

KaloBios Pharmaceuticals, Inc.

KB003 Misses Primary Endpoint in Severe Asthma

- After the markets closed today, KaloBios announced that a Phase II trial of KB003 did not meet its primary endpoint in patients with severe asthma.
- This double-blind, placebo-controlled Phase II trial evaluated KB003 (an anti-GMCSF antibody) in 160 patients with inadequately controlled severe asthma. While subgroup analyses support earlier findings, the drug did not achieve the targeted 12% improvement or greater in FEV₁ in the broader patient population. Given a high level of competitive activity in the subpopulation of patients where activity was observed at statistically significant levels, management decided to discontinue the program; complete data from this trial is expected to be presented at an upcoming medical conference.
- KaloBios is focused on the development of a pipeline of patient-targeted, proprietary therapeutic antibodies in areas of high unmet medical need. Historically, antibody-based drugs have a higher likelihood of clinical success, and antibody-focused companies have historically experienced material increases in valuation following Phase II proof-of-concept data. To that end, we expect data later this year on KB001-A in the prevention of *Pseudomonas aeruginosa* (Pa) lung infections in cystic fibrosis patients. Exhibit 1 provides a time-and-events outlook.
- We estimate KaloBios's cash position at \$87 million, which we expect to sustain the company into 2015.** The company has an enterprise value of roughly \$75 million. It is important to note the company has enough cash to sustain itself through the next expected catalyst: Phase II trial top-line results with KB001-A in cystic fibrosis.

Exhibit 1
KaloBios Pharmaceuticals, Inc.
Timeline

Date	Drug	Event
2014	KB001-A	Phase II trial top-line results in cystic fibrosis (Q4).
2015	KB001-A	Phase IIb trial initiation for the prevention of ventilator-associated pneumonia (VAP) (1H).
	KB004	Phase II trial top-line results in acute myelogenous leukemia (AML) and myelodysplastic syndromes (MDS).

Sources: KaloBios reports.

Valuation

KaloBios is trading at \$4.65 with a market cap of \$158 million. The company has \$87 million in cash and runway into 2015.

Risks

We believe the greatest risks for KaloBios are clinical and financial. As a developmental-stage biotechnology company, KaloBios engages in early-stage testing of a number of different clinical assets. If any of the company's trials fail, we believe it would weigh heavily on shares. In addition, KaloBios will continue to have significant capital needs to conduct trials with its compounds in development. We therefore believe it is possible the company might need to seek additional capital from the public markets to fund future drug development.

Based in South San Francisco, California, KaloBios Pharmaceuticals, Inc. is a small-cap company focused on developing patient-targeted, first-in-class monoclonal antibodies using its proprietary Humaneered technology platform, with the intent to significantly improve the lives of seriously ill patients with difficult-to-treat diseases. The company has two agents in Phase II clinical testing in three different indications.

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Stock Rating: **Outperform**
Company Profile: **Aggressive Growth**

Symbol: KBIO (NASDAQ)
Price: \$4.65 (52-Wk.: \$4-\$8)
Market Value (mil.): \$158
Fiscal Year End: December
Long-Term EPS Growth Rate:
Dividend/Yield: None

	2012A	2013E	2014E
Estimates			
EPS FY	\$-11.22	\$-1.96	\$-1.59
CY		\$-1.96	\$-1.59
Sales (mil.)	6	0	0
Valuation			
FY P/E	NM	NM	NM
CY P/E		NM	NM

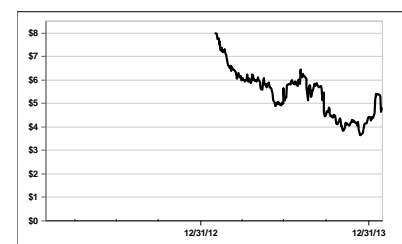
Trading Data (FactSet)

Shares Outstanding (mil.)	24
Float (mil.)	16
Average Daily Volume	152,729

Financial Data (FactSet)

Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	1.6
Enterprise Value (mil.)	71.3
EBITDA (TTM)	-42.6
Enterprise Value/EBITDA (TTM)	-1.7x
Return on Equity (TTM)	-53.3

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

Please consult pages 2-3 of this report for all disclosures. Analyst certification is on page 2.

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William Blair is a market maker in the security of KaloBios Pharmaceuticals, Inc. and may have a long or short position.

William Blair intends to seek investment banking compensation in the next three months from KaloBios Pharmaceuticals, Inc.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with KaloBios Pharmaceuticals, Inc.

Additional information is available upon request.

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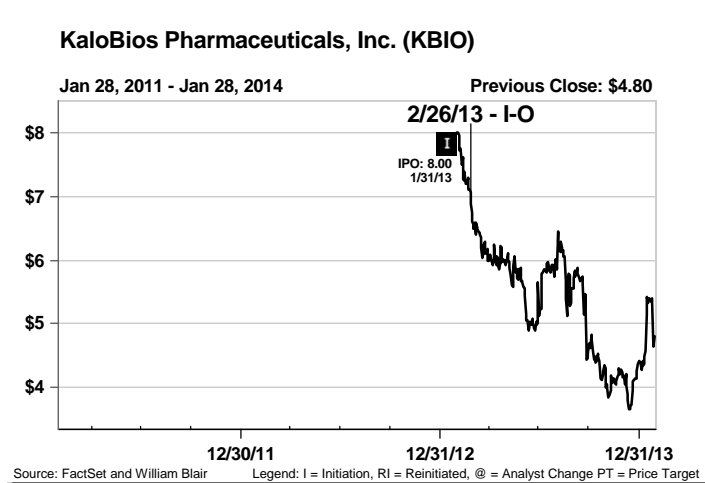
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DOW JONES: 15,928.56

S&P 500: 1,792.50

NASDAQ: 4,097.96



Current Rating Distribution (as of 12/31/13)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	63	Outperform (Buy)	16
Market Perform (Hold)	33	Market Perform (Hold)	3
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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