

December 22, 2013

HEALTHCARE/BIO TECHNOLOGY

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$26.00
KPTI - NASDAQ \$24.08

3-5 Yr. EPS Gr. Rate 71%
52-Wk Range \$25.69-\$15.50
Shares Outstanding 29.7M
Float 8.1M
Market Capitalization \$716.4M
Avg. Daily Trading Volume NA
Dividend/Div Yield NM/NM
Book Value \$2.11
Fiscal Year Ends Dec
2013E ROE NA
LT Debt \$0.0M
Preferred \$0.0M
Common Equity \$459M
Convertible Available No
Trading range since 11/6/13.

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2012A	--	--	--	--	(8.95)	NM
Prior (A)	--	--	--	--	(2.71)	NM
2013E	(2.59)A	(2.80)A	(3.66)A	(0.79)	(6.64)	NM
Prior (A)	(0.79)	(0.85)	(0.99)	(0.60)	(3.06)	NM
2014E	(0.37)	(0.44)	(0.52)	(0.63)	(1.96)	NM

Reflects 1:3.3 reverse stock split effective October 2013.

Revenue (\$/mil)	Q1	Q2	Q3	Q4	Year	Mult.
2012A	--	--	--	--	0.6	NM
2013E	0.2A	0.2A	0.0A	0.2	0.8	NM
Prior (A)	--	--	0.2	--	--	NM
2014E	0.2	0.2	0.2	0.2	0.8	NM

Karyopharm Therapeutics

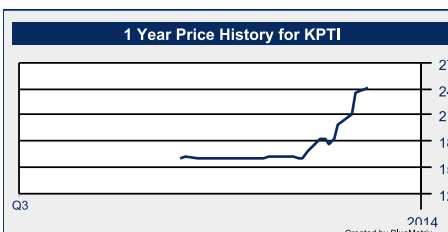
3Q13 Results: Increased Enthusiasm for Selinexor Post-ASH, Raising PT to \$26

SUMMARY

KPT announced 3Q13 results. The company reported a net loss of (\$9.3M), vs. our and Street consensus estimates of (\$7.8M) and (\$8.6M), respectively. No new pipeline updates were provided in the quarterly report. However, we spoke to hematologists after the American Society of Hematology (ASH) meeting (Dec. 7-10), who expressed widespread enthusiasm for selinexor and its novel mechanism. While KPTI presented incremental data updates at the meeting, the presentations at ASH not only increased awareness of selinexor but also heightened interest in the potential for combination with other targeted agents (e.g., decitabine). We have adjusted probability assumptions in our model to reflect positive physician feedback, and are raising our PT to \$26.

KEY POINTS

- **3Q13 results.** Net loss for the quarter was (\$9.3M). R&D expenses were \$7.7M, and G&A expenses were \$1.6M. Loss per share was (\$3.66); this reflects a one-for-3.3 reverse common stock split, effective October 2013.
- **EPS adjustments.** The company has adjusted share and per-share amounts in from previous periods to reflect the reverse stock split; we have adjusted our model accordingly. Our EPS estimates for all future quarters remain unchanged.
- **Raising PT to \$26 based on positive post-ASH feedback.** Based on positive hematologist consultant feedback following the ASH meeting, we are increasing our probability assumptions for selinexor's three proposed indications (AML, DLBCL, multiple myeloma) and raising our PT from \$23 to \$26.

Stock Price Performance

Company Description

Karyopharm Therapeutics is a clinical-stage pharmaceutical company focused on discovery and development of novel first-in-class drugs directed against nuclear transport targets for the treatment of cancer and other major diseases

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Karyopharm Income Statement (\$MMs except per share data)

	2011	2012	1Q13	2Q13	3Q13	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E
Selinexor Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contract & Grant Revenue	0.2	0.6	0.2	0.2	0.0	0.2	0.6	0.2	0.2	0.2	0.2	0.8
Total Revenue	0.2	0.6	0.2	0.2	0.0	0.2	0.6	0.2	0.2	0.2	0.2	0.8
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
R&D	8.6	14.1	5.4	5.6	7.7	6.5	25.3	8.0	10.0	12.0	15.0	45.0
SG&A	1.8	2.4	0.8	1.0	1.6	2.5	5.9	3.0	3.3	3.5	3.8	13.5
Operating Income	(10.3)	(15.9)	(6.0)	(6.5)	(9.3)	(8.8)	(30.6)	(10.8)	(13.1)	(15.3)	(18.6)	(57.7)
Interest Income	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.8
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
Pre-Tax Income	(10.3)	(15.9)	(6.0)	(6.5)	(9.3)	(8.8)	(30.5)	(10.6)	(12.9)	(15.1)	(18.6)	(56.9)
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
Tax Rate	NM	NM	NM	NM	0.0%	0.0%	NM	0.0%	0.0%	0.0%	0.0%	NM
Net Income (GAAP)	(10.3)	(15.9)	(6.0)	(6.5)	(9.3)	(8.8)	(30.5)	(10.6)	(12.9)	(15.1)	(18.6)	(56.9)
GAAP EPS	(\$10.27)	(\$8.95)	(\$2.59)	(\$2.80)	(\$3.66)	(\$0.79)	(\$6.64)	(\$0.37)	(\$0.44)	(\$0.52)	(\$0.63)	(\$1.96)
Avg. Shares Out. - Basic	1.0	1.8	2.3	2.3	2.5	11.2	4.6	28.7	28.9	29.1	29.3	29.0
Avg. Shares Out. - Diluted	1.0	1.8	2.3	2.3	2.5	11.8	4.7	30.5	30.7	30.9	31.1	30.8
Growth Analysis	2011	2012	1Q13	2Q13	3Q13	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E
Total Revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
COGS	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
R&D	NM	NM	NM	NM	NM	NM	79.2%	48.1%	77.8%	55.1%	130.8%	78.1%
SG&A	NM	NM	NM	NM	NM	NM	143.1%	275.0%	218.0%	121.1%	50.0%	128.6%
Operating Income	NM	NM	NM	NM	NM	NM	92.6%	NM	NM	NM	NM	88.5%
EPS	NM	NM	NM	NM	NM	NM	92.0%	NM	NM	NM	NM	86.6%

Source: Oppenheimer Estimates, Company Reports

Investment Thesis

Karyopharm is developing novel small-molecule selective inhibitors of nuclear export (SINE) compounds that target the nuclear export protein XPO1. Karyopharm's lead drug candidate is selinexor (KPT-330), which is currently in Phase I development for advanced hematological and solid tumor malignancies. The company intends to initiate pivotal Phase II trials in elderly AML, relapsed/refractory DLBCL, and relapsed/refractory multiple myeloma. Early-stage data suggest anti-cancer activity in these indications. Based on its novel mechanism of action, we believe selinexor has potential for broad applicability across multiple tumor types. We view KPTI as an attractive long-term investment and expect the stock to appreciate as additional clinical data in these and other cancer indications continue to emerge.

Price Target Calculation

Our 12-18-month price target of \$26 is driven by a discounted cash flow analysis using a weighted average cost of capital (WACC) of 7.83% and a terminal growth rate of 2.0% on an estimated \$28M of free cash flow in 2036.

Key Risks to Price Target

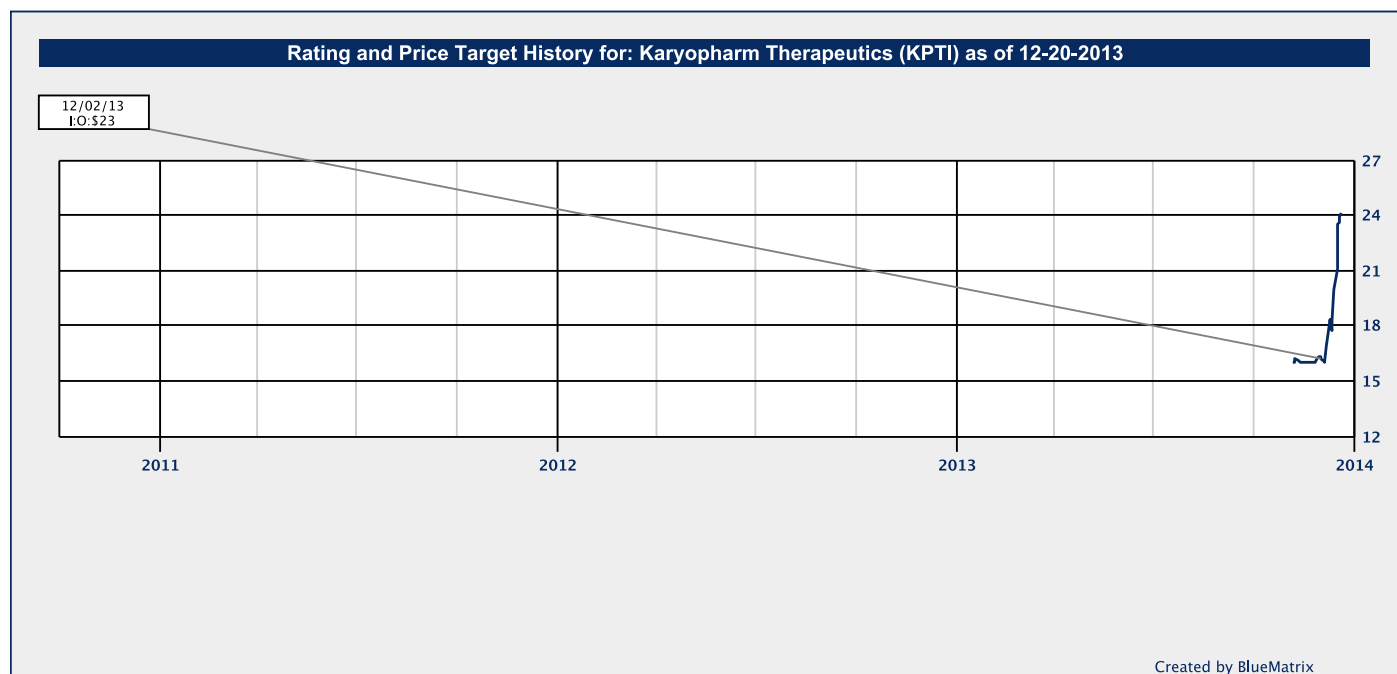
1) Negative clinical or regulatory outcomes for key investigational product Selinexor in DLBCL, MM, elderly AML, and other oncology indications; 2) the emergence of significant new competition; and 3) lack of performance/trading history may cause share price volatility.

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All price targets displayed in the chart above are for a 12- to 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

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Distribution of Ratings/IB Services Firmwide				
Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	298	49.34	141	47.32
PERFORM [P]	295	48.84	98	33.22
UNDERPERFORM [U]	11	1.82	4	36.36

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