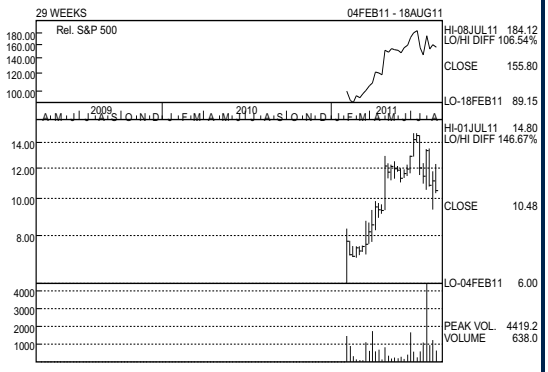

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FY Dec	2010A	2011E	2012E	
Rpt EPS - Basic	(21.77)	(1.39)	(0.87)	
Prev.		(1.31)	(0.89)	
Revenue (MM)	0.0	0.0	14.3	
P/Rpt EPS	NM	NM	NM	
Revenue (MM)	**Q1**	**Q2**	**Q3**	**Q4**
2010	0.0A	0.0A	0.0A	0.0A
2011	0.0A	0.0A	0.0E	0.0E
Rpt EPS - Basic				
2010	(6.37)A	(5.79)A	(6.10)A	(3.57)A
2011	(0.43)A	(0.35)A	(0.34)E	(0.31)E
Prev.		(0.28)E	(0.32)E	(0.33)E
2012	(0.18)E	(0.22)E	(0.23)E	(0.24)E

All values in USD unless otherwise noted.

COMPANY UPDATE | COMMENT

AUGUST 19, 2011

Endocyte, Inc. (NASDAQ: ECYT)

Well Timed Deal Leaves ECYT In Solid Financial Position to Maximize Assets

Outperform
Speculative Risk

Price:	10.48	**Price Target:**	14.00
		Implied All-In Return:	34%
Shares O/S (MM):	35.6	**Market Cap (MM):**	373
Dividend:	0.00	**Yield:**	0.0%

Event

ECYT reported Q2 results last week with a proforma cash balance of $150.7M (including its recent financing)

Investment Opinion

ECYT's recent financing leaves the company in a strong position to pursue an early filing in EU (Q1:12), initiate a large Phase II trial in lung cancer (Q1:12), advance one or more new drugs into the clinic (2012), and complete its recently initiated Phase III trial in ovarian cancer. While our prior valuation did not assume an early filing in EU, we are not changing our $14 PT at this time until we get better visibility on the supply of Doxil, which could impact clinical timelines if the current shortage is protracted.

- **Significant newsflow for EC145/EC20 in Q1:12** includes (1) OS results from PRECEDENT, (2) independently reviewed PFS data from PRECEDENT, (3) concordance results for EC20, (4) MAA filing in EU, and (5) initiation of the Phase II trial in lung cancer.

- **Early filing in Europe.** ECYT is meeting with the two rapporteurs in Q3:11 and plans to file in Q1:12. The earlier filing potentially implies first sales in 2013 (now reflected in our model) and could increase the value to a potential ex-US partner, which we assume ECYT will sign in 2012.

- **Doxil shortage.** Janssen (a division of JNJ) has advised doctors that Doxil "supply will remain intermittently available in the coming months," and it has set up a system to limit access to new patients and ensure current patients have uninterrupted supply (Letter to doctors included in this note). Doxil is used in both arms of the Phase III ovarian cancer trial and resolution of the shortage is necessary for the trial to progress. If the shortage persists beyond September, the Phase III timeline may be impacted by our estimates. The PROCEED trial tests Doxil + EC145 vs. Doxil alone in EC20-positive patients. The primary endpoint is PFS and OS is a secondary endpoint. We expect Phase III PFS data in Q4:12.

- **Strong cash position.** ECYT has roughly $150.7M, including its recently announced Q2 cash balance ($83.9M) and the net proceeds raised from its recent financing (5.84M shares at $12.26/share). The improved cash balance allows ECYT to invest in its clinical and preclinical pipeline and accelerate its filing strategy in the EU.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 6.

Details

EC145/20 MAAs in EU Expected in 1Q:12

ECYT expects to file for conditional approval in the EU pending feedback from its rapporteurs in Q3:11. In addition to the Phase II PRECEDENCE data, ECYT will conduct additional analyses including: (1) validation for the diagnostic EC20, (2) independent read of the CT scans for PFS, and (3) overall survival data from PRECEDENCE. The company expects to report the results of all three analyses in Q1:12. We believe while a trend in survival favoring EC145 could be helpful, it is not required to secure approval in the EU.

2Q:11 Results and Changes to Our Estimates

In 2Q, higher than forecast R&D expenses drove an EPS loss of ($0.35) vs. our estimate of ($0.28). ECYT expects the cash burn to increase in H2:11 as part of the EU filing process and we have modestly raised our R&D expenses. The company expects to end 2011 with more than $123M in cash (we are at $127M or $3.55 per share for YE:11).

Key News Flow

Timing	Expected News Flow	Program
H2:11	Meeting with rapporteurs	EC145 / EC20
Q1:12	Initiate Phase II trial in NSCLC	EC145
Q1:12	Final Phase II overall survival data from PRECEDENT	EC145
Q1:12	PFS results of independent scan reads for Phase II PRECEDENT	EC145 / EC20
Q1:12	Results of concordance study for EC20	EC20
Q1:12	MAA filing for ovarian cancer	EC145 / EC20
H1:12	Initiate new clinical program	Pipeline
2012	Potential partner for EC145	EC145
Q2:13	Final Phase III PFS results from PROCEED; interim OS results	EC145
2013	Approval and launch in EU	EC145 / EC20
Q3:13	Final PFS data in NSCLC	EC145
Late 2015/early 2016	Final Phase III PFS results from PROCEED; interim OS results	EC145

Source: Company reports and RBC Capital Markets estimates.

Products And Pipeline

Product	Indication	Target	Payload	Status
Cancer				
EC145	Platinum resistant ovarian cancer	FR	DAVLBH	Phase III
	Non-small cell lung cancer		DAVLBH	Phase II
EC0489	Solid tumors	FR	DAVLBH	Phase I
EC0225	Solid tumors	FR	DAVLBH / Mitomycin-C	Phase I
EC17	Solid tumors	FR	Hapten	Phase I
EC0531	Solid tumors	FR	Tubulysin-B	Preclinical
EC1069	Prostate cancer	PSMA	Tubulysin-B	Preclinical
Inflammation				
ECO746	Inflammation	FR	Aminopterin	Preclinical
ECO565	Inflammation	FR	mTor inhibitor	Preclinical
Companion Imaging Diagnostics				
EC20	Diagnostic (folate receptor)	FR	Tc-99m	Phase III
EC0652	Diagnostic (prostate)	PSMA	Tc-99m	Phase I

Source: Company reports and RBC Capital Markets.

Valuation

We arrive at $14 price target using three methodologies which together suggest a $16 target valuation but include a negative $2 overhang related to the ongoing Doxil shortage, which we hope will be resolved quickly, bu could threaten the timelines for Phase III data.

1. **DCF Sum-of-the-Parts Analysis – Primary Valuation Metric**. Our sum-of-the parts DCF analysis of $16.27/share includes EC145 for PROC ($9.36/share) and NSCLC ($4.86/share). The DCF of its financial assets including net cash and NOLs net of next 5 year burn is $2.05/share.We assume that EC145's patent life extends through 2026.
2. **P/E Multiple**. We use a P/E multiple of 18x our 2018 fully taxed GAAP EPS estimate of $2.16 and a discount rate of 15% for 6.5 years to arrive at our price target of $15.70.
3. **DCF Analysis – Based on Company P&L**. Our company level DCF analysis supports a $16.10 price target with the following assumptions: a discount rate of 15%, -25% terminal growth rate, and a conservative declining 20-5% medium-term top-line growth forecast. Aside from EC145 for PROC and NSCLC we do not include any major pipeline products in our estimates.

Price Target Impediment

Our price target is dependent primarily on the regulatory and commercial success of EC145 in platinum resistant ovarian cancer as well as in non-small cell lung cancer. Any setbacks in clinical development, delay in launch, increased competition or other limitations to the market potential of EC145 could negatively impact our valuation. Upside could come from pricing, better than anticipated market penetration, new partnerships, clinical success of earlier-stage programs that are not included in our valuation and/or setbacks for potential competitors. We are initiating coverage with an Outperform rating, Speculative Risk and a $14 price target.

Company Description

Endocyte is a biopharmaceutical company developing targeted therapies for the treatment of cancer and other serious diseases. The company uses its proprietary technology to create novel small molecule drug conjugates (SMDCs) and companion imaging diagnostics. SMDCs actively target receptors that are over-expressed on diseased cells, relative to healthy cells, which enables the treatment of patients with highly active drugs at greater doses, delivered more frequently, and over longer periods of time than would be possible with the untargeted drug alone. The combination of an SMDC with its companion imaging diagnostic is designed to personalize the treatment of patients by delivering effective therapy, selectively to diseased cells, in patients most likely to benefit. The company’s lead SMDC, EC145, targets the folate receptor, which is frequently over-expressed in some of the most prevalent, and difficult to treat solid tumor indications, including ovarian, non-small cell lung, breast, colorectal, kidney, endometrial, and other cancers.

Janssen Products, LP
800 Ridgeview Drive
Horsham, PA 19044
www.janssenbiotech.com

Important Update Regarding the Availability of DOXIL® (doxorubicin HCl liposome injection)

August 5, 2011

Dear Healthcare Provider:

As a follow-up to our ongoing updates about the current supply shortage of DOXIL® in the U.S. market, we are pleased to provide an update about a new physician allocation process to obtain DOXIL® supply as it becomes available.

As of today, a modest supply of DOXIL® is now available. To allow patients currently on DOXIL® the option to continue their current course of therapy, we have set up a physician allocation process called the DOXIL® C.A.R.E.S. Physician Access Program. Please be advised that this is a limited supply of DOXIL® and we encourage you to enroll your current patients on DOXIL® immediately.

For additional details about the DOXIL® C.A.R.E.S. Physician Access Program, including how to enroll your patients currently on DOXIL®, please visit www.DOXIL.com. The site includes additional program information, enrollment forms, and the most current updates on the supply situation.

As DOXIL® supply will remain intermittently available in the coming months, first priority will be given to patients currently on DOXIL®. We continue to recommend that you do not start any new patients on DOXIL® until adequate supply becomes available.

We understand the impact this situation may cause with patients currently on DOXIL®. As an additional resource, please refer to national treatment guidelines, such as those of the National Comprehensive Cancer Network® (NCCN). Although there are no generic alternatives to DOXIL® available in the US, and conventional doxorubicin is not bioequivalent to DOXIL®, treatment decisions can be individualized after discussing options with your patients. As a reminder, you cannot substitute DOXIL® on milligram-per-milligram basis with doxorubicin HCl.

Please see Important Safety Information, including Boxed Warnings on the next page and accompanying full Prescribing Information.

DOXIL® continues to be a cornerstone of our product offering for the healthcare community, and we are deeply committed to improving the availability of DOXIL® for patients and physicians as soon as possible. If you have any clinical questions about DOXIL®, please contact our Medical Information Department at 800-526-7736 (800-JANSSEN).

Sincerely,

Peter Callegari, MD
Vice President, Medical Affairs
Janssen Products, LP

Endocyte

Jason Kantor, Ph.D. (415) 633-8565
Adnan Butt (415) 633-8588

Annual and Quarterly Income Statement

($ in MM; except per share)	2010A	Q1:11A	Q2:11A	Q3:11E	Q4:11E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EC145													
U.S. Sales - PROC							0.0	0.0	24.5	63.5	114.3	154.3	200.0
EU Royalty - PROC							0.0	2.3	5.8	10.2	16.1	22.5	29.4
EC145 - NSCLC							0.0	0.0	0.0	0.0	0.0	20.0	70.0
EC0225							0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Product Revenues							0.0	2.3	30.3	73.7	130.4	196.8	299.4
Collaboration revenue	0.0	0.0	0.0	0.0	0.0	0.0	14.3	25.4	19.2	9.2	18.3	10.8	0.0
Total Revenues	0.0	0.0	0.0	0.0	0.0	0.0	14.3	27.7	49.5	82.9	148.7	207.6	299.4
COGS		0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	6.4	11.4	17.4	27.0
Research and Development Expenses	14.6	4.4	7.7	8.0	8.2	28.4	34.8	40.0	46.0	55.0	55.0	60.0	65.0
Sales, General and Administrative Expenses	6.0	2.1	2.3	2.3	2.4	9.1	10.0	15.0	25.0	35.0	37.0	40.0	50.0
Total Costs and Expenses	20.6	6.5	10.1	10.3	10.6	37.4	44.8	55.0	73.5	96.4	103.4	117.4	142.0
Operating Income (Loss)	(20.6)	(6.5)	(10.1)	(10.3)	(10.6)	(37.4)	(30.5)	(27.3)	(23.9)	(13.5)	45.3	90.2	157.4
Other Income/(Expense), Net	0.5	(0.7)	(0.5)	(0.5)	(0.5)	(2.2)	(0.8)	(0.1)	0.3	0.3	0.3	0.3	0.3
Income (Loss) before Tax	(20.1)	(7.2)	(10.5)	(10.8)	(11.1)	(39.6)	(31.3)	(27.4)	(23.6)	(13.2)	45.6	90.5	157.6
Provision for Income Tax		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3	7.9
Net Income (Loss) - GAAP	**(20.1)**	**(7.2)**	**(10.5)**	**(10.8)**	**(11.1)**	**(39.6)**	**(31.3)**	**(27.4)**	**(23.6)**	**(13.2)**	**45.6**	**88.2**	**149.8**
EPS, Basic (GAAP)	($21.77)	($0.43)	($0.35)	($0.34)	($0.31)	($1.39)	($0.87)	($0.75)	($0.57)	($0.31)	$1.07	$2.05	$3.45
EPS, Diluted (GAAP)	($21.77)	($0.43)	($0.35)	($0.34)	($0.31)	($1.39)	($0.87)	($0.75)	($0.57)	($0.31)	$1.02	$1.95	$3.28
EPS, Diluted (Fully-Taxed, GAAP)											$0.67	$1.29	$2.16
Shares Outstanding, Basic	0.9	16.9	29.7	31.7	35.7	28.5	35.9	36.4	41.8	42.2	42.6	43.0	43.5
Shares Outstanding, Diluted	3.1	19.1	31.9	33.9	37.9	30.7	38.1	38.6	44.0	44.4	44.8	45.2	45.7

EC145 summary	2013E	2014E	2015E	2016E	2017E	2018E
US sales	0.0	24.5	63.5	114.3	154.3	200.0
EU sales	11.6	29.2	51.1	80.3	112.3	147.1
Total sales	11.6	53.7	114.6	194.6	266.6	347.1
Revenue to Endocyte	2.3	30.3	73.7	130.4	176.8	229.4

Expense analysis	2013E	2014E	2015E	2016E	2017E	2018E
Cost of goods (% of sales)		10%	10%	10%	10%	10%
R&D (% of revenues)		93%	66%	37%	29%	22%
SG&A (% of revenues)		50%	42%	25%	19%	17%
Operating Margin		-48%	-16%	30%	43%	53%

Source: Company reports and RBC Capital Markets estimates.

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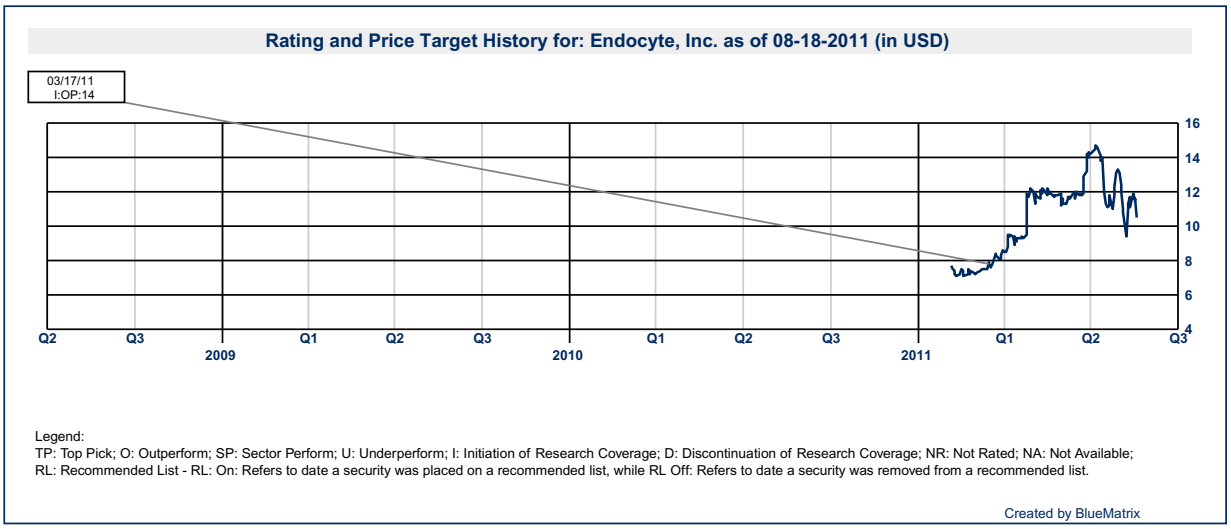

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