

Healthcare: Pharmaceuticals

Kindred Biosciences, Inc. | KIN - \$16.63 - NYSE | *Neutral*

Quarterly Update

Estimates Changed, Target Price Changed

Stock Data

52-Week Low - High	\$8.75 - \$26.99
Shares Out. (mil)	19.23
Mkt. Cap.(mil)	\$319.8
3-Mo. Avg. Vol.	165,218
12-Mo.Price Target	\$17.00
Cash (mil)	\$118.6
Tot. Debt (mil)	\$0.0

Cash (mil): Cash is approximate proforma amount post recent financing (April 2014)

EPS \$

Yr Dec	—2013—		—2014E—		—2015E—	
			Curr	Prev	Curr	Prev
1Q	(0.04)A	(0.38)A	(0.19)E	-	-	-
2Q	(0.11)A	(0.37)E	(0.18)E	-	-	-
3Q	(0.26)A	(0.42)E	(0.21)E	-	-	-
4Q	(0.40)A	(0.44)E	(0.23)E	-	-	-
YEAR	(1.13)A	(1.62)E	(0.81)E	(1.30)E	(0.91)E	-
P/E	NM	NM	NM	NM	NM	NM

Revenue (\$ millions)

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

KIN One-Year Price and Volume History



KIN: 1Q14 Recap - "Doubling Down" on Animal Health

KIN reported a 1Q14 EPS loss of \$0.38 versus our target of a loss of \$0.19. The greater loss largely just reflected a rapid increase in investment post recent financial offerings. We maintain our Neutral rating with a slightly decreased price target of \$17/share (from \$18), which reflect lower EPS targets from higher spending.

- 1Q recap - Ramping up spending.** Quarterly results basically just track the rate of spending at KIN at this point in time. Higher R&D negatively impacted EPS by ~\$0.12, and higher SG&A negatively impacted EPS by another ~\$0.06. Net, the 1Q14 EPS loss of \$0.38 was greater than our targeted \$0.19 EPS loss. The company appears to be ramping up investment rapidly post the recent secondary offering. We view this as fundamentally not that different - a sort of doubling down on the pipeline.
- Pipeline update - In-line.** Management reiterated R&D targets that largely matched our expectations including CereKin clinical results mid year 2014 (late July/early August), and AtoKin/SentiKin clinical data in 4Q14. No changes to our pipeline targets. The company also continues to be on the lookout for promising business development opportunities. We largely expect all clinical data to be positive.
- Guidance outlook - Accelerating investment.** Management guided operating expenses of \$29 - \$39.5 million in 2014 (includes stock comp), which was well ahead of prior guidance of \$14 - \$16 million. We believe that this reflects an increased rate of investment post recent fund raises that allows the company to accelerate the pipeline.
- Model changes.** We significantly upped spending levels and have not yet added incremental revenues, which thus had a modest dilutive effect on EPS forecasts. No material changes to revenue forecast.
- Maintain Neutral rating.** Kindred Bio is a well run company that appears to be ramping up for a land grab in the animal health development space by rapidly increasing spending levels. However, we remain concerned that product revenues may fail to match expectations. Price target adjusted to \$17 from \$18 to reflect lower targeted EPS from higher spending.

VALUATION

We value KIN shares at \$17. Our price target of \$17/share is arrived at by applying a 30X multiple to forecasted 2018 EPS of \$0.80, 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 30X 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	1Q14A	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	25,000,000	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	4,498,000	6,000,000	7,000,000	7,500,000	24,998,000	18,350,000	19,000,000	19,250,000	20,250,000	21,500,000	22,500,000
General and Administrative	44,864	30,000	148,584	259,153	639,339	1,077,076	1,679,000	1,500,000	1,500,000	1,500,000	6,179,000	6,200,000	6,800,000	7,000,000	7,250,000	7,500,000	7,750,000
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)	(6,177,000)	(7,500,000)	(8,500,000)	(9,000,000)	(31,177,000)	(27,550,000)	(27,675,092)	(1,370,379)	25,014,117	48,777,570	76,364,042
Interest/other income	25	-	-	2,614	3,310	5,924	9,000	51,250	50,000	50,750	161,000	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)	(6,168,000)	(7,448,750)	(8,450,000)	(8,949,250)	(31,016,000)	(27,497,500)	(27,622,592)	(1,270,379)	25,164,117	48,977,570	76,614,042
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,774,618	9,795,514	22,218,072
Rate													0%	0%	15%	20%	29%
Net income (loss)	(119,611)	(155,000)	(464,375)	(1,210,295)	(2,383,703)	(4,213,373)	(6,168,000)	(7,448,750)	(8,450,000)	(8,949,250)	(31,016,000)	(27,497,500)	(27,622,592)	(1,270,379)	21,389,499	39,182,056	54,395,970
EPS	(0.04)	(0.04)	(0.11)	(0.26)	(0.40)	(1.13)	(0.38)	(0.37)	(0.42)	(0.44)	(1.62)	(1.30)	(1.25)	(0.05)	0.80	1.30	1.75
Shares outstanding	2,718,082	3,500,000	4,070,867	4,713,320	5,899,059	3,731,929	16,222,000	19,922,000	20,172,000	20,422,000	19,184,500	21,172,000	22,172,000	25,672,000	26,672,000	30,172,000	31,172,000

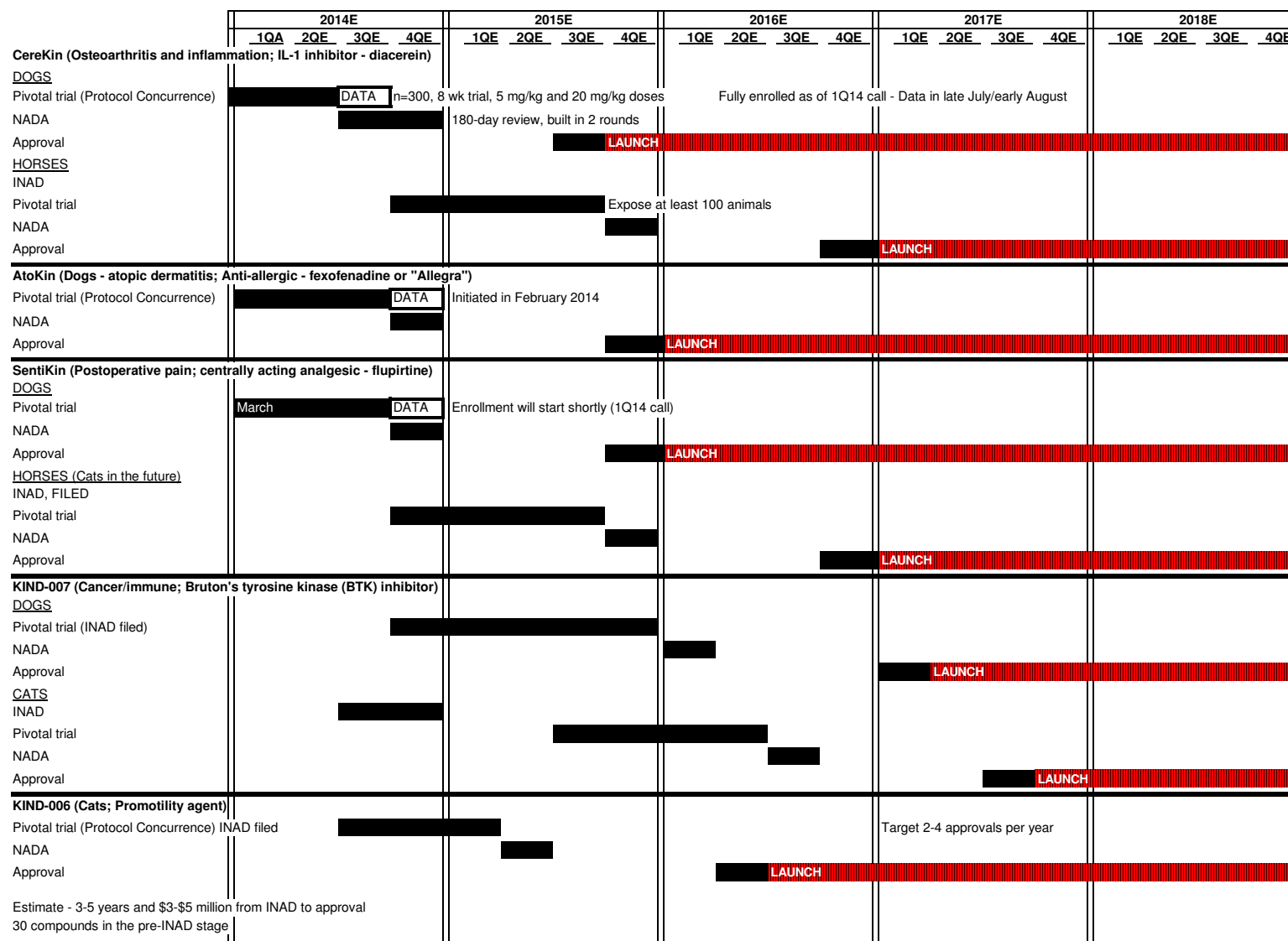
Source: ROTH Capital Partners and Company SEC filings

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Kindred Biosciences, Inc. Small Molecule Pipeline



Source: ROTH Capital Partners Forecasts

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Kindred Biosciences, Inc. Biologic Pipeline

	2015E				2016E				2017E				2018E			
	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE
KIND-502 (Dogs, allergic diseases; Anti IgE antibody - Xolair)																
Manufacturing validation																
Pivotal study																
NADA																
Approval																
KIND-506 (Dogs, inflammatory diseases; TNFR-Ig fusion protein - Enbrel)																
Manufacturing validation																
Pivotal study																
NADA																
Approval																
KIND-507 (Dogs, autoimmune disease; CLTA4-Ig fusion protein - Orencia)																
Manufacturing validation																
Pivotal study																
NADA																
Approval																
KIND-504 (Dogs; Cancer vaccine)																
Manufacturing validation																
Pivotal study																
NADA																
Approval																
KIND-501 (Dogs, Cancer; Anti-VEGF fusion protein)																
Manufacturing validation																
Pivotal study																
NADA																
Approval																
Estimate - 3-5 years and \$3-\$5 million from INAD to approval																

Source: ROTH Capital Partners Forecasts

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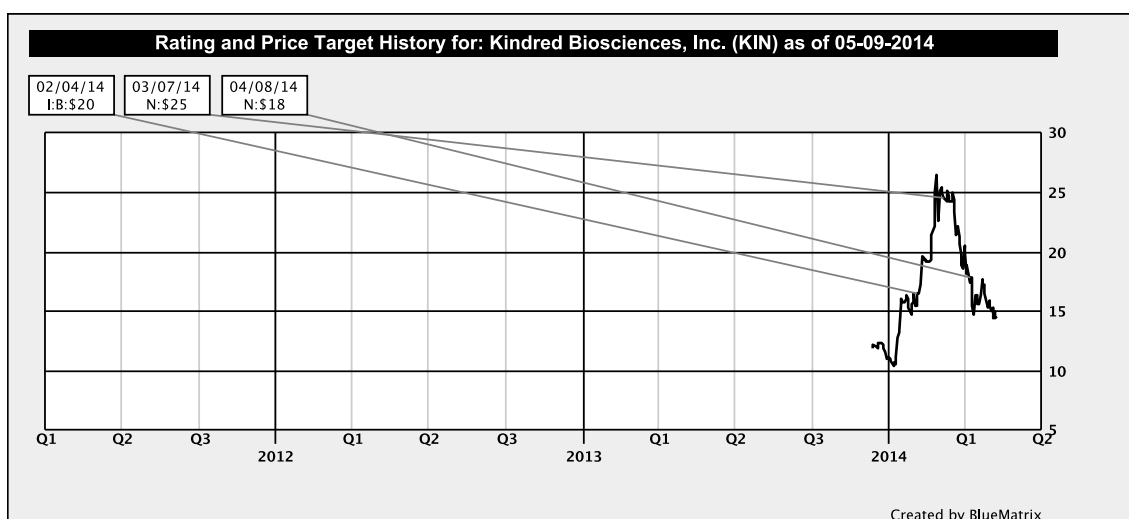
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ROTH makes a market in shares of Kindred Biosciences, Inc. and as such, buys and sells from customers on a principal basis.

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.

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Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 05/12/14	
			Count	Percent
Buy [B]	179	80.27	100	55.87
Neutral [N]	23	10.31	8	34.78
Sell [S]	1	0.45	0	0
Under Review [UR]	19	8.52	12	63.16

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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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