

Kindred Biosciences, Inc.

KIN - BUY - Takeaways From KOL Event Underscore Peak Sales Potential of KIN's Drugs Are Underappreciated

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FLASH NOTE

SECTOR: Specialty Pharmaceuticals

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Please join us for our Animal Health Day on June 23 in NYC. A list of participating companies is available upon request.

KIN (BUY, \$18.82) held a Key Opinion Leader (KOL) breakfast panel this morning hosted by Denise Bevers, Founder and Chief Operating Officer and Stephen Sundlof, SVP of Regulatory Affairs. Denise Bevers provided a short corporate overview of KIN and Stephen Sundlof discussed the Center for Veterinary Medicine (CVM) and Animal Health industry. Stephen Sundlof served as the Director of CVM from 1994 to 2008. The meeting underscored that the peak sales potential of KIN's drugs are underappreciated. We are positive on KIN shares ahead of data from its pivotal trials (first data set is for CereKin August of '14). We expect KIN to launch up to three drugs by '15 and up to two drugs per year after that. We view KIN's business model as having better risk/reward than its competitors, and KIN's management team has a successful record of launching Animal Health drugs.

The key takeaways from the meeting which support our positive investment thesis are as follows:

- KIN's ability to develop drugs in-house is a competitive advantage because KIN gets to keep more of the economics for itself (versus pay out a royalty and milestones).
- KIN has an efficient drug development model and management noted that it can develop drugs for \$3MM to \$5MM, which have peak sales potential of \$50MM to \$100MM. KIN's lower cost structure gives the company an opportunity to take a portfolio approach to drug development (de-risking its business model).
- KIN will file its NADAs through the Administrative route. This is the Animal Health equivalent of a rolling NDA. Stephen Sundlof noted that there is a higher likelihood of approval through the Administrative route versus the Non-Administrative route (one submission when everything is completed).
- KIN expects to hire a sales force of 50 reps to target the top 25% of prescribers which account for 50% of drug sales. This will cost \$10MM. There is good SG&A leverage in Animal Health since sales reps can carry 10 to 12 products in their bags. The company will also use distributors as well which have sales forces of 300 to 400 reps. KIN said that they have received positive feedback from large distributors who are in need of new drugs to sell.
- When pricing products, KIN always considers the cost to the pet owner to make sure there is a good commercial opportunity for the drug. Interestingly, veterinarians that we have spoken with have emphasized that Animal Health drugs need to be reasonably priced or else uptake will not be strong.
- The company expects 5 year U.S. marketing exclusivity for approved Animal Health drugs and 10 years in the EU.
- KIN is actively planning life cycle management strategies for its drugs. This will help ensure KIN's investments are long tailed opportunities, in our view.

Potential Catalysts. 1) Data from pivotal studies for CereKin (August '14), AtoKin, SentiKin released in '14; 2) Approvals for CereKin & AtoKin in '15 & SentiKin in '15+; 3) Additional pipeline advancements & approvals; 4) Partnerships & business development.

Companies Mentioned

Kindred Biosciences (KIN, BUY, \$18.82)

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