

# Tokai Pharmaceuticals

(TKAI-NASDAQ)

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

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## AR Inhibition Only Half the Story

### Event

We are attending the American Association of Cancer Research meeting where earlier today the University of Maryland and Tokai Pharmaceuticals presented encouraging in vitro data for galeterone (galt) in pancreatic cancer (PCA). At a high level, galt inhibits a broad range of signaling pathways associated with oncogenesis above and beyond AR inhibition. At clinically relevant doses, galt inhibits the Mnk1 and Mnk2 kinases, which are required for phosphorylation of eIF4e, a key translational regulator of MAPK and PI3K signaling pathways. Beyond Mnk key effects of galt on NFkB phosphorylation and TWIST translocation into the nucleus contribute to broad activity on key cancer pathways. Data show galt activity as a monotherapy in resistant PCA cell lines, but importantly, galt demonstrates synergy with gemcitabine where galt can re-sensitize tumors cells. One important mechanism of action for galt is inhibition of matrix metalloproteinase production, which is induced by gemcitabine and contributes to metastasis. Confirmatory trials of galt in relevant in vivo models are planned.

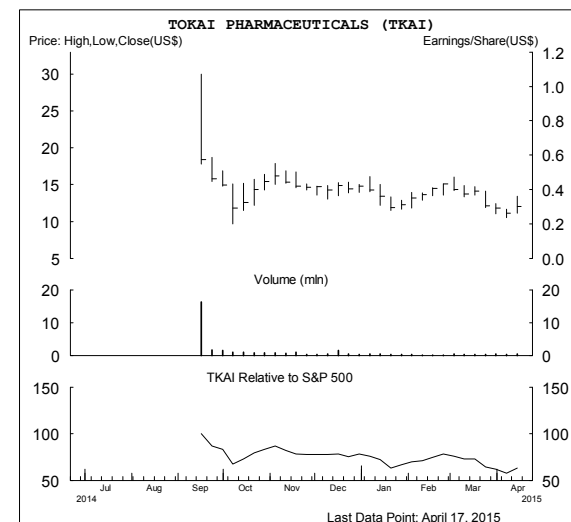
### Impact & Analysis

We are reiterating our Outperform rating on the shares of TKAI following review of new mechanistic data for galeterone suggesting broader activity beyond AR inhibition in prostate Ca. With inhibition of key pathways in pancreatic Ca, we note that these pathways are important in triple negative breast cancer (TNBC) as well as in Taxotere resistance. Overall, we view galeterone as a differentiated AR antagonist and continue to expect superiority to be demonstrated in patients with ARV7 mutation. With a potential to broaden development into other solid tumors, we see galeterone as a high-value oncology asset not reflected in current valuation, and would buy TKAI shares ahead of continued late-stage 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 (20-Apr)** \$11.97 **52-Week High** \$30.00  
**Target Price** \$28.00 **52-Week Low** \$9.67

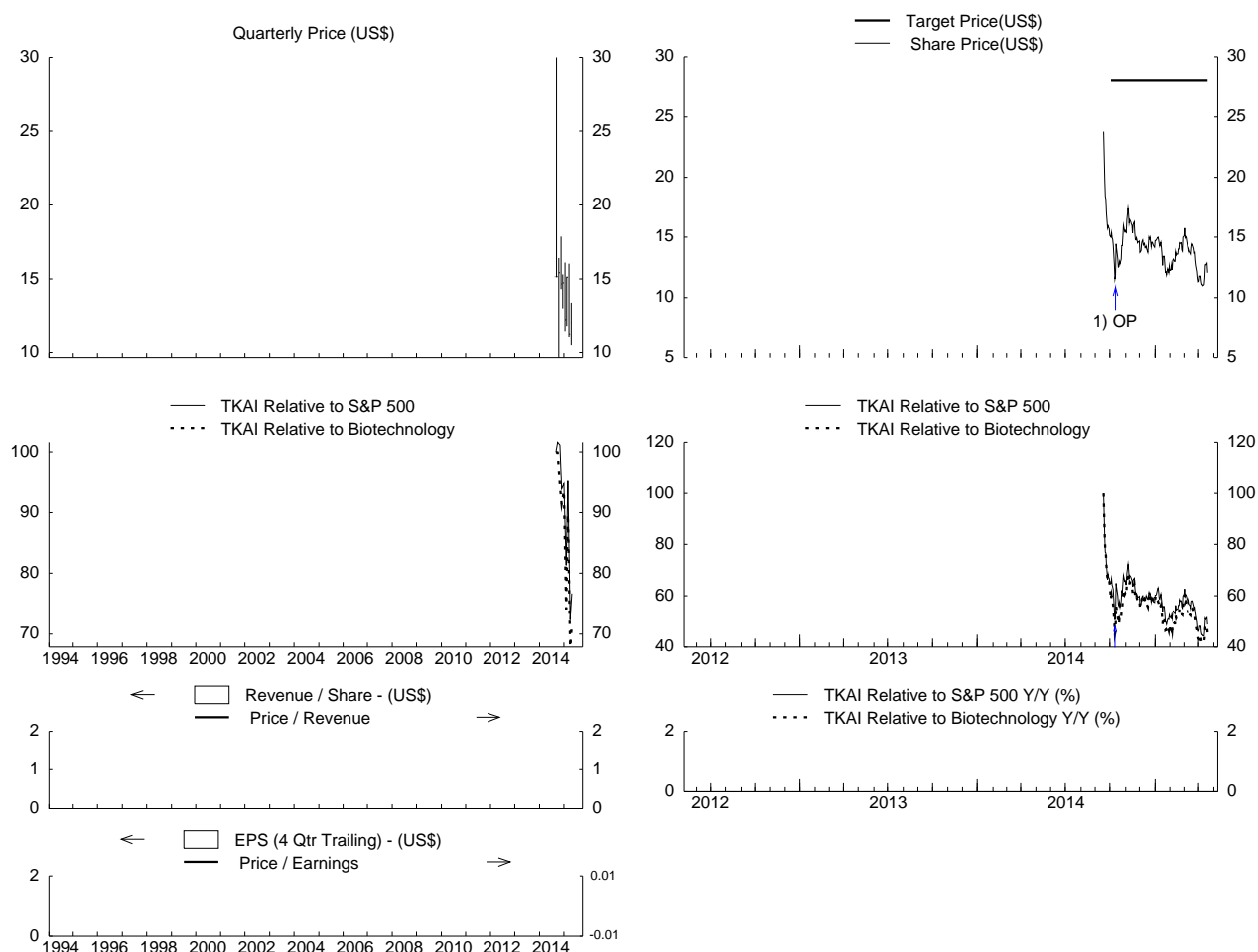


(FY-Dec.)	2013A	2014A	2015E	2016E
EPS	-\$3.63	-\$3.60	-\$0.84	-\$0.74
P/E			na	na
CFPS	na	na	na	na
P/CFPS			na	na
Rev. (\$mm)	\$0	\$0	\$0	\$0
EV (\$mm)	na	\$256	\$256	\$256
EBITDA (\$mm)	-\$16	-\$23	-\$23	-\$24
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	na	na	na	na
2014A	-\$1.03	-\$1.03	-\$2.71	-\$0.28
2015E	-\$0.21	-\$0.21	-\$0.21	-\$0.21
Dividend	\$0.00			0.0%
Book Value	\$0.90			13.3x
Shares O/S (mm)	22.3			Mkt. Cap (mm)
Float O/S (mm)	6.5			\$267
Wkly Vol (000s)	1,136			Float Cap (mm)
Net Debt (\$mm)	-\$21			\$78
				Wkly \$ Vol (mm)
				\$20.9
				Next Rep. Date
				na

Notes: All values in US\$

First Call Mean Estimates: TOKAI PHARMACEUTICALS INC (US\$)  
2015E: -\$1.40; 2016E: -\$1.67

## TOKAI PHARMACEUTICALS (TKAI)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
2014	-3.60	na na	0.00	0.0 0.0	0	-2.5	-11.9 -3.8	
Range*		na na		0.0 0.0			-11.9 -3.8	
Current*	ND	na	0.00	0.0	na	0.9	12.6	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 Q4/2014.  
 \* Valuation metrics are based on high and low for the fiscal year.  
 \* Range indicates the valuation range for the period presented above.

Last Price ( April 17, 2015): \$12.06  
 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%.

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**Distribution of Ratings (March 31, 2015)**

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.7%	18.6%	58.2%	42.7%	55.5%	54.1%
Hold	Market Perform	51.4%	10.4%	38.5%	52.1%	41.9%	40.5%
Sell	Underperform	4.9%	9.4%	3.3%	5.2%	2.6%	5.5%

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(S) = speculative investment;

NR = No rating at this time;

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