September 9, 2014

WELLS FARGO SECURITIES

Equity Research

Immune Design Corp.

IMDZ: Q2--Differentiated Immuno-Oncology Platform Progressing

Outperform / V

Sector: Biotechnology
Market Weight

- **Summary:** On September 8, IMDZ reported Q2 2014 results in a 10-Q filing. There were no significant changes reported for Q2, with the company's IPO completed in July 2014. The company reported incremental revenue of $1.06MM from licensing and product sales of GLA, expenses were generally in line with our estimates, and had ended Q2 with $18MM in cash. There were no material changes to company's updates in presentations/S-1 filing associated with the recent IPO. There was an update on the legal dispute related to the European contract manufacturer; a hearing for a procedural motion will be held in mid-November at the Delaware State Court (Chancery). We continue to believe IMDZ's differentiated platform has strong scientific basis and holds promise as a novel immune-oncology cancer therapeutic approach, and expect shares to appreciate as initial data emerge in early 2015. Adjusting 2014E/2015E to -$2.03/-$1.39 from -$2.24/-$1.61.

Valuation Range: $17.00 to $18.00
Our valuation is based on a blend of 30x of probability-adjusted 2023E EPS and 5x of 2023E probability-adjusted sales. Risks include ZVex's failure to show clinical efficacy, a safety signal, competition, and manufacturing.

Investment Thesis:
We believe IMDZ is undervalued based on the promise of ZVex/GLAAS as novel immunotherapy platforms for cancers.

Earnings Estimates Revised Up

	2013A	2014E		2015E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	NE	($0.81) A	NC	NE	
Q2 (June)	NE	**(0.60) A**	**(0.60)**	NE	
Q3 (Sep.)	NE	**(0.40)**	**(0.52)**	NE	
Q4 (Dec.)	NE	**(0.36)**	**(0.40)**	NE	
FY	($2.28)	**($2.03)**	**(2.24)**	**($1.39)**	**(1.61)**
CY	($2.28)	($2.03)		($1.39)	
FY P/EPS	NM	NM		NM	
Rev.(MM)	$2	$1		$1	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, = Company is on the Priority Stock List

Ticker	IMDZ
Price (09/08/2014)	$12.26
52-Week Range:	$11-13
Shares Outstanding: (MM)	15.8
Market Cap.: (MM)	$193.7
S&P 500:	2,001.54
Avg. Daily Vol.:	20,657
Dividend/Yield:	$0.00/0.0%
LT Debt: (MM)	$0.0
LT Debt/Total Cap.:	0.0%
ROE:	NM
3-5 Yr. Est. Growth Rate:	5.0%
CY 2014 Est. P/EPS-to-Growth:	NM
Last Reporting Date:	06/30/2014 After Close

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Brian Abrahams, M.D., Senior Analyst
(212) 214-8060 / brian.abrahams@wellsfargo.com
Matthew J. Andrews, Senior Analyst
(617) 603-4218 / matthew.j.andrews@wellsfargo.com
Shin Kang, Ph.D., Associate Analyst
(212) 214-5036 / shin.kang@wellsfargo.com
Ronald Hsu, M.D., Associate Analyst
(212) 214-5064 / ronald.hsu@wellsfargo.com

Please see page 4 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 09/09/14 unless otherwise stated.

Company Description:

Immune Design Corporation (IMDZ) is a clinical stage biopharmaceutical company, headquartered in San Francisco, California and Seattle, Washington, developing novel immunotherapies for cancer and infectious diseases. IMDZ is developing an in vivo targeting approach to specifically target key regulatory immune cells called dendritic cells to enable the body's own immune system to fight cancer and other diseases. IMDZ's technology platform consists of two main components, IMDZVex ("ZVex") and GLAAS. ZVex is a virus-based cell targeting vector that specifically delivers tumor (or other immunogen) antigen of interest to DCs such that robust induction of cytotoxic T-cells in effect fights the disease. There are several pipeline products under clinical development: LV305 (ZVex-NY-ESO-1) and G305 (GLAAS-NY-ESO-1) in phase I study for solid tumors, CMB305 (ZVex-NY-ESO-1 plus GLAAS) expected to enter the clinic end-2014, and G100 (GLAAS) in phase I study in Merkel cell carcinoma.

Upcoming Milestones

Product	Event	Timeline
LV305	Ph.I safety and immunogenicity data	1Q15
G305	Ph.I safety and immunogenicity data	1Q15
CMB305	IND filing	2H14
	Initiate ph.I study	end-2014
	Ph.I safety and immunogenicity data	2H15
	Initiate ph.II study	2H15
G100	Complete Merkel cell carcinoma study	1Q15

Source: Company reports and Wells Fargo Securities, LLC estimates

Product Pipeline

Product (partner)	Indication / mechanism	Status
LV305	Soft tissue sarcomas, melanoma, ovarian cancer, NSCLC, breast cancer	Phase I
G305	Soft tissue sarcomas, melanoma, ovarian cancer, NSCLC, breast cancer	Phase I
CMB305	Soft tissue sarcomas, melanoma, ovarian cancer, NSCLC	Preclinical
G100	Merkel cell carcinoma	Phase I
GLA (AZN/MedImmune)	Three infectious disease indications (MEDI7510 - RSV)	Phase I
GLA (Medicago)	Pandemic influenza	Phase I
GLS (Sanofi)	Allergy	Preclinical

Source: Company reports and Wells Fargo Securities, LLC

Immune Design (IMDZ)
Statement of Operations (Income Statement)

(in thousands except per share amounts)

	2012A	2013A	1QA	2QA	3QE	4QE	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues																
Licensing revenues (1)	$876	$729	$0	$1,000	$0	$0	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Product sales / royalties (2)	1,877	870	25	64	100	100	289	318	350	385	423	465	512	563	619	681
Other, net (3)	207	-	-	-	-	-	-	-	-	-	10,000	10,000	35,000	35,000	10,000	10,000
U.S. sales of CMB305 (prob-adjusted)	-	-	-	-	-	-	-	-	-	-	2,039	6,481	28,632	58,949	99,247	153,826
Royalties on ex-U.S. sales of CMB305 (prob-adjusted)											-	576	1,831	4,728	12,410	22,394
Total revenues	**$2,960**	**1,599**	**25**	**1,064**	**100**	**100**	**1,289**	**1,318**	**1,350**	**1,385**	**13,462**	**18,522**	**66,975**	**100,240**	**123,277**	**187,902**
Expenses																
Cost of products sold	1,518	669	14	18	75	75	182	238	262	288	644	1,386	4,965	9,265	15,352	23,585
Research and development	8,604	11,554	4,078	3,883	3,961	4,040	15,962	16,760	25,139	27,653	30,419	31,331	32,271	33,239	34,237	35,264
Selling, general and administrative	3,713	4,433	1,446	1,850	1,924	2,001	7,221	8,304	8,636	12,091	24,182	38,690	58,036	63,839	66,393	69,049
Total operating expenses	**13,835**	**16,656**	**5,538**	**5,751**	**5,960**	**6,116**	**23,364**	**25,302**	**34,038**	**40,033**	**55,244**	**71,408**	**95,272**	**106,343**	**115,981**	**127,897**
Operating income/loss	**(10,875)**	**(15,057)**	**(5,513)**	**(4,687)**	**(5,860)**	**(6,016)**	**(22,075)**	**(23,984)**	**(32,688)**	**(38,648)**	**(41,782)**	**(52,886)**	**(28,297)**	**(6,103)**	**7,296**	**60,004**
Interest and other income	35	37	1	-	6	9	17	48	45	59	89	82	69	79	70	94
Change in fair value of convertible preferred stock warrant	-	(955)	(2,711)	(1,439)	-	-	(4,150)	-	-	-	-	-	-	-	-	-
(Loss) income before benefit from income taxes	**(10,840)**	**(15,975)**	**(8,223)**	**(6,126)**	**(5,853)**	**(6,006)**	**(26,209)**	**(23,936)**	**(32,643)**	**(38,589)**	**(41,693)**	**(52,804)**	**(28,228)**	**(6,024)**	**7,365**	**60,098**
Benefit (expense) from income taxes																
Net (loss) income	**(10,840)**	**(15,975)**	**(8,223)**	**(6,126)**	**(5,853)**	**(6,006)**	**(26,209)**	**(23,936)**	**(32,643)**	**(38,589)**	**(41,693)**	**(52,804)**	**(28,228)**	**(6,024)**	**7,365**	**60,098**
Earnings Per Share (GAAP)	**($30.43)**	**($2.28)**	**($0.81)**	**($0.60)**	**($0.40)**	**($0.36)**	**($2.03)**	**($1.39)**	**($1.62)**	**($1.67)**	**($1.78)**	**($2.21)**	**($1.04)**	**($0.22)**	**$0.25**	**$1.99**
Shares Outstanding (Basic)	356	7,008	10,139	10,139	14,620	16,861	12,940	17,261	20,161	23,061	23,461	23,861	27,261	27,661	28,061	28,461
Shares Outstanding (Diluted)	356	7,008				18,611	22,709	19,011	21,911	24,811	25,211	25,611	29,011	29,411	29,811	30,211

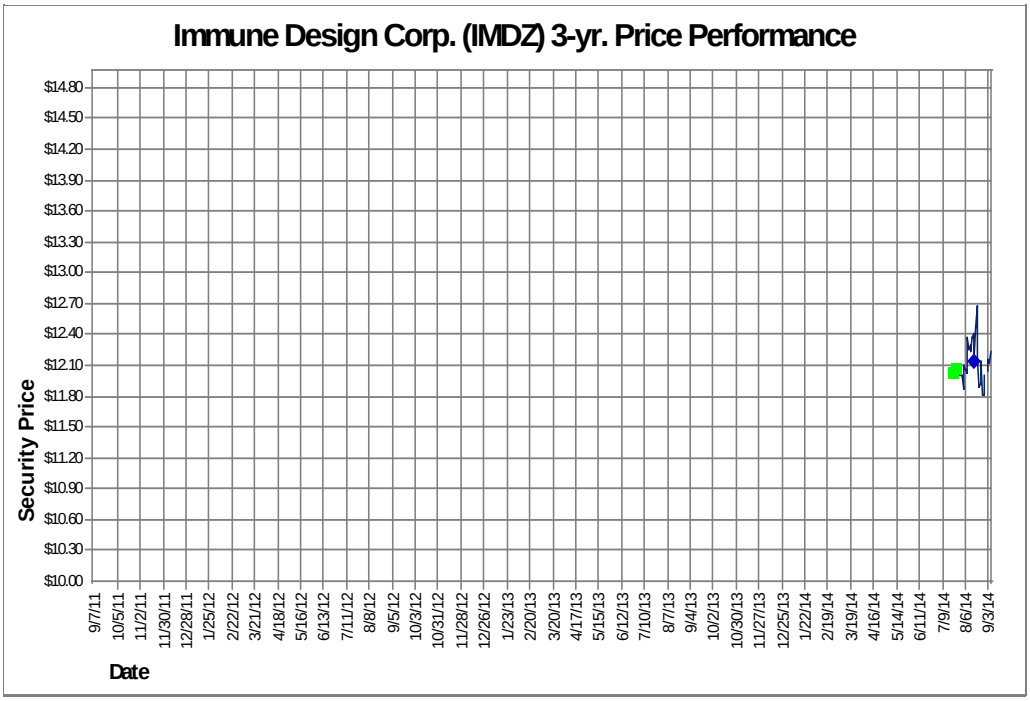
Source: Company reports and Wells Fargo Securities, LLC estimates

Note: 2014 quarterly EPS do not equal annual EPS due to calculation of EPS based on diluted vs. basic shares
(1) related to MedImmune collaboration

(2) Reflects sales of GLAAS to collaborators

(3) Includes amortization of potential upfront for ex-U.S. CMB305 partnership, potential milestones

Required Disclosures



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
❐	7/24/2014		IPO at $12.00			
	8/18/2014		Abrahams, M.D.			
◆	8/18/2014	12.41	1	17.00	18.00	12.13

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ❐ Split Adjustment

Rating Code Key
- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Additional Information Available Upon Request

I certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC maintains a market in the common stock of Immune Design Corp.
- Wells Fargo Securities, LLC or its affiliates managed or comanaged a public offering of securities for Immune Design Corp. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from Immune Design Corp.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Immune Design Corp. in the past 12 months.
- Immune Design Corp. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to Immune Design Corp.

IMDZ: Risks include ZVex's failure to show clinical efficacy, a safety signal, competition, and manufacturing.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: September 9, 2014

49% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.	Wells Fargo Securities, LLC has provided investment banking services for 44% of its Equity Research Outperform-rated companies.
49% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.	Wells Fargo Securities, LLC has provided investment banking services for 32% of its Equity Research Market Perform-rated companies.
3% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.	Wells Fargo Securities, LLC has provided investment banking services for 11% of its Equity Research Underperform-rated companies.

Important Disclosure for International Clients

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Hong Kong – This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited ("WFSAL"), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance, "the SFO"). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO).

Japan – This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Toushika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Toushika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody's Investors Services Inc, Standard & Poor's Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies' websites.

About Wells Fargo Securities, LLC

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Institutional Securities, LLC, a member of FINRA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

Wells Fargo Securities, LLC is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC, and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE