

KaloBios Pharmaceuticals, Inc.

Second Quarter 2013 Results and Update

- On Monday, August 19, KaloBios reported operating results for the second quarter of 2013. A variance analysis of our estimates versus the company's results is summarized in exhibit 1; our revised estimates are highlighted in exhibit 2.
- KaloBios is focused on the development of a pipeline of patient-targeted, proprietary therapeutic antibodies in areas of high unmet medical need. Because antibody-based drugs have a higher likelihood of clinical success, antibody-focused companies have historically experienced material increases in valuation following Phase II proof-of-concept data. To that end, we are expecting Phase II data from two KaloBios drug candidates in 2014—KB003 in severe asthma and KB001-A to prevent *Pseudomonas aeruginosa* (Pa) lung infections in patients with ventilator-assisted breathing. Exhibit 3 provides an outline of upcoming events.
- Designed using the KaloBios technology, KB003 targets granulocyte macrophage colony-stimulating factor (GM-CSF), a growth factor that can lead to tissue damage in people with asthma. The Phase II trial is in patients with severe asthma who are not adequately controlled on corticosteroids. The trial enrolled ahead of schedule and results are now expected in early 2014.
- KB001-A, also a proprietary antibody, is designed to prevent or treat opportunistic Pa and is under development in the cystic fibrosis setting by KaloBios and in the ventilator-assisted breathing setting by Sanofi Pasteur. We expect Sanofi Pasteur to release Phase II data by year-end 2014.

KaloBios ended the quarter with cash, cash equivalents, and marketable securities of \$63.7 million. We have slightly modified our financial projections to come more in line with operating trends; we continue to believe the company has enough cash to last it through 2014 and maintain our Outperform rating on KaloBios.

Based in South San Francisco, California, KaloBios Pharmaceuticals, Inc. is a small-cap company focused on developing patient-targeted, first-in-class monoclonal antibodies using its proprietary Humaneered technology platform, with the intent to significantly improve the lives of seriously ill patients with difficult-to-treat diseases. The company has two agents in Phase II clinical testing in three different indications.

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Please consult the last page of this report for all disclosures.

William Blair & Company, L.L.C. receives or seeks to receive compensation for investment banking services from KaloBios Pharmaceuticals, Inc. Investors should consider this report as a single factor in making an investment decision.

August 19, 2013

Stock Rating: **Outperform**
Company Profile: **Aggressive Growth**

Symbol: KBIO (NASDAQ)
Price: \$5.67 (52-Wk.: \$5-\$8)
Market Value (mil.): \$147
Fiscal Year End: December
Long-Term EPS Growth Rate:
Dividend/Yield: None

| | 2012A | 2013E | 2014E |
|------------------|----------|---------|---------|
| Estimates | | | |
| EPS FY | \$-11.22 | \$-1.94 | \$-1.39 |
| CY | | \$-1.94 | \$-1.39 |
| Sales (mil.) | 6 | 0 | 5 |
| Valuation | | | |
| FY P/E | NM | NM | NM |
| CY P/E | | NM | NM |

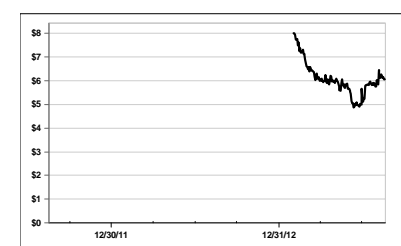
Trading Data (FactSet)

| | |
|---------------------------|--------|
| Shares Outstanding (mil.) | 16 |
| Float (mil.) | 8 |
| Average Daily Volume | 36,629 |

Financial Data (FactSet)

| | |
|------------------------------------|-------|
| Long-Term Debt/Total Capital (MRQ) | 0.0 |
| Book Value Per Share (MRQ) | 2.5 |
| Enterprise Value (mil.) | 27.6 |
| EBITDA (TTM) | 0.0 |
| Enterprise Value/EBITDA (TTM) | 0.0x |
| Return on Equity (TTM) | -53.3 |

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

Exhibit 1
KaloBios Pharmaceuticals
Second Quarter 2013 Variance Analysis
(dollars in thousands except EPS)

| | KBIO Q1 2013A | KBIO Q2 2013A | WB Q2 2013E |
|----------------|------------------|------------------|----------------|
| Total Revenues | \$0 | \$0 | \$0 |
| R&D | \$6 | \$10 | \$7 |
| SG&A | \$2 | \$2 | \$2 |
| Net Income | (\$9) | (\$12) | (\$9) |
| EPS | (\$0.55) | (\$0.49) | (\$0.37) |

All numbers are non-GAAP and exclude stock-options expenses.

Sources: KaloBios reports and William Blair & Company, L.L.C. estimates

Exhibit 2
KaloBios Pharmaceuticals
Estimate Update
(dollars in millions except EPS)

| | WB Previous 2013E | WB Revised 2013E | WB Unchanged 2014E | WB Unchanged 2015E |
|----------------|-------------------------|------------------------|--------------------------|--------------------------|
| Total Revenues | \$0 | \$0 | \$5 | \$0 |
| R&D | \$29.5 | \$33.9 | \$37.0 | \$38.6 |
| SG&A | \$7.7 | \$7.8 | \$9.0 | \$10.6 |
| Net Income | (\$37.8) | (\$42.4) | (\$40.8) | (\$49.1) |
| EPS (basic) | (\$1.75) | (\$1.94) | (\$1.39) | (\$1.53) |

All numbers are non-GAAP and exclude stock-options expenses.

Sources: KaloBios reports and William Blair & Company, L.L.C. estimates.

Exhibit 3
KaloBios Pharmaceuticals
Timeline

| Date | Drug | Indication | Event |
|------|---------|--|---|
| 2013 | KB004 | | Initial top line results from Phase I dose escalation study (Q4) Initiate Phase II study in MDS and AML (Q4) |
| | KB001-A | Cystic Fibrosis VAP Prevention | Top-line results from Phase II study (Q4) Initiate Sanofi Phase IIb study (Q4) |
| 2014 | KB003 | Severe Asthma | Top-line results from Phase II study (Q1) |
| | KB004 | Acute Myeloid Leukemia New Indication | Complete expansion phase (Q4) Initiate Phase II study (Q1) |

*Triggers a \$5 million milestone payment upon initiation of the study

Sources: KaloBios Pharmaceuticals, Inc. reports

Valuation and Risks

Valuation

KaloBios is one of the only pure-play antibody companies to go public in the last decade. From a valuation standpoint, antibody platform companies (such as KaloBios) have historically performed well once entering the public markets. Some examples of companies that had attractive valuations after releasing positive Phase II clinical trial data include Seattle Genetics (\$1.4 billion market cap) (SGEN \$41.04; Outperform), Human Genome Sciences (\$1.4 billion), Alexion (\$580 million) (ALXN \$104.43; Outperform), Micromet (\$524 million), and ImmunoGen (\$457 million) (IMGN \$15.78; Outperform). Furthermore, when looking at antibody-focused companies (such as KaloBios) that have gone public over the last 27 years, we observed a compounded annual return rate of 17.1%. Combined with the fact that there are very few public pure-play antibody platform companies between \$100 million and \$500 million in market cap, we believe KaloBios is trading at an attractive price versus its peers.

Risks

Financial Risks. As is the case with most small-cap drug companies, one of the primary risks for investors is whether the company has enough cash to develop its drug candidate all the way to the clinic. KaloBios recently became a publicly traded company with an initial public offering of \$63.7 million. When looking at the company's financial statements and its quarter-over-quarter increases in spending (R&D and SG&A), which we expect will continue, the company's cash position (currently about \$70 million) could become critical going forward. As a result, to continue operations, the company will likely need to generate capital in some manner, which may come from stock issuance, debt issuance, or additional partnerships, based on the company's drug discovery platform.

Competitive Risks. Based on our evaluation of the competitive landscape, we believe the major competitors to KB001-A in VAP prevention are antibiotics such as azithromycin, but we acknowledge that these have not been widely adopted by the medical community. In the setting of cystic fibrosis (CF), the competitive landscape seems to be greater, but half of the agents approved or still in development do not target the bacterial issues associated with this disease (Kalydeco, for example). Of the agents that could directly compete with KB001-A in CF, TOBI, Zithromax, and Cayston also target the pseudomonas. Lastly, with respect to severe/persistent asthma, Xolair seems to be the primary competitor on the market, but its activity is restricted to patients with specific allergic asthma (IgE-related), which is more restrictive than the currently sought-after indication for KaloBios.

Clinical/Regulatory Risks. As with all biotechnology and pharmaceutical companies, regulatory authorities have the power to accept or deny the use of new drugs in the marketplace, based on a combination of clinical efficacy and safety data. One of the main features that differentiates KaloBios relative to most companies is the fact that the company is developing only biologicals, which historically have had a 32% success rate from IND to approval (versus 13% for small molecules).

William Blair & Company, L.L.C. was a manager or co-manager of a public offering of equity securities for KaloBios Pharmaceuticals, Inc. within the prior 12 months.

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Additional information is available upon request.

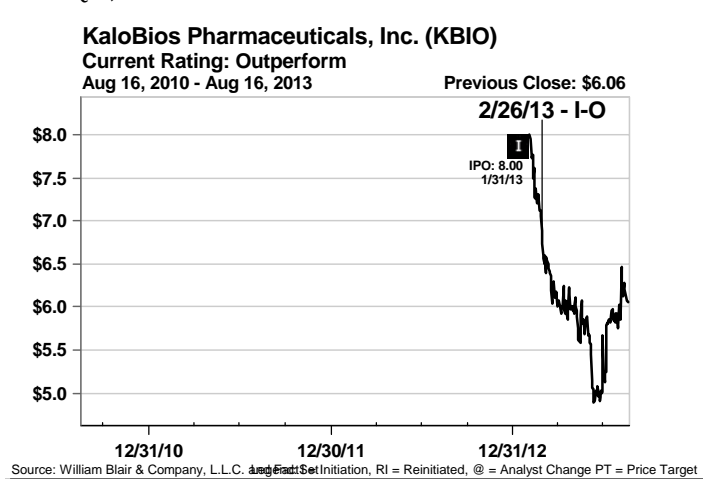
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DOW JONES: 15,081.47

S&P 500: 1,655.83

NASDAQ: 3,602.78



Current Rating Distribution (as of 07/31/13)

| Coverage Universe | Percent | Inv. Banking Relationships* | Percent |
|-----------------------|---------|-----------------------------|---------|
| Outperform (Buy) | 63 | Outperform (Buy) | 10 |
| Market Perform (Hold) | 33 | Market Perform (Hold) | 1 |
| Underperform (Sell) | 1 | Underperform (Sell) | 0 |

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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