

August 13, 2015

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

OUTPERFORM

12-18 mo. Price Target \$38.00
TKAI - NASDAQ \$11.68

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$30.00-\$9.67
Shares Outstanding 22.4M
Float 5.3M
Market Capitalization \$263.4M
Avg. Daily Trading Volume 141,216
Dividend/Div Yield NA/NM
Book Value NA
Fiscal Year Ends Dec
2015E ROE NA
LT Debt NA
Preferred NA
Common Equity NA
Convertible Available No
Trading range is as of 9/23/14 IPO.

| EPS Diluted | Q1 | Q2 | Q3 | Q4 | Year | Mult. |
|-------------|---------|---------|--------|--------|--------|-------|
| 2014A | NA | NA | (2.71) | (0.28) | (3.60) | NM |
| 2015E | (0.59)A | (0.40)A | (0.40) | (0.44) | (1.83) | NM |
| Prior (E) | (0.30) | (0.34) | (0.47) | (0.51) | (1.62) | NM |
| 2016E | -- | -- | -- | -- | (1.66) | NM |
| Prior (E) | -- | -- | -- | -- | (2.15) | NM |

Tokai Pharmaceuticals, Inc.

2Q15 Update, Phase III ARMOR3 Trial On Track

SUMMARY

TKAI reported 2Q15 EPS of (\$0.40), better than the consensus estimate of (\$0.50) and lower than our estimate of (\$0.34), primarily due to lower than projected R&D expenses. The company ended 2Q15 with cash & equivalents of ~\$83.2M, which should be sufficient to fund operations into 2017, beyond the data readout from the phase III ARMOR3 trial. Management reiterated that the pivotal phase III trial of galeterone in AR-V7 positive metastatic castration-resistant prostate cancer should be on track to report top-line data by YE16.

KEY POINTS

- **Phase III ARMOR3 trial update.** The ARMOR3 trial is the first biomarker-guided pivotal trial in CRPC. The diagnostic test is being deployed. We expect the trial to start screening patients this quarter. With ~120 sites worldwide, TKAI continues to expect to report top-line data from the ARMOR3 trial by YE16.
- **Updating model.** TKAI reported 2Q15 EPS of (\$0.40) vs. our estimate of (\$0.34) and consensus (\$0.50). 2Q15 cash & equivalents were \$83.2M, which should be sufficient to fund operations into 2017 after the readout of the ARMOR3 trial. Our updated EPS estimates are (\$1.83) and (\$1.66) for 2015 and 2016, respectively, reflecting 2Q15 results.

Stock Price Performance



Company Description

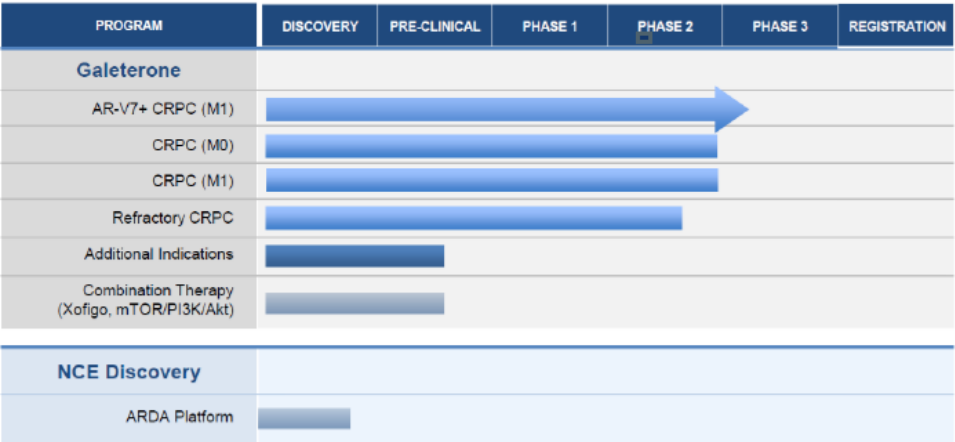
Tokai Pharmaceuticals, Inc., a clinical-stage biopharmaceutical company, focuses on developing novel proprietary therapies for the treatment of prostate cancer and other hormonally driven diseases in the US.

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Upcoming Catalysts

- ✓ Potential to initiate the phase III ARMOR3 trial in frontline M1 CRPC patients with detectable AR-V7 in CTC (1H15)
- Potential to report interim futility analysis from the pivotal phase III ARMOR3 trial of galeterone in patients with AR-V7+ tumors (mid-2016)
- Potential to report top line data from the pivotal phase III ARMOR3 trial of galeterone in patients with AR-V7+ tumors (YE16)
- Potential business development activities for galeterone (TBD)

Pipeline Programs



Source: Company Report

Financial Models

| Tokai Pharmaceuticals, Inc. | | | | | | | | | |
|--|-----------|-----------|----------|----------|----------|----------|----------|----------|----------|
| Income Statement & Financial Projections (Figures in thousands, except per share items) | 2012A | 2013A | 2014A | 1Q15A | 2Q15A | 3Q15E | 4Q15E | 2015E | 2016E |
| Revenue | | | | | | | | | |
| Operating expenses: | | | | | | | | | |
| Research and development | 7,370 | 12,201 | 14,577 | 10,559 | 5,855 | 6,031 | 7,000 | 29,445 | 26,500 |
| General and administrative | 2,279 | 3,548 | 8,885 | 2,741 | 3,127 | 2,950 | 3,000 | 11,818 | 12,409 |
| Total operating expenses | 9,649 | 15,749 | 23,462 | 13,300 | 8,982 | 8,981 | 10,000 | 41,263 | 38,909 |
| Loss from operations | (9,649) | (15,749) | (23,462) | (13,300) | (8,982) | (8,981) | (10,000) | (41,263) | (38,909) |
| Other income | | 24 | 166 | 40 | 25 | 34 | 30 | 129 | 100 |
| Net loss and comprehensive loss | (9,649) | (15,725) | (23,296) | (13,260) | (8,957) | (8,947) | (9,970) | (41,134) | (38,809) |
| Accretion of redeemable convertible preferred stock to redemption value | (34) | (94) | | | | | | | |
| Net loss attributable to common stockholders | (9,683) | (15,819) | (23,296) | (13,260) | (8,957) | (8,947) | (9,970) | (41,134) | (38,809) |
| EPS, basic and diluted | (\$31.09) | (\$38.02) | (\$3.60) | (\$0.59) | (\$0.40) | (\$0.40) | (\$0.44) | (\$1.83) | (\$1.66) |
| Common shares outstanding, basic and diluted | 311,474 | 416,037 | 6,469 | 22,384 | 22,421 | 22,533 | 22,646 | 22,496 | 23,325 |

Sources: Company Reported and Oppenheimer & Co.Inc.

Investment Thesis

TKAI's flagship compound galeterone addresses a clear unmet medical need in prostate cancer, i.e., patients with tumor-expressing androgen receptor (AR) split variants (in particular, AR-V7) for whom recently approved novel agents such as Zytiga and Xtandi are not expected to work potentially due to the loss of ligand binding domain (LBD). We view TKAI as a highly favorable biotech name, given a clear pathway for approval, a high probability of phase III success, large market opportunity and no foreseeable competition.

Price Target Calculation

Our 12- to 18-month price target of \$38 is primarily based on the risk-adjusted NPV of galeterone of ~\$923M (~\$38/share). We project galeterone 2023 US sales of \$1.2B and ex-US sales of ~\$748M (royalty rate of ~20% in ex-US sales). We use a typical biotech revenue multiple of 5x, royalty multiple of 10x, a probability of success of 75%, and a discount rate of 30% (which reflects the development stage of the company) to derive the risk-adjusted NPV of galeterone.

Key Risks to Price Target

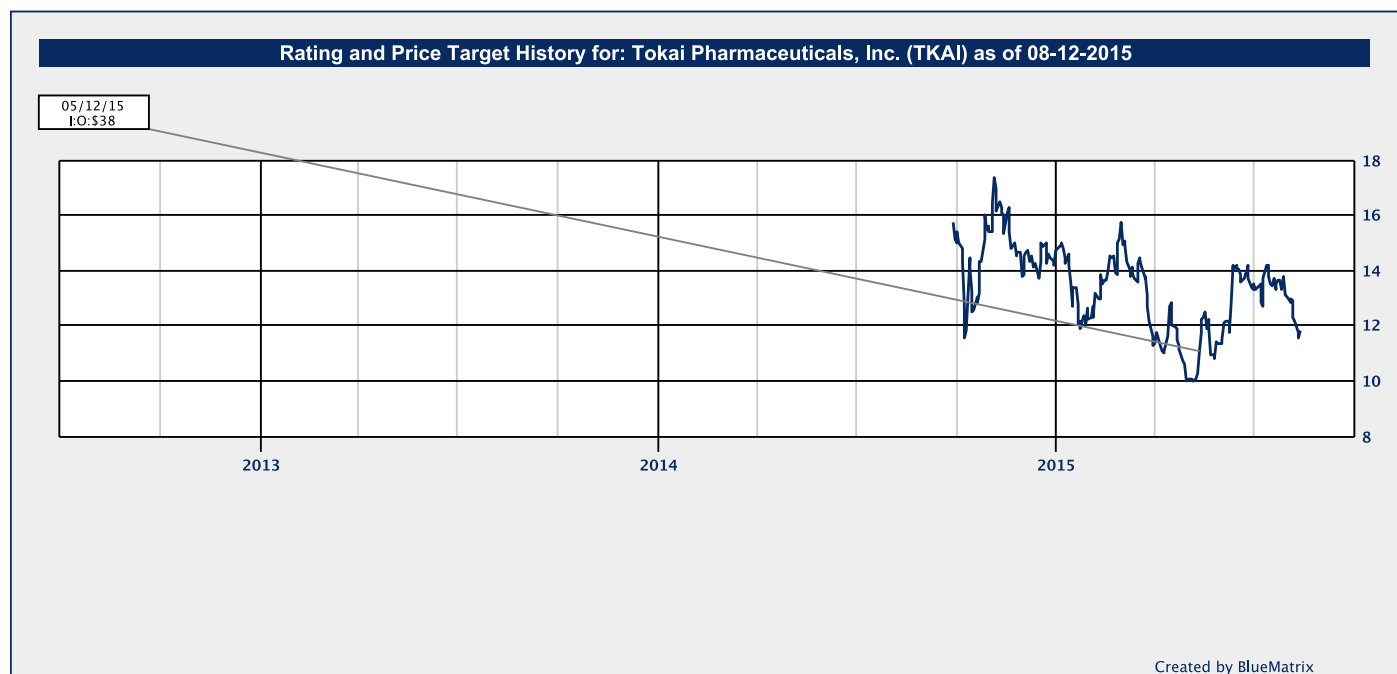
We view clinical risks associated with galeterone as the main risk for TKAI. Other risks include regulatory risks, financing risk, and commercialization risk.

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| Distribution of Ratings/IB Services Firmwide | | | | |
|--|----------------------|---------|-------|---------|
| Rating | IB Serv/Past 12 Mos. | | | |
| | Count | Percent | Count | Percent |
| OUTPERFORM [O] | 330 | 56.12 | 144 | 43.64 |
| PERFORM [P] | 251 | 42.69 | 89 | 35.46 |
| UNDERPERFORM [U] | 7 | 1.19 | 3 | 42.86 |

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