

Tokai Pharmaceuticals

(TKAI-NASDAQ)

Stock Rating: Outperform**Industry Rating:** Outperform

November 17, 2014

Jim Birchenough, M.D.**415-591-2129**

BMO Capital Markets Corp

jim.birchenough@bmo.com

Chuck Whitesell / Nick Abbott, PhD / Yanan Zhu, PhD

BMO Capital Markets Corp.

212-885-4120 / 206-542-2492 / 415-591-2141

charles.whitesell@bmo.com / nicholas.abbott@bmo.com /

yanan.zhu@bmo.com

Galeterone on Track for ARMOR3 Initiation

Event

Tokai Pharmaceuticals last week reported quarterly earnings results for the first time since the company's IPO in September. Net loss in 3Q14 was \$6.4 million, and TKAI ended 3Q14 with \$105.5mm in cash. With the primary focus on the company's androgen receptor (AR)-targeting product candidate galeterone, TKAI noted that ARMOR3-SV, a pivotal phase 3 clinical trial in patients with castration-resistant prostate cancer (CRPC) with AR splice variants, remains on track for initiation in 1H15. TKAI also noted that updated interim results from the ongoing phase 2 ARMOR2 study will be presented in an oral session at the 26th EORTC-NCI-AACR Symposium on Molecular Targets and Cancer Therapeutics in Barcelona, Spain on November 19, 2014.

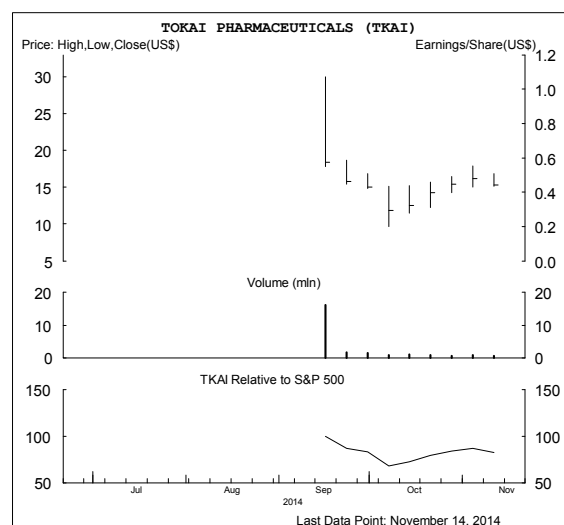
Impact & Analysis

We reiterate our Outperform rating on shares of TKAI following review of 3Q14 operating results. We continue to view lead product galeterone as a highly differentiated, best-in-class androgen blocker in CRPC and expect ARMOR3-PC to establish superiority over XTANDI in patients with splice variant mutations, and typically resistant to available therapy. We expect ARMOR2 update to support durable activity in splice variant patients and further de-risk product development

Valuation & Recommendation

We arrive at our \$28 price target by applying a 20x multiple to our 2020 EPS estimate of \$4.25 and discounting at 30%. We rate TKAI shares Outperform.

Price (14-Nov) \$15.36 **52-Week High** \$30.00
Target Price \$28.00 **52-Week Low** \$9.67



(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	-\$2.97	-\$3.63	-\$5.01↓	-\$0.84
P/E			na	na
CFPS	na	na	na	na
P/CFPS			na	na
Rev. (\$mm)	\$0	\$0	\$0	\$0
EV (\$mm)	na	na	\$256	\$256
EBITDA (\$mm)	-\$10	-\$16	-\$22	-\$23
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2012A	na	na	na	na
2013A	na	na	na	na
2014E	-\$1.03a	-\$1.03a	-\$2.71a	-\$0.25
Dividend	\$0.00			0.0%
Book Value	\$0.90			17.1x
Shares O/S (mm)	21.8			Mkt. Cap (mm)
Float O/S (mm)	6.5			\$335
Wkly Vol (000s)	3,306			Float Cap (mm)
Net Debt (\$mm)	-\$21			\$100
				Wkly \$ Vol (mm)
				\$66.5
				Next Rep. Date
				na

Notes: All values in US\$

First Call Mean Estimates: TOKAI PHARMACEUTICALS INC (US\$)
2014E: \$1.86; 2015E: \$1.25

Changes

Annual EPS

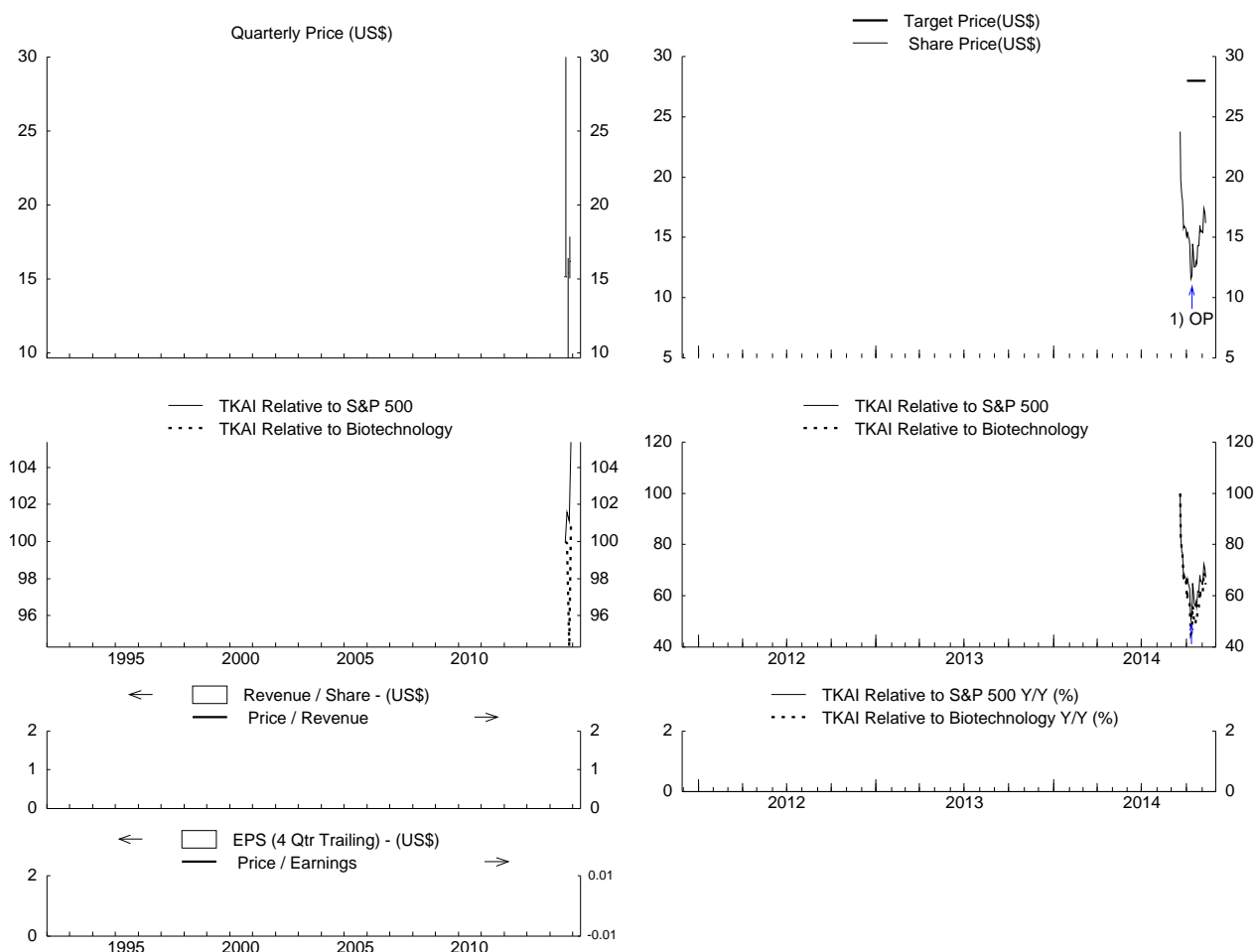
2014E -\$2.55 to -\$5.01

Exhibit 1: TKAI Income Statement 2013A-2020E

INCOME STATEMENT (\$M)	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES												
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72.4	\$ 344.1
Collaboration Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sponsored Research and Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72.4	\$ 344.1
EXPENSES (GAAP)												
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
R&D Expense	12.2	4.0	4.0	2.8	4.0	14.8	16.8	17.6	18.4	24.5	7.2	32.7
SG&A Expense	3.5	1.4	1.4	3.6	1.4	7.8	6.0	6.8	7.6	8.0	20.0	33.0
Other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	\$ 15.7	\$ 5.4	\$ 5.4	\$ 6.4	\$ 5.4	\$ 22.6	\$ 22.8	\$ 24.4	\$ 26.0	\$ 32.5	\$ 55.2	\$ 97.7
Operating Income	\$ (15.7)	\$ (5.4)	\$ (5.4)	\$ (6.4)	\$ (5.4)	\$ (22.6)	\$ (22.8)	\$ (24.4)	\$ (26.0)	\$ (32.5)	\$ 17.1	\$ 246.4
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	\$ (15.7)	\$ (5.4)	\$ (5.4)	\$ (6.4)	\$ (5.4)	\$ (22.6)	\$ (22.8)	\$ (24.4)	\$ (26.0)	\$ (32.5)	\$ 17.1	\$ 246.4
Interest and other income	-	-	-	-	-	-	-	-	-	-	-	-
Interest and other expense	-	-	-	-	-	-	-	-	-	-	-	-
Other Income (Expense)	\$ (0.1)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.1	-	-	-	-	-	-
Interest and Other Income (Expense)	\$ (0.1)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.1	-	-	-	-	-	-
Pre-Tax Income	\$ (15.8)	\$ (5.3)	\$ (5.3)	\$ (6.4)	\$ (5.4)	\$ (22.5)	\$ (22.8)	\$ (24.4)	\$ (26.0)	\$ (32.5)	\$ 17.1	\$ 246.4
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	\$ (15.8)	\$ (5.3)	\$ (5.3)	\$ (6.4)	\$ (5.4)	\$ (22.5)	\$ (22.8)	\$ (24.4)	\$ (26.0)	\$ (32.5)	\$ 17.1	\$ 246.4
EPS (GAAP) (basic)	\$ (3.63)	\$ (1.03)	\$ (1.03)	\$ (2.71)	\$ (0.25)	\$ (5.01)	\$ (0.84)	\$ (0.74)	\$ (0.63)	\$ (0.73)	\$ 0.28	\$ 4.25
EPS (GAAP) (diluted)	\$ (3.63)	\$ (1.03)	\$ (1.03)	\$ (2.71)	\$ (0.25)	\$ (5.01)	\$ (0.84)	\$ (0.74)	\$ (0.63)	\$ (0.73)	\$ 0.28	\$ 4.25
Total of Reconciliation Items	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (10.3)	\$ (5.3)	\$ (5.3)	\$ (6.4)	\$ (5.4)	\$ (22.5)	\$ (22.8)	\$ (24.4)	\$ (26.0)	\$ (32.5)	\$ 17.1	\$ 246.4
Impact of Adjustments to EPS	-	-	-	-	-	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (1.96)	\$ (1.03)	\$ (1.03)	\$ (2.71)	\$ (0.25)	\$ (5.01)	\$ (0.84)	\$ (0.74)	\$ (0.63)	\$ (0.73)	\$ 0.28	\$ 4.25
EPS (Non-GAAP) (diluted)	\$ (1.96)	\$ (1.03)	\$ (1.03)	\$ (2.71)	\$ (0.25)	\$ (5.01)	\$ (0.84)	\$ (0.74)	\$ (0.63)	\$ (0.73)	\$ 0.28	\$ 4.25
Weighted average shares outstanding (basic)	4.4	5.2	5.2	2.4	2.4	8.7	27.0	32.9	41.6	44.6	53.4	57.8
Weighted average shares outstanding (diluted)	4.4	5.2	5.2	2.4	2.4	8.7	27.0	32.9	41.6	44.6	53.3	57.7

Source: Company reports and BMO Capital Markets

TOKAI PHARMACEUTICALS (TKAI)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
Range*:		na na		NC			>15 >15	
Current*	ND	na	0.00	0.0	na	0.9	17.1	na

TKAI - Rating as of 16-Sep-14 = NR

Date	Rating Change	Share Price
1 10-Oct-14	NR to OP	\$11.82

* Current EPS is the 4 Quarter Trailing to Q2/2014.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (November 7, 2014): \$16.18
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology: We arrive at our price target by applying a 20x multiple to our 2020E EPS of \$4.25 discounted 30%.

Risks: There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.3%	18.0%	60.3%	43.9%	56.5%	56.0%
Hold	Market Perform	52.5%	9.7%	38.5%	51.6%	42.1%	39.1%
Sell	Underperform	3.2%	5.3%	1.3%	4.5%	1.4%	4.9%

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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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