

December 21, 2011

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Endocyte, Inc. (ECYT - OUTPERFORM): Management Meeting Takeaways — Several Near-Term Catalysts Make ECYT a Must Own into 2012

Price: \$3.13

12-Month Price Target: \$16

- **We recently had Endocyte management around New York and Boston to see accounts.** Investors are focused on 3 things: 1) the design of a potential confirmatory Phase III clinical study that may or may not include Doxil; 2) the potential for the EMA to be receptive to an accelerated filing for EC145 in the ++ folate transporter patient population; and 3) understanding the OS results in the context of the drug's activity and regulatory path forward. Management is confident that it will be able to communicate its EMA filing decision, and potential confirmatory Phase III study design in Q1, two data points we believe will be important positive catalysts for the stock.
- **With the stock trading at just above \$3/share, we believe investors are heavily discounting the potential for the EMA to be receptive to a filing, as well as the timeline to develop and gain EU and US buy-in to a confirmatory study design.** We also believe that the Street is more heavily discounting the potential for approval of EC145 based upon the revised OS data, which we believe is mistake. We note that it is difficult to generate OS survival improvements in settings in which there are potentially efficacious therapies, and for this reason, FDA and EMA have indicated they are receptive to filings based upon compelling PFS results.
- **We see several near-term catalysts in Q1:12 as reasons to own ECYT into the new year, reminding investors that these objectives can be accomplished with the current cash of ~\$139 million. They are:**
 - 1) An update and clear plan forward for a Phase III advanced ovarian cancer program that takes into account the present Doxil shortage
 - 2) An update on the EMA's potential receptivity to an accelerated filing for EC145 in the folate transporter++ patient population and an indication of any additional information potentially required for accelerated review in the EU
 - 3) Announcement of plans to bring EC145 vs. Taxotere into the lung cancer setting, potentially in early January
- **Recall, last week the company updated results of its Phase II PRECEDENT trial of EC145 in patients with platinum-resistant ovarian cancer (PROC) that showed a PFS advantage in the folate transporter ++ population but no OS benefit.** The stock was off sharply on the news, though the study was not powered to show statistical significance of survival benefit and the control arm data appeared anomalous, given historical data. Specifically, we note that the control group had a significantly larger proportion of patients who subsequently had a >3 month platinum-free interval, and were disproportionately treated with platinum after progression, and that literature shows re-treatment of patients with platinum increases response rates (Michael Bookman, The Oncologist 1999; 4:87-94).
- **Reiterate OUTPERFORM rating, and \$16 price target.** We arrive at our \$16 PT by taking the sum of our value for US sales and EU royalties in 2015. We value US sales at \$6 by applying a 6x multiple to our 2015 US sales estimate, discounted 35% annually and the EU opportunity at \$10 a share, based upon a 15x multiple of 2015 estimated EU royalties, discounted 30% 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 EU.

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

Research Disclosure Legend

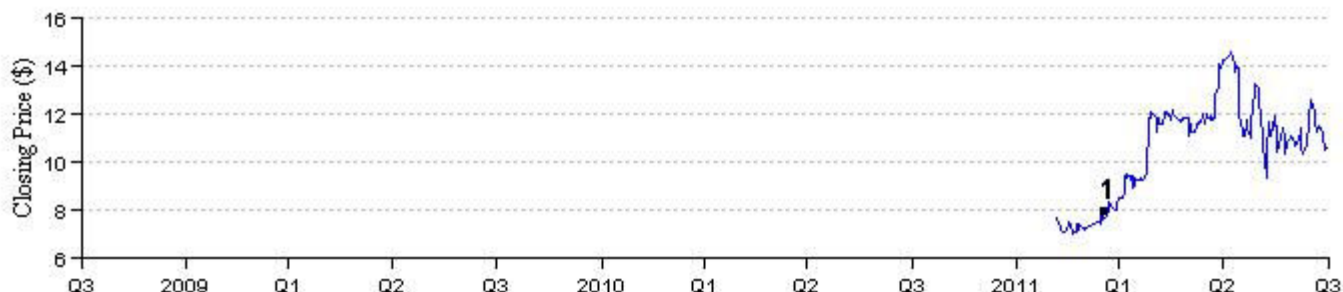
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ECYT

1) 03/16/11
Outperform \$20



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