

Kite Pharma (KITE)

SMALL & MID CAP RESEARCH

Q2 Earnings: Continued Operational Progress

KITE reported its first quarterly earnings as a public company. Loss per share was higher than forecast due to non-cash charges and share count calculation changes. We have increased our expenses going forward to account for non-cash stock-based comp charges in our operating expenses. Changes to our model decrease our 2014 EPS estimates to (\$1.82) from (\$0.96).

- **Operational progress:** KITE continues to make progress toward an IND filing in 2014 and initiation of a pivotal study in H1:15. The ongoing NCI trial has been expanded to include DLBCL patients treated with cells that have undergone KITE's new freezing process. This is an important validation step for the freezing process because it is expected to be used in the pivotal study and in the commercial manufacturing procedure. KITE is continuing the technology transfer with its off-site manufacturing facility which will support manufacturing for the future multi-center pivotal study, and ultimately commercialization.

- **Q2:14 earnings:** Q2 EPS and expenses were (\$2.27) and \$11.1M vs our estimates of \$(0.65) and \$3.7M. The difference was largely driven by a greater than expected stock-based comp charge of \$7.0M. We have increased our expenses going forward to better account for future stock-based comp charges.

- **Catalysts:** We expect the next clinical update at ASH in December, followed by the initiation of a potentially pivotal Phase I/II trial in H1:15. Updates on manufacturing, FDA meetings, clinical plans in other indications, and potential Breakthrough Therapy designation could also be catalysts in 2014.

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-1.16	-1.82	-1.32	-2.39
Prev. EPS (US\$)	—	-0.96	-1.29	-2.19
P/E (x)	-19.1	-12.2	-16.8	-9.3
P/E rel. (%)	-104.7	-72.6	-111.6	-68.6
Revenue (US\$ m)	—	—	—	—
EBITDA (US\$ m)	-6.4	-28.0	-46.8	-94.8
OCFPS (US\$)	-1.03	-0.50	-0.72	-1.37
P/OCF (x)	—	-44.8	-30.9	-16.3
EV/EBITDA (current)	-100.0	-22.9	-13.7	-6.8
Net debt (US\$ m)	-22	-195	-152	-247
ROIC (%)	827.88	1,161.37	2,583.14	914.02
Number of shares (m)	37.99	IC (current, US\$ m)		-0.78
BV/share (Next Qtr., US\$)	7.5	EV/IC (x)		-249.9
Net debt (Next Qtr., US\$ m)	-199.3	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	-101.3	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates



Rating	OUTPERFORM* [V]
Price (14 Aug 14, US\$)	22.22
Target price (US\$)	34.00 ¹
52-week price range	32.15 - 21.39
Market cap. (US\$ m)	844.17
Enterprise value (US\$ m)	649.54

*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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Exhibit 1: Q2:14 Variance Table

Income Statement	2Q:14 Act.	CS 2Q:14	
		Est	Delta
Revenues		\$ -	\$ -
US sales of KTE-C19	\$ -		\$ -
Ex-US royalties on KTE-C19	\$ -		\$ -
Other CAR or TCR program(s)	\$ -		\$ -
Ex-US royalties on other CAR or TCR	\$ -	\$ -	\$ -
Total Revenues	\$ -	\$ -	\$ -
Expenses	\$ -		\$ -
Cost of goods	\$ -		\$ -
Research and development	\$ 7.4	\$ 2.5	\$ 4.9
Sales, general, administrative	\$ 3.7	\$ 1.2	\$ 2.5
Total Operating Expenses	\$ 11.1	\$ 3.7	\$ 7.4
Operating income (loss)	\$ (11.1)	\$ (3.7)	\$ (7.4)
Total Other Income (Expense)	\$ (6.2)	\$ 0.1	\$ (6.3)
Pre Tax Income	\$ (17.4)	\$ (3.6)	\$ (13.7)
Income tax	\$ -	\$ -	\$ -
Net Income	\$ (17.4)	\$ (3.6)	\$ (13.7)
		\$ -	\$ -
EPS - basic (proforma)	\$ (2.27)	\$ (0.96)	\$ (1.3)
EPS - diluted (proforma)	\$ (2.27)	\$ (0.96)	\$ (1.3)

Source: Company data, Credit Suisse estimates

Exhibit 2: KITE Pipeline

Drug	Target	Technology	Indication	Stage
KTE-C19	CD19	CAR	Third line DLBCL	Phase I/II*
Not named	NY-ESO-1	TCR	Synovial Cell Sarcoma, Carcinoma	Phase I/II*
Not named	EGFRvIII	CAR	Glioblastoma, Head and Neck Cancer	Phase I/II*
Not named	MAGE-A3	TCR	Solid tumors	Phase I/II*
Not named	SSX2	TCR	Solid tumors	pre-IND

*Kite funded NCI proof-of-concept trial

Source: Company data, Credit Suisse estimates

Exhibit 3: KITE Newsflow

Product	Catalyst	Expected Date
KTE-C19	Updated data at ASH for patients treated with KTE-C19	Q4:14
KTE-C19	File IND	Q4:14
KTE-C19	Begin Phase I/II trial in DLBCL 3rd line+	H1:15
KTE-C19	Clear initial safety review	H1:15
KTE-C19	Begin registration trials in other indications (MCL, PMBCL, FL)	2015
Various	Updated data from various NCI trials	2015
KTE-C19	Potential Breakthrough Therapy Designation	2015
KTE-C19	Complete enrollment in Phase I/II 3rd line DLBCL trial	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
EGFRvIII CAR	IND in glioblastoma	2016
KTE-C19	BLA submission	Q4:16

Source: Company data, Credit Suisse estimates

Exhibit 4: KITE Earnings Model

	2012A	2013A	Q1:14A	Q2:14A	Q3:14E	Q4:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues															
US sales of KTE-C19										32.9	105.0	239.0	364.9	439.2	470.3
Ex-US royalties on KTE-C19												1.3	4.3	11.7	22.0
Other CAR or TCR program(s)												18.0	60.0	120.0	122.4
Ex-US royalties on other CAR or TCR												0.9	3.6	12.0	14.7
Total Revenues										32.9	105.0	259.2	432.8	582.9	629.4
Expenses															
Cost of goods											22.2	44.3	66.6	79.0	83.4
Research and development	1.8	5.1	2.1	7.4	4.3	5.0	18.9	37.0	59.0	72.0	76.0	80.0	84.0	88.0	92.0
Sales, general, administrative	0.8	1.3	1.1	3.7	2.2	2.4	9.3	10.0	36.0	51.2	74.0	82.0	87.0	92.0	97.0
Total Operating Expenses	2.6	6.4	3.2	11.1	6.5	7.4	28.2	47.0	95.0	131.1	172.2	206.3	237.6	259.0	272.4
Operating income (loss)	(2.6)	(6.4)	(3.2)	(11.1)	(6.5)	(7.4)	(28.2)	(56.0)	(95.0)	(98.2)	(67.2)	52.9	195.2	323.9	357.0
Total Other Income (Expense)	0.0	0.1	0.0	(6.2)	0.1	0.1	(6.0)	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Pre Tax Income	(2.6)	(6.4)	(3.1)	(17.4)	(6.4)	(7.3)	(34.2)	(55.7)	(94.8)	(98.0)	(66.9)	53.1	195.4	324.2	357.3
Income tax														113.5	125.0
Net Income	(2.6)	(6.4)	(3.1)	(17.4)	(6.4)	(7.3)	(34.2)	(55.7)	(94.8)	(98.0)	(66.9)	53.1	195.4	210.7	232.2
EPS - basic	(\$0.46)	(\$1.16)	(\$0.66)	(\$2.27)	(\$0.25)	(\$0.19)	(\$1.82)	(\$1.52)	(\$2.39)	(\$2.08)	(\$1.41)	\$1.11	\$4.02	\$4.29	\$4.69
EPS - diluted	(\$0.46)	(\$1.16)	(\$0.66)	(\$2.27)	(\$0.25)	(\$0.19)	(\$1.82)	(\$1.52)	(\$2.39)	(\$2.08)	(\$1.41)	\$0.96	\$3.50	\$3.74	\$4.08
Shares outstanding - basic	5.59	5.47	5.57	7.89	26.14	38.09	19.42	36.56	39.69	47.16	47.53	48.09	48.57	49.06	49.55
Shares outstanding - diluted	5.59	5.47	11.19	19.84	44.64	44.75	30.11	45.03	47.48	53.99	54.73	55.28	55.83	56.39	56.96

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 14-Aug-2014)

Kite Pharma (KITE.OQ, \$22.22, OUTPERFORM[V], TP \$34.0)

Disclosure Appendix

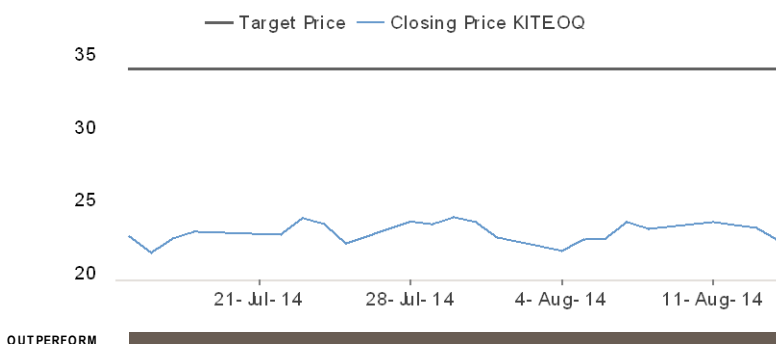
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3-Year Price and Rating History for Kite Pharma (KITE.OQ)

KITE.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
15-Jul-14	22.51	34.00	O *

* Asterisk signifies initiation or assumption of coverage.



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

Method: Our \$34 target includes \$1,041M DCF valuation of KTE-C19 and \$459M 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 (15% in other B-cell indications), and a 60% probability of success.

Risk: Risks to our \$34 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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