

November 10, 2014

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

OUTPERFORM

12-18 mo. Price Target \$53.00
KPTI - NASDAQ \$42.14

3-5 Yr. EPS Gr. Rate NM
52-Wk Range \$47.98-\$15.50
Shares Outstanding 29.8M
Float 8.4M
Market Capitalization \$1,376.7M
Avg. Daily Trading Volume 236,476
Dividend/Div Yield NA/NM
Book Value \$4.87
Fiscal Year Ends Dec
2014E ROE NM
LT Debt NA
Preferred NA
Common Equity \$144M
Convertible Available No

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2013A	(2.52)	(2.97)	(3.66)	(2.00)	(5.59)	NM
2014E	(0.46)A	(0.55)A	(0.61)A	(0.57)	(2.20)	NM
Prior (E)	--	--	(0.52)	--	(2.11)	NM
2015E	--	--	--	--	(2.61)	NM
Prior (E)	--	--	--	--	(2.52)	NM

Reflects 1:3.3 reverse stock split effective October 2013.

Revenue (\$/mil)	Q1	Q2	Q3	Q4	Year	Mult.
2013A	0.2	0.1	0.0	0.0	0.4	NM
2014E	0.2A	0.0A	0.0A	0.2	0.4	NM
Prior (E)	--	--	0.2	--	0.6	NM
2015E	--	--	--	--	2.0	NM

Karyopharm Therapeutics

Incremental Updates from 3Q14 Call

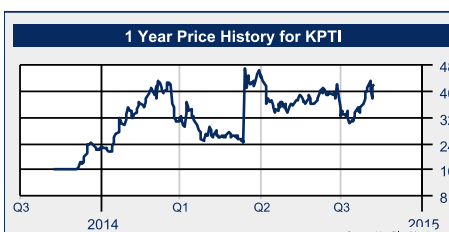
SUMMARY

Updates on the 3Q call were incremental but useful. The next catalyst for the stock is the ASH conference where updated Selinexor duration for myeloma shapes up as a key data point. We see a ~4 month PFS for Selinexor as the benchmark given this is what Kyprolis and Pomalyst/dex achieved in R/R myeloma. Importantly, Selinexor duration (45mg/m2) has reached 4-6 months in several pts. Beyond this, new Selinexor combination trials look interesting (+Kyprolis or +Pomalyst in myeloma, +Imbruvica in CLL/MCL) and could help frame whether synergy is achievable clinically beyond Selinexor/dex. We still await Karyopharm's decision path in solid tumors, and as we have argued [before](#), we continue to see the sarcoma data as most promising.

KEY POINTS

- **Registration-directed heme trials** include **1)** SIRRT in R/R Richter's (announced today, not in our model); **2)** SOPRA in age ≥60 transplant-ineligible R/R AML (ongoing); **3)** SADAL in R/R DLBCL (YE14 start); **4)** R/R myeloma refractory to Pls/immunomodulators (details 1Q15). Data for SIRRT/SOPRA in ~2 years. Mgm't cited ~20% ORR in Richter's as the hurdle.
- **Move to flat dosing** in the Ph. 2 DLBCL and myeloma trials appears driven by **1)** dosing simplicity, and **2)** exposure trends uncorrelated with body surface area. Mgm't has selected 80mg in myeloma (roughly equivalent to 45 mg/m2; 60mg/m2 not well tolerated), and 60mg (~35mg/m2) and 100 mg (~60mg/m2) in the randomized DLBCL Ph.2 (n=200).
- **Registration-directed (accelerated approval) myeloma trial.** We expect this trial to loosely resemble the plan in R/R DLBCL, with a high dose (80 mg flat) and a lower dose (TBD) as a control arm. A randomized trial on the order of ~200 pts seems reasonable to us. We await 1Q15 detail.
- **More tidbits.** **1)** The new European subsidiary may provide add'l flexibility on EU commercialization strategies. **2)** Mgm't seems more focused on Fast Track vs. Breakthrough to expedite the regulatory pathway. **3)** Increasing the dex dose in DLBCL and Richter's above the 8-12mg planned prophylactic dose could make sense, given synergy arguments.
- **Updated our model for 3Q**, with modest changes to our 2014E EPS. Net loss of \$19.7M in 3Q compares to our \$16.8M estimate, on higher R&D. Cash into 2H17, per mgm't.

Stock Price Performance



Company Description

Karyopharm Therapeutics is a clinical-stage biotechnology company focused on discovery and development of novel first-in-class drugs directed against nuclear transport targets for the treatment of blood cancers and solid tumors.

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Exhibit 1**Variance Table**

	3Q14	3Q14E	Variance (Actual - Estimate)
Selinexor Sales	\$0.0	\$0.0	\$0.0
Contract & Grant Revenue	\$0.0	\$0.2	(\$0.2)
Total Revenue	\$0.0	\$0.2	(\$0.2)
COGS	\$0.0	\$0.0	\$0.0
R&D	\$16.0	\$13.5	\$2.4
SG&A	\$3.8	\$3.5	\$0.3
Operating Income	(\$19.7)	(\$16.8)	(\$2.9)
Interest Income	\$0.0	\$0.0	\$0.0
Interest Expense	\$0.0	\$0.0	\$0.0
Pre-Tax Income	(\$19.7)	(\$16.8)	(\$2.9)
Tax Expense (Benefit)	0.0	0.0	\$0.0
<i>Tax Rate</i>	<i>0.0%</i>	<i>0.0%</i>	
Net Income	(\$19.7)	(\$16.8)	(\$2.9)
GAAP EPS	(\$0.61)	(\$0.52)	(\$0.09)
Avg. Shares Out. - Diluted	32.6	32.5	0.1

Source: Karyopharm Filings, Oppenheimer Research.

Exhibit 2**Catalyst Table**

Drug	Type	Event	Phase	Timing	Clinical Trial ID
Selinexor	Clinical Data	R/R Myeloma, DLBCL, AML Updates at ASH	1	4Q14	
Selinexor	Clinical Data	Solid Tumor (Gynecological, Glioblastoma, Squamous Head and Neck, Lung, Esophageal) Interim Readouts	1	Mid-2015	
Selinexor	Clinical Data	Registration Directed R/R Richter's Transformation (SIRRT) Readout	2	2H16	NCT02138786
Selinexor	Clinical Data	Registration Directed R/R DLBCL (SADAL) Readout	2b	2016	TBD
Selinexor	Clinical Data	Registration Directed R/R Elderly AML (SOPRA) Readout	2	2016	NCT02088541
Selinexor	Clinical Data	Pre-Treated Head and Neck Squamous Cell Readout	2	TBD	TBD
Selinexor	Clinical Data	Heavily Pre-Treated non-Hodgkin Lymphomas in Combo w/ Rituximab	1	TBD	TBD

Source: Oppenheimer Research.

Exhibit 3**Karyopharm Therapeutics Income Statement**

	2012	2013	1Q14	2Q14	3Q14	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Selinexor Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	169.7	372.1	634.3	902.5	1,055.9	1,241.0	1,257.8	1,275.0
Contract & Grant Revenue	0.6	0.4	0.2	0.0	0.0	0.2	0.4	2.0	3.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Total Revenue	0.6	0.4	0.2	0.0	0.0	0.2	0.4	2.0	3.0	173.7	377.1	639.3	907.5	1,060.9	1,246.0	1,262.8	1,280.0
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	33.9	55.8	63.4	90.2	95.0	111.7	113.2	102.0
R&D	14.1	28.5	11.0	13.2	16.0	15.0	55.1	68.9	86.1	94.7	113.1	159.8	181.5	159.1	149.5	101.0	89.6
SG&A	2.4	5.9	2.9	3.3	3.8	3.8	13.8	18.4	38.0	96.4	139.6	143.2	146.4	149.8	152.9	154.3	155.9
Operating Income	(15.9)	(34.0)	(13.712)	(16.448)	(19.7)	(18.6)	(68.5)	(85.3)	(121.1)	(51.3)	68.5	272.9	489.4	656.9	831.9	894.2	932.5
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.3
Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Tax Income	(15.9)	(33.9)	(13.694)	(16.448)	(19.7)	(18.6)	(68.4)	(85.3)	(121.1)	(51.3)	68.5	272.9	489.4	657.0	832.1	894.4	932.8
Tax Expense (Benefit)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	169.4	230.0	291.2	313.0	326.5
Tax Rate	NM	NM	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	34.6%	35.0%	35.0%	35.0%	35.0%
Net Income (GAAP)	(15.9)	(33.9)	(13.69)	(16.45)	(19.7)	(18.6)	(68.4)	(85.3)	(121.1)	(51.3)	68.5	272.9	320.0	427.1	540.9	581.4	606.3
GAAP EPS	(\$8.95)	(\$5.59)	(\$0.46)	(\$0.55)	(\$0.61)	(\$0.57)	(\$2.20)	(\$2.61)	(\$3.45)	(\$1.37)	\$1.80	\$7.11	\$8.29	\$11.01	\$13.89	\$14.87	\$15.49
Avg. Shares Out. - Basic	1.8	6.1	29.6	29.7	32.6	32.7	31.1	32.6	35.1	37.5	37.8	38.1	38.4	38.6	38.8	39.0	39.1
Avg. Shares Out. - Diluted	1.8	6.1	29.6	29.7	32.6	32.7	31.1	33.1	35.5	37.8	38.1	38.4	38.6	38.8	38.9	39.1	39.1

Sources: Oppenheimer Research Estimates, Karyopharm Filings.

Exhibit 4

Karyopharm Therapeutics Balance Sheet

\$MMs except per share data

	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Assets													
Cash and Equivalents	0.4	156.0	211.4	133.4	190.9	166.1	269.9	582.7	947.2	1,414.1	1,997.1	2,613.4	3,253.8
Prepaid Expenses and Other Current Asset:	0.6	2.0	0.8	3.5	5.0	9.0	12.3	14.7	16.7	16.2	16.6	14.7	13.9
Current Assets	1.0	158.0	212.2	136.9	195.9	175.1	282.3	597.3	964.0	1,430.3	2,013.7	2,628.2	3,267.7
Property, Plant, & Equipment	0.3	0.2	2.7	3.5	4.5	5.8	5.8	5.9	6.1	6.4	6.6	6.6	6.5
Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	0.0	0.0	1.1	1.0	0.8	0.6	0.3	(0.1)	(0.5)	(0.9)	(1.3)	(1.7)	(2.0)
Restricted Cash	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	1.3	158.2	215.9	141.3	201.2	181.5	288.4	603.2	969.6	1,435.8	2,019.0	2,633.1	3,272.2
Liabilities													
Accounts Payables	1.1	1.7	2.8	4.4	6.2	11.3	15.4	18.3	20.9	20.2	20.7	18.4	17.4
Accrued Liabilities	0.8	1.2	1.5	3.5	5.0	9.0	12.3	14.7	16.7	16.2	16.6	14.7	13.9
Deferred Revenue	0.1	0.1	-	-	-	-	-	-	-	-	-	-	-
Deferred Rent	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	0.0	0.3	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities	1.9	3.3	4.3	7.9	11.2	20.3	27.8	33.0	37.6	36.4	37.3	33.2	31.3
Preferred Stock Subscription	9.0	-	-	-	-	-	-	-	-	-	-	-	-
Series A Convertible Preferred	18.3	-	-	-	-	-	-	-	-	-	-	-	-
Series B Convertible Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Rent	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	-	-	1.6	-	-	-	-	-	-	-	-	-	-
Total Liabilities	29.2	3.3	5.9	7.9	11.2	20.3	27.8	33.0	37.6	36.4	37.3	33.2	31.3
Convertible Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock	-	0.0	-	-	-	-	-	-	-	-	-	-	-
Additional Paid-In Capital	0.7	217.5	-	-	-	-	-	-	-	-	-	-	-
Accumulated Deficit	(28.6)	(62.6)	-	-	-	-	-	-	-	-	-	-	-
Shareholders' Equity	(27.9)	154.9	210.0	133.4	190.1	161.3	260.7	570.2	932.0	1,399.4	1,981.7	2,599.9	3,241.0
Total Liabilities & Equity	1.3	158.2	215.9	141.3	201.2	181.5	288.4	603.2	969.6	1,435.8	2,019.0	2,633.1	3,272.2

Sources: Oppenheimer Research Estimates, Karyopharm Filings.

Exhibit 5

Karyopharm Cash Flow Statement

\$MMs except per share data

	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net Income	(15.9)	(33.9)	(68.4)	(85.3)	(121.1)	(51.3)	68.5	272.9	320.0	427.1	540.9	581.4	606.3
Depreciation & Amortization	0.1	0.1	0.4	1.3	2.1	3.2	3.4	3.9	4.2	4.1	4.3	4.3	4.3
Share-Based Compensation	0.7	3.8	10.3	8.7	12.4	22.5	30.9	36.6	41.8	40.4	41.4	36.9	34.7
Other	-	0.1	-	-	-	-	-	-	-	-	-	-	-
Total Operating Sources	(15.1)	(29.9)	(57.7)	(75.3)	(106.6)	(25.6)	102.8	313.4	365.9	471.5	586.5	622.5	645.4
Prepaid Expenses and other current assets	(0.2)	(1.4)	1.2	(2.7)	(1.5)	(4.0)	(3.3)	(2.3)	(2.1)	0.6	(0.4)	1.8	0.8
Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable	(0.1)	0.7	1.0	1.5	1.8	5.0	4.2	2.9	2.6	(0.7)	0.5	(2.3)	(1.1)
Accrued Expenses and other	0.0	0.4	0.1	2.0	1.5	4.0	3.3	2.3	2.1	(0.6)	0.4	(1.8)	(0.8)
Deferred Revenue	(0.1)	0.0	(0.1)	-	-	-	-	-	-	-	-	-	-
Deferred Rent	-	-	0.2	-	-	-	-	-	-	-	-	-	-
Other	-	-	(0.8)	(0.2)	-	-	-	-	-	-	-	-	-
Changes in Operating Assets/Liabilities	(0.4)	(0.4)	1.8	0.5	1.8	5.0	4.2	2.9	2.6	(0.7)	0.5	(2.3)	(1.1)
Operating Cash Flow	(15.5)	(30.3)	(56.0)	(74.7)	(104.8)	(20.5)	107.0	316.3	368.5	470.8	587.1	620.3	644.3
Capital Expenditures	(0.1)	(0.1)	(2.8)	(2.0)	(3.0)	(4.3)	(3.1)	(3.6)	(3.9)	(3.9)	(4.0)	(4.0)	(3.9)
Proceeds/Purchase of Securities	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	(0.4)	-	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(0.1)	(0.1)	(3.2)	(2.0)	(3.0)	(4.3)	(3.1)	(3.6)	(3.9)	(3.9)	(4.0)	(4.0)	(3.9)
Issuance/Purchase of Stock	0.0	113.155	113.2	-	165.3	-	-	-	-	-	-	-	-
Issuance/Payment Convertible Notes	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds/Purchase of Preferred Stock	2.0	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds/Purchase of Convertible Preferred	7.5	72.434	-	-	-	-	-	-	-	-	-	-	-
Proceeds from the Exercise of Stock Options	-	0.341	0.1	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	9.5	185.9	113.3	-	165.3	-	-	-	-	-	-	-	-
Effect of Exchange Rates	-	-	-	-	-	-	-	-	-	-	-	-	-
Beginning Cash	6.5	0.4	156.0	210.1	133.4	190.9	166.1	269.9	582.7	947.2	1,414.1	1,997.1	2,613.4
Net Increase (Decrease) in Cash	(6.1)	155.6	54.1	(76.7)	57.5	(24.8)	103.8	312.7	364.6	466.9	583.0	616.3	640.4
Ending Cash	0.4	156.0	210.1	133.4	190.9	166.1	269.9	582.7	947.2	1,414.1	1,997.1	2,613.4	3,253.8

Sources: Oppenheimer Research Estimates, Karyopharm Filings.

Investment Thesis

The emerging Phase 1 data for Karyopharm's lead drug Selinexor suggest to us fair-to-good chances of approval as a salvage therapy in several advanced cancers. We focus our work on myeloma, DLBCL, elderly AML and sarcoma, where we currently see the strongest efficacy data and where modest share and duration assumptions in the relapsed/refractory settings collectively support upside to the current valuation. Maturing Phase 1 data (and readouts from newly initiated Phase 2 trials) could support incremental upside if we see: **1)** increased duration of treatment in myeloma, DLBCL, elderly AML and sarcoma; and **2)** better defined signals of activity in additional blood cancers and/or solid tumors.

Price Target Calculation

We value Karyopharm using a discounted cash flow (DCF) analysis with a WACC of 15% and a 0% terminal growth rate post-2033, yielding discounted free cash flows of \$1,491 million. Cash per share (~\$230 million) and 32.5 million shares yields a DCF value per share of \$53. Our valuation framework utilizes a 15% discount rate for pre-commercial stage companies given a higher risk profile than commercial stage (where we use 10%). We explicitly model cash flows to 2024. From 2025 to 2032, we grow cash flows at 15% of the prior year's rate. Given the pending Selinexor patent in 2032 and no credit for Hatch-Waxman extensions (with a projected 2017 launch, exclusivity is capped at 14 years), we decline cash flows by 50% in 2033. After 2033, we assume a terminal growth rate of 0% given the availability of a generic Selinexor, yielding a terminal value of \$125 million.

Key Risks to Price Target

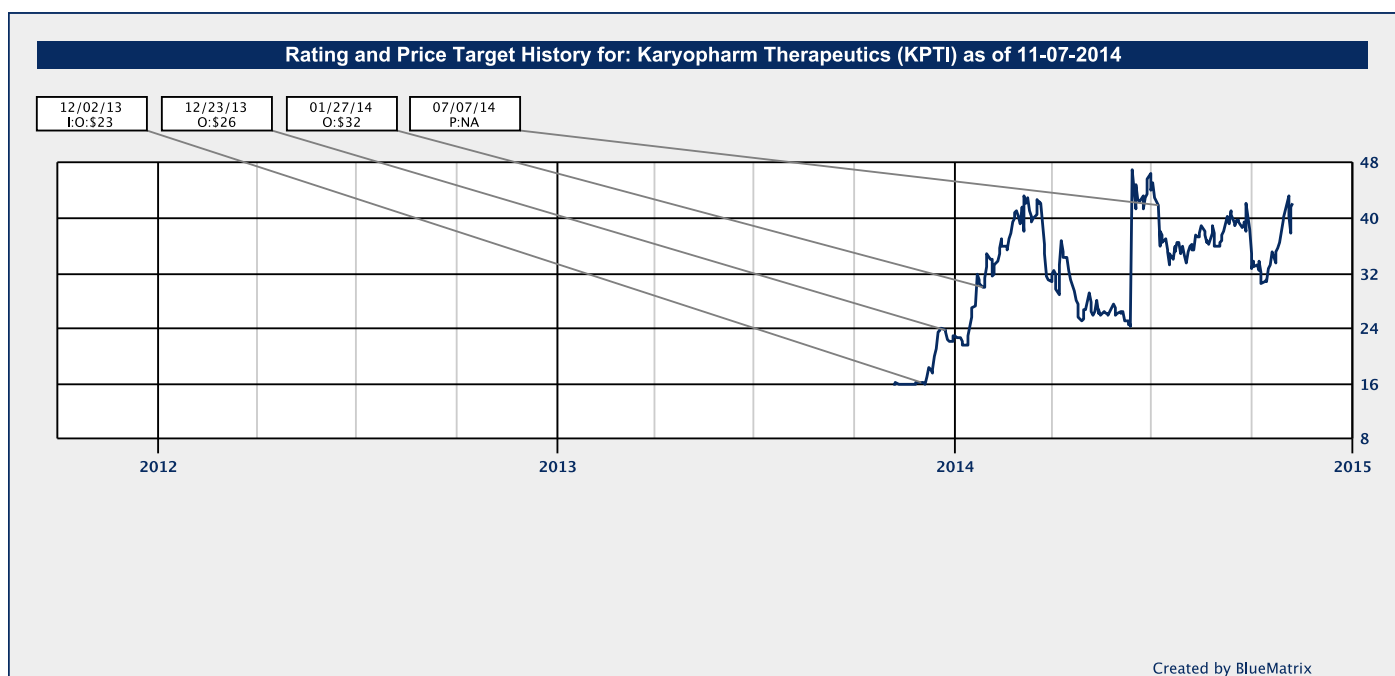
Key risks include: **1)** Selinexor's efficacy in modeled indications (DLBCL, elderly AML, myeloma, and sarcomas) may fail to gain validation with additional clinical data. **2)** Although there are currently no clinical competitors, a pre-clinical XPO1/CRM1 inhibitor with better safety or efficacy characteristics than Selinexor could be advanced into the clinic. **3)** Costs to develop Selinexor across a potentially broad range of blood cancers and solid tumors may exceed our projections, leading to a financing gap. **4)** Karyopharm will likely require additional dilutive capital before reaching commercial stage. **5)** Karyopharm may be unsuccessful in commercializing Selinexor independently (as we currently model) in the US and EU. **6)** Current issued US patents (specifically US patent No. 8,513,230) cover composition of matter for related SINEs but not for Selinexor. The filed composition of matter patent specific to Selinexor (with expected protection through 2032) is still under review by the USPTO.

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Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent
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PERFORM [P]	259	44.27	94	36.29
UNDERPERFORM [U]	7	1.20	0	0.00

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In the past 12 months Oppenheimer & Co. Inc. has managed or co-managed a public offering of securities for KPTI.

In the past 12 months Oppenheimer & Co. Inc. has provided investment banking services for KPTI.

Additional Information Available

Please log on to <http://www.opco.com> or write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

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