Volume	22,536
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
Prior (A)	--	--	--	*(0.59)*	--	*NM*
2015E	(0.28)A	(0.31)	(0.35)	(0.39)	(1.32)	NM
Prior (E)	--	*(0.32)*	--	--	*(1.35)*	*NM*
2016E	--	--	--	--	(2.45)	NM
Prior (E)	--	--	--	--	*(2.42)*	*NM*

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

Proteon Therapeutics

1Q15 Model Update; Moving Up Timing Expectations for Phase 3 Data

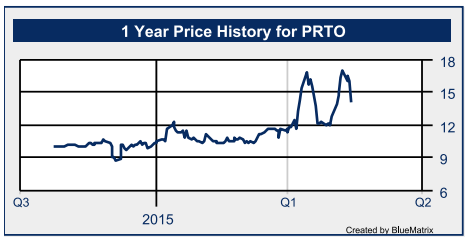
SUMMARY

Proteon reported 1Q15 loss of ($0.28), in line with our estimate, and ended the quarter with $79.5 million in cash and equivalents, which the company guides as sufficient to fund operations into 2018. Proteon expects to begin treating patients in the second Phase 3 trial of vonapanitase (formerly known as PRT-201) in AVF by the end of 2Q15 and complete enrollment in the first Phase 3 trial by year-end. We are moving forward our estimate for release of data from the first Phase 3 trial to 1Q17 (from 1H17) to reflect the better than expected enrollment rate. Additionally, the company expects to present additional data from the Phase 1 vonapanitase trial in peripheral artery disease (PAD) in 2H15.

KEY POINTS

- Proteon reported 1Q15 EPS of ($0.28) and ended the quarter with $79.5M in cash and equivalents. We are making minor adjustments to our model accordingly.
- Upcoming milestones for PRTO include: (1) start of second Phase 3 vonapanitase AVF trial in 2Q15; (2) completion of enrollment in first Phase 3 trial by YE15; (3) presentation of additional Phase 1 PAD data in 2H15; and (4) release of top line data from first Phase 3 AVF trial in 1Q15.
- We are adjusting our estimate for top line data release of the first Phase 3 vonapanitase study from 1H17 to 1Q17 to reflect the faster than anticipated enrollment in the trial. We note that data could come as early as 4Q16, depending on enrollment trends toward the end of the study (update later this year).
- Reiterate Outperform and $18 price target. We remain favorably biased to the risk/reward setup of vonapanitase in radiocephalic AVF, with the first Phase 3 trial expected to complete enrollment later this year and report top line data in 1Q17.

Stock Price Performance



Company Description

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

Expected Date	Event Description
2Q15	Initiate second Phase 3 trial for vonapanitase in radiocephalic AVF
2H15	Follow-up data from Phase 1 PAD study of vonapanitase
2H15	Complete enrollment in first Phase 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
2H17	Potential filing for U.S. approval of vonapanitase based on first Phase 3 study
1H18	Potential release of top-line data from second Phase 3 vonapanitase study
1H18	Potential approval of vonapanitase in Radiocephalic AVF placements (on first 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	Q2E	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	3,028	3,634	4,360	13,655	32,771	16,386
Selling, general and administrative	2,089	3,128	828	828	1,041	1,399	4,096	1,987	2,086	2,191	2,213	8,477	10,172	14,241
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	7,996	7,122	2,221	2,221	2,814	3,273	10,528	4,620	5,114	5,824	6,573	22,131	42,943	30,626
Operating income	(7,996)	(7,122)	(2,221)	(2,221)	134	(3,273)	(7,580)	(4,620)	(5,114)	(5,824)	(6,573)	(22,131)	(42,943)	(30,626)
Interest income (expense), net	-	(861)	(429)	(429)	10	14	(833)	40	40	40	40	160	88	48
Other income (expense)	(6,107)	(6,048)	(48)	(48)	(5,325)	10,495	5,071	-	-	-	-	-	-	-
Pre-tax income	(14,103)	(14,031)	(2,697)	(2,697)	(5,181)	7,236	(3,342)	(4,580)	(5,074)	(5,784)	(6,533)	(21,971)	(42,855)	(30,578)
Income tax expense (benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	($14,103)	($14,031)	($2,697)	($2,697)	($5,181)	$7,236	($3,342)	($4,580)	($5,074)	($5,784)	($6,533)	($21,971)	($42,855)	($30,578)
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	16,599	16,749	16,899	16,674	17,499	17,274
Diluted shares outstanding	231	4,566	6,763	6,763	240	12,295	3,065	16,449	16,599	16,749	16,899	16,674	17,499	17,274
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)	($1.32)	($2.45)	($1.77)
Cash and Equivalents	$ 7,471	$ 5,152	$ -	$ 25,416	$ 21,686	$ 83,595	$ 83,595	$ 79,525	$ 74,931	$ 69,626	$ 63,574	$ 63,574	$ 25,418	$ (4,280)

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.

Important Disclosures and Certifications

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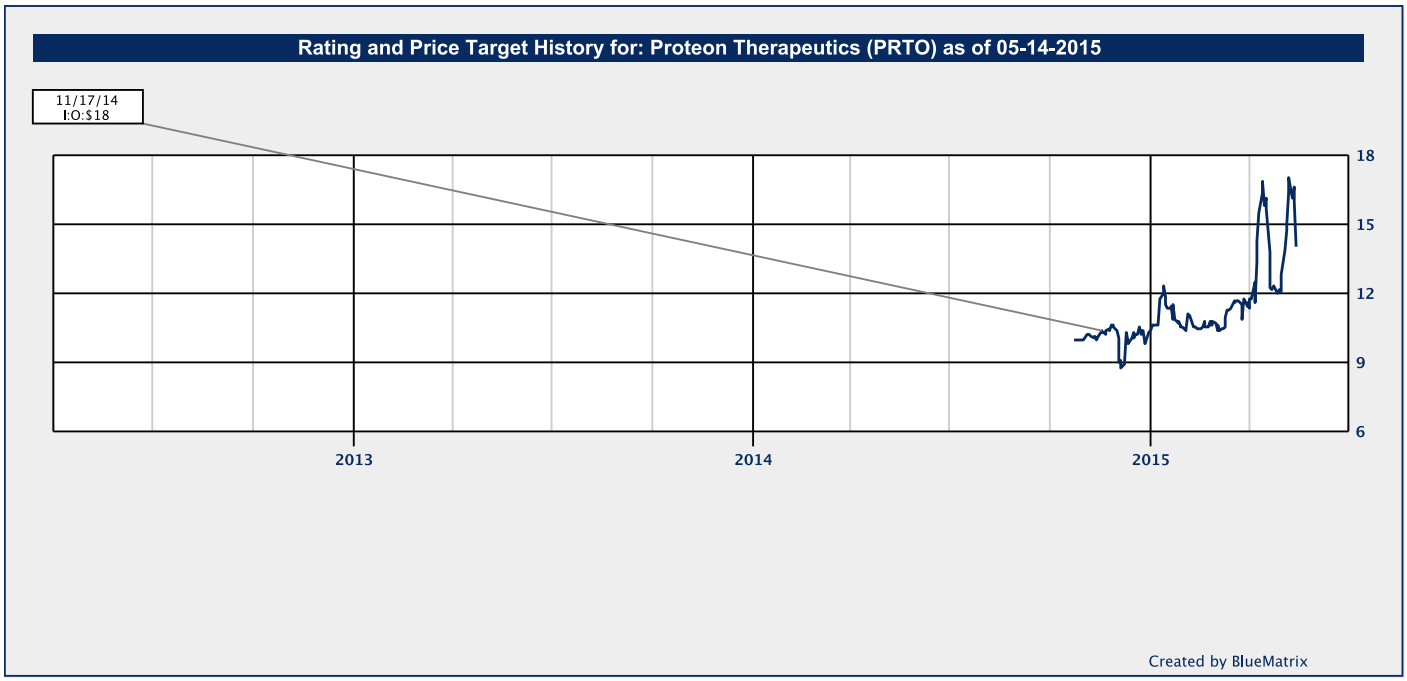

All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad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

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Distribution of Ratings/IB Services Firmwide

			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
OUTPERFORM [O]	327	55.99	148	45.26
PERFORM [P]	249	42.64	94	37.75
UNDERPERFORM [U]	8	1.37	2	25.00

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

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Additional Information Available

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