

Healthcare: Pharmaceuticals

Kindred Biosciences, Inc. | KIN - \$17.44 - NYSE | *Neutral*

Company Update

Estimates Changed, Target Price Changed

Stock Data

52-Week Low - High	\$8.75 - \$26.99
Shares Out. (mil)	19.23
Mkt. Cap.(mil)	\$335.3
3-Mo. Avg. Vol.	147,460
12-Mo.Price Target	\$18.00
Cash (mil)	\$115.0
Tot. Debt (mil)	\$0.0

Cash (mil): Cash is approximate proforma amount post IPO and recent financing

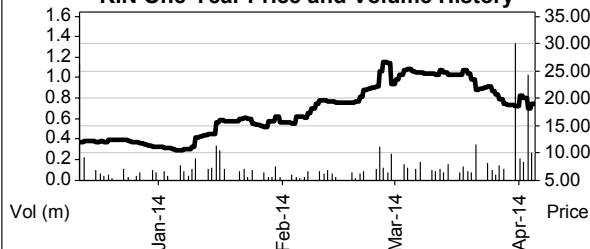
EPS \$

Yr Dec	—2013—	—2014E—		—2015E—	
		Curr	Prev	Curr	Prev
1Q	(0.04)A	(0.19)E	(0.19)E	-	-
2Q	(0.11)A	(0.18)E	(0.22)E	-	-
3Q	(0.26)A	(0.21)E	(0.24)E	-	-
4Q	(0.40)A	(0.23)E	(0.27)E	-	-
YEAR	(1.13)A	(0.81)E	(0.92)E	(0.91)E	(1.07)E
P/E	NM	NM	NM	NM	NM

Revenue (\$ millions)

Yr Dec	—2013—	—2014E—		—2015E—	
		Curr	Prev	Curr	Prev
1Q	0.0A	0.0E	0.0E	-	-
2Q	0.0A	0.0E	0.0E	-	-
3Q	0.0A	0.0E	0.0E	-	-
4Q	0.0A	0.0E	0.0E	-	-
YEAR	0.0A	0.0E	0.0E	0.5E	0.5E

KIN One-Year Price and Volume History



KIN: Updated model post financing; Lowering PT

We publish our updated model for Kindred Bio. We reduced EPS targets to account for dilution from the recent equity financing. We also lowered our valuation target (now \$18/share from \$25) to reflect higher discounts and lower valuations for animal health companies. Even post the recent share price decline, we are not inclined to aggressively purchase shares at current levels.

- **Updated model.** We are publishing our updated model for Kindred post the recent secondary offering.
- **Dilution reduces EPS targets.** The additional ~3 million shares from the recent secondary offering dilutes our EPS in out years by \$0.15 - \$0.20. This is not surprising given the low interest rate environment. The company could offset this through accretive deals.
- **Risk aversion also impacting valuation.** The market appears to be scrutinizing non-profitable animal health companies to a greater degree. We agree with this sentiment, and expect that this will not change in the near to mid-term. We have adjusted our discount rate higher to 30% from 15% and decreased our target multiple for 2018 forecasted EPS to 25X from 30X. This reduces our price target to \$18/share from \$25/share. The \$18 price target includes an addition for \$6/share in net cash. We also believe that sentiment could go lower and do not view our price target as conservative.
- **Next data point should be positive.** The next clinical data point for KIN shares should be Cerekin dog data for the treatment of osteoarthritis and inflammation. We expect it to be positive. We are not sure how much this will impact the share price given that most investors also expect it to be positive.
- **Maintain Neutral rating.** We are impressed by the management team at Kindred Bio, and we believe that the company has positioned itself well by raising additional funds. However, we remain cautious for investors as we continue to believe that "developmental" animal health valuations appear stretched.

VALUATION

We value KIN shares at \$18/share. Our price target of \$18/share is arrived at by applying a 25X multiple to forecasted 2018 EPS of \$1.10, and discounting back three years by 30% per year (we also add \$6/share to reflect the cash balance). We support this multiple by evaluating comparable animal health companies (limited sample size). Our choice of 25X reflects an earlier stage of the EPS growth trajectory curve.

Impediments to 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	1Q14E	2Q14E	3Q14E	4Q14E	FY 2014 E	FY 2015 E	FY 2016 E	FY 2017 E	FY 2018 E	FY 2019 E	FY 2020 E
Revenues:																	
CereKin												484,602	12,849,108	33,187,508	51,379,675	63,967,375	69,918,903
AtoKin												-	3,849,995	13,429,295	23,447,784	34,405,808	39,154,586
SentiKin												-	1,787,498	6,235,030	10,886,471	15,974,125	18,178,915
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	35,000,000	50,000,000
Distributor discount												(24,230)	(924,330)	(3,892,592)	(7,285,697)	(9,967,365)	(12,612,620)
Percentage via distributor												25%	25%	25%	25%	25%	25%
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	460,372	17,562,271	73,959,241	138,428,234	189,379,943	239,639,784
COGS	-	-	-	-	-	-	-	-	-	-	-	460,372	10,537,363	36,979,621	69,214,117	90,902,372	109,275,741
Gross Profits	-	-	-	-	-	-	-	-	-	-	-	-	7,024,908	36,979,621	69,214,117	98,477,570	130,364,042
Gross margins												0%	40%	50%	50%	52%	54%
Research and Development	74,772	125,000	315,791	953,756	1,747,674	3,142,221	2,500,000	3,000,000	3,500,000	4,000,000	13,000,000	13,500,000	14,000,000	14,000,000	15,500,000	16,500,000	17,500,000
General and Administrative	44,864	30,000	148,584	259,153	639,339	1,077,076	650,000	650,000	650,000	650,000	2,600,000	2,750,000	2,825,000	2,850,000	3,000,000	3,250,000	3,500,000
Selling expenses												3,000,000	8,900,000	12,100,000	16,700,000	20,700,000	23,750,000
Loss from operations	(119,636)	(155,000)	(464,375)	(1,212,909)	(2,387,013)	(4,219,297)	(3,150,000)	(3,650,000)	(4,150,000)	(4,650,000)	(15,600,000)	(19,250,000)	(18,700,092)	8,029,621	34,014,117	58,027,570	85,614,042
Interest/other income	25	-	-	2,614	3,310	5,924	1,500	51,250	50,000	50,750	153,500	52,500	52,500	100,000	150,000	200,000	250,000
Pretax income (loss)	(119,611)	(155,000)	(464,375)	(1,210,295)	(2,383,703)	(4,213,373)	(3,148,500)	(3,598,750)	(4,100,000)	(4,599,250)	(15,446,500)	(19,197,500)	(18,647,592)	8,129,621	34,164,117	58,227,570	85,864,042
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	357,703	4,885,469	14,848,030	30,052,415
Rate													0%	4%	14%	26%	35%
Net income (loss)	(119,611)	(155,000)	(464,375)	(1,210,295)	(2,383,703)	(4,213,373)	(3,148,500)	(3,598,750)	(4,100,000)	(4,599,250)	(15,446,500)	(19,197,500)	(18,647,592)	7,771,917	29,278,648	43,379,540	55,811,628
EPS	(0.04)	(0.04)	(0.11)	(0.26)	(0.40)	(1.13)	(0.19)	(0.18)	(0.21)	(0.23)	(0.81)	(0.91)	(0.85)	0.30	1.10	1.45	1.80
Shares outstanding	2,718,082	3,500,000	4,070,867	4,713,320	5,899,059	3,731,929	16,500,000	19,750,000	20,000,000	20,250,000	19,125,000	21,000,000	22,000,000	25,500,000	26,500,000	30,000,000	31,000,000

Source: ROTH Capital Partners and Company SEC filings

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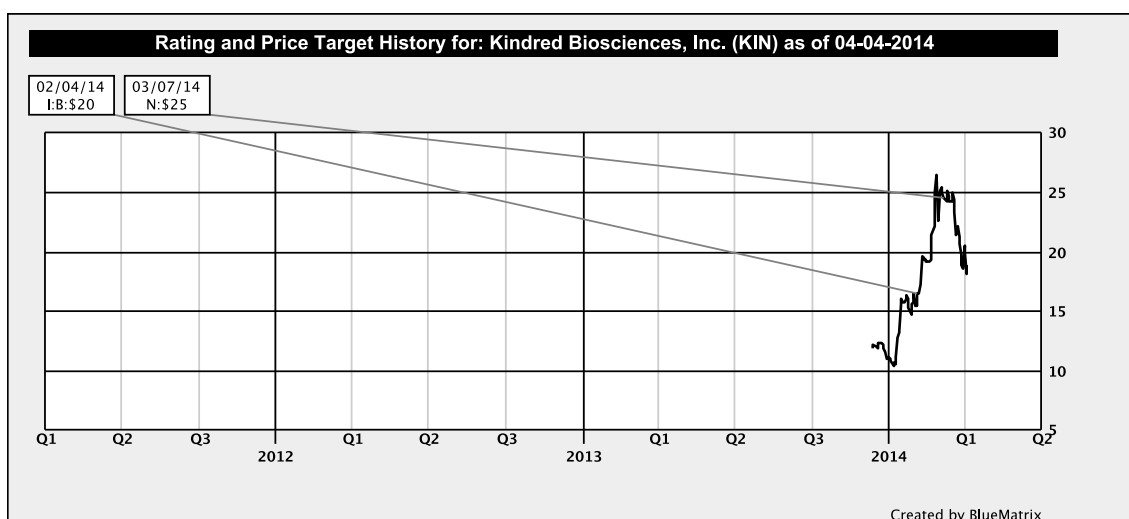
Within the last twelve months, ROTH has received compensation for investment banking services from Kindred Biosciences, Inc..

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.

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Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 04/07/14	
			Count	Percent
Buy [B]	189	81.82	108	57.14
Neutral [N]	31	13.42	11	35.48
Sell [S]	1	0.43	0	0
Under Review [UR]	9	3.90	4	44.44

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.

Ratings System Definitions - ROTH employs a rating system based on the following:

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

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.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

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

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