

Kindred Biosciences, Inc.

KIN-BUY-Increasing PT to \$31 from \$20 Post 4Q13; Still Expect Upward Earnings Revisions for Pipeline

March 6, 2014

- We use DCF analysis to arrive at our new 12-month PT of \$31. The increase in our PT is driven by multiple expansion (to 11x forward EBIT from 5x). We think this is deserved given KIN's strong execution during the quarter. Post 4Q13 results, we continue to be positive on KIN shares. We view KIN's business model as having better risk/reward than its competitors, and KIN's management team has a successful record of launching Animal Health drugs.
- 4Q13 data points that support our thesis:** 1) Continued enrollment in field trial of CereKin; 2) Positioned AtoKin & SentiKin to begin field trials in early '14; and 3) As of 12/31/13 had cash of \$65.3MM.
- KIN reported 4Q13 EPS of (\$0.40). This was \$0.21 lower than our estimate. Our Variance Analysis has the details. Since KIN is a development stage company, we believe that pipeline advancements are more important than quarterly earnings. We have updated our financial model to reflect 4Q13 results. We decreased our '14E EPS to incorporate higher operating expenses than we had previously anticipated. KIN expects \$14MM-\$16MM in total spend (we est. \$15MM).
- Potential Catalysts.** 1) Pivotal study for SentiKin begins, 3/14; 2) Data from pivotal studies for CereKin, AtoKin, SentiKin released in '14; 3) Approvals for CereKin & AtoKin in '15 & SentiKin in '15+; 4) Additional pipeline advancements & approvals; 5) Partnerships & business development.

LOUISE CHEN
louise.chen@guggenheimpartners.com
ANALYST
212 381 4195

SWATI KUMAR
swati.kumar@guggenheimpartners.com
ASSOCIATE
212 918 8754

KIN BUY

COMPANY UPDATE

Investment Thesis: Growth

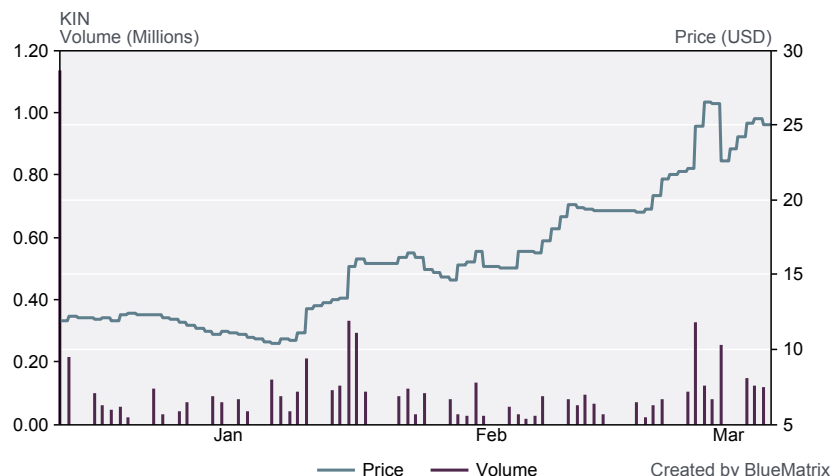
SHARE PRICE \$25.00
PRICE TARGET \$31.00

Revenue (\$M) (FY Dec)	1Q	2Q	3Q	4Q	FY
2013	0.0	0.0	0.0	0.0	0.0
2014	0.0E	0.0E	0.0E	0.0E	0.0E
2015	—	—	—	—	10.2E
Prior	—	—	—	—	—

Adjusted EPS (\$)	1Q	2Q	3Q	4Q	FY
2013	(0.06)	(0.09)	(0.21)	(0.40)	(1.13)
Prior	—	—	—	(0.19)	(0.54)
P/E					NM
2014	(0.20)E	(0.22)E	(0.23)E	(0.26)E	(0.92)E
Prior	(0.12)E	(0.13)E	(0.21)E	(0.27)E	(0.73)E
P/E					NM
2015	—	—	—	—	(1.72)E
Prior	—	—	—	—	—
P/E					NM

Market Data & Valuation Multiples

52-Week Range	\$8.75 - \$26.89
Shares Out (M)	16.2
Market Cap (M)	\$404



SCENARIO	VALUATION	INVESTMENT THESIS
Bull Case	2020E EPS: \$5.00 12-Month Bull-Case Scenario: \$45 Probability: 14% Upside/Downside Potential: 80%	<ul style="list-style-type: none"> • CereKin peak sales of \$130MM in 2020 • AtoKin peak sales of \$90MM in 2020 • SentiKin peak sales of \$125MM in 2020 • Launch of two to three products per year post-2H15 • Business development
Base Case	2020E EPS: \$4.00 12-Month Base-Case Scenario: \$31 Probability: 74% Upside/Downside Potential: 24%	<ul style="list-style-type: none"> • CereKin peak sales of \$112MM in 2020 • AtoKin peak sales of \$77MM in 2020 • SentiKin peak sales of \$104MM in 2020 • Launch of one product per year post-2H15 • No business development
Bear Case	2020E EPS: \$2.75 12-Month Bear-Case Scenario: \$20 Probability: 12% Upside/Downside Potential: -20%	<ul style="list-style-type: none"> • CereKin peak sales of \$90MM in 2020 • AtoKin peak sales of \$55MM in 2020 • SentiKin peak sales of \$90MM in 2020 • Launch of one product per year post-2H15 • No business development

Source: Guggenheim Securities, LLC

VALUATION METHODOLOGY AND RISKS

We use a DCF analysis to arrive at our 12-month price target of \$31. We used a WACC of 28% and exit multiples of 11x forward EBIT. This compares favorably to Kindred Bio's peers, which trade, on average, at a forward EV/EBIT of 17x. Risks to our valuation include: 1) pipeline setbacks for drugs, 2) CereKin, AtoKin and Sentikin peak sales below expectations, and 3) competition from larger and better capitalized animal health companies in the industry.

KINDRED BIO VARIANCE ANALYSIS

(in millions of \$US, except per share amounts)

	Actual 4Q13 Amount	Guggenheim Estimate 4Q13 Amount	Variance	Comments
Total Revenue	-	-	-	
COGS	-	-	-	
Gross Profit	-	-	-	
SG&A	0.6	0.4	0.2	Developed infrastructure to support future growth & meet requirements of a public co.
R&D	1.7	1.3	0.5	Driven by increased development activities related to lead products
Other Operating Expenses	-	-	-	
Operating Income	(2.4)	(1.7)	(0.7)	
Non Operating Items	0.0	-	0.0	
Pre-Tax Income	(2.4)	(1.7)	(0.7)	
Taxes	-	-	-	
Tax Rate	0.0%	0.0%	-	
Net Income	(2.4)	(1.7)	(0.7)	
Averages Shares	5.9	8.9	(3.0)	
Cash EPS	-\$0.40	-\$0.19	\$0.21	
Margin Analysis				
Revenues	NM	NM		
COGS	NM	NM		
Gross Margin	NM	NM		
SG&A	NM	NM		
R&D	NM	NM		
Net Income	NM	NM		

Source: Guggenheim Securities, LLC and Company reports

CATALYST CALENDAR

Date	Driver	Upcoming Event
2014		
March 2014	SentiKin for Dogs	Start pivotal study in post-operative pain
Mid-2014	CereKin for Dogs	Data from pivotal study
Mid-2014	CereKin for Dogs	File NADA
Mid-2014	SentiKin for Horses	Start pivotal study in post-operative pain
2014	Pipeline	Start pivotal studies on 2 more drugs
2014	Pipeline	File INADs on additional drugs
2014	CereKin for Horses	Start pivotal study for OA pain
2014	CereKin for Horses	Announce data from pivotal study
4Q14	AtoKin for Dogs	Data from pivotal study
4Q14	AtoKin for Dogs	File NADA
4Q14	SentiKin for Dogs	Data from pivotal study
4Q14	SentiKin for Dogs	File NADA
2015+		
Starting 2H15	New products	Expect 2 to 4 new launches a year
2H15	CereKin for Dogs	Approval and launch expected
Late 2015	AtoKin for Dogs	Approval and launch expected
Late 2015/Early 2016	SentiKin for Dogs	Approval and launch expected
2016	CereKin for Horses	Approval and launch expected
2032	NOLs	Start to expire

Source: Guggenheim Securities, LLC and Company reports

FINANCIAL MODEL

Kindred Bio - Quarterly Income Statement Analysis 2012-2020E

(\$ in Millions)																			CAGR 16E-20E	
(Year Ended December 31)	2012	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E			
Total Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	7.2	10.2	84.4	169.3	259.2	335.5	404.6	48.0		
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.8	4.3	6.1	46.4	91.4	137.4	174.5	206.4			
Gross Profit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	2.9	4.1	38.0	77.9	121.8	161.0	198.3			
R&D	0.1	3.1	2.5	2.6	2.7	3.0	10.8	2.6	2.7	2.8	2.9	11.0	11.1	11.3	11.5	11.8	12.0			
SG&A	0.0	1.1	0.8	1.0	1.1	1.3	4.2	3.8	4.8	5.8	6.8	21.2	26.7	32.6	39.1	46.9	56.3			
Other (Income)/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	0.0	0.0	0.0	0.0	0.0			
Total Operating Expense	0.1	4.2	3.3	3.6	3.8	4.3	15.0	6.4	7.5	8.6	9.7	32.2	37.8	43.9	50.6	58.7	68.3			
Operating Income	(0.1)	(4.2)	(3.3)	(3.6)	(3.8)	(4.3)	(15.0)	(6.4)	(7.5)	(7.4)	(6.8)	(28.1)	0.2	34.0	71.2	102.3	130.0	423.1		
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
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	0.0	0.0	0.0	0.0	0.0			
Non-Operating Items	0.0	0.0	0.0	0.0	0.0	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	(0.1)	(4.2)	(3.3)	(3.6)	(3.8)	(4.3)	(15.0)	(6.4)	(7.5)	(7.4)	(6.8)	(28.1)	0.2	34.0	71.2	102.3	130.0			
Tax Rate	0.0%	0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	40.0%	40.0%	40.0%	40.0%			
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.6	28.5	40.9	52.0			
Net Income	(\$0.1)	(4.2)	(\$3.3)	(\$3.6)	(\$3.8)	(\$4.3)	(\$15.0)	(\$6.4)	(\$7.5)	(\$7.4)	(\$6.8)	(\$28.1)	\$0.2	\$20.4	\$42.7	\$61.4	\$78.0	360.3		
Average Shares Diluted	2.7	3.7	16.2	16.2	16.2	16.3	16.2	16.3	16.3	16.4	16.4	16.3	17.9	18.3	18.7	19.1	19.5			
Adjusted Diluted EPS	(\$0.04)	(\$1.13)	(\$0.20)	(\$0.22)	(\$0.23)	(\$0.26)	(\$0.92)	(\$0.39)	(\$0.46)	(\$0.45)	(\$0.42)	(\$1.72)	\$0.01	\$1.12	\$2.29	\$3.22	\$4.00	350.6		
%Change																				
Total Revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	726.0%	100.6%	53.1%	29.4%	20.6%			
COGS	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	657.1%	96.9%	50.3%	27.0%	18.3%			
Gross Profit	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	829.2%	105.0%	56.4%	32.2%	23.1%			
R&D	NM	NM	1442.9%	822.0%	183.1%	71.7%	242.1%	6.1%	3.8%	3.7%	-3.3%	2.3%	0.9%	1.8%	1.8%	2.6%	1.7%			
SG&A	NM	NM	1143.5%	775.3%	324.5%	103.3%	289.9%	375.0%	380.0%	427.3%	423.1%	404.8%	26.0%	22.0%	20.0%	20.0%	20.0%			
Operating Income	NM	NM	1356.6%	808.5%	213.3%	80.1%	254.3%	96.9%	108.3%	94.7%	58.4%	88.0%	NM	19477.6%	109.5%	43.6%	27.0%			
Non-Operating Items	NM	NM	NM	NM	-100.0%	-100.0%	-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM			
Pre-tax Income	NM	NM	1356.6%	808.5%	214.0%	80.4%	254.8%	96.9%	108.3%	94.7%	58.4%	88.0%	NM	19477.6%	109.5%	43.6%	27.0%			
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.0%			
Taxes	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	109.5%	43.6%	27.0%			
Net Income	NM	NM	1356.6%	808.5%	214.0%	80.4%	254.8%	96.9%	108.3%	94.7%	58.4%	88.0%	NM	11646.6%	109.5%	43.6%	27.0%			

Source: Guggenheim Securities, LLC and Company Reports

(1) In 2012, financials are for the period from 9/25/12 (inception of the company) through 12/31/12.

(2) Do not assume any NOLs in our financial model.

Kindred Bio - Quarterly Margin Analysis 2012-2020E

	2012	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	NM	NM	NM	NM	NM	NM	NM	NM	NM	60.0%	60.0%	60.0%	55.0%	54.0%	53.0%	52.0%	51.0%
Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	40.0%	40.0%	40.0%	45.0%	46.0%	47.0%	48.0%	49.0%
R&D	NM	NM	NM	NM	NM	NM	NM	NM	NM	93.3%	40.2%	107.6%	13.1%	6.7%	4.4%	3.5%	3.0%
SG&A	NM	NM	NM	NM	NM	NM	NM	NM	NM	193.3%	94.2%	207.4%	31.6%	19.2%	15.1%	14.0%	13.9%
Oper. Inc.	NM	NM	NM	NM	NM	NM	NM	NM	NM	-246.7%	-94.3%	-275.1%	0.2%	20.1%	27.5%	30.5%	32.1%
Pretax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	-246.7%	-94.3%	-275.1%	0.2%	20.1%	27.5%	30.5%	32.1%
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	-246.7%	-94.3%	-275.1%	0.2%	12.0%	16.5%	18.3%	19.3%

Source: Guggenheim Securities, LLC and Company Reports

Kindred Bio - Quarterly Revenue Model 2012-2020E

(\$ in Millions)																		
(Year Ended December 31)	2012	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q154E	2015E	2016E	2017E	2018E	2019E	2020E	
Dogs (Osteoarthritis Pain, Pivotal Study, NADA Filing 2014)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	7.2	10.2	25.6	40.9	51.1	56.2	61.3	
Horses (Osteoarthritis Pain, INAD Filed)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.2	23.0	36.8	46.0	50.6	
CereKin KIND-001 (IL-1 Inhibitor)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	7.2	10.2	34.8	63.9	87.9	102.2	111.9	
Dogs (Atopic Dermatitis, INAD Filed, NADA Filing 2014)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35.0	45.5	56.0	66.5	77.0	
AtoKin KIND-002 (Anti-Allergic Drug)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35.0	45.5	56.0	66.5	77.0	
Dogs (Post-Operative Pain, INAD Filed, NADA Filing 2014)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	16.6	33.3	39.9	49.9	
Horses (Post-Operative Pain, Pilot/Formulation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.8	25.2	43.2	54.0	
SentiKin (Centrally Acting Analgesic)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	27.4	58.5	83.1	103.9	
Dogs (Cancer & Immune Disease, INAD Filed)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Cats (Cancer & Immune Disease, Pilot/Formulation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
KIND-007 (Bruton's Tyrosine Kinase/BTK Inhibitor)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Cats (GI Disease, INAD Filed)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
KIND-006 (Promotility Agent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Dogs (Allergic diseases in dogs, discovery/process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
KIND-502 (Anti-IgE Antibody)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Dogs (Inflammatory Disease, mfg. process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
KIND-506 (TNFR-Ig Fusion Protein)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Dogs (Autoimmune Disease, mfg. process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
KIND-507 (CLTA4-Ig Fusion Protein)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Dogs (Cancer, mfg. process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
KIND-504 (Vaccines for Cancer)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Dogs (Cancer, mfg. process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
KIND-501 (Anti-VEGF Fusion Protein)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.0	32.5	56.9	83.7	111.8	
TOTAL REVENUES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	7.2	10.2	84.4	169.3	259.2	335.5	404.6	
%Change																		
CereKin KIND-001 (IL-1 Inhibitor)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	240%	84%	38%	16%	10%	
AtoKin KIND-002 (Anti-Allergic Drug)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	30%	23%	19%	16%	
SentiKin (Centrally Acting Analgesic)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	1550%	113%	42%	25%	
KIND-007 (Bruton's Tyrosine Kinase/BTK Inhibitor)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
KIND-006 (Promotility Agent)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
KIND-502 (Anti-IgE Antibody)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
KIND-506 (TNFR-Ig Fusion Protein)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
KIND-507 (CLTA4-Ig Fusion Protein)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
KIND-504 (Vaccines for Cancer)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
KIND-501 (Anti-VEGF Fusion Protein)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Other	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	150%	75%	47%	34%	
TOTAL REVENUES	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	726%	101%	53%	29%	21%	

Source: Guggenheim Securities, LLC and Company Reports

Kindred Bio - Annual Revenue Model 2012-2020E

(\$ in Millions)	Year Ended December 31st.										2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CAGR
	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	16E-20E
CereKin KIND-001 (IL-1 Inhibitor)																			
Dogs (Osteoarthritis Pain, Pivotal Study, NADA Filing 2014)	0.0	0.0	0.0	10.2	25.6	40.9	51.1	56.2	61.3	NM	NM	NM	150.0%	60.0%	25.0%	10.0%	9.1%	24.5%	
Horses (Osteoarthritis Pain, INAD Filed)	0.0	0.0	0.0	0.0	9.2	23.0	36.8	46.0	50.6	NM	NM	NM	NM	150.0%	60.0%	25.0%	10.0%	53.1%	
Total CereKin KIND-001 (IL-1 Inhibitor)	0.0	0.0	0.0	10.2	34.8	63.9	87.9	102.2	111.9	NM	NM	NM	240.0%	83.8%	37.6%	16.3%	9.5%	34.0%	
AtoKin KIND-002 (Anti-Allergic Drug)																			
Dogs (Atopic Dermatitis, INAD Filed, NADA Filing 2014)	0.0	0.0	0.0	0.0	35.0	45.5	56.0	66.5	77.0	NM	NM	NM	NM	NM	30.0%	23.1%	18.8%	15.8%	21.8%
Total AtoKin KIND-002 (Anti-Allergic Drug)	0.0	0.0	0.0	0.0	35.0	45.5	56.0	66.5	77.0	NM	NM	NM	NM	NM	30.0%	23.1%	18.8%	15.8%	21.8%
SentiKin (Centrally Acting Analgesic)																			
Dogs (Post-Operative Pain, INAD Filed, NADA Filing 2014)	0.0	0.0	0.0	0.0	1.7	16.6	33.3	39.9	49.9	NM	NM	NM	NM	NM	900.0%	100.0%	20.0%	25.0%	134.0%
Horses (Post-Operative Pain, Pilot/Formulation)	0.0	0.0	0.0	0.0	0.0	10.8	25.2	43.2	54.0	NM	NM	NM	NM	NM	133.3%	71.4%	25.0%	NM	
Total SentiKin (Centrally Acting Analgesic)	0.0	0.0	0.0	0.0	1.7	27.4	58.5	83.1	103.9	NM	NM	NM	NM	NM	1549.6%	113.1%	42.2%	25.0%	181.1%
KIND-007 (Bruton's Tyrosine Kinase/BTK Inhibitor)																			
Dogs (Cancer & Immune Disease, INAD Filed)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM
Cats (Cancer & Immune Disease, Pilot/Formulation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM
Total KIND-007 (Bruton's Tyrosine Kinase/BTK Inhibitor)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
KIND-006 (Promotility Agent)																			
Cats (GI Disease, INAD Filed)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM
Total KIND-006 (Promotility Agent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
KIND-502 (Anti-IgE Antibody)																			
Dogs (Allergic diseases in dogs, discovery/process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM
Total KIND-502 (Anti-IgE Antibody)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
KIND-506 (TNFR-Ig Fusion Protein)																			
Dogs (Inflammatory Disease, mfg. process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM
Total KIND-506 (TNFR-Ig Fusion Protein)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
KIND-507 (CLTA4-Ig Fusion Protein)																			
Dogs (Autoimmune Disease, mfg. process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM
Total KIND-507 (CLTA4-Ig Fusion Protein)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
KIND-504 (Vaccines for Cancer)																			
Dogs (Cancer, mfg. process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM
Total KIND-504 (Vaccines for Cancer)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
KIND-501 (Anti-VEGF Fusion Protein)																			
Dogs (Cancer, mfg. process development)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	NM
Total KIND-501 (Anti-VEGF Fusion Protein)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Other	0.0	0.0	0.0	0.0	13.0	32.5	56.9	83.7	111.8	NM	NM	NM	NM	150.0%	75.0%	47.1%	33.6%	71.3%	
TOTAL REVENUES	0.0	0.0	0.0	10.2	84.4	169.3	259.2	335.5	404.6	NM	NM	NM	726.0%	100.6%	53.1%	29.4%	20.6%	108.7%	

Source: Guggenheim Securities, LLC and Company Reports

Kindred Bio - Cash Flow Analysis 2012-2020E

(\$ in Millions)									
(Year ended December 31)	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Cash flows provided by Operating Activities:									
Net Income	(0.1)	(4.2)	(15.0)	(28.1)	0.2	20.4	42.7	61.4	78.0
Depreciation and Amortization	-	-	-	-	-	-	-	-	-
Other (includes cash separation and internal costs in 2013 and 2014)	0.0	-	-	-	-	-	-	-	-
Net Changes in Working Capital	0.0	(0.1)	-	(2.0)	(4.6)	(5.9)	(5.6)	(4.1)	(3.2)
Net cash provided by Operating Activities	(0.1)	(4.3)	(15.0)	(30.2)	(4.4)	14.5	37.2	57.3	74.8
Cash flows from Investing Activities									
Purchases of PP&E	-	-	-	-	-	-	-	-	-
Net proceeds from sale of assets	-	-	-	-	-	-	-	-	-
Acquisitions, net of cash acquired	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Net cash used in Investing Activities	-	-	-	-	-	-	-	-	-
Cash flows from Financing Activities									
(Repayment) or Issuance of long term debt	-	-	-	-	-	-	-	-	-
Cash dividends paid	-	-	-	-	-	-	-	-	-
Other	1.0	55.1	-	-	-	-	-	-	-
Net cash (used in) provided by Financing Activities	1.0	55.1	-	-	-	-	-	-	-
Effect of exchange-rate on cash	-	-	-	-	-	-	-	-	-
Net (decrease) increase in cash and equivalents	0.9	50.8	(15.0)	(30.2)	(4.4)	14.5	37.2	57.3	74.8
Cash and equivalents at beginning of year	-	0.9	51.8	36.8	6.7	2.3	16.8	53.9	111.2
Cash and equivalents at end of year	0.9	51.8	36.8	6.7	2.3	16.8	53.9	111.2	186.0

Source: Guggenheim Securities, LLC and Company Reports

Kindred Bio - Balance Sheet Analysis 2012-2020E

(\$ in Millions)									
(Year ended December 31)	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Assets									
Cash and Cash Equivalent	0.9	51.8	36.8	6.7	2.3	16.8	53.9	111.2	186.0
Accounts Receivable, less allowance for doubtful accounts	-	-	-	2.0	15.3	29.7	43.9	55.0	64.2
Inventories	-	-	-	3.1	18.6	36.6	55.0	69.8	82.5
Current deferred tax assets	-	-	-	-	-	-	-	-	-
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	0.9	51.8	36.8	11.8	36.2	83.0	152.8	236.0	332.8
Plant, Property & Equipment	-	-	-	-	-	-	-	-	-
Identifiable intangibles	-	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total Other Assets	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	0.9	51.8	36.8	11.8	36.2	83.0	152.8	236.0	332.8
Liabilities & Shareholder's Equity									
Accounts Payable and Accrued Expenses	0.1	-	-	3.1	27.3	53.8	80.8	102.6	121.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	0.1	0.0	0.0	3.1	27.3	53.8	80.8	102.6	121.4
Long term debt	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-
Total Liabilities	0.1	0.0	0.0	3.1	27.3	53.8	80.8	102.6	121.4
Shareholders Equity	0.9	51.8	36.8	8.7	8.9	29.3	72.0	133.4	211.4
Total Stockholder's Equity	0.9	51.8	36.8	8.7	8.9	29.3	72.0	133.4	211.4
Noncontrolling Interest	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	0.9	51.8	36.8	11.8	36.2	83.0	152.8	236.0	332.8

Source: Guggenheim Securities, LLC and Company Reports

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 thereof.

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.

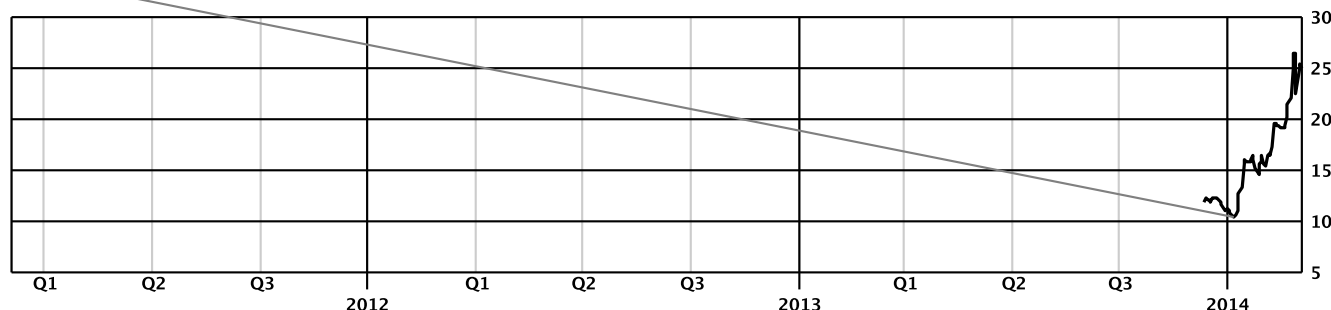
Guggenheim Securities, LLC or its affiliates received compensation for investment banking services from Kindred Biosciences, Inc. during the past 12 months.

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 and Price Target History for: Kindred Biosciences, Inc. (KIN) as of 03-05-2014

01/06/14
I:B:\$20



Created by BlueMatrix

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	107	50.00%	27	25.23%
Neutral	102	47.66%	12	11.76%
Sell	5	2.34%	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 YORK

330 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

HERNANDO

1288 Byhalia Road
Suite 2
Hernando, MS 38632

RICHMOND

919 East Main Street
Suite 1605
Richmond, VA 23219

Guggenheim Equity Research

AUTOMOTIVE

Matthew Stover, Analyst

matthew.stover@guggenheimpartners.com
617 859 4605

Brendon Mason, Associate

brendon.mason@guggenheimpartners.com
617 859 4624

ENERGY: EXPLORATION & PRODUCTION

Rob Cordray, Analyst

robert.cordray@guggenheimpartners.com
972 638 5509

Steven Hader, Associate

steven.hader@guggenheimpartners.com
972 638 5507

ENERGY: OIL SERVICES & EQUIPMENT

Darren Gacicia, Analyst

darren.gacicia@guggenheimpartners.com
212 293 3054

Michael Gunther, Associate

michael.gunther@guggenheimpartners.com
212 518 9782

Michael LaMotte, Analyst

michael.lamotte@guggenheimpartners.com
972 638 5502

Wilson Waggoner, Associate

wilson.waggoner@guggenheimpartners.com
972 638 5506

FINANCIAL SERVICES:

LARGE-CAP BANKS

Marty Mosby, Analyst

marty.mosby@guggenheimpartners.com
662 469 9595

Mason Mosby, Associate

mason.mosby@guggenheimpartners.com
662 469 9194FINANCIAL SERVICES: BUSINESS
DEVELOPMENT COMPANIES

Rahul Agarwal, Analyst

rahul.agarwal@guggenheimpartners.com
615 208 1221FINANCIAL 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

FINANCIAL SERVICES: INSURANCE

Bijan Moazami, Analyst

bijan.moazami@guggenheimpartners.com
202 747 9466

HEALTHCARE: BIOTECH

Bret Holley, Analyst

bret.holley@guggenheimpartners.com
212 293 2820

Daniel Chung, Associate

daniel.chung@guggenheimpartners.com
212 518 9771

HEALTHCARE: PHARMACEUTICALS

Louise Chen, Analyst

louise.chen@guggenheimpartners.com
212 381 4195

Swati Kumar, Associate

swati.kumar@guggenheimpartners.com
212 918 8754

RETAIL & CONSUMER

John Heinbockel, Analyst

john.heinbockel@guggenheimpartners.com
212 381 4135

Steven Forbes, Associate

steven.forbes@guggenheimpartners.com
212 381 4188TMT: MEDIA & ENTERTAINMENT,
CABLE & SATELLITE TV

Michael Morris, Analyst

michael.morris@guggenheimpartners.com
212 381 4162

Curry Baker, Associate

curry.baker@guggenheimpartners.com
212 518 9904