

Endocyte, Inc. (ECYT)

Reports Q1:11 EPS, Conditional EU Approval Process To Begin Q3:11

May 5, 2011

Price
\$11.29

Rating
OUTPERFORM

12-Month Price Target
\$20

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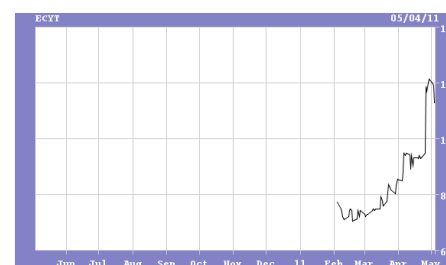
- Endocyte reported Q1:11 earnings; importantly, the company announced that it began enrolling the Phase III PROCEED trial of EC145 (with EC20, the companion prognostic). Recall that the PROCEED trial will treat platinum-resistant ovarian cancer patients whose tumors over-express the folate receptor (identified through use of EC20). The company plans to enroll more than 500 patients, with a primary endpoint of progression-free survival and also measure overall survival benefits.
- The conditional marketing application for EC145 and EC20 for the EU could be filed in August. Recall that the company announced it would seek conditional approval for EC145 and EC20 in the EU based on its positive Phase II PRECEDENT trial in platinum-resistant ovarian cancer patients with tumors that over-express the folate receptor.
- Two recent conditional approvals—Arzerra and Votrient—took 14 and 16 months, respectively, from application submission to conditional approval.
- We estimate EU revenues beginning in 2013, based on accelerated approval in the region. Recall that conditional approval in the EU allows access to therapies in areas of high unmet medical need. Recall also that a conditional marketing application is valid for 1 year, renewable and can be converted to full marketing authorization upon completion of obligatory studies determined by the EMA.
- Reiterate OUTPERFORM rating and \$20 price target. We arrive at our \$20 price target by taking the sum of the per share values of US sales and EU royalties in 2015. We value the US opportunity for EC145 in the platinum-resistant ovarian cancer setting at \$10 which is derived by taking 6x our 2015 sales estimate, discounted at 25% annually. We value 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.
- 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.

Company Information

Shares Outst (M)	29.7
Market Cap	\$335.1
52-Wk Range	\$6.15 - \$12.91
Book Value/sh	\$2.62
Cash/sh	\$3.19
Enterprise Value (M)	\$240.3
LT Debt/Cap %	0
Cash Burn (M)	\$-29.8

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		\$0.0E
Q2 Jun	0.0A	0.0E		0.0E	0.0E		0.0E
Q3 Sep	0.0A	0.0E		0.0E	0.0E		0.0E
Q4 Dec	0.0A	0.0E		0.0E	0.0E		0.0E
Year*	\$0.0A	\$0.0E		\$0.0E	\$0.0E		\$6.0E
Change	--	--		--	--		--
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.00A	(\$0.43)A	(\$0.55)A	--	(\$0.31)E	(\$0.38)E	(\$0.38)E
Q2 Jun	0.00A	(0.23)E	(0.35)E	(0.30)E	(0.33)E	(0.43)E	(0.43)E
Q3 Sep	(1.10)A	(0.25)E	(0.36)E	(0.34)E	(0.31)E	(0.38)E	(0.38)E
Q4 Dec	(0.22)A	(0.28)E	(0.36)E	(0.37)E	(0.31)E	(0.37)E	(0.37)E
Year*	(\$1.32)A	(\$1.12)E	(\$1.57)E	(\$1.39)E	(\$1.25)E	(\$1.56)E	(\$1.25)E
P/E	--	--		--	--		--
Change	93%	15%		--	-11%		--

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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Endocyte, Inc. (ECYT: NASDAQ; OUTPERFORM)

H1:11	End of Phase II meeting with EU EMEA for EC145
H1:11	Initiation of a Phase III trial for EC145 in women with platinum resistant ovarian cancer
H1:11	Initiation of a Phase III trial for EC20 folate imaging agent (companion prognostic for EC145)
Jun. 4-8, 2011	Final Phase II PRECEDENT trial data for EC145 at ASCO (Chicago, IL)
Aug. 3, 2011	6-month IPO lockup period ends
Aug., 2011	Potential submission of application for conditional approval in the EU based on Phase II
YE:11	PSMA targeting SMDC trial expected to be complete
YE:11	Complete Phase I Trial for EC0489 DAVLBH payload SMDC in solid tumors
YE:11	Complete Phase I Trial for EC0225 DAVLBH/mitomycin-C payload SMDC in solid tumors
Q1:12	Overall survival data from Phase IIb PRECEDENT trial of EC145 in platinum-resistant ovarian cancer
2012	Potential EU launch if accelerated approval granted by the EMA
2013	Final analysis of Phase III PROCEED trial of EC145
2014	Potential US launch of EC145 in PROC setting

Financial Model



Gregory R. Wade, Ph.D.

5/5/2011

Endocyte Inc.

Annual Financial Results & Projections

(\$ in thousands except per share data)

Ticker: ECYT (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
Total Revenues	\$0	\$0	\$0	\$9,772	\$51,257	\$220,836
Cost and Expenses:						
Costs of goods sold	0	0	0	0	1,929	20,615
Research and Development	14,561	20,601	27,797	27,611	28,423	40,604
Sales, General and Administrative	6,039	9,282	12,831	16,242	19,084	19,859
Other	0	0	0	0	0	0
Total Costs and Expenses	\$20,600	\$29,884	\$40,628	\$43,852	\$49,436	\$81,078
Operating Income (loss)	(20,600)	(29,884)	(40,628)	(34,081)	1,821	139,758
Net Interest Income (Expense)	(1,059)	51	797	988	702	1,246
Other income / (Expense)	1,564	3	0	0	0	0
Income Before Income Taxes	(20,095)	(29,830)	(39,831)	(33,093)	2,523	141,004
Net Income	(\$20,095)	(\$29,830)	(\$39,831)	(\$33,093)	\$7,265	\$129,337
GAAP Basic EPS with sFAS123	(1.32)	(1.12)	(1.25)	(1.01)	0.22	3.96
GAAP Diluted EPS with sFAS123	(1.32)	(1.12)	(1.25)	(1.01)	0.22	3.95
Weighted shares outstanding	15,220	26,521	31,813	32,869	32,403	32,698
Fully diluted shares outstanding	15,220	26,521	31,813	32,884	32,411	32,710

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: 37%	Neutral: 4%
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Company	Disclosure
Endocyte, Inc.	1,3,4,5,7

Research Disclosure Legend

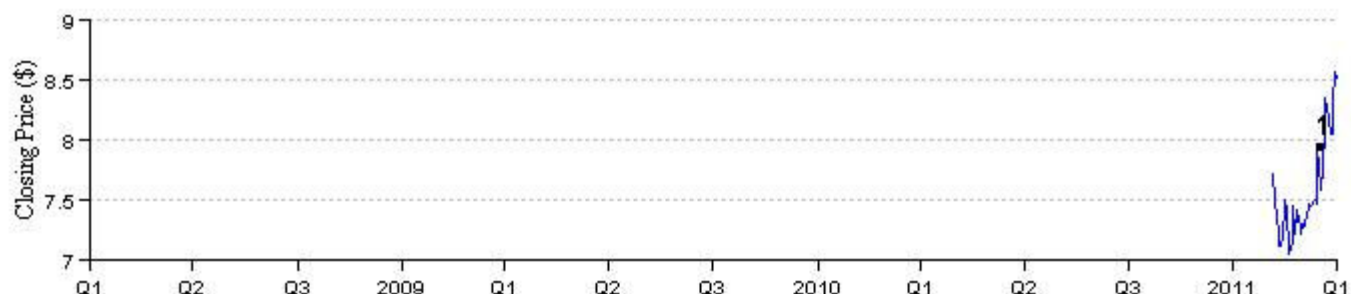
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ECYT

1) 03/16/11
Outperform \$20



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