

Kindred Biosciences, Inc.

KIN - BUY - Gearing Up for an Exciting 2015

LOUISE CHEN, ANALYSTlouise.chen@guggenheimpartners.com
212 381 4195**SWATI KUMAR, ASSOCIATE**swati.kumar@guggenheimpartners.com
212 918 8754**BRANDON FOLKES, ASSOCIATE**brandon.folkes@guggenheimpartners.com
212 518 9976**FLASH NOTE**

SECTOR: Specialty Pharmaceuticals

October 16, 2014

KIN has quickly moved past CereKin for dogs (failed trial) and is now preparing for an exciting 2015. We hosted a day of meetings with CEO Richard Chin and Chief Operating Officer Denise Bevers from Kindred (KIN, BUY, \$8.60) on October 14, 2014. In 2015, the company expects data from two to three pilot studies (drug for fever in horses, drug for cat inappetence, and another undisclosed drug), data from up to four pivotal studies (SentiKin, AtoKin, drug for fever in horses, and drug for cat inappetence), and a potential acquisition to bring in commercial drugs and an established sales force (according to KIN, likely ahead of mid-2015 pivotal data for AtoKin and SentiKin). With KIN stock currently trading at \$8.60, and ~\$5.62 per share in cash, we believe the downside risk for KIN shares is limited. We continue to recommend investors take a look at KIN, particularly ahead of many potential stock-moving catalysts in 2014+.

We highlight below the key takeaways from our meetings that we believe support our positive investment thesis.

- KIN historically has estimated a success rate for its trials of 70%, but management believes it is important that they maximize their chances of success above 70% for the two upcoming pivotal trials (AtoKin and SentiKin). The power of the AtoKin and SentiKin trials will be increased from 80% to 90% with the enrollment of additional subjects for each trial (for both trials increasing subjects from 200 to ~350). Enrollment in both studies has been progressing quickly. Under the original trial design, AtoKin would already be fully enrolled. SentiKin is taking longer than AtoKin to enroll because surgery is less common than atopic dermatitis. That being said, the SentiKin trial is only three days long, so KIN is confident that both trials should have data by mid-2015.
- KIN's cat EPO is moving through the development process quickly. KIN believes this could be the largest product in its pipeline, but approval is still years away. There are currently no other cat EPOs available on the market. Cats do not tolerate human EPO well. KIN believes cat drugs can generate sales of \$10MM to \$100MM, with cat EPO being on the high end of that range. KIN estimates that one-third of elderly cats have kidney failure, which requires the need for EPO. KIN is considering pricing the drug at \$500 a year (the price point for these type of drugs that pet owners are used to paying).
- KIN expects to hire a new CSO to fill Kevin Schultz's place by year end. The company underscored that Kevin Schultz left for personal reasons (to take care of close family). The timing of his departure was not ideal because he left before the negative CereKin data was released, which is why we think it is important to give more color here. The search for a CFO is less pressing until KIN starts commercializing drugs. KIN could close a deal without a CFO, and the former CFO is still consulting for the company.
- KIN has approximately \$110MM in cash and expects to burn \$25-35MM in 2014 and a similar amount in 2015. Therefore, KIN has about \$30-40MM of cash for deals. KIN is able to do a larger deal than \$30-40MM because it can take on leverage for an accretive deal (KIN has already been offered debt financing). KIN is interested in deals with sales from \$6-7MM to \$40MM. We estimate the company could pay 2.0x to 2.5x sales for an acquisition. Investors that we met with would urge KIN to focus on good strategic deals.
- With respect to partnerships for its drugs, KIN management said they have seen attractive deals with \$10-20MM upfront milestones and high-teens royalties. KIN's preference is to commercialize its pipeline with its own salesforce, but management would consider a partnership if the economics were better than a proprietary launch.

Potential Catalysts. 1) Data from pivotal studies for AtoKin and SentiKin released in mid-2015; 2) Approvals for AtoKin, SentiKin in 2015+; 3) Additional pipeline advancements and approvals; 4) Partnerships and business development.

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

IMPORTANT DISCLOSURES

The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenues, which includes investment banking revenues.

Guggenheim Securities, LLC managed or co-managed a public offering of securities for Kindred Biosciences, Inc. during the past 12 months.

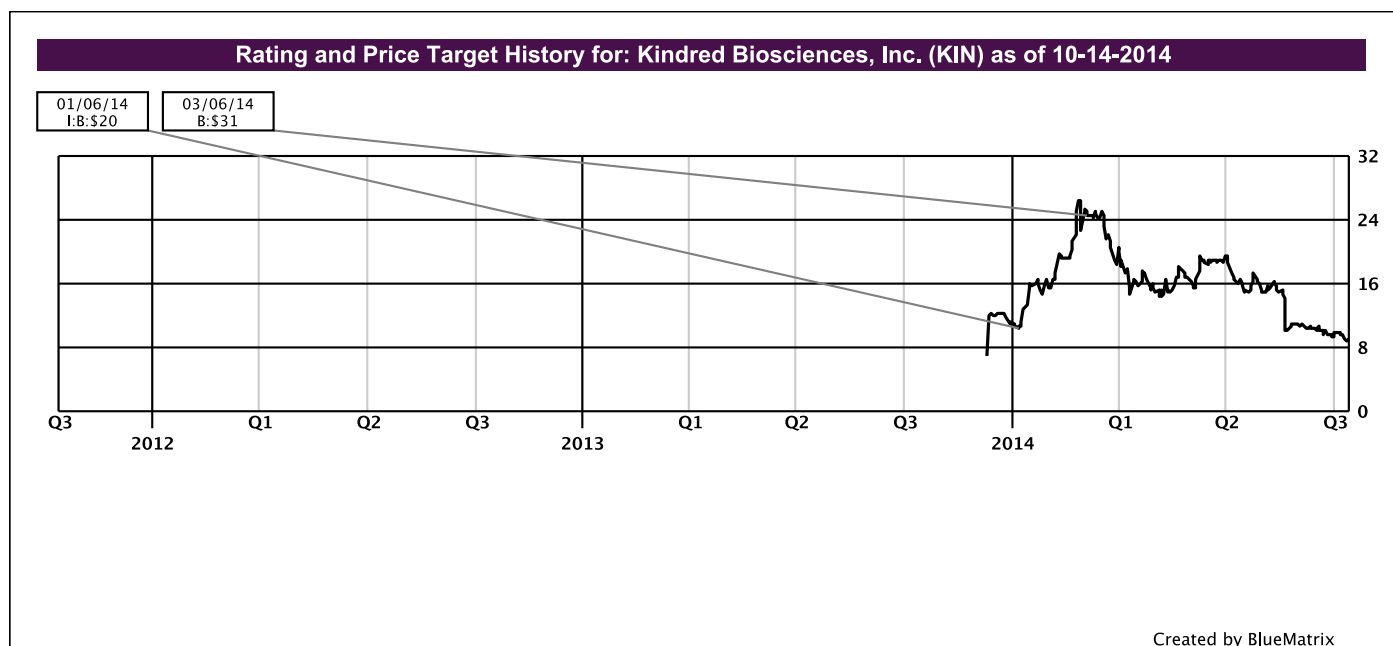
Guggenheim Securities, LLC makes a market in the securities or derivatives Kindred Biosciences, Inc..

Kindred Biosciences, Inc. is or was during the 12-month period preceding the date of the distribution of this report a client of Guggenheim Securities, LLC. Guggenheim Securities, LLC provided Kindred Biosciences, Inc. investment banking services.

Guggenheim Securities, LLC or its affiliates received compensation for investment banking services from Kindred Biosciences, Inc. during the past 12 months.

Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Kindred Biosciences, Inc. in the next 3 months.

Please refer to this website for company-specific disclosures referenced in this report: [https://guggenheimsecurities.bluematrix.com/sellside/ Disclosures.action](https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action). Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.



RATING DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

NC - Not covered. Guggenheim Securities, LLC does not cover this company.

Restricted - Describes issuers where, in conjunction with Guggenheim Securities, LLC engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	119	59.80%	18	15.13%
Neutral	80	40.20%	5	6.25%
Sell	0	0.00%	0	0.00%

OTHER DISCLOSURES

This research is for our clients and prospective clients only. Other than disclosures relating to Guggenheim Securities and its affiliates, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the research analyst's judgment. Guggenheim Securities conducts a full-service, integrated investment banking and brokerage business, and one or more of its affiliates conduct an investment management business. Guggenheim Securities is a member of SIPC (<http://www.sipc.org>). Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our employees trading for our own account that reflect opinions that are contrary to the opinions expressed in this research. Guggenheim Securities or certain of its affiliates conducts an investment management business, trades for its own account, and conducts an investment business, and may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research. We and our affiliates also may sell to or buy from customers on a principal basis the securities described herein. We and our affiliates also do business with, or that relates to, companies covered in Guggenheim Securities' research, and may have a position in the debt of the company or companies discussed herein.

This research is not an offer to sell or the solicitation of an offer to buy any security. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

TACTICAL TRADING IDEA DISCLAIMER

Guggenheim Securities, LLC produces "Tactical Trade Ideas" that identify short-term, catalyst-driven trading opportunities impacting companies within the Firm's coverage universe. Tactical Trade Ideas may exist on companies in this report and may be contrary to the analyst's published rating.

Copyright © 2014 by Guggenheim Securities, LLC, ("Guggenheim") a FINRA registered broker-dealer. All rights reserved. The contents of this report are based upon information or are obtained from sources that Guggenheim generally considers reliable, but Guggenheim makes no representations or warranties with respect to their accuracy, completeness, timeliness, suitability or otherwise, and assumes no responsibility to update them for subsequent events or knowledge. Guggenheim is not responsible for your use of this information.

Contact Information

NEW YORK SALES & TRADING DESK

212 292 4700

EQUITY TRADING DESK

212 292 4701

MEDIA INQUIRIES

310 367 6567

EMAIL

general@guggenheimcm.com

Locations

NEW YORK330 Madison Avenue
New York, NY 10017**WASHINGTON, DC**1055 Thomas Jefferson Street, NW
Suite 450
Washington, DC 20007**BOSTON**500 Boylston Street, 13th Floor
Boston, MA 02116**LOS ANGELES**601 South Figueroa Street
Suite 4005
Los Angeles, CA 90017**DALLAS**1717 McKinney Avenue
Suite 870
Dallas, TX 75202**SAN FRANCISCO**50 California Street
Suite 1515
San Francisco, CA 94111**NASHVILLE**104 Woodmont Blvd
Suite 203
Nashville, TN 37205**RICHMOND**919 East Main Street
Suite 1605
Richmond, VA 23219

Guggenheim Equity Research

ENERGY: EXPLORATION & PRODUCTION**Rob Cordray, Analyst**

robert.cordray@guggenheimpartners.com

972 638 5509

ENERGY: OIL SERVICES & EQUIPMENT**Darren Gacicia, Analyst**

darren.gacicia@guggenheimpartners.com

212 293 3054

Michael LaMotte, Analyst

michael.lamotte@guggenheimpartners.com

972 638 5502

Wilson Waggoner, Associate

wilson.waggoner@guggenheimpartners.com

972 638 5506

**FINANCIAL SERVICES: BUSINESS
DEVELOPMENT COMPANIES****Rahul Agarwal, Analyst**

rahul.agarwal@guggenheimpartners.com

615 208 1221

**FINANCIAL SERVICES: REGIONAL &
COMMUNITY BANKS, CARD NETWORKS****Taylor Brodarick, Analyst**

taylor.brodarick@guggenheimpartners.com

615 208 1222

David Darst, Analyst

david.darst@guggenheimpartners.com

615 208 1224

Ryan Strain, Associate

ryan.strain@guggenheimpartners.com

615 208 1226

FINANCIAL SERVICES: INSURANCE**Bijan Moazami, Analyst**

bijan.moazami@guggenheimpartners.com

202 747 9466

Marshall Coltrain, Associate

marshall.coltrain@guggenheimpartners.com

202 747 9456

HEALTHCARE: BIOPHARMA**Tony Butler, Analyst**

tony.butler@guggenheimpartners.com

212 823 6540

HEALTHCARE: BIOTECH**Bret Holley, Analyst**

bret.holley@guggenheimpartners.com

212 293 2820

HEALTHCARE: PHARMACEUTICALS**Louise Chen, Analyst**

louise.chen@guggenheimpartners.com

212 381 4195

Swati Kumar, Associate

swati.kumar@guggenheimpartners.com

212 918 8754

Brandon Folkes, Associate

brandon.folkes@guggenheimpartners.com

212 518 9976

RETAIL & CONSUMER**John Heinbockel, Analyst**

john.heinbockel@guggenheimpartners.com

212 381 4135

Steven Forbes, Associate

steven.forbes@guggenheimpartners.com

212 381 4188

**TMT: MEDIA & ENTERTAINMENT,
CABLE & SATELLITE TV****Michael Morris, Analyst**

michael.morris@guggenheimpartners.com

804 253 8025

Curry Baker, Associate

curry.baker@guggenheimpartners.com

804 253 8029

Robert Stone, Associate

robert.stone@guggenheimpartners.com

804 253 8053