

Healthcare: Pharmaceuticals

Kindred Biosciences, Inc. | KIN - \$8.74 - NYSE | *Neutral*

Quarterly Update

Estimates Changed, Target Price Changed

Stock Data

52-Week Low - High	\$8.13 - \$26.99
Shares Out. (mil)	19.71
Mkt. Cap.(mil)	\$172.3
3-Mo. Avg. Vol.	209,779
12-Mo.Price Target	\$10.50
Cash (mil)	\$106.4
Tot. Debt (mil)	\$0.0

EPS \$

Yr Dec	—2013—	—2014E—		—2015E—
		Curr	Prev	Curr
1Q	(0.07)A	(0.38)A	(0.38)A	-
2Q	(0.13)A	(0.42)A	(0.42)A	-
3Q	(0.26)A	(0.31)A	(0.48)E	-
4Q	(0.40)A	(0.42)E	(0.50)E	-
YEAR	(1.13)A	(1.53)E	(1.79)E	(1.70)E
P/E	NM	NM	NM	NM

Revenue (\$ millions)

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

KIN One-Year Price and Volume History



KIN: 3Q14 Recap - Watchful Waiting Until Mid 2015

KIN reported a 3Q14 EPS loss of \$0.31 versus our target of a loss of \$0.48. The smaller loss largely reflected lower temporary discretionary spending levels. The next catalyst is likely to be clinical data in mid 2015 for AtoKin and SentiKin (a delay of about 6 months from our prior expectations post 2Q14 earnings). We maintain our Neutral rating with a \$10.50/share price target.

- 3Q recap - Lower spending = lower loss.** Quarterly results basically just track the rate of spending at KIN at this point in time. Lower SG&A reduced the EPS loss by ~\$0.01 and lower R&D reduced the EPS loss by another ~\$0.16 versus our expectations. Net, the 3Q14 EPS loss of \$0.31 was smaller than our targeted \$0.48 EPS loss. We view this as timing related due to the removal of CereKin from the pipeline post mixed clinical data. Cash is robust at \$106 million, which is sufficient to fund planned operations for "at least the next 24 months".
- Takeaway #1 - AtoKin and SentiKin delayed ~6 months to add more subjects.** The company disclosed (in a September investor presentation) that it is increasing the # of dogs in both clinical trials to increase statistical power from ~80% to ~90%. This pushes out AtoKin/SentiKin clinical data to "mid 2015" from our target of late 2014. Thus, we pushed out revenues for these programs by ~6 months. We view this as a neutral event. One positive event - AtoKin CMC Technical Section of NADA approved by the FDA, but this does not alter our timing.
- Takeaway #2 - Spending should rebound in 4Q14.** The company maintains full year 2014 operating expense guidance of \$29.5M - \$39.5M, which implies a rapid rebound to expenses in 4Q14. We are expecting this # to be just below the low end of guidance. Management is clear that R&D is expected to increase for the foreseeable future.
- Model changes.** Delaying the AtoKin and SentiKin launches by 6 months negatively impacted EPS by ~\$0.05 in outer years.
- 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 inched downward to \$10.50 to reflect EPS reductions. We do believe that shares are bottoming out given the cash backstop of \$5-\$6/share although the next catalysts are now ~6 months away.

VALUATION

We value KIN shares at \$10.50. Our price target of \$10.50/share is arrived at by applying a 35X multiple to forecasted 2020 EPS of \$0.75, and discounting back five years by 20% per year (we do not add back the ~\$5/share in cash as we expect it to be spent). We support this multiple by evaluating comparable animal health companies (limited sample size).

We acknowledge that our price target falls outside of ROTH's stated rating system for a Neutral rating. However, we believe that limited visibility into KIN revenues creates the need for a larger margin of error for KIN shares.

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	2Q14A	3Q14A	4Q14E	FY 2014 E	FY 2015 E	FY 2016 E	FY 2017 E	FY 2018 E	FY 2019 E	FY 2020 E
Revenues:																	
CereKin												-	-	-	-	-	-
AtoKin												-	974,357	8,808,515	18,992,043	30,203,674	39,154,586
SentiKin												-	677,456	4,323,837	8,817,734	14,023,134	16,966,987
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												-	(82,591)	(1,906,618)	(4,390,489)	(6,461,340)	(9,056,079)
Percentage via distributor												25%	25%	25%	25%	25%	25%
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	-	1,569,222	36,225,734	83,419,288	122,765,468	172,065,494
COGS	-	-	-	-	-	-	-	-	-	-	-	-	1,176,917	19,924,154	43,378,030	58,559,128	79,494,258
Gross Profits	-	-	-	-	-	-	-	-	-	-	-	-	392,306	16,301,580	40,041,258	64,206,340	92,571,236
Gross margins												0%	25%	45%	48%	52%	54%
Research and Development	74,772	141,000	300,000	953,756	1,747,674	3,142,430	4,498,000	5,639,000	3,755,000	6,000,000	19,892,000	25,250,000	26,000,000	27,000,000	28,000,000	29,000,000	30,000,000
General and Administrative	44,864	83,000	96,000	259,153	639,339	1,077,492	1,679,000	2,499,000	2,342,000	2,500,000	9,020,000	10,000,000	10,250,000	10,750,000	11,150,000	12,000,000	12,500,000
Selling expenses													3,250,000	6,425,000	10,300,000	13,525,000	16,412,500
Profit (loss) from operations	(119,636)	(224,000)	(396,000)	(1,212,909)	(2,387,013)	(4,219,922)	(6,177,000)	(8,138,000)	(6,097,000)	(8,500,000)	(28,912,000)	(35,250,000)	(39,107,694)	(27,873,420)	(9,408,742)	9,681,340	33,658,736
Interest/other income	25	-	-	2,614	3,310	5,924	9,000	14,000	25,000	50,750	98,750	52,500	52,500	85,000	150,000	200,000	300,000
Pretax income (loss)	(119,611)	(224,000)	(396,000)	(1,210,295)	(2,383,703)	(4,213,998)	(6,168,000)	(8,124,000)	(6,072,000)	(8,449,250)	(28,813,250)	(35,197,500)	(39,055,194)	(27,788,420)	(9,258,742)	9,881,340	33,958,736
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	988,134	9,746,157
Rate													0%	0%	0%	10%	29%
Net income (loss)	(119,611)	(224,000)	(396,000)	(1,210,295)	(2,383,703)	(4,213,998)	(6,168,000)	(8,124,000)	(6,072,000)	(8,449,250)	(28,813,250)	(35,197,500)	(39,055,194)	(27,788,420)	(9,258,742)	8,893,206	24,212,579
EPS	(0.04)	(0.07)	(0.13)	(0.26)	(0.40)	(1.13)	(0.38)	(0.42)	(0.31)	(0.42)	(1.53)	(1.70)	(1.80)	(1.10)	(0.35)	0.30	0.75
Shares outstanding	2,718,082	3,000,000	3,000,000	4,713,320	5,899,059	3,731,929	16,222,000	19,426,000	19,713,000	19,963,000	18,831,000	20,713,000	21,713,000	25,213,000	26,213,000	29,713,000	32,213,000

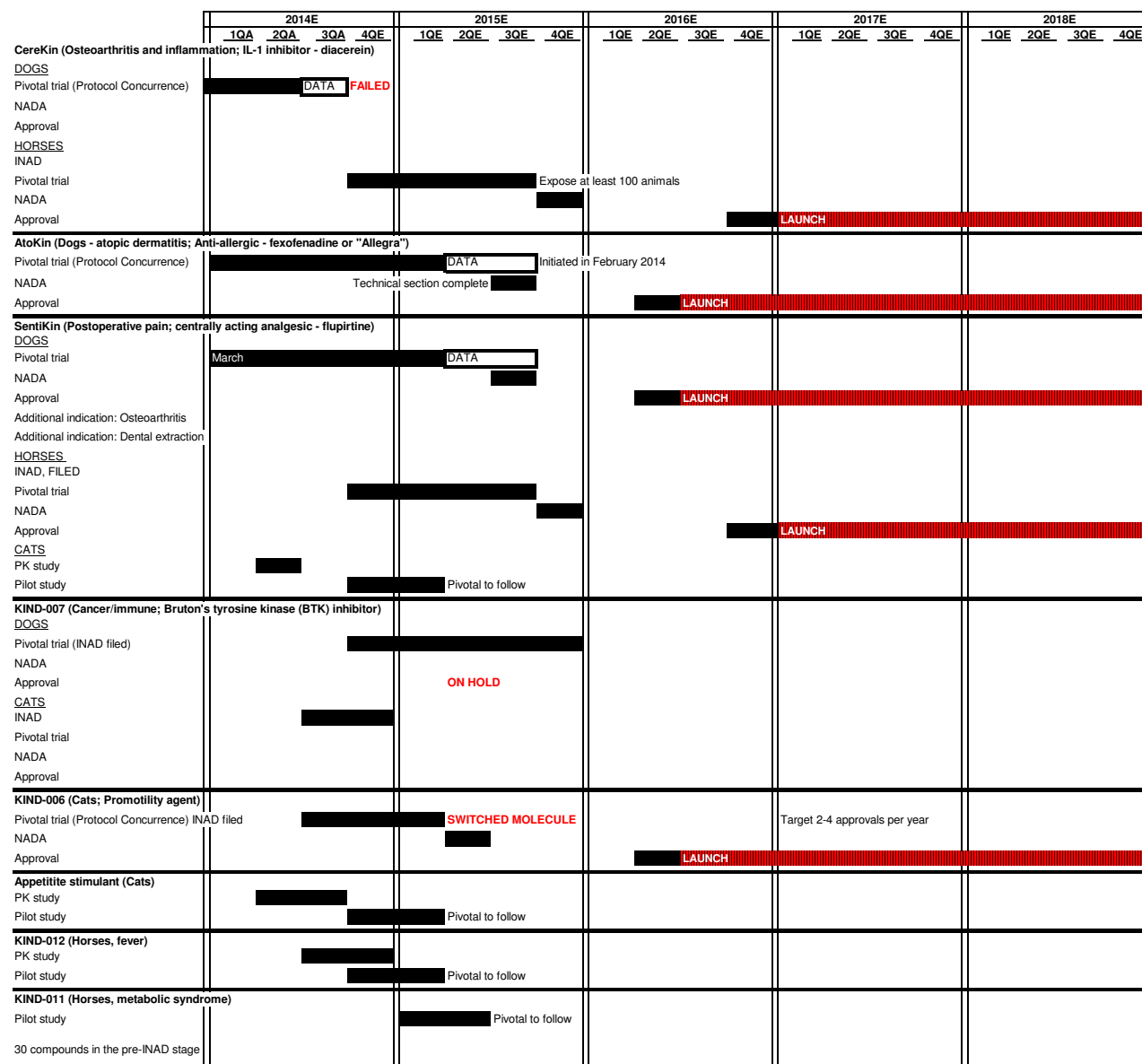
Source: ROTH Capital Partners and Company SEC filings

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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																
Erythropoietin (Cats)																
In development																
Estimate - 3-5 years and \$3-\$5 million from INAD to approval																

Source: ROTH Capital Partners Forecasts

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Kindred Biosciences, Inc. AtoKin model						
Quarter	Market size	Quarterly growth rate	MARKET SHARE		RISK ADJUSTED A	
			Other	AtoKin	CereKin revenues Quarterly	Annual
1Q14	28,125,000		100%	0%	-	
2Q14	28,687,500	2.0%	100%	0%	-	
3Q14	29,261,250	2.0%	100%	0%	-	
4Q14	29,846,475	2.0%	100%	0%	-	-
1Q15	30,443,405	2.0%	100%	0%	-	
2Q15	31,052,273	2.0%	100%	0%	-	
3Q15	31,673,318	2.0%	100%	0%	-	
4Q15	32,306,784	2.0%	100%	0%	-	-
1Q16	32,952,920	2.0%	100%	0%	-	
2Q16	33,611,978	2.0%	100%	0%	-	
3Q16	34,284,218	2.0%	99%	1%	239,990	
4Q16	34,969,902	2.0%	97%	3%	734,368	974,357
1Q17	35,669,300	2.0%	95%	5%	1,248,426	
2Q17	36,382,686	2.0%	93%	7%	1,782,752	
3Q17	37,110,340	2.0%	90%	10%	2,597,724	
4Q17	37,852,547	2.0%	88%	12%	3,179,614	8,808,515
1Q18	38,609,598	2.0%	86%	14%	3,783,741	
2Q18	39,381,790	2.0%	84%	16%	4,410,760	
3Q18	40,169,426	2.0%	82%	18%	5,061,348	
4Q18	40,972,814	2.0%	80%	20%	5,736,194	18,992,043
1Q19	41,792,271	2.0%	78%	22%	6,436,010	
2Q19	42,628,116	2.0%	76%	24%	7,161,523	
3Q19	43,480,678	2.0%	74%	26%	7,913,483	
4Q19	44,350,292	2.0%	72%	28%	8,692,657	30,203,674
1Q20	45,237,298	2.0%	70%	30%	9,499,833	
2Q20	46,142,044	2.0%	70%	30%	9,689,829	
3Q20	47,064,884	2.0%	70%	30%	9,883,626	
4Q20	48,006,182	2.0%	70%	30%	10,081,298	39,154,586

Size relative to OA market

50.0%

Kindred Biosciences, Inc. SentiKin model						
					RISK ADJUSTED A	65%
Quarter	Market size	Quarterly growth rate	MARKET SHARE		CereKin revenues	
			Other	AtoKin	Quarterly	Annual
1Q14	28,125,000		100%	0%	-	
2Q14	28,687,500	2.0%	100%	0%	-	
3Q14	29,261,250	2.0%	100%	0%	-	
4Q14	29,846,475	2.0%	100%	0%	-	-
1Q15	30,443,405	2.0%	100%	0%	-	
2Q15	31,052,273	2.0%	100%	0%	-	
3Q15	31,673,318	2.0%	100%	0%	-	
4Q15	32,306,784	2.0%	100%	0%	-	-
1Q16	32,952,920	2.0%	100%	0%	-	
2Q16	33,611,978	2.0%	100%	0%	-	
3Q16	34,284,218	2.0%	99%	1%	222,847	
4Q16	34,969,902	2.0%	98%	2%	454,609	677,456
1Q17	35,669,300	2.0%	97%	3%	695,551	
2Q17	36,382,686	2.0%	96%	4%	945,950	
3Q17	37,110,340	2.0%	95%	5%	1,206,086	
4Q17	37,852,547	2.0%	94%	6%	1,476,249	4,323,837
1Q18	38,609,598	2.0%	93%	7%	1,756,737	
2Q18	39,381,790	2.0%	92%	8%	2,047,853	
3Q18	40,169,426	2.0%	91%	9%	2,349,911	
4Q18	40,972,814	2.0%	90%	10%	2,663,233	8,817,734
1Q19	41,792,271	2.0%	89%	11%	2,988,147	
2Q19	42,628,116	2.0%	88%	12%	3,324,993	
3Q19	43,480,678	2.0%	87%	13%	3,674,117	
4Q19	44,350,292	2.0%	86%	14%	4,035,877	14,023,134
1Q20	45,237,298	2.0%	86%	14%	4,116,594	
2Q20	46,142,044	2.0%	86%	14%	4,198,926	
3Q20	47,064,884	2.0%	86%	14%	4,282,904	
4Q20	48,006,182	2.0%	86%	14%	4,368,563	16,966,987

Size relative to OA market

50.0%

Kindred Biosciences, Inc.

Balance Sheets
December YearNet cash
Per share 106,427,000
5.40

	2012	2013	1Q14	2Q14	3Q14
ASSETS					
Cash and equivalents	937,516	65,328,787	60,528,000	112,438,000	106,427,000
Prepays and other	504	147,589	565,000	532,000	688,000
Total current assets	938,020	65,476,376	61,093,000	112,970,000	107,115,000
Property and equip, net	-	11,694	27,000	109,000	194,000
Other	-	-	-	-	22,000
TOTAL ASSETS	938,020	65,488,070	61,120,000	113,079,000	107,331,000
LIABILITIES AND SHAREHOLDERS EQUITY					
Accounts payable	5,499	688,641	1,671,000	1,711,000	744,000
Due to related party	5,122	-	-	-	-
Accrued expenses	59,660	1,520,955	958,000	1,684,000	1,635,000
LT liabilities	-	-	-	-	44,000
Total Liabilities	70,281	2,209,596	2,629,000	3,395,000	2,423,000
Convertible preferred stock	987,050	-	-	-	-
Common stock	300	1,621	2,000	2,000	2,000
APIC	-	67,609,832	68,990,000	128,307,000	129,579,000
Accumulated other comp loss	-	-	-	(14,000)	10,000
Deficit accumulated during the develop	(119,611)	(4,332,979)	(10,501,000)	(18,611,000)	(24,683,000)
Total liabs and SE	938,020	65,488,070	61,120,000	113,079,000	107,331,000

Source: Company SEC filings

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Disclosures:

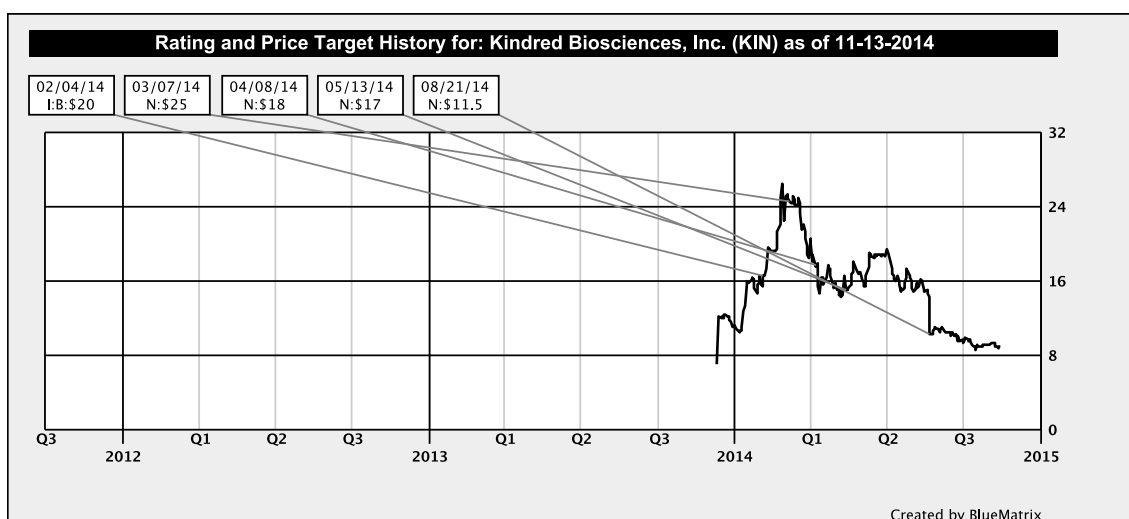
Within the last twelve months, ROTH has received compensation for investment banking services from Kindred Biosciences, Inc..

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.

Distribution Ratings/IB Services shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 11/16/14	
			Count	Percent
Buy [B]	195	79.92	115	58.97
Neutral [N]	32	13.11	12	37.50
Sell [S]	0	0.00	0	0
Under Review [UR]	16	6.56	9	56.25

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

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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