

KaloBios Pharmaceuticals, Inc.

Third Quarter 2013 Results and Update

- Recently, KaloBios reported third-quarter operating results. A variance analysis between our estimate and the company's actual results for the quarter is summarized in exhibit 1.
- KaloBios ended the quarter with cash, cash equivalents, and marketable securities of \$55 million. In addition, the company completed a stock offering in October for a total of \$32 million, bringing the current cash position to roughly \$87 million. We reiterate our view that KaloBios has enough cash to take it through the two upcoming proof-of-concept trial readouts. We slightly modified our financial projections to come more in line with operating trends, which we highlight in exhibit 2.
- Recall that 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 historically demonstrated higher probabilities of achieving clinical success, antibody-focused companies have historically experienced material increases in valuation following Phase II proof-of-concept data. To that end, we expect Phase II data from two KaloBios drug candidates in 2014—KB003 in severe asthma and KB001-A in cystic fibrosis. Exhibit 3 provides an outline of upcoming events.
- We maintain our Outperform rating on KaloBios shares.

Exhibit 1
KaloBios Pharmaceuticals, Inc.
Third Quarter 2013 Variance Analysis
(dollars in millions except EPS)

	KBIO Q3 2013A	WB Q3 2013E
Total Revenues	\$0	\$0
R&D	\$9	\$9
SG&A	\$2	\$2
Net Income	(\$11)	(\$11)
EPS	(\$0.47)	(\$0.45)

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

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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November 22, 2013

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

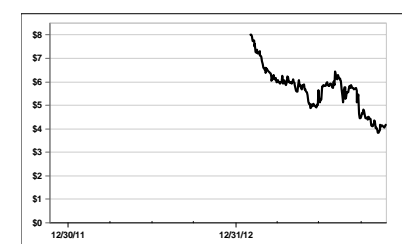
Symbol: KBIO (NASDAQ)
Price: \$4.17 (52-Wk.: \$4-\$8)
Market Value (mil.): \$137
Fiscal Year End: December
Long-Term EPS Growth Rate:
Dividend/Yield: None

	2012A	2013E	2014E
Estimates			
EPS FY	\$-11.22	\$-1.96	\$-1.59
CY		\$-1.96	\$-1.59
Sales (mil.)	6	0	0
Valuation			
FY P/E	NM	NM	NM
CY P/E		NM	NM

Trading Data (FactSet)	
Shares Outstanding (mil.)	24
Float (mil.)	16
Average Daily Volume	105,113

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	0.2
Book Value Per Share (MRQ)	2.0
Enterprise Value (mil.)	56.0
EBITDA (TTM)	-39.7
Enterprise Value/EBITDA (TTM)	-1.4x
Return on Equity (TTM)	-53.3

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

Exhibit 2
KaloBios Pharmaceuticals, Inc.
Guidance and Estimates
(dollars in millions except EPS)

	WB Previous 2013E	WB Revised 2013E	WB Previous 2014E	WB Revised 2014E	WB Previous 2015E	WB Revised 2015E	WB New 2016E
Total Revenues	\$0	\$0	\$5	\$0	\$5	\$5	\$5
R&D	\$34	\$34	\$37	\$37	\$37	\$41	\$42
SG&A	\$8	\$8	\$9	\$9	\$9	\$11	\$12
Net Income	(\$42)	(\$43)	(\$41)	(\$47)	(\$41)	(\$47)	(\$50)
EPS	(\$1.94)	(\$1.96)	(\$1.39)	(\$1.59)	(\$1.39)	(\$1.47)	(\$1.54)

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

Exhibit 3
KaloBios Pharmaceuticals, Inc.
Timeline

Date	Drug	Event
2013	KB004	Phase I dose-escalation trial top-line results (Q4).
	KB004	Phase II trial initiation in acute myelogenous leukemia (AML) and myelodysplastic syndrome (MDS) (Q4).
2014	KB001-A	Phase II trial top-line results in cystic fibrosis (Q4).
	KB003	Phase II trial top-line results in asthma (Q1).
2015	KB001-A	Phase IIb trial initiation for the prevention of ventilator-associated pneumonia (VAP) (1H).
	KB004	Phase II trial top-line results in acute myelogenous leukemia (AML) and myelodysplastic syndromes (MDS) (Q2).

Sources: KaloBios reports.

Valuation

KaloBios is trading at \$4.17 with a market cap of \$137 million. The company expects two proof-of-concept trial readouts in 2014 and has enough cash to take it through both of the events. We believe KaloBios is trading at an attractive valuation relative to its stage of development and note that antibody-based companies have historically been rewarded by the market for strong proof-of-concept trial results.

Risks

KaloBios faces many of the same risks of other biotech companies. We believe the major risks are clinical, regulatory, competitive, and financial risks. All of KaloBios' compounds are investigational and are in clinical trials. If any of these trials fails, then we believe it could adversely affect KaloBios. In addition, there is no guarantee that positive clinical trial data will translate into regulatory approvals or commercial success for KaloBios. The company is targeting competitive markets, and regulatory agencies may not approve or physicians, patients, and/or payors may not agree to use KaloBios products even if they are successful in clinical trials. Lastly, KaloBios is operating at a loss, and we expect it to continue to do so for the near term. Additional capital may therefore be needed to fund future operations.

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

William Blair is a market maker in the security of KaloBios Pharmaceuticals, Inc. and may have a long or short position.

William Blair intends to seek investment banking compensation in the next three months from the subject company covered in this report.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with the subject company covered in this report.

Additional information is available upon request.

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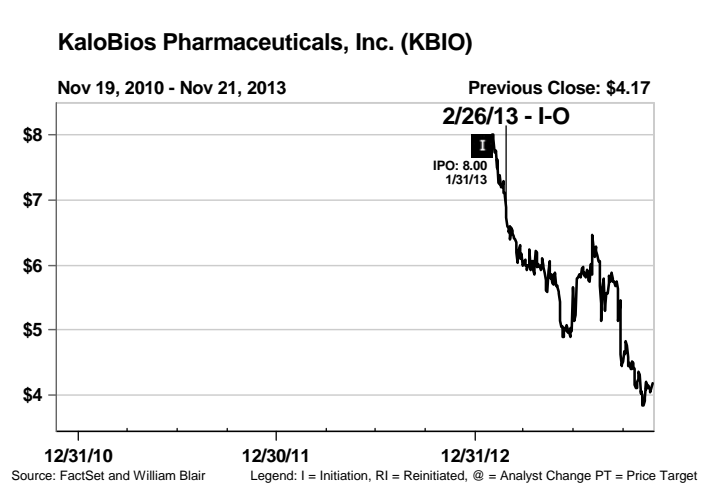
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DOW JONES: 16,009.99

S&P 500: 1,795.85

NASDAQ: 3,969.15



Current Rating Distribution (as of 10/31/13)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	62	Outperform (Buy)	11
Market Perform (Hold)	34	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

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