

## Endocyte, Inc. (ECYT)

**Q3:11 EPS, EU Conditional Marketing Application on Track, Phase III Trial To Begin in Europe, Reiterate OUTPERFORM**

- ECYT reported a (\$0.36)/share loss for Q3, compared to our (\$0.25), on higher-than-expected R&D costs relating to starting its Phase III PROCEED trial and regulatory filings in Europe. We estimate the company's 2011 cash burn to be \$41.7M.
- The company shares have been under pressure recently due, we believe, to the shortage of Doxil (pegylated liposomal doxorubicin, PLD) which has halted enrollment into the US Phase III trial, although may only result in a slight overall delay in the time to Phase III data. ECYT began the Phase III PROCEED trial in the US, however, had to stop enrollment in the US in July 2011 due to the Doxil shortages.
- Recall that the company does have access to sufficient Doxil to continue treating patients at clinical trial sites outside of the US. The company indicated that it had access to enough PLD to treat between 70-100 patients, depending on how many courses patients end up receiving.
- Importantly, ECYT expects to file its conditional MAA in Q1:12, as expected, and will include independent assessments of the CT scans that determined progression-free survival in the Phase II trial. We have indicated in prior notes that we believed the potential European opportunity for EC145 (plus EC20) was under-appreciated by the Street, and that EC145 could be marketed in Europe as early as H1:13.
- While the continuing Doxil shortage remains an overhang to ECYT shares due to the uncertainty regarding PROCEED's enrollment in the US, we remain optimistic that the company can receive a conditional MAA in the EU by Q1:13, which would quickly move it to being a commercial entity.
- Reiterate OUTPERFORM rating and \$20 price target. We arrive at our \$20 PT by taking the sum of our value for US sales and EU royalties in 2015. We value the US opportunity for EC145 in the platinum resistant ovarian cancer setting at \$10 by applying a 6x multiple to our 2015 sales estimate, discounted 25% annually and the EU opportunity for EC145 in the platinum-resistant ovarian cancer setting at \$10 a share, based upon a 6x multiple of EU royalties, discounted 25% annually

November 10, 2011

Price  
**\$8.00**

Rating  
**OUTPERFORM**

12-Month Price Target  
**\$20**

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### Company Information

Shares Outst (M)	35.6
Market Cap	\$284.5
52-Wk Range	\$6.15 - \$14.80
Book Value/sh	\$3.69
Cash/sh	\$4.16
Enterprise Value (M)	\$136.7
LT Debt/Cap %	0
Cash Burn (M)	\$-41.7

### Company Description

Endocyte is developing novel small molecule drug conjugates and companion imaging prognostics. Their lead candidate, EC145, is in PIII trials in the PROC setting, targets cancers expressing the folate receptor that is also expressed on many solid tumors.



Source: Thomson Reuters

FYE Dec	2010A	2011E			2012E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.0A	\$0.0A		--	\$0.0E		--E
Q2 Jun	0.0A	0.0A		0.0A	0.0E		--E
Q3 Sep	0.0A	0.0A		0.0A	0.0E		--E
Q4 Dec	0.0A	0.0E		0.0E	0.0E		--E
Year*	\$0.0A	\$0.0E		\$0.0E	\$0.0E		\$9.4E
Change	--	--		--	--		--
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.00A	(\$0.43)A		--	(\$0.37)E	(\$0.31)E	(\$0.18)E
Q2 Jun	0.00A	(0.35)A	(0.23)A	(0.35)A	(0.39)E	(0.33)E	(0.22)E
Q3 Sep	(1.10)A	(0.36)A	(0.25)A	(0.33)A	(0.37)E	(0.31)E	(0.23)E
Q4 Dec	(0.22)A	(0.36)E	(0.28)E	(0.33)E	(0.37)E	(0.31)E	(0.24)E
Year*	(\$1.32)A	(\$1.47)E	(\$1.12)E	(\$1.40)E	(\$1.50)E	(\$1.25)E	(\$0.98)E
P/E	--	--		--	--		--
Change	93%	-11%		--	-2%		--

Consensus estimates are from Thomson First Call.

\* Numbers may not add up due to rounding.

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**Risks to our price target include** 1) failure of EC145 for PROC in the clinic; and 2) failure to receive marketing approval in the US or the EU for EC145 for PROC.

**Doxil shortage's effects on ECT shares are unjustified, in our opinion.**

While the shortage has stopped the US PROCEED trial from continuing to enroll patients, we believe that the Street continues to overlook the EU opportunity and potential conditional approval in that region in early 2013. Indeed, we estimate more sales originating from the EU (end-user sales of \$275M; we anticipate ECT will partner in the region and receive royalty income) than from the US through our valuation year of 2015. Indeed, our valuation puts a per share value of \$10 just on the EU/ROW opportunity.

**Milestones:**

YE:11	PSMA targeting SMDC trial expected to be complete
YE:11	Completion of the Phase I trial for EC0489 DAVLBH payload SMDC in solid tumors
YE:11	Completion of the Phase I trial for EC0225 DAVLBH/mitomycin-C payload SMDC in solid tumors
Q4:11/Q1:12	Final overall survival data from Phase IIb "PRECEDENT" trial of EC145 in the platinum-resistant ovarian cancer setting
Mar. 24-27, 2012	Potential presentation of updated Overall Survival Data from the randomized PII study of EC145 in the platinum resistant ovarian cancer setting (Society for Gynecologic Oncology, Austin, TX) - pending data maturity
Q1:12	Update on the completion of the blinded reanalysis of the PFS data from the Phase IIb trial of EC145 in the relapsed-refractory ovarian cancer setting (to be reported prior to filing)
Q1:12	Expected release of results of the blinded review of PFS for the concordance analysis and results of the validation reads for receptor positivity from the randomized PII study of EC145 in platinum refractory ovarian cancer patients
Q1:12	Expected filing of an MAA for conditional approval of the EC145 & EC20 drug/prognostic assay combination in the platinum refractory ovarian cancer patient setting
Q1:13	Potential EU approval of EC145 in the platinum-resistant ovarian cancer (PROC) setting
2013	Final analysis of Phase III "PROCEED" trial of EC145 in the platinum-resistant ovarian cancer (PROC) setting
2014	Potential US launch of EC145 in the platinum-resistant ovarian cancer (PROC) setting

## Endocyte Inc.

Annual Financial Results &amp; Projections

(\$ in thousands except per share data)

Ticker: ECTY (Nasdaq)

	FY:10A	FY:11E	FY:12E	FY:13E	FY:14E	FY:15E
Revenue:						
Sales	0	0	0	0	12,862	137,433
License fee and other revenues	0	0	0	9,772	38,395	83,402
Contracts	0	0	0	0	0	0
<b>Total Revenues</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$9,772</b>	<b>\$51,257</b>	<b>\$220,836</b>
Cost and Expenses:						
Costs of goods sold	0	0	0	0	1,929	20,615
Research and Development	14,561	30,436	42,038	27,611	28,423	40,604
Sales, General and Administrative	6,039	10,133	12,831	16,242	19,084	19,859
Other	0	0	0	0	0	0
<b>Total Costs and Expenses</b>	<b>\$20,600</b>	<b>\$40,569</b>	<b>\$54,869</b>	<b>\$43,852</b>	<b>\$49,436</b>	<b>\$81,078</b>
Operating Income (loss)	(20,600)	(40,569)	(54,869)	(34,081)	1,821	139,758
Net Interest Income (Expense)	(1,059)	(1,130)	1,514	1,604	1,326	1,877
Other income / (Expense)	1,564	(18)	0	0	0	0
Income Before Income Taxes	(20,095)	(41,717)	(53,355)	(32,477)	3,147	141,634
<b>Net Income</b>	<b>(\$20,095)</b>	<b>(\$41,717)</b>	<b>(\$53,355)</b>	<b>(\$32,477)</b>	<b>\$7,873</b>	<b>\$129,936</b>
GAAP Basic EPS with sFAS123	(1.32)	(1.47)	(1.50)	(0.89)	0.22	3.57
GAAP Diluted EPS with sFAS123	(1.32)	(1.47)	(1.50)	(0.89)	0.22	3.57
Weighted shares outstanding	15,220	28,364	35,502	36,558	36,092	36,387
Fully diluted shares outstanding	15,220	28,364	35,502	36,573	36,100	36,399
Cash Balance	16,873	126,931	147,960	114,916	120,379	245,725
Cash Burn	(7,036)	(41,717)	(53,355)	(32,477)	7,873	129,936

### Analyst Certification

I, Gregory R. Wade, Ph.D., David M. Nierengarten, Ph.D., Christopher N. Marai, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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**Neutral:** Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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Neutral: 35%	Neutral: 2%
Underperform: 6%	Underperform: 0%

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Company	Disclosure
Endocyte, Inc.	1,3,4,5,7

### Research Disclosure Legend

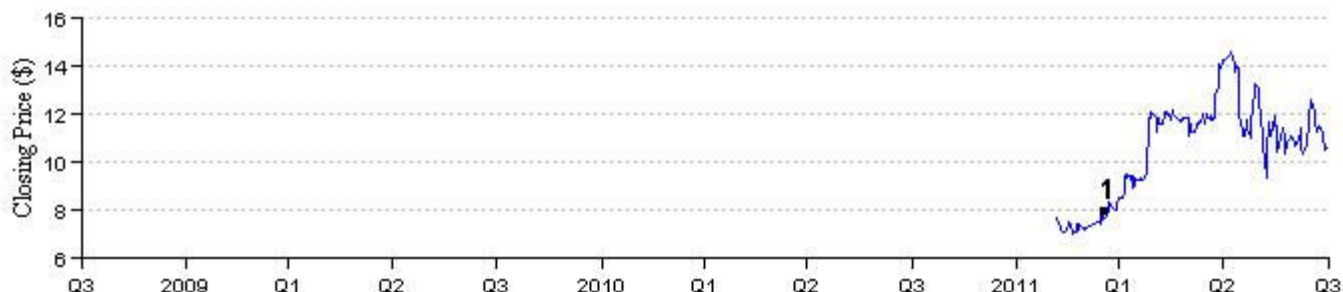
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ECYT

1) 03/16/11  
Outperform \$20



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