

**Kindred Biosciences, Inc.**

KIN - BUY - Discontinuation of AtoKin Is Negative for KIN, but We Are Still Optimistic Patience Will Be Rewarded

**LOUISE CHEN, ANALYST**

louise.chen@guggenheimpartners.com  
212 381 4195

**SWATI KUMAR, ANALYST**

swati.kumar@guggenheimpartners.com  
212 918 8754

**BRANDON FOLKES, ASSOCIATE**

brandon.folkes@guggenheimpartners.com  
212 518 9976

**FLASH NOTE**

SECTOR: Specialty Pharmaceuticals

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**KIN (BUY, \$9.24) announced after the close that it will discontinue development of AtoKin for atopic dermatitis due to the increasing success of Zoetis' (ZTS, BUY, \$44.88) Apoquel.** KIN believes that AtoKin's value proposition will not be enough to compete with Apoquel. Therefore, KIN has decided to discontinue development and move forward with other pipeline opportunities. AtoKin's safety profile was expected to be superior to Apoquel's. However, KIN's due diligence suggests that AtoKin's potential safety benefit will not be enough to drive meaningful uptake of KIN's drug. We view this announcement as negative for KIN because it follows the pipeline failure of CereKin earlier this year. Ultimately, we still believe patience will be rewarded with commercial successes from KIN's pipeline, but we expect the stock to likely trade down on the news. We estimate cash value per share is ~\$5.00.

**Near-term pipeline products of focus will now be SentiKin (post-operative pain and osteoarthritis in dogs), KIND-010 (inappetence in cats), KIND-012 (fever in horses) and Feline Epo (anemia in cats).** SentiKin's pivotal results for post-operative pain are expected to read out in mid-2015 and the osteoarthritis pilot study is expected to start in early 2015. Both KIND-010 and KIND-012 pilots are ongoing and if results are positive pivots should start in 2015. The feline EPO pilot is expected to start in 2015.

**KIN's pipeline also consists of biologics that are in early stage and could be higher margin, larger market opportunities for the company.** These include a promotility agent for cats, KIND-502 (Anti-IgE antibody for allergies in dogs), KIND-506/509 (TNFR-Ig fusion protein for inflammatory diseases in dogs), KIND-507 (CLTA4-Ig fusion protein for autoimmune disease in dogs), KIND-504 (vaccine for cancer in dogs), and KIND-501 (anti-VEGF fusion protein for cancer in dogs).

**KIN continues to focus on business development/M&A.** We would not expect anything here, though, until 2015.

**Potential Catalysts.** 1) Data from pivotal studies for SentiKin released in mid-2015; 2) Approvals for SentiKin in 2015+; 3) Additional pipeline advancements and approvals; 4) Partnerships and business development.

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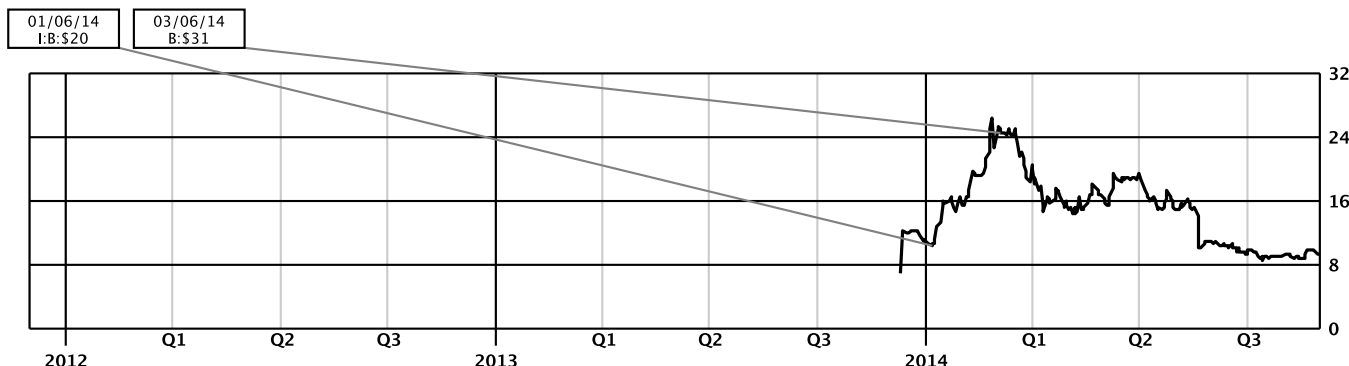
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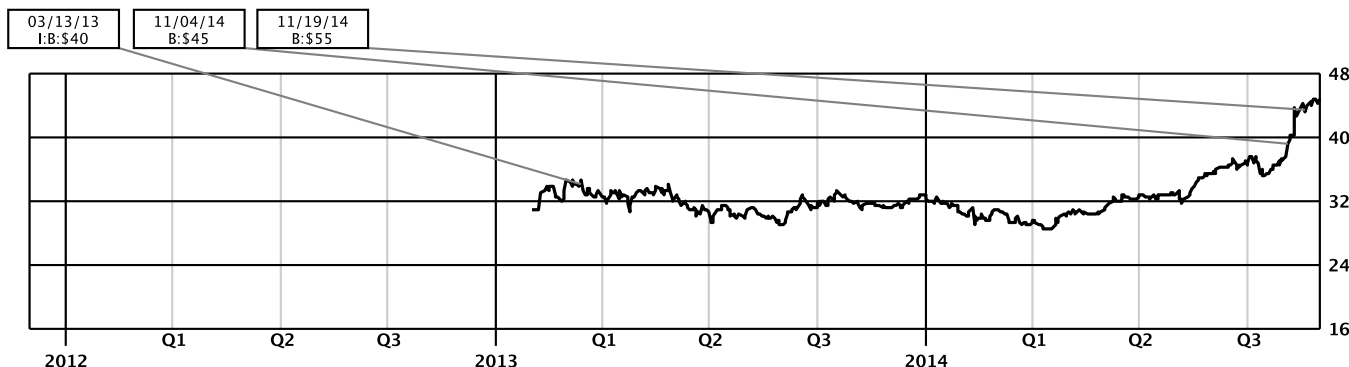
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### Rating and Price Target History for: Kindred Biosciences, Inc. (KIN) as of 12-02-2014



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### Rating and Price Target History for: Zoetis Inc. (ZTS) as of 12-02-2014



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## Contact Information

**NEW YORK SALES & TRADING DESK**  
212 292 4700

**EQUITY TRADING DESK**  
212 292 4701

**MEDIA INQUIRIES**  
310 367 6567

**EMAIL**  
general@guggenheimcm.com

## Locations

**NEW YORK**  
330 Madison Avenue  
New York, NY 10017

**WASHINGTON, DC**  
1055 Thomas Jefferson Street, NW  
Suite 450  
Washington, DC 20007

**BOSTON**  
500 Boylston Street, 13<sup>th</sup> Floor  
Boston, MA 02116

**LOS ANGELES**  
601 South Figueroa Street  
Suite 4005  
Los Angeles, CA 90017

**DALLAS**  
1717 McKinney Avenue  
Suite 870  
Dallas, TX 75202

**SAN FRANCISCO**  
50 California Street  
Suite 1515  
San Francisco, CA 94111

**NASHVILLE**  
104 Woodmont Blvd  
Suite 203  
Nashville, TN 37205

**RICHMOND**  
919 East Main Street  
Suite 1605  
Richmond, VA 23219

## Guggenheim Equity Research

**ENERGY: OIL SERVICES & EQUIPMENT**  
**Darren Gacicia, Analyst**  
darren.gacicia@guggenheimpartners.com  
212 293 3054

**Michael LaMotte, Analyst**  
michael.lamotte@guggenheimpartners.com  
972 638 5502

**FINANCIAL SERVICES: BUSINESS  
DEVELOPMENT COMPANIES,  
COMMUNITY AND REGIONAL BANKS**  
**Taylor Brodarick, Analyst**  
taylor.brodarick@guggenheimpartners.com  
615 208 1222

**FINANCIAL SERVICES: CARD NETWORKS,  
COMMUNITY AND REGIONAL BANKS**  
**David Darst, Analyst**  
david.darst@guggenheimpartners.com  
615 208 1224

**Ryan Strain, Associate**  
ryan.strain@guggenheimpartners.com  
615 208 1226

**HEALTHCARE: BIOPHARMA**  
**Tony Butler, Analyst**  
tony.butler@guggenheimpartners.com  
212 823 6540

**HEALTHCARE: BIOTECH**  
**Bret Holley, Analyst**  
bret.holley@guggenheimpartners.com  
212 293 2820

**HEALTHCARE: PHARMACEUTICALS**  
**Louise Chen, Analyst**  
louise.chen@guggenheimpartners.com  
212 381 4195

**Swati Kumar, Analyst**  
swati.kumar@guggenheimpartners.com  
212 918 8754

**Brandon Folkes, Associate**  
brandon.folkes@guggenheimpartners.com  
212 518 9976

**RETAIL & CONSUMER**  
**John Heinbockel, Analyst**  
john.heinbockel@guggenheimpartners.com  
212 381 4135

**Steven Forbes, Associate**  
steven.forbes@guggenheimpartners.com  
212 381 4188

**TMT: MEDIA & ENTERTAINMENT,  
CABLE & SATELLITE TV**  
**Michael Morris, Analyst**  
michael.morris@guggenheimpartners.com  
804 253 8025

**Curry Baker, Associate**  
curry.baker@guggenheimpartners.com  
804 253 8029