

Kite Pharma (KITE)

Rating	OUTPERFORM* [V]
Price (15 May 15, US\$)	50.02
Target price (US\$)	79.00 ¹
52-week price range	87.62 - 21.39
Market cap. (US\$ m)	2,153.83
Enterprise value (US\$ m)	1,970.55

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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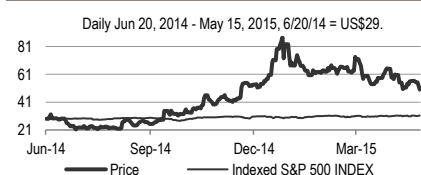
EARNINGS

Q1 Earnings In-Line: First Patient to be Dosed in Initial Pivotal Study Soon

KITE is on track to start its first pivotal study for KTE-C19 in DLBCL, PMBCL, and TFL in the coming weeks. KITE also anticipates initiating other registration enabling studies for KTE-C19 for three more indications later this year. The safety data, and potentially early efficacy data, from the initial six patients will be available at ASH in December. Our 2015 EPS est decreases to (\$1.71) from \$1.15 and our 2016 EPS est increases to \$0.72 from (\$2.22) with the slight push of our projected ex-US partnership upfront payment.

- **Flexibility for ex-US deal:** KITE ended Q1:15 with \$429M cash and cash equivalents, and it expects the current cash position to last into 2017. We pushed our projected ex-US partnership upfront from late 2015 to mid:16. Given its high cash balance and the recent geographic expansion with the T cell Factory acquisition, we believe KITE can wait for more "value-creating" data from the KTE-C19 program before entering an ex-US partnership.
- **New manufacturing method to be examined in upcoming studies:** Validation of this process is essential for KTE-C19 approval, and we believe there is little reason to be cautious about the new methodology. The ASH data release will provide the first look at the new process in the clinic.
- **Data for multiple TCR based therapy in 2016:** KITE anticipates data for up to five TCR based therapies next year. Therapies utilizing this technology are more likely to drive better efficacy in solid tumors than CAR-T based therapies. We will also look for any developments from the TCR neo-antigen approach being examined by Dr. Rosenberg.

Share price performance



On 05/15/15 the S&P 500 INDEX closed at 2122.73

Quarterly EPS	Q1	Q2	Q3	Q4
2014A	-0.66	-2.27	-0.24	-0.33
2015E	-0.36	-0.36	-0.43	-0.57
2016E	-0.52	2.21	-0.55	-0.54

Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (US\$)	-1.91	-1.71	0.72	-2.01
Prev. EPS (US\$)	—	1.15	-2.22	-2.08
P/E (x)	-26.1	-29.2	69.3	-24.8
P/E rel. (%)	-144.2	-163.2	436.5	-175.1
Revenue (US\$ m)	—	14.1	142.5	53.4
EBITDA (US\$ m)	-36.4	-72.9	35.0	-92.9
OCFPS (US\$)	-0.56	0.09	1.54	-0.87
P/OCF (x)	-103.3	576.7	32.4	-57.3
EV/EBITDA (current)	-53.4	-26.7	55.6	-20.9
Net debt (US\$ m)	-209	-183	-453	-378
ROIC (%)	-23.91	-54.36	20.76	-44.90
Number of shares (m)	43.06	IC (current, US\$ m)		153.29
BV/share (Next Qtr., US\$)	8.3	EV/IC (x)		18.4
Net debt (Next Qtr., US\$ m)	-249.9	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	-70.7	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

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Exhibit 1: KITE Newsflow

Product	Catalyst	Expected Date
KTE-C19	Initiate Pivotal Phase I/II trial in DLBCL 3rd line+	Q2:15
KTE-C19	Clear initial safety review	mid:15
KTE-C19	Potential Breakthrough Therapy Designation	H2:15
KTE-C19	Begin registration trials in other indications	H2:15
Various	Updated data from various NCI trials	2015
ND	File IND for second product	Late 2015
KTE-C19	Complete enrollment in Phase I/II 3rd line	Early 2016
KTE-C19	Initial results from Phase I/II 3rd line DLBCL trial	Mid-2016
KTE-C19	Start trial for 2nd line DLBCL	2016
KTE-C19	BLA submission for KTE-C19 in DLBCL	Q4:16

Source: Company data, Credit Suisse estimates

Exhibit 2: KITE Q1 Variance Table

Income Statement	1Q:15 Act.	CS 1Q:15	
		Est	Delta
Revenues			\$ -
Total Revenues	\$ 2.9	\$ 3.0	\$ (0.1)
Expenses	\$ -	\$ -	\$ -
Cost of goods	\$ -	\$ -	\$ -
Research and development	\$ 9.3	\$ 12.0	\$ (2.7)
Sales, general, administrative	\$ 9.2	\$ 5.5	\$ 3.7
Total Operating Expenses	\$ 18.4	\$ 17.5	\$ 0.9
Operating income (loss)	\$ (15.6)	\$ (14.5)	\$ (1.1)
Total Other Income (Expense)	\$ 0.5	\$ 0.1	\$ 0.4
Pre Tax Income	\$ (15.1)	\$ (14.4)	\$ (0.7)
Income tax	\$ -	\$ -	\$ -
Net Income	\$ (15.1)	\$ (14.4)	\$ (0.7)
			\$ -
EPS - basic (proforma)	\$ (0.36)	\$ (0.34)	\$ (0.0)
EPS - diluted (proforma)	\$ (0.36)	\$ (0.34)	\$ (0.0)
			\$ -
Shares outstanding - basic (proforma)	\$ -	\$ -	\$ -

Source: Company data, Credit Suisse estimates

Exhibit 3: KITE Earnings Model

	2012A	2013A	2014A	Q1:15A	Q2:15E	Q3:15E	Q4:15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues															
US sales of KTE-C19										38.4	122.5	278.8	425.7	512.4	577.0
Ex-US royalties on KTE-C19											3.5	13.8	37.6	57.5	69.2
Other CAR or TCR program(s)												21.0	70.0	140.0	142.8
Partnering revenue and milestones								14.1	142.5	15.0	155.0				
Ex-US royalties on other CAR or TCR												1.1	4.2	14.0	17.1
Total Revenues				2.9	3.8	3.8	3.8	14.1	142.5	53.4	281.0	314.6	537.5	723.9	806.1
Expenses															
Cost of goods											25.9	51.7	77.7	92.2	102.3
Research and development	1.8	5.1	23.1	9.3	11.0	13.0	18.0	51.3	77.0	85.0	89.0	93.0	97.0	101.0	105.0
Sales, general, administrative	0.8	1.3	13.6	9.2	8.0	9.0	10.0	36.2	36.0	52.6	77.5	85.5	90.5	95.5	100.5
Total Operating Expenses	2.6	6.4	36.7	18.4	19.0	22.0	28.0	87.4	113.0	146.7	192.4	230.2	265.2	288.7	307.8
Operating income (loss)	(2.6)	(6.4)	(36.7)	(15.6)	(15.3)	(18.3)	(24.3)	(73.3)	34.6	(93.4)	88.6	84.5	272.3	435.2	498.3
Total Other Income (Expense)	0.0	0.1	(5.9)	0.5	0.1	0.1	0.1	0.7	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Pre Tax Income	(2.6)	(6.4)	(42.6)	(15.1)	(15.2)	(18.2)	(24.2)	(72.6)	34.8	(93.2)	88.8	84.7	272.6	435.5	498.6
Income tax													95.4	152.4	174.5
Net Income	(2.6)	(6.4)	(42.6)	(15.1)	(15.2)	(18.2)	(24.2)	(72.6)	34.8	(93.2)	88.8	84.7	177.2	283.1	324.1
EPS - basic	(\$0.46)	(\$1.16)	(\$1.91)	(\$0.36)	(\$0.36)	(\$0.43)	(\$0.57)	(\$1.71)	\$0.81	(\$2.01)	\$1.91	\$1.80	\$3.72	\$5.88	\$6.67
EPS - diluted	(\$0.46)	(\$1.16)	(\$1.91)	(\$0.36)	(\$0.36)	(\$0.43)	(\$0.57)	(\$1.71)	\$0.72	(\$2.01)	\$1.72	\$1.62	\$3.36	\$5.32	\$6.03
Shares outstanding - basic	5.59	5.47	22.82	42.47	42.30	42.41	42.51	42.42	43.14	46.24	46.60	47.16	47.63	48.10	48.58
Shares outstanding - diluted	5.59	5.47	30.59	42.47	46.90	47.02	47.13	45.88	48.18	50.92	51.63	52.14	52.66	53.19	53.72

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 15-May-2015)

Kite Pharma (KITE.OQ, \$50.02, OUTPERFORM[V], TP \$79.0)

Disclosure Appendix

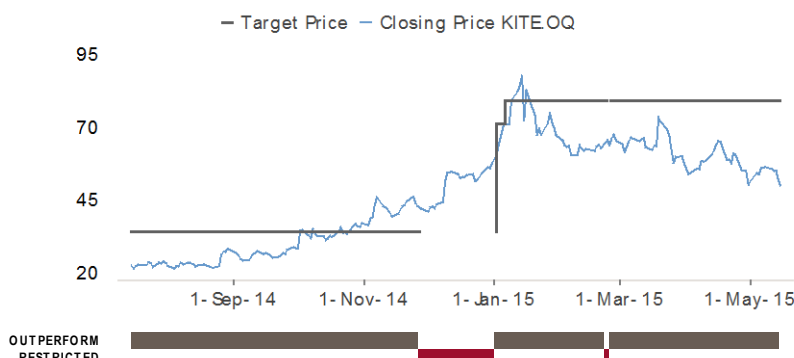
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3-Year Price and Rating History for Kite Pharma (KITE.OQ)

KITE.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
15-Jul-14	22.51	34.00	O *
27-Nov-14	42.96		R
02-Jan-15	60.61	71.00	O
06-Jan-15	71.45	79.00	
23-Feb-15	65.54		R
25-Feb-15	65.89	79.00	O
05-May-15	53.77	79.00	*

* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	16%	(43% banking clients)
Restricted	3%	

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Price Target: (12 months) for Kite Pharma (KITE.OQ)

Method: Our \$79 target includes DCF valuation of KTE-C19 and \$1800M for its pipeline/technology value. We model a 2017 launch, \$213,000 net price, \$30,000-\$40,000 cost of goods, 20% penetration in third line DLBCL (18% in other B-cell indications), and a 70% probability of success.

Risk: Risks to our \$79 target are (1) unexpected safety signal in the ongoing Phase I/II and proposed pivotal study for KTE-C19, (2) better than expected clinical data from competitive CD19 targeting agents, (3) manufacturing risk for KTE-C19 and other CAR and TCR agents, and (4) financing risk.

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