

Healthcare: Pharmaceuticals

Kindred Biosciences, Inc. | KIN - \$9.24 - NYSE | *Neutral*

Company Update

Estimates Changed, Target Price Changed

Stock Data

52-Week Low - High	\$8.13 - \$26.99
Shares Out. (mil)	19.71
Mkt. Cap.(mil)	\$182.2
3-Mo. Avg. Vol.	152,651
12-Mo.Price Target	\$8.50
Cash (mil)	\$106.4
Tot. Debt (mil)	\$0.0

EPS \$

Yr Dec	—2014E—	—2015E—		—2016E—
		Curr	Prev	Curr
1Q	(0.38)A	-	-	-
2Q	(0.42)A	-	-	-
3Q	(0.31)A	-	-	-
4Q	(0.42)E	-	-	-
YEAR	(1.53)E	(1.65)E	(1.70)E	(1.80)E
P/E	NM	NM	NM	NM

Revenue (\$ millions)

Yr Dec	—2014E—	—2015E—	—2016E—	
		Curr	Curr	Prev
1Q	0.0A	-	-	-
2Q	0.0A	-	-	-
3Q	0.0A	-	-	-
4Q	0.0E	-	-	-
YEAR	0.0E	0.0E	0.6E	5.4E

KIN One-Year Price and Volume History



KIN: Growing Pains Continue - PT Reduced to \$8.50

Kindred discontinued a key pipeline compound AtoKin due to competitive concerns. This is negative for multiple reasons including 1) it removes a revenue driver and delays profitability, 2) it forces the company to be reliant on one lead product (SentiKin), and 3) it raises questions as to the company's business model. We continue to recommend that investors choose the sidelines for this company. Maintain Neutral rating with a reduced \$8.50/share price target.

- AtoKin shelved.** Kindred announced after the close yesterday (12/3/2014) that it has reassessed and discontinued its atopic dermatitis product AtoKin in favor of directing resources toward other programs in its portfolio. This is unexpected given that this was a late stage program that just completed the CMC technical section of the NADA (animal new drug filing). Further, clinical data was expected in the middle of 2015. The reason given (no conference call) was that a recently launched product in the atopic dermatitis space has effectively made AtoKin less competitive.
- Takeaway #1 - Huh?** It is surprising that the company would develop AtoKin to this late stage without anticipating other market competition. We chalk this up to growing pains in the evolving market for animal health treatments. Recall as well, the company only recently upped the size of the clinical trial for AtoKin. There is simply no way to spin this, in our opinion, other than that this was a mistake in strategy.
- Takeaway #2 - From 3 drugs to 1 reduces leverage.** The goal of any marketing organization is to sell to customers with a full bag of products. Kindred is now likely to have only SentiKin at the start of marketing (2016) post the failures of both CereKin and AtoKin. This increases the selling spend and places a high amount of pressure on the ability of that first product (SentiKin) to generate sales to offset expenses. We view this as a negative for the business model.
- Model changes.** Removing AtoKin revenues pushed out profitability from 2019 to 2020, and reduced the ultimate size of the EPS gain in 2020 to \$0.50 (from \$0.75). This event also increased the risks of our forecasts as the company is now a one product company.
- Maintain Neutral rating, PT to \$8.50.** Kindred has clearly lost momentum with both failed products and shelved products. That said, the company remains cash robust with \$5-\$6/share of cash that will likely act as a backstop for the shares. As such, we remain on the sidelines.

VALUATION

We value KIN shares at \$8.50. Our price target of \$8.50/share is arrived at by applying a ~40X multiple to forecasted 2020 EPS of \$0.50, and discounting back five years by 20% per year (we do not add back the ~\$5/share in cash as we expect it to be spent). We support this multiple by evaluating comparable animal health companies (limited sample size).

We acknowledge that our price target falls outside of ROTH's stated rating system for a Neutral rating. However, we believe that limited visibility into KIN revenues creates the need for a larger margin of error for KIN shares.

Facts that could cause the share price to deviate from our price target include clinical development risk, regulatory risk, forecasting risk and sentiment risk.

RISKS

In addition to the risks inherent in developing, manufacturing, and distributing animal health drugs, key investment risks for Kindred Bio include:

- **Clinical development risk** – Kindred Bio will need to demonstrate both efficacy and safety for its current product pipeline. Failure of pending clinical data to match expectations could have a material adverse impact on company shares.
- **Regulatory risk** – Kindred Bio advances its pipeline through the FDA (CVM), USDA (biologics), and EMA. Failure of the company to navigate these channels in line with investor expectations could have a material adverse impact on company shares.
- **Forecasting risk** – We forecast substantial revenues for multiple products within Kindred Bio's pipeline. Failure of actual revenues to match our forecasts could have a material adverse impact on company shares.
- **Sentiment risk** – Animal health companies are currently receiving heightened investor interest, and profits remain multiple years away. A change in investor sentiment away from animal health could have a material adverse impact on company shares.

COMPANY DESCRIPTION

Kindred Biosciences, Inc., a clinical-stage biopharmaceutical company, focuses on the development of therapies for pets. The company provides small molecules and biologics that are in various stages of development for a range of indications in dogs, cats, and horses. Its products include CereKin, an oral interleukin-1 beta inhibitor for osteoarthritis pain and inflammation in dogs; AtoKin, a beef-flavored formulation of fexofenadine for atopic dermatitis in dogs; KIND-009, an oral analgesic formulation of flupirtine to manage post-operative pain in dogs and cats; KIND-007, an inhibitor of Bruton's tyrosine kinase; and KIND-006, an agent for gastrointestinal diseases in cats. The company's products also comprise KIND-502, a biologic for allergic and immune-mediated diseases; KIND-506, a biologic for inflammatory and autoimmune diseases; KIND-507, a biologic for immune-mediated diseases; KIND-504, a cancer vaccine; and KIND-501, an antiangiogenic biologic for cancer in dogs. Kindred Biosciences, Inc. was founded in 2012 and is headquartered in Burlingame, California.

Kindred Biosciences, Inc.																	
Earnings model	FY 2012 A	1Q13A	2Q13A	3Q13A	4Q13A	FY 2013 A	1Q14A	2Q14A	3Q14A	4Q14E	FY 2014 E	FY 2015 E	FY 2016 E	FY 2017 E	FY 2018 E	FY 2019 E	FY 2020 E
Revenues:																	
CereKin												-	-	-	-	-	-
AtoKin												-	-	-	-	-	-
SentiKin												-	677,456	4,323,837	8,817,734	14,023,134	16,966,987
Other indications (Cerekin/AtoKin/SentiKen)														10,000,000	20,000,000	25,000,000	30,000,000
Other small molecule drugs														15,000,000	25,000,000	35,000,000	45,000,000
Biologics														15,000,000	25,000,000	25,000,000	50,000,000
Distributor discount												-	(33,873)	(1,466,192)	(3,440,887)	(4,951,157)	(7,098,349)
Percentage via distributor												25%	25%	25%	25%	25%	25%
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	-	643,583	27,857,645	65,376,847	94,071,977	134,868,638
COGS	-	-	-	-	-	-	-	-	-	-	-	-	482,687	15,321,705	33,995,961	44,872,333	62,309,311
Gross Profits	-	-	-	-	-	-	-	-	-	-	-	-	160,896	12,535,940	31,380,887	49,199,644	72,559,327
Gross margins												0%	25%	45%	48%	52%	54%
Research and Development	74,772	141,000	300,000	953,756	1,747,674	3,142,430	4,498,000	5,639,000	3,755,000	6,000,000	19,892,000	24,250,000	25,750,000	26,000,000	27,000,000	28,000,000	29,000,000
General and Administrative	44,864	83,000	96,000	259,153	639,339	1,077,492	1,679,000	2,499,000	2,342,000	2,500,000	9,020,000	10,000,000	10,250,000	10,500,000	11,150,000	12,000,000	12,500,000
Selling expenses												-	3,250,000	6,425,000	7,800,000	10,875,000	13,412,500
Profit (loss) from operations	(119,636)	(224,000)	(396,000)	(1,212,909)	(2,387,013)	(4,219,922)	(6,177,000)	(8,138,000)	(6,097,000)	(8,500,000)	(28,912,000)	(34,250,000)	(39,089,104)	(30,389,060)	(14,569,113)	(1,675,356)	17,646,827
Interest/other income	25	-	-	2,614	3,310	5,924	9,000	14,000	25,000	50,750	98,750	52,500	52,500	85,000	150,000	200,000	300,000
Pretax income (loss)	(119,611)	(224,000)	(396,000)	(1,210,295)	(2,383,703)	(4,213,998)	(6,168,000)	(8,124,000)	(6,072,000)	(8,449,250)	(28,813,250)	(34,197,500)	(39,036,604)	(30,304,060)	(14,419,113)	(1,475,356)	17,946,827
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,794,683
Rate													0%	0%	0%	0%	10%
Net income (loss)	(119,611)	(224,000)	(396,000)	(1,210,295)	(2,383,703)	(4,213,998)	(6,168,000)	(8,124,000)	(6,072,000)	(8,449,250)	(28,813,250)	(34,197,500)	(39,036,604)	(30,304,060)	(14,419,113)	(1,475,356)	16,152,144
EPS	(0.04)	(0.07)	(0.13)	(0.26)	(0.40)	(1.13)	(0.38)	(0.42)	(0.31)	(0.42)	(1.53)	(1.65)	(1.80)	(1.20)	(0.55)	(0.05)	0.50
Shares outstanding	2,718,082	3,000,000	3,000,000	4,713,320	5,899,059	3,731,929	16,222,000	19,426,000	19,713,000	19,963,000	18,831,000	20,713,000	21,713,000	25,213,000	26,213,000	29,713,000	32,213,000

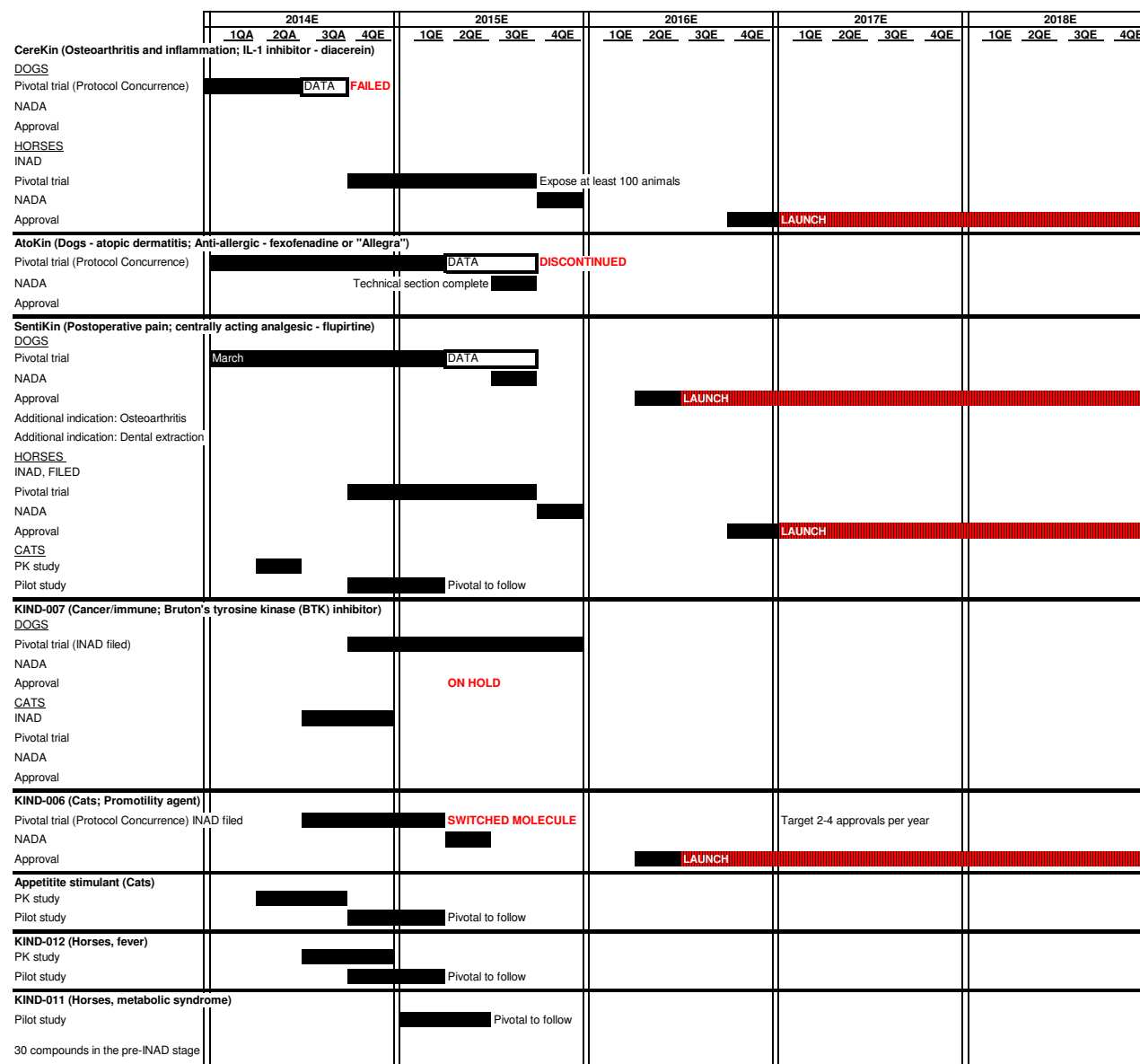
Source: ROTH Capital Partners and Company SEC filings

Scott R Henry, CFA

shenry@roth.com

(949) 500-0863

Kindred Biosciences, Inc. Small Molecule Pipeline



Source: ROTH Capital Partners Forecasts

Scott R Henry, CFA
shenry@roth.com
 (949) 500-0863

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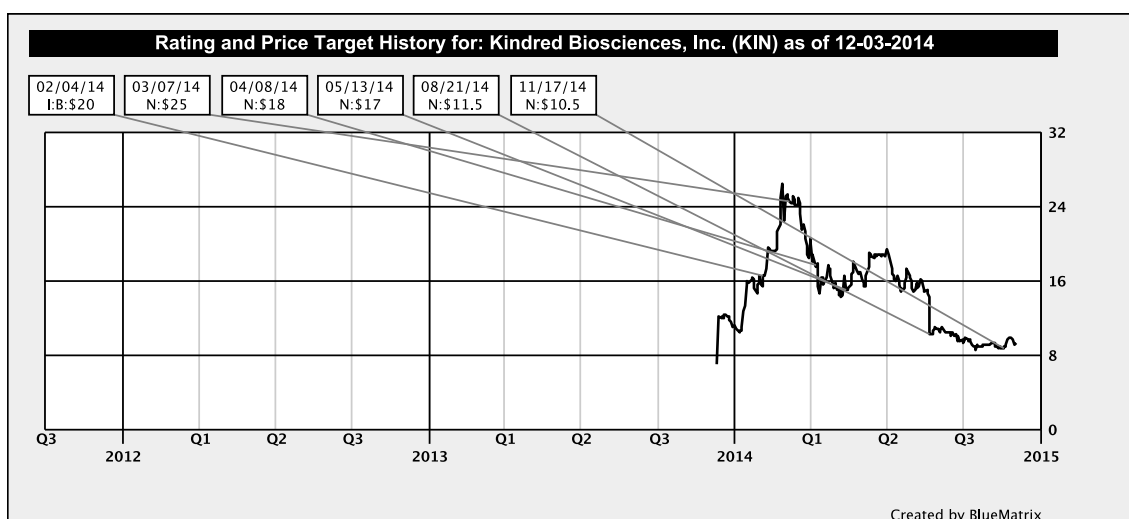
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ROTH makes a market in shares of Kindred Biosciences, Inc. and as such, buys and sells from customers on a principal basis.

Within the last twelve months, ROTH has managed or co-managed a public offering for Kindred Biosciences, Inc..

On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years.

Distribution Ratings/IB Services shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 12/04/14	
			Count	Percent
Buy [B]	200	79.68	116	58.00
Neutral [N]	34	13.55	12	35.29
Sell [S]	0	0.00	0	0
Under Review [UR]	16	6.37	9	56.25

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

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Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

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Not Covered [NC]: ROTH does not publish research or have an opinion about this security.

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