



CRAIG-HALLUM
CAPITAL GROUP LLC

Charles Haff
Senior Research Analyst
612-334-6347
charles.haff@craig-hallum.com

www.craig-hallum.com

Changes	Previous	Current
Rating:	Buy	Hold
Fundamental	Improving	Declining
Trend:		
Price Target:	\$16.00	\$5.00
FY14E Rev M:		\$0.0
FY15E Rev M:	\$0.3	\$0.0
FY16E Rev M:	\$18.0	\$4.3
FY14E EPS:		(\$1.66)
FY15E EPS:	(\$2.04)	(\$2.02)
FY16E EPS:	(\$2.48)	(\$2.81)

Profile		
Price:		\$9.24
52 Wk Range:	\$8.13	- \$26.99
Avg Daily Vol:		81,100
Shares Out M:		19.4
Market Cap M:		\$182
Insiders Own:		24%
Short Interest:		3.5%
BV/Sh:		\$5.65
Est LT EPS Gr:		15%
Net Cash/Sh:		\$5.48
Debt / Capital:		0.0%
Year Ends:		Dec.

Rev (M)	2014E	2015E	2016E
Mar	\$0.0A	-	-
Jun	\$0.0A	-	-
Sep	\$0.0A	-	-
Dec	\$0.0	-	-
FY	\$0.0	\$0.0	\$4.3

EPS	2014E	2015E	2016E
Mar	(\$0.38)A	-	-
Jun	(\$0.42)A	-	-
Sep	(\$0.31)A	-	-
Dec	(\$0.43)	-	-
FY	(\$1.54)	(\$2.02)	(\$2.81)

FY P/E	NA	NA	NA
FY EV/S	NA	NA	17x

Management	
CEO	Richard H. Chin
COO	Denise Bevers

December 4, 2014
Institutional Research

Kindred Biosciences, Inc.
(KIN - \$9.24)

HOLD
Price Target: \$5

AtoKin Study Discontinued. Downgrading To HOLD Rating, Lowering Price Target To \$5.

Kindred Biosciences develops innovative small molecule and biologic therapeutics for cats, dogs and horses.

OUR CALL

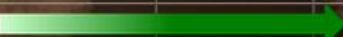
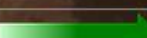





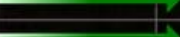
Yesterday, after the close, KIN announced that it is discontinuing its AtoKin program. They will be exiting the atopic dermatitis market and focusing their efforts on other products. AtoKin was expected to be approved and launched in late 2015. This study being pulled comes shortly after KIN announced the ineffectiveness of the CereKin pivotal study.

Management has 2-3 other programs in development which are expected to show data in 1H15 (see pipeline table on page 2). However, those have much lower TAMs than CereKin or AtoKin. Thus, we have lowered our revenue assumptions for KIN materially.

STOCK OPPORTUNITY

Due to a lack of visibility, we are taking a cautious approach on the stock. We are lowering our rating on KIN from Buy to Hold. Our revised \$5 price target is based on a small discount to their current \$5.48 cash/share on the balance sheet because we believe their cash burn rate will not moderate due to the fact that any R&D saved will be reallocated to other programs (see DCF model on page 6).

Product Pipeline

Molecule	Indication	Formulation	INAD Filed	Clinical Study	Filing of Rolling NADA Sections
Small Molecule Product Candidates					
SentiKin™ (flupirtine) – KCNQ potassium channel agonist	Postoperative pain in dogs				Anticipated filing in 2014-5
	Postoperative pain in horses				
	Osteoarthritis in dogs				
KIND-010	Inappetence in cats				
KIND-012	Fever in horses				
KIND-011	Metabolic syndrome in horses				
KIND-013 – Pro-motility agent	Gastrointestinal disease in cats				
Molecule	Indication	Discovery/ Process Development	Mfg. Process Development	Pivotal Study	PLA
Biologic Product Candidates					
KIND-502 – Anti-IgE antibody	Allergic diseases in dogs				
KIND-506/509 – TNFR-Ig fusion protein/Anti-TNF Ab	Inflammatory diseases in dogs				
KIND-507 – CTLA4-Ig fusion protein	Autoimmune diseases in dogs				
KIND-504 – Cancer vaccine	Cancer in dogs				
KIND-501 – Anti-VEGF fusion protein	Cancer in dogs				
Feline Epo	Anemia in cats				

Source: Company presentation and Craig-Hallum.

RISKS

We believe an investment in Kindred involves the following risks:

- Government Regulation**

The animal therapeutic industry is highly regulated by the Center for Veterinary Medicine at both the state and federal level. Changes to existing regulation or new legislation could have a material adverse effect on KIN's business and financial performance.

- Dependence On Suppliers**

The Company's business model relies on third parties to manufacture its products. Any malfunctions in the manufacturing processes of its suppliers or other sources of interruption to the supply of products could have an adverse impact on the Company's financial results.

- Generic Products**

Generic products may be viewed as more cost effective than branded therapeutics. While the Company's IP should protect its products from generic entry in the near term, substantially cheaper generic versions of competing products, even if they are less efficacious, may represent a challenge to the commercialization of the Company's products.



- **Intellectual Property And Trade Secrets**

The Company's financial success is in part dependent on its ability to secure and enforce its substantial intellectual property. If KIN is forced to defend its intellectual property through litigation or if it is unable to maintain propriety of its trade secrets, the Company may incur extra expenses and financial results may be adversely affected.

- **Ongoing Need To Finance Growth**

While the Company currently has proforma ~\$118M of net cash on its balance sheet and estimates that its current capital is sufficient to fund its operations for the foreseeable future. The Company may seek additional capital in order to continue to fund its operations in the future. Such financing could be dilutive to stockholders.

Financials

Kindred Biosciences Financial Model

FISCAL YEAR ENDS DECEMBER

(\$ thousands)	Fiscal 2013A	Mar Q1-14A	Jun Q2-14A	Sep Q3-14A	Dec Q4-14E	Fiscal 2014E	Mar Q1-15E	Jun Q2-15E	Sep Q3-15E	Dec Q4-15E	Fiscal 2015E	Fiscal 2016E	Fiscal 2017E	Fiscal 2018E
Total Revenue	-	-	-	-	-	-	-	-	-	-	-	4,250	24,675	65,790
Cost of Sales	-	-	-	-	-	-	-	-	-	-	-	1,905	9,803	23,027
Total Gross Margin	-	-	-	-	-	-	-	-	-	-	-	2,345	14,873	42,764
Operating Expenses														
Research and Development	3,141	4,498	5,639	3,755	6,000	19,892	5,800	6,100	6,350	6,600	24,850	29,805	11,522	17,664
General and Administrative	1,079	1,679	2,499	2,342	2,500	9,020	2,700	2,900	3,100	3,300	12,000	19,745	7,539	13,454
Sales and Marketing	0	0	0	0	0	0	0	0	1,200	1,600	2,800	8,100	3,221	4,158
Total GAAP Operating Expenses	4,220	6,177	8,138	6,097	8,500	28,912	8,575	9,075	10,725	11,575	39,950	58,050	22,883	36,075
GAAP Income (Loss) from Operations	(4,220)	(6,177)	(8,138)	(6,097)	(8,500)	(28,912)	(8,575)	(9,075)	(10,725)	(11,575)	(39,950)	(55,705)	(8,010)	6,688
Non-GAAP Income (Loss) from Operations	(4,220)	(6,177)	(8,138)	(6,097)	(8,500)	(28,912)	(8,575)	(9,075)	(10,725)	(11,575)	(39,950)	(55,705)	(8,010)	6,688
Interest income	0	9	28	25	16	78	13	13	13	13	52	40	24	16
Interest Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Income	6	0	0	0	0	0	0	0	0	0	0	0	0	0
Pre-tax GAAP Income	(4,214)	(6,168)	(8,110)	(6,072)	(8,484)	(28,834)	(8,562)	(9,062)	(10,712)	(11,562)	(39,898)	(55,665)	(7,986)	6,704
Income Tax (benefit)	0	-	-	-	-	0	-	-	-	-	0	0	(750)	2,346
GAAP Net Income	(4,214)	(6,168)	(8,110)	(6,072)	(8,484)	(28,834)	(8,562)	(9,062)	(10,712)	(11,562)	(39,898)	(55,665)	(7,236)	4,358
Change in unrealized gains or losses on available-for-sale securities			(14)	24	0	10								
Net Loss Attributable to Common Stockholders	(5,795)	(6,168)	(8,124)	(6,048)	(8,484)	(28,824)	(8,562)	(9,062)	(10,712)	(11,562)	(39,898)	(55,665)	(7,236)	4,358
EPS Attributable to Common Stockholders	(\$1.32)	(\$0.38)	(\$0.42)	(\$0.31)	(\$0.43)	(\$1.54)	(\$0.43)	(\$0.46)	(\$0.54)	(\$0.58)	(\$2.02)	(\$2.81)	(\$0.36)	\$0.20
Weighted Avg. Shares Outstanding DILUTED	3,183	16,222	19,426	19,713	19,728	18,772	19,743	19,758	19,773	19,788	19,766	19,826	19,886	21,406
Margin Analysis % of Sales														
Total Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	25.0%	NM	55.2%	60.3%	65.0%
Research and Development	NM	NM	NM	NM	NM	NM	NM	NM	NM	#DIV/0!	#DIV/0!	701.3%	46.7%	26.8%
General and Administrative	NM	NM	NM	NM	NM	NM	NM	NM	NM	#DIV/0!	#DIV/0!	464.6%	30.6%	20.4%
Sales and Marketing	NM	NM	NM	NM	NM	NM	NM	NM	NM	#DIV/0!	#DIV/0!	191%	13%	6%
Total GAAP Operating Expense	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	1365.9%	92.7%	54.8%
GAAP Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-1310.7%	-32.5%	10.2%
Non-GAAP Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-1310.7%	-32.5%	10.2%
EBITDA Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-1310.7%	-32.5%	10.2%
GAAP Pre-tax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-1309.8%	-32.4%	10.2%
Tax Rate (Effective)	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%	35.0%
GAAP Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-1309.8%	-29.3%	6.6%
Percent Change (Yr/Yr)														
Total Revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	480.6%	166.6%
Research and Development	NM	NM	NM	NM	243.4%	533.3%	28.9%	8.2%	69.1%	10.0%	24.9%	19.9%	-61.3%	53.3%
General and Administrative	NM	NM	NM	NM	289.6%	736.2%	60.8%	16.0%	32.4%	32.0%	33.0%	64.5%	-61.8%	78.5%
Sales and Marketing	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	189.3%	-60.2%	29.1%
Total GAAP Operating Expense	NM	NM	NM	NM	255.8%	585.2%	38.8%	11.5%	75.9%	36.2%	38.2%	45.3%	-60.6%	57.7%
GAAP Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Adj. EBITDA	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
GAAP Pre-tax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
GAAP Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
GAAP Earnings Per Share	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

Revenue Build

Kindred Biosciences, Inc.
FISCAL YEAR ENDS DECEMBER

Revenue Build	Fiscal	Mar	Jun	Sep	Dec	Fiscal	Mar	Jun	Sep	Dec	Fiscal	Mar	Jun	Sep	Dec	Fiscal	Fiscal	Fiscal
(\$ millions)	2013E	Q1-14A	Q2-14A	Q3-14A	Q4-14E	2014E	Q1-15E	Q2-15E	Q3-15E	Q4-15E	2015E	Q1-16E	Q2-16E	Q3-16E	Q4-16E	2016E	2017E	2018E
Small Molecule Product Candidates																		
AtoKin - Atopic dermatitis (dogs)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
SentiKin - Post-operative pain (dogs)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	750	1,250	1,750	3,750	16,975	46,290
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	353%	173%
KIND-006 - Pro-motility [constipation] agent (cats)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3,000	11,000
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	267%
Extended Release SentiKin - Post-Op pain (cats)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	500	500	4,700	8,500
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	840.0%	81%
KIND-00x - Fever (horse)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
KIND-00y - Appetite Stimulation (cats)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Biologic Product Candidates																		
KIND-501 - Anti-VEGF fusion protein (dogs)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
KIND-502 - Anti-IgE antibody (dogs)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
KIND-504 - Cancer vaccine (dogs)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
KIND-507 - CLTA4-Ig fusion protein (dogs)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
KIND-506 - TNFR-Ig fusion protein (dogs)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
KIND-50x Erythropoietin (cats)																		
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total Revenue	0	0	0	0	0	0	0	0	0	0	0	0	750	1,250	2,250	4,250	24,675	65,790
Growth (% yr/yr)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	481%	167%

Discounted Cash Flow Model

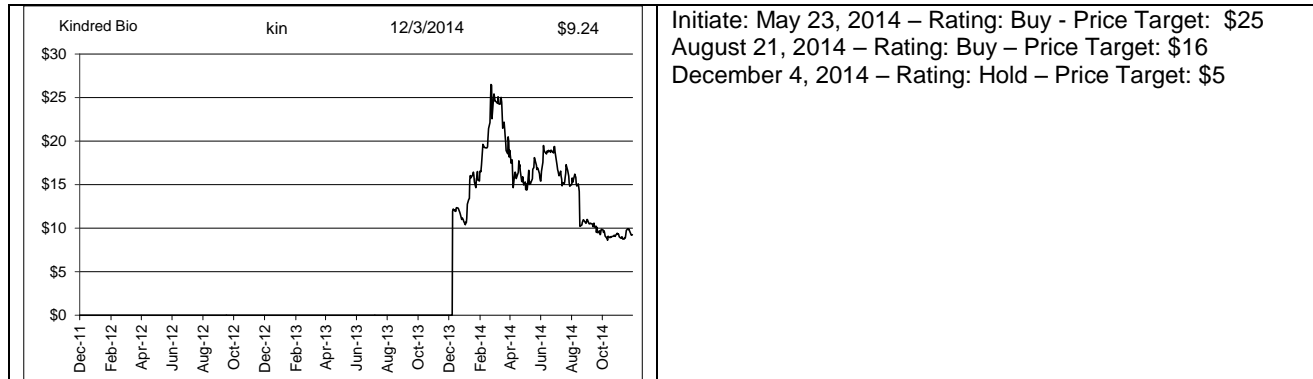
Kindred Biosciences, Inc. Discounted Cash Flow Model

Estimates		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
(\$ in Thousands)											
Total Sales		0	0	4,250	24,675	65,790	83,224	100,701	115,807	126,229	130,016
Operating Profit		(28,912)	(39,950)	(55,705)	(8,010)	6,688	31,625	40,281	47,481	53,016	51,356
Less: Cash Taxes Paid		0	0	0	(750)	2,346	0	6,042	16,856	18,821	19,002
Operating Profit After Tax		(28,912)	(39,950)	(55,705)	(7,260)	4,342	31,625	34,238	30,625	34,196	32,355
Depreciation & Amortization		23	176	548	616	693	780	878	987	1,111	1,250
Fixed Cap Expenditures		107	2,114	1,163	1,244	1,331	1,424	1,524	1,630	1,745	1,867
Working Cap Increase		2,000	2,140	531	2,553	5,139	2,179	2,185	1,888	1,303	473
FCF		(30,996)	(44,029)	(56,851)	(10,441)	(1,435)	28,802	31,408	28,094	32,259	31,264
PV FCF		(26,268)	(31,621)	(34,601)	(5,385)	(627)	10,669	9,860	7,474	7,273	5,973
Perpetual FCF											
Base FCF		31,264									
Weighted Avg. Cost of Capital (k)		18.0%									
Perpetual Growth Rate (g)		3.0%									
Base Year		2013									
Perpetual Start Year		2023									
Perpetual Value		214,679									
PV of Perpetual Growth Period		41,018									
Total FCF											
Value of FCF		(16,236)									
Intrinsic Value											
Cash		112,438									
Debt		0									
After Tax ESO Liability		2,213									
Value of Equity		93,990									
Shares Outstanding		19,426									
Intrinsic Value per Share											
		\$4.84									

Sensitivity Analysis					
Terminal Period Variables		FCF Growth			
Cost of Capital	4.84%	2.5%	3.0%	3.5%	4.0%
	12.5%	\$8.19	\$8.48	\$8.81	\$9.17
	13.0%	\$7.69	\$7.94	\$8.22	\$8.54
	13.5%	\$7.24	\$7.46	\$7.71	\$7.98
	14.0%	\$6.84	\$7.04	\$7.25	\$7.49
Cost of Capital	14.5%	\$6.48	\$6.65	\$6.84	\$7.05
	15.0%	\$6.16	\$6.31	\$6.48	\$6.66



REQUIRED DISCLOSURES



Source: Thomson

Ratings definitions:

Buy rated stocks generally have twelve month price targets that are more than 20% above the current price. **Hold** rated stocks generally have twelve month price targets near the current price. **Sell** rated stocks generally have no price target and we would sell the stock.

Fundamental trend definitions:

Improving means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

Ratings Distribution (9/30/2014)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	78%	25%
Hold	21%	4%
Sell	1%	0%
Total	100%	20%

Information about valuation methods and risks can be found in the “STOCK OPPORTUNITY” and “RISKS” sections, respectively, of this report.

CHLM makes a market in this security.

CHLM has received investment banking revenue from the subject company in the last 12 months. CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm's business, including investment banking.

OTHER DISCLOSURES

Although the statements of fact in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that Craig-Hallum believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute Craig-Hallum's judgment as of the date of this report and are subject to change without notice. Craig-Hallum may effect transactions as principal or agent in the securities mentioned herein. The securities discussed or recommended in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information available upon request. Member SIPC.

REGULATION AC CERTIFICATION

I, Charles Haff, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. No part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views contained herein.