August 12, 2015

HEALTHCARE/BIO AND SPECIALTY PHARMACEUTICALS

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	$18.00
PRTO - NASDAQ	$14.33

3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	$20.00-$8.57
Shares Outstanding	15.0M
Float	5.5M
Market Capitalization	$235.7M
Avg. Daily Trading Volume	42,909
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

Proteon Initiates Second Phase 3 Study of PRT-201 in AVF

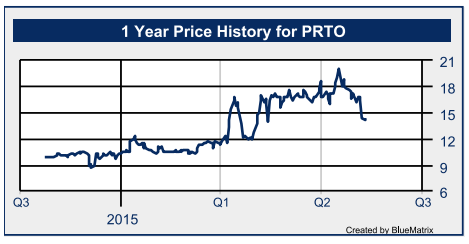
SUMMARY

Proteon has initiated the second Phase 3 trial to evaluate the safety and efficacy of PRT-201 (vonapanitase) in prolonging patency and reducing the failure of vascular access in patients with chronic kidney disease undergoing surgical creation of a radiocephalic arteriovenous fistula (AVF). While initiation of the trial is slightly after our prior 2Q15 expectation, we continue to anticipate Proteon to apply for approval in 3Q17 based on top line data from the first Phase 3 trial, whose enrollment is expected to be completed by YE2015 (data ~1Q17). Based on the clinical efficacy of PRT-201 in improving the patency and maturation of radiocephalic AVF observed in the Phase 2 studies, we remain optimistic for success in Phase 3.

KEY POINTS

- The first patient has been treated in the second Phase 3 trial testing 30µg PRT-201 in improving the patency of AVF in CKD patients. The Phase 3 trials will each enroll 300 patients in a double-blind RCT across 40 medical centers in the US and Canada.
- The primary efficacy endpoint for the trials is the time from AVF creation until thrombosis or a procedure to maintain patency through 12 months. The trial will also investigate secondary patency, i.e. the time between AVF creation and abandonment, as a secondary endpoint.
- Recall that the first Phase 3 study began in 3Q14 (data expected ~1Q17). We expect Proteon to file for US approval in 3Q17 utilizing data from the first Phase 3 study given our expectation that the trial is well powered to demonstrate robust efficacy, if successful.
- **We reiterate Outperform and $18 PT**. Based on clinical efficacy of PRT-201 in increasing patency of radiocephalic AVF fistulas at 1 and 3 years post procedure, as well as fistula maturation, we see attractive risk/reward around the Phase 3 readout expected in early 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.

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

Exhibit 1: Anticipated Upcoming Milestones for Proteon Therapeutics (PRTO)

Expected Date	Event Description
~~Aug-15~~	~~Initiate second Phase 3 trial for vonapanitase in radiocephalic AVF~~
4Q15	Follow-up data from Phase 1 PAD study of vonapanitase (PRT-201)
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
3Q17	Potential filing for U.S. approval of vonapanitase based on first Phase 3 study
1H18	Potential approval of vonapanitase in Radiocephalic AVF placements (on first study)
2Q18	Potential release of top-line data from second Phase 3 vonapanitase 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.

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

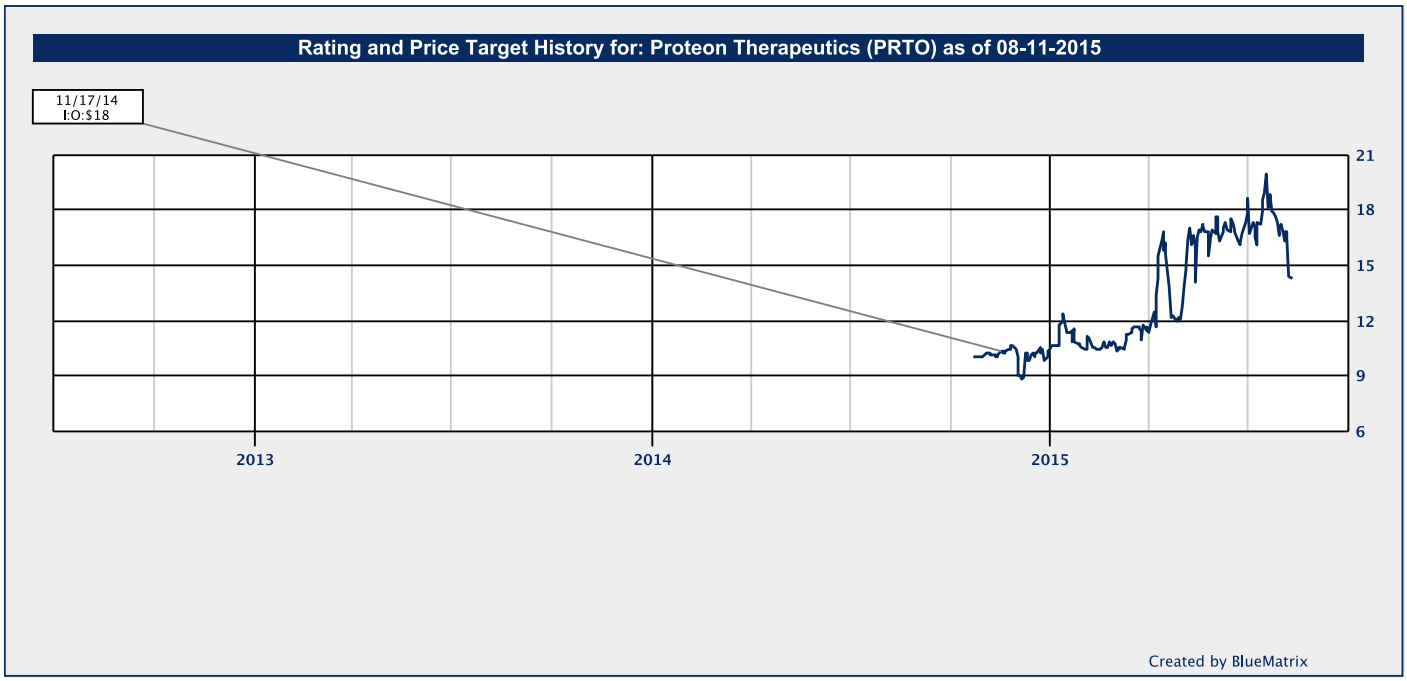
We would expect a material decline in PRTO shares in the event of unsuccessful US phase 3 programs for PRT-201. Our estimates assume the drug launching in 2018 based on a regulatory filing of a single pivotal study demonstrating efficacy in AVF. If the first Phase 3 study is positive, but the p-value 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

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Potential Conflicts of Interest:

Equity research analysts employed by Oppenheimer & Co. Inc. are compensated from revenues generated by the firm including the Oppenheimer & Co. Inc. Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. Oppenheimer & Co. Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Oppenheimer & Co. Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers. In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, Oppenheimer & Co. Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.



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.

Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

Outperform(O) - Stock expected to outperform the S&P 500 within the next 12-18 months.

Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:

Buy - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide

			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
OUTPERFORM [O]	329	56.05	143	43.47
PERFORM [P]	251	42.76	90	35.86
UNDERPERFORM [U]	7	1.19	3	42.86

Although the investment recommendations within the three-tiered, relative stock rating system utilized by Oppenheimer & Co. Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with FINRA rules, Oppenheimer & Co. Inc. has assigned buy ratings to securities rated Outperform, hold ratings to securities rated Perform, and sell ratings to securities rated Underperform.

Company Specific Disclosures

Oppenheimer & Co. Inc. expects to receive or intends to seek compensation for investment banking services in the next 3 months from PRTO.

In the past 12 months Oppenheimer & Co. Inc. has received compensation for investment banking services from PRTO.

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

In the past 12 months Oppenheimer & Co. Inc. has provided investment banking services for PRTO.

Additional Information Available

Please log on to http://www.opco.com or write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

Other Disclosures

This report is issued and approved for distribution by Oppenheimer & Co. Inc. Oppenheimer & Co. Inc. transacts business on all principal exchanges and is a member of SIPC. This report is provided, for informational purposes only, to institutional and retail investor clients of Oppenheimer & Co. Inc. and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Oppenheimer & Co. Inc. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. We recommend that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor. Oppenheimer & Co. Inc. will not treat non-client recipients as its clients solely by virtue of their receiving this report. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Oppenheimer & Co. Inc. accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to Oppenheimer & Co. Inc. All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Oppenheimer & Co. Inc. does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by Oppenheimer & Co. Inc. or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should

not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. Oppenheimer & Co. Inc. has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

This research is distributed in the UK and elsewhere throughout Europe, as third party research by Oppenheimer Europe Ltd, which is authorized and regulated by the Financial Conduct Authority (FCA). This research is for information purposes only and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research is for distribution only to persons who are eligible counterparties or professional clients and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the UK only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) High Net Worth companies, unincorporated associations etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. In particular, this material is not for distribution to, and should not be relied upon by, retail clients, as defined under the rules of the FCA. Neither the FCA's protection rules nor compensation scheme may be applied.

Distribution in Hong Kong: This report is prepared for professional investors and is being distributed in Hong Kong by Oppenheimer Investments Asia Limited (OIAL) to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent. OIAL, an affiliate of Oppenheimer & Co. Inc., is regulated by the Securities and Futures Commission for the conduct of dealing in securities, advising on securities, and advising on Corporate Finance. For professional investors in Hong Kong, please contact researchasia@opco.com for all matters and queries relating to this report. This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Oppenheimer & Co. Inc.