

US Equity Research

26 March 2015

BUY

unchanged

PRICE TARGET US\$90.00

unchanged

Price (26-Mar) US\$60.12

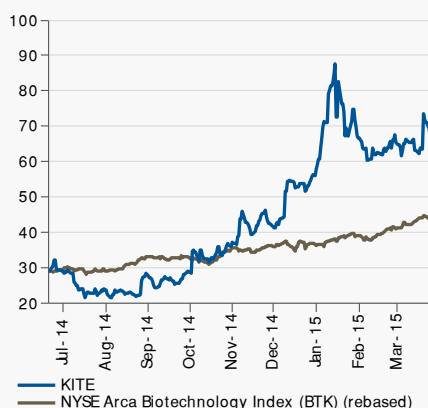
Ticker KITE-NASDAQ

52-Week Range (US\$): 21.00 - 89.21
 Avg Daily Vol (M) : 723.8
 Shares Out. (M) : 38.3
 Market Cap (US\$M): 2,304

FYE Dec	2013A	2014A	2015E
Revenue (US\$M)	0.0	0.0	0.0
EPS Adj&Dil (US\$)	(1.42)	(1.91)↓	(1.65)↓
Previous	(1.42)	(1.70)	(1.30)

Quarterly Revenue	Q1	Q2	Q3	Q4
2013A	-	-	-	-
2014A	0.0	0.0	0.0	0.0
2015E	0.0	0.0	0.0	0.0

Quarterly EPS Adj&Dil	Q1	Q2	Q3	Q4
2013A	-	-	-	-
2014A	(0.66)	(2.27)	(0.24)	(0.33)
2015E	(0.42)	(0.41)	(0.42)	(0.40)



Source: FactSet

Kite Pharma is focused on development of novel cancer immunotherapy using engineered autologous cell therapy (eACT).

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Company Update

Updates full 2014 results; recent TCF acquisition establishes KITE presence in EU; TCR moves forward

Recent Netherlands acquisition gains talent and EU presence for KITE

The recent acquisition of Netherlands-based TCF adds to KITE's continued expansion of manufacturing facilities (with recent lease agreements in California), which we believe will give the company's CART/TCR technology platform a positive European presence. Additionally, the deal brings two top European thought leaders in the immunotherapy space and establishes KITE with the Netherlands Cancer institute (NKI), with similar licensing agreements with the NKI for any new TCRs developed at NKI. We believe this acquisition is positive since this sets the company up well to start clinical studies in the EU and allows KITE to retain worldwide rights for its CD19 platform.

TCR platform moves forward in HPV, NY-ESO-1 interesting

KITE is advancing a broad pipeline of TCR-based product candidates, particularly HPV-16 E6 antigens against cervical and head and neck cancers, MAGE, and NY-ESO-1 against various tumors. We find NY-ESO-1 an interesting target, since data by Rosenberg and colleagues already reported 66% objective response rates with this TCR in synovial carcinoma and 45% in melanoma.

CART glioblastoma trial in progress, await timing

NCI continues to test EGFRvIII CART therapy in glioblastoma, although ultimate timing on data here remains unclear. Assuming positive results, we would expect a large increase in share value. We remind investors that standard treatment, involving resection, radiation, and chemotherapy, maintains a median overall survival of only 14.6 months, while relapsed/refractory GBM is limited to only supportive care. Bevacizumab was previously studied in 154 randomized patients, but overall response rates were moderate (37.8%) and median survival was only ~9 months, making this disease an area of high unmet medical need (Kreisl et al 2011).

Maintain BUY, \$90 PT

We maintain our BUY rating and \$90 price target based on a probability-adjusted NPV valuation. We adjust our 2015 EPS estimates based on company's updated 2014 FY results.

Figure 1: KITE income statement

(\$000's) (FY - DEC)	2012 A	2013A	1Q14A	2Q14A	3Q14A	4Q14A	2014A	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues																	
CAR T																	
US			-	-	-	-	-	-	-	-	-	-	-	263,453	795,983	1,176,814	1,255,539
Ex-US			-	-	-	-	-	-	-	-	-	-	-	179,806	516,481	800,327	1,031,009
Ex-US royalty			-	-	-	-	-	-	-	-	-	-	-	26,971	77,472	120,049	154,651
Total revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	290,423	873,455	1,296,863	1,410,191
Income Statement (\$000's)																	
Total revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	290,423	873,455	1,296,863	1,410,191
Cost of goods sold	-	-	-	-	-	-	-	-	-	-	-	-	-	52,691	159,197	235,363	251,108
Gross profit	-	-	-	-	-	-	-	-	-	-	-	-	-	237,733	714,259	1,061,500	1,159,083
Operating expenses																	
Research and Development	1,802	5,071	2,092	7,424	5,716	7,857	23,089	11,936	11,936	12,055	12,175	48,102	49,064	61,329	76,662	95,827	119,784
SG&A	770	1,339	1,070	3,716	3,385	5,398	13,569	5,452	5,506	5,562	5,617	22,137	23,244	23,477	24,416	25,392	26,408
Depreciation and amortization	9	17	30	48	74	112	264					-					
Total Operating Expense	2,581	6,427	3,162	11,140	9,101	13,255	36,658	17,388	17,442	17,616	17,793	70,239	72,308	84,806	101,077	121,219	146,192
EBITDA	(2,572)	(6,410)	(3,162)	(11,140)	(9,101)	(13,255)	(36,658)	(17,388)	(17,442)	(17,616)	(17,793)	(70,239)	(72,308)	152,927	613,181	940,281	1,012,891
Operating income (EBIT)	(2,581)	(6,427)	(3,162)	(11,140)	(9,101)	(13,255)	(36,658)	(17,388)	(17,442)	(17,616)	(17,793)	(70,239)	(72,308)	152,927	613,181	940,281	1,012,891
Non-operating income																	
Non-operating Interest income	36	52	7.00	48	61	242	358	757	696	626	631	2,711	2,350	3,195	7,271	14,595	23,777
Other income/interest expense	(27)	13	14	(6,266)	(11)	(6)	(6,269)										
Pre-tax income (EBT)	(2,571)	(6,362)	(3,141)	(17,358)	(9,051)	(13,019)	(42,569)	(16,630)	(16,747)	(16,990)	(17,161)	(67,528)	(69,958)	156,122	620,452	954,876	1,036,668
Provision for Income Taxes																	
Provision for Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	57,765	229,567	353,304	383,567
Net Income	(2,571)	(6,362)	(3,141)	(17,358)	(9,051)	(13,019)	(42,569)	(16,630)	(16,747)	(16,990)	(17,161)	(67,528)	(69,958)	98,357	390,885	601,572	653,101
Preferred Dividends		1,436	557	532			1,089										
Net Income to Common Shareholders	(2,571)	(7,797)	(3,698)	(17,890)	(9,051)	(13,019)	(43,658)										
Adjustments to Net income																	
GAAP EPS	(0.48)	(1.42)	(0.66)	(2.27)	(0.24)	(0.33)	(\$1.91)	(\$0.42)	(\$0.41)	(\$0.42)	(\$0.40)	(\$1.65)	(\$1.65)	\$2.09	\$7.40	\$10.17	\$9.86
Adjusted EPS excl options expense																	
Diluted Weighted Average Shares	5,314,214	5,473,384	5,571,499	7,890,029	38,330,026	38,959,942	22,822,204	39,739,141	40,533,924	40,939,263	42,491,513	40,925,960	42,458,765	47,145,164	52,802,584	59,138,894	66,235,561

Source: Company Reports, Canaccord Genuity estimates

Figure 2: KITE Valuation

Product	Peak Sales/Royalty (\$MM)	Year	NPV at launch	Estimated launch	Time to launch	Probability Adjustment	Current Value (\$MM)	Value / Share
KTE-C19								
US								
DLBCL US	\$691	2020	\$2,893	10/1/2017	2.5	70%	\$1,550	\$40
CLL US	\$83	2021	\$315	10/1/2018	3.5	60%	\$130	\$3
ALL US	\$195	2021	\$961	10/1/2018	3.5	65%	\$430	\$11
FL US	\$165	2021	\$721	10/1/2018	3.5	60%	\$298	\$8
MCL US	\$164	2021	\$717	10/2/2018	3.5	60%	\$296	\$8
US - total	\$1,298	2020	\$5,607	10/1/2018	3.5	60%	\$2,316	\$69
Ex-US								
DLBCL royalty Ex-US	\$53	2020	\$503	6/1/2018	3.2	70%	\$251	\$6
CLL royalty Ex-US	\$6	2021	\$56	6/1/2019	4.2	60%	\$22	\$1
ALL royalty Ex-US	\$15	2021	\$141	6/1/2019	4.2	65%	\$59	\$2
FL royalty Ex-US	\$13	2021	\$109	6/2/2019	4.2	60%	\$42	\$1
MCL royalty Ex-US	\$12	2021	\$108	6/3/2019	4.2	60%	\$42	\$1
Ex-US - royalty - total	\$99	2020	\$986	6/1/2018	3.2	60%	\$422	\$11
Total Product Value							\$3,126	\$80
Cash							\$400	\$10.3
Total Equity Value							\$3,526	\$90
Shares Outstanding (MM)							39	

Risk-Free Rate	3.0%
Beta	1.8
Risk Premium	5%
Discount Rate	11%

Source: Company Reports, Canaccord Genuity estimates

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Target Price / Valuation Methodology:

Kite Pharma - KITE

Our target price is \$90 based on a probability adjusted NPV valuation.

Risks to achieving Target Price / Valuation:

Kite Pharma - KITE

Although NCI is conducting a phase 1-2a trial of anti-CD19 CAR T-cell therapy, KITE's KTE-C19 trial has not begun. Any delays or significant negative results from NCI's clinical trials could negatively affect Kite's IND application and delay the timing to start their own phase 1-2 clinical trial. KITE is highly dependent on the third parties for R&D and early clinical testing of CAR and TCR product candidates. These collaborations related to the intellectual property licensed from the NIH relating to product candidates targeting the EGFRvIII antigen, the SSX2 antigen and the NY-ESO-1 antigen and from Cabaret for intellectual property relating to KTE-C19. The differences in manufacturing compared to NCI may render the product incomparable, particularly with respect to clinical trials, which could negatively affect our valuation. Although plans for manufacturing and processing is based on current approach undertaken by the NCI, the company cannot ensure that even minor changes in the product process will not result in significantly different T-cells that may not have similar efficacy or toxicity. KTE-C19 could fail in clinical studies, resulting in significant downside to our price target and shares of the stock. Kite faces significant competition from other biotechnology and pharmaceutical companies in the space of immunotherapy, including Novartis, Juno, Bluebird, Cellectis and Adaptimmune, as well as companies developing novel targeted therapies for cancer.

Distribution of Ratings:

Global Stock Ratings (as of 03/26/15)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	573	57.94%	33.16%
Hold	329	33.27%	18.24%
Sell	38	3.84%	0%
Speculative Buy	49	4.95%	57.14%
	989*	100.0%	

*Total includes stocks that are Under Review

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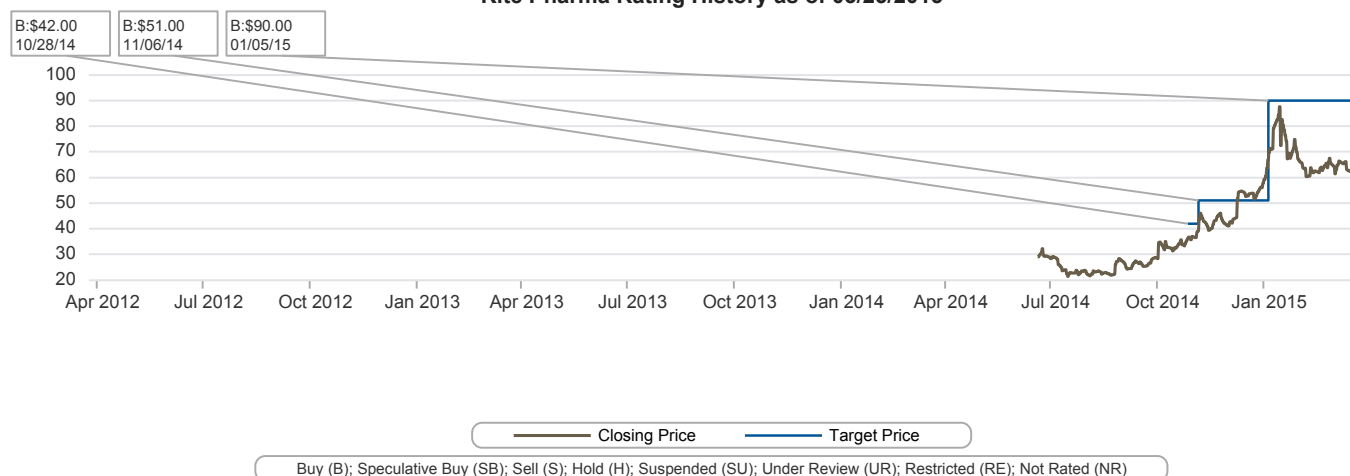
SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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