

# Kite Pharma Inc KITE (NAS) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
58.96 USD	70.00 USD	35.00 USD	122.50 USD	Very High	None	Positive	Standard	Biotechnology

## Broad Deal With Juno Adds to Celgene's Immuno-Oncology Push and Affirms Potential of CAR-T

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The primary analyst covering this company does not own its stock.

Research as of 30 Jun 2015  
Estimates as of 18 May 2015  
Pricing data through 29 Jun 2015  
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Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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### Analyst Note 30 Jun 2015

We're maintaining our fair value estimate of \$109 per share for Celgene following the announcement of a \$1 billion strategic collaboration with Juno Therapeutics to develop and commercialize Juno's chimeric antigen receptor technology and T cell receptor technology to target cancer and autoimmune diseases. Juno is widely viewed a leader in the increasingly crowded CAR-T and TCR space and has demonstrated compelling early-stage data in a number of hematological cancers with its CAR-T programs targeting CD19. We view the deal as a clear affirmation of the potential of these emerging technologies, both for Juno and other players, such as Kite Pharma. We continue to think that Celgene's narrow moat--built on the dominance of blood cancer drug Revlimid--is expanding, and this deal, along with Celgene's other recent immuno-oncology collaboration with AstraZeneca, supports the firm's pipeline for post-2020 growth.

Under the terms of the deal, Celgene will make an initial payment of approximately \$1 billion, primarily through the purchase of 9.1 million shares of Juno at \$93 each, a 100% premium to its previous closing price of \$46.30 per share. In return, Celgene receives the option to be the commercialization partner for Juno's oncology and cell therapy auto-immune product candidates outside North America and copromote certain programs globally. Juno's most advanced CAR-T candidates, which target CD19 and CD22, are excluded from the global copromotion option. During the 10-year term of the collaboration, Celgene will have the right to purchase as much as 30% of Juno's stock and will also be able to nominate a member to Juno's board of directors.

### Vital Statistics

Market Cap (USD Mil)	2,539
52-Week High (USD)	89.21
52-Week Low (USD)	21.00
52-Week Total Return %	101.0
YTD Total Return %	2.2
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	NM
5-Yr Forward EPS CAGR %	—
Price/Fair Value	0.84

### Valuation Summary and Forecasts

Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings	—	NM	NM	NM
EV/EBITDA	—	NM	NM	NM
EV/EBIT	—	NM	NM	NM
Free Cash Flow Yield %	—	-0.8	-1.0	-2.8
Dividend Yield %	—	—	—	—

### Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue	—	—	19	20
Revenue YoY %	—	—	NM	8.1
EBIT	-6	-37	-87	-120
EBIT YoY %	146.4	470.3	136.0	38.7
Net Income, Adjusted	-8	-44	-87	-120
Net Income YoY %	203.7	458.5	98.2	38.7
Diluted EPS	-1.43	-1.91	-2.03	-2.82
Diluted EPS YoY %	194.9	34.0	6.4	38.7
Free Cash Flow	-6	-29	-70	-153
Free Cash Flow YoY %	110.7	384.6	139.0	118.0

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Kite Pharma is a clinical-stage biopharmaceutical company engaged in the development of novel cancer immunotherapy products. In partnership with the National Cancer Institute Surgery Branch through a cooperative research and development agreement, Kite is advancing a pipeline of proprietary product candidates, both chimeric antigen receptor and T-cell receptor products, directed to a wide range of cancer indications. The company also has a strategic collaboration with Amgen to develop and commercialize next-generation CAR-T therapies.

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## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					
		2012	2013	2014	2015	2016	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	—	—	—	—	NM	8.1	NM
EBIT	—	—	146.4	470.3	136.0	38.7	—
EBITDA	—	—	146.6	467.8	136.9	38.8	—
Net Income	—	—	203.7	458.5	98.2	38.7	—
Diluted EPS	—	—	194.9	34.0	6.4	38.7	—
Earnings Before Interest, after Tax	—	—	143.4	374.6	184.2	38.7	—
Free Cash Flow	—	—	110.7	384.6	139.0	118.0	—
	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Profitability							
Operating Margin %	—	—	-642,734,700	-3,665,800,000	-467.6	-600.0	-361.0
EBITDA Margin %	—	—	-641,055,700	-3,639,600,000	-466.1	-598.6	-360.1
Net Margin %	—	—	-781,452,300	-4,364,500,000	-467.6	-600.1	-361.7
Free Cash Flow Margin %	—	—	NM	NM	NM	NM	NM
	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Leverage							
Debt/Capital	—	—	—	—	—	—	—
Total Debt/EBITDA	—	—	—	—	—	—	—
EBITDA/Interest Expense	-1,468.37	-2,599.59	-1,799.71	-5.81	—	—	—

### Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	—	—	—	—
Price/Earnings	—	NM	NM	NM
EV/EBITDA	—	NM	NM	NM
EV/EBIT	—	NM	NM	NM
Free Cash Flow Yield %	—	-0.8	-1.0	-2.8
Dividend Yield %	—	—	—	—

### Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	9.0
Long-Run Tax Rate %	32.5
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	20.0
Perpetuity Year	11

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

### Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	293	10.8	6.90
Present Value Stage II	155	5.7	3.65
Present Value Stage III	2,265	83.5	53.26
<b>Total Firm Value</b>	<b>2,713</b>	<b>100.0</b>	<b>63.81</b>
Cash and Equivalents	367	—	8.63
Debt	—	—	—
Preferred Stock	—	—	—
Other Adjustments	-217	—	-5.09
<b>Equity Value</b>	<b>2,864</b>	<b>—</b>	<b>67.35</b>

Projected Diluted Shares

43

Fair Value per Share (USD)

—

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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## Morningstar Analyst Forecasts

### Income Statement (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
<b>Revenue</b>	—	—	—	<b>19</b>	<b>20</b>
Cost of Goods Sold	—	—	—	—	—
<b>Gross Profit</b>	—	—	—	<b>19</b>	<b>20</b>
Selling, General & Administrative Expenses	1	1	14	40	50
Research & Development	2	5	23	65	90
Other Operating Expense (Income)	0	—	—	—	—
Depreciation & Amortization (if reported separately)	—	—	—	—	—
<b>Operating Income (ex charges)</b>	<b>-3</b>	<b>-6</b>	<b>-37</b>	<b>-87</b>	<b>-120</b>
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	0	0	0	—	—
<b>Operating Income (incl charges)</b>	<b>-3</b>	<b>-6</b>	<b>-37</b>	<b>-87</b>	<b>-120</b>
Interest Expense	0	0	6	—	—
Interest Income	0	0	0	—	—
<b>Pre-Tax Income</b>	<b>-3</b>	<b>-6</b>	<b>-43</b>	<b>-87</b>	<b>-120</b>
Income Tax Expense	—	—	—	—	—
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	-1	-1	—	—
<b>Net Income</b>	<b>-3</b>	<b>-8</b>	<b>-44</b>	<b>-87</b>	<b>-120</b>
Weighted Average Diluted Shares Outstanding	5	5	23	43	43
<b>Diluted Earnings Per Share</b>	<b>-0.49</b>	<b>-1.43</b>	<b>-1.91</b>	<b>-2.03</b>	<b>-2.82</b>
Adjusted Net Income	-3	-8	-44	-87	-120
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>-0.48</b>	<b>-1.43</b>	<b>-1.91</b>	<b>-2.03</b>	<b>-2.82</b>
Dividends Per Common Share	—	—	—	—	—
<b>EBITDA</b>	<b>-3</b>	<b>-6</b>	<b>-36</b>	<b>-86</b>	<b>-120</b>
<b>Adjusted EBITDA</b>	<b>-3</b>	<b>-6</b>	<b>-36</b>	<b>-86</b>	<b>-120</b>

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## Morningstar Analyst Forecasts

### Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Cash and Equivalents	9	22	367	297	144
Investments	—	—	—	—	—
Accounts Receivable	—	—	—	1	1
Inventory	—	—	—	—	—
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	0	0	1	1	1
<b>Current Assets</b>	<b>9</b>	<b>23</b>	<b>368</b>	<b>299</b>	<b>146</b>
Net Property Plant, and Equipment	0	0	2	20	30
Goodwill	—	—	—	5	5
Other Intangibles	—	—	—	13	13
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	—	—	—	—	—
Long-Term Non-Operating Assets	0	0	0	0	0
<b>Total Assets</b>	<b>9</b>	<b>23</b>	<b>371</b>	<b>337</b>	<b>194</b>
Accounts Payable	0	0	2	13	14
Short-Term Debt	—	—	—	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	0	1	4	24	23
<b>Current Liabilities</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>37</b>	<b>36</b>
Long-Term Debt	—	—	—	—	—
Deferred Tax Liabilities (Long-Term)	—	—	—	—	—
Other Long-Term Operating Liabilities	0	0	0	23	—
Long-Term Non-Operating Liabilities	0	—	1	1	1
<b>Total Liabilities</b>	<b>1</b>	<b>1</b>	<b>8</b>	<b>61</b>	<b>38</b>
Preferred Stock	—	0	—	—	—
Common Stock	0	0	0	0	0
Additional Paid-in Capital	0	37	421	421	421
Retained Earnings (Deficit)	-6	-15	-58	-145	-265
(Treasury Stock)	—	—	—	—	—
Other Equity	14	—	0	0	0
<b>Shareholder's Equity</b>	<b>8</b>	<b>22</b>	<b>363</b>	<b>276</b>	<b>156</b>
Minority Interest	—	—	—	—	—
<b>Total Equity</b>	<b>8</b>	<b>22</b>	<b>363</b>	<b>276</b>	<b>156</b>

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## Morningstar Analyst Forecasts

### Cash Flow (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Net Income	-3	-6	-43	-87	-120
Depreciation	0	0	0	0	0
Amortization	—	—	—	—	—
Stock-Based Compensation	0	0	16	48	59
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	—	—	6	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-1	0
(Increase) Decrease in Inventory	—	—	—	—	—
Change in Other Short-Term Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	—	—	2	10	1
Change in Other Short-Term Liabilities	0	1	1	20	-2
<b>Cash From Operations</b>	<b>-3</b>	<b>-6</b>	<b>-17</b>	<b>-9</b>	<b>-61</b>
(Capital Expenditures)	0	0	-2	-15	-10
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	-21	—
Net Sales (Purchases) of Investments	—	—	-158	—	—
Other Investing Cash Flows	—	—	—	22	-23
<b>Cash From Investing</b>	<b>0</b>	<b>0</b>	<b>-160</b>	<b>-14</b>	<b>-33</b>
Common Stock Issuance (or Repurchase)	0	—	338	—	—
Common Stock (Dividends)	—	—	—	—	—
Short-Term Debt Issuance (or Retirement)	—	—	—	—	—
Long-Term Debt Issuance (or Retirement)	—	—	50	—	—
Other Financing Cash Flows	0	20	-24	-48	-59
<b>Cash From Financing</b>	<b>0</b>	<b>20</b>	<b>364</b>	<b>-48</b>	<b>-59</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	20	—	—	—
<b>Net Change in Cash</b>	<b>-3</b>	<b>33</b>	<b>187</b>	<b>-70</b>	<b>-153</b>

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**Price/Fair Value** Morningstar data as of Jun 29, 2015



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