

Kite Pharma (KITE)

SMALL & MID CAP RESEARCH

Expect Continued Excitement for CAR-T Technologies

The strong showing of CAR-T therapies at the recent ASH meeting and the recent successful IPO of competitor JUNO demonstrate the sustained investor and physician enthusiasm for new immune-based and personalized therapies. We believe KITE will benefit in 2015 from the initiation of multiple trials expected to serve as pivotal studies, and we think a lucrative ex-US partner is likely. We are increasing our target price to \$71 from \$34. Addition of an ex-US partnership and the recent equity offering increase our forward EPS estimates.

- **Recent financing gives runway for multiple pivotal trials:** In 2015, KITE plans to initiate pivotal trials in DLBCL, CLL, MCL, and ALL. KITE is most advanced in DLBCL, which is likely the largest market opportunity for CD19-based therapies.
- **Partnership is likely for ex-US sales:** Our model assumes KITE markets its technology in the US and signs a partnership for ex-US markets. There are currently three companies with significantly advanced CAR-T programs – KITE, JUNO, and NVS. We believe other global pharmas will likely consider an entry into the field, and KITE is well positioned with significant IP, promising data in DLBCL, and a move into pivotal trials in 2015.
- **New \$71 target:** We have bumped up our probability of success for its lead program to 70% to reflect the move to pivotal trials. We have also assigned a technology value of \$1.5b to the pipeline and technology. We note that the high technology value increases our view of the risk in KITE, as investors could lower their view of the technology value in the event of a safety problem for KITE or one of its competitors.

Rating	OUTPERFORM* [V]
Price (31 Dec 14, US\$)	58.10
Target price (US\$)	(from 34.00) 71.00 ¹
52-week price range	58.10 - 21.39
Market cap. (US\$ m)	2,430.71
Enterprise value (US\$ m)	2,153.02

*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).

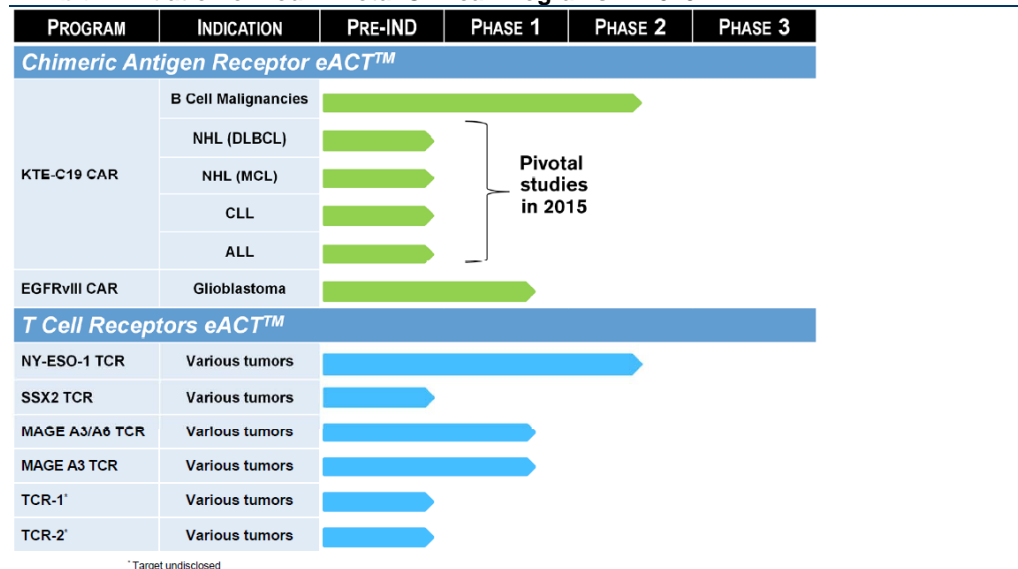
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Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-1.16	-1.68	1.72	-2.20
Prev. EPS (US\$)	—	-1.82	-1.32	-2.39
P/E (x)	-50.0	-34.7	33.7	-26.4
P/E rel. (%)	-268.7	-199.8	209.9	-184.7
Revenue (US\$ m)	—	—	127.5	—
EBITDA (US\$ m)	-6.4	-30.6	80.8	-94.7
OCFPS (US\$)	-1.03	-0.52	2.13	-1.17
P/OCF (x)	—	-111.7	27.2	-49.5
EV/EBITDA (current)	-366.8	-76.9	29.1	-24.8
Net debt (US\$ m)	-22	-278	-377	-545
ROIC (%)	827.88	-26.93	70.07	-90.14
Number of shares (m)	41.84	IC (current, US\$ m)		-0.78
BV/share (Next Qtr., US\$)	10.1	EV/IC (x)		18.8
Net debt (Next Qtr., US\$ m)	-277.7	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	-70.8	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Exhibit 1: Initiation of Four Pivotal Clinical Programs in 2015


Source: Company data, Credit Suisse estimates

Exhibit 2: Updated Data From ASH - Non-Hodgkin Lymphoma (NHL)

CAR T-Cells			
	NCI/Kite	Penn/Novartis	Juno/UW JCAR014
Patients	30 13 low dose conditioning	16 11 DLBCL; 5 FL	10 2 FL, 8 DLBCL, 2 MCL
Conditioning	Low dose Cy/Flu	Physician's choice	Various
CAR dose	1-2 x 10 ⁶ /kg Fresh and cryopreserved	1 x 10 ⁶ /kg (level 1) 3 x 10 ⁶ /kg (level 2)	CD8 central memory and CD4 3 dose levels: 2 x 10 ⁵ , 10 ⁶ , 10 ⁷ /kg
Response	ORR 81% overall Low dose ORR 62% (CR 23%)	DLBCL 45% (36% CR) FL 100% (80% CR)	ORR 60% (no info by subtype)
Safety	CRS, neurotoxicity No pressors, intubation with low dose	CRS, neurotoxicity	CRS, neurotoxicity
Reference	Kochenderfer et al, A550	Schuester et al, A3087	Turtle et al, A384

Others				
	UW/Juno JCAR015	SGN-Adcetris	SGN-CD19a	Nivolumab
Patients	6 Post auto transplant	42 Relapsed/refractory DLBCL	52 45 DLBCL; 3 FL; 4 MCL 58% refractory	29 Multiple subtypes B-cell NHL Relapsed and refractory
Response	6/6 in remission	ORR 31% (CR 10%) mPFS 1.4m	ORR 35% (CR 20%)	36% ORR DLBCL 40% FL
Safety	1 with severe CRS	22% peripheral neuropathy;	60% blurred vision	

Source: Company data, Credit Suisse estimates

Exhibit 3: Updated Data From ASH - Pediatric Acute Lymphoblastic Leukemia (ALL)

	NCI/Kite	MSKCC/Juno JCAR017	Penn/Novartis
Patients	20	14 (6 treated)	36
Conditioning	Low dose Cy/Flu	Not described	Investigator choice
CAR dose	1 x 10 ⁶ /kg (level 1) 3 x 10 ⁶ /kg (level 2)	3 x 10 ⁶ /kg	3.6 x 10 ⁶ /kg (median)
Response	CR 70%; (60% MRD-)	85% CR MRD-	CR 92% 10 relapses (5 CD19-)
Safety	MTD 1 x 10 ⁶ /kg (CRS)	CRS, neurotoxicity	CRS, neurotoxicity
Reference	Lee et al, A381	Curran et al, A3716	Grupp et al, A380

Source: Company data, Credit Suisse estimates

Exhibit 4: Updated Data From ASH - Adult Acute Lymphoblastic Leukemia (ALL)

	MSKCC/Juno JCAR015	UW/Juno JCAR014	SGN-CD19a
Patients	27	11	51 ALL and LBL
Conditioning	Cy	2g/m ² Cy	N/A
CAR dose	1-3 x 10 ⁶ /kg	CD8 central mem + CD4; 15-20 day process; 2 x 10 ⁵ , 10 ⁶ , 10 ⁷ /kg	N/A
Response	89% CR (78% MRD-) 45% in CR before CAR 10 to transplant; 9 relapsed overall	82% CR MRD-	21% CR 26% ORR
Safety	Severe CRS 18%, Neurotoxicity 25%	Severe CRS observed; 1 death	Dose escalation ongoing; Ocular toxicity
Reference	Park et al, A382	Turtle et al, A384	Fathi et al, A963

Source: Company data, Credit Suisse estimates

Exhibit 5: Updated Data From ASH - Chronic Lymphocytic Leukemia (CLL)

	Penn/Novartis	UW/Juno
Patients	42 Randomized phase 2 High vs low CAR dose	2
Conditioning	Various	2g/m2 Cy
CAR dose	5 x 10 ⁸ vs 5 x 10 ⁷ (total)	CD8+ CM and CD4+ 15-20 day process 3 dose levels: 2 x 10 ⁵ , 10 ⁶ , 10 ⁷ /kg
Response	ORR 42% (21% CR) ORR by dose 54% vs 31%	2 cleared blasts, no nodal responses
Safety	CRS: G2+ 39%	
Reference	Porter et al, A1982 Porter et al, A1983	Turtle et al, A384

Source: Company data, Credit Suisse estimates

Exhibit 6: KITE Earnings Model

	2012A	2013A	Q1:14A	Q2:14A	Q3:14A	Q4:14E	2014E	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								127.5			140.0				
Ex-US royalties on other CAR or TCR												1.1	4.2	14.0	17.1
Total Revenues								127.5		38.4	266.0	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	2.1	7.4	5.7	5.0	20.3	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	3.4	2.4	10.5	10.0	36.0	52.6	77.5	85.5	90.5	95.5	100.5
Total Operating Expenses	2.6	6.4	3.2	11.1	9.1	7.4	30.8	47.0	95.0	133.7	179.4	217.2	252.2	275.7	294.8
Operating income (loss)	(2.6)	(6.4)	(3.2)	(11.1)	(9.1)	(7.4)	(30.8)	80.5	(95.0)	(95.4)	86.6	97.5	285.3	448.2	511.3
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)	(9.1)	(7.3)	(36.9)	80.8	(94.8)	(95.2)	86.8	97.7	285.6	448.5	511.6
Income tax												34.2	100.0	157.0	179.1
Net Income	(2.6)	(6.4)	(3.1)	(17.4)	(9.1)	(7.3)	(36.9)	80.8	(94.8)	(95.2)	86.8	63.5	185.6	291.5	332.5
EPS - basic	(\$0.46)	(\$1.16)	(\$0.66)	(\$2.27)	(\$0.24)	(\$0.19)	(\$1.68)	\$1.91	(\$2.20)	(\$2.06)	\$1.86	\$1.35	\$3.90	\$6.06	\$6.84
EPS - diluted	(\$0.46)	(\$1.16)	(\$0.66)	(\$2.27)	(\$0.24)	(\$0.19)	(\$1.68)	\$1.72	(\$2.20)	(\$2.06)	\$1.68	\$1.22	\$3.52	\$5.48	\$6.19
Shares outstanding - basic	5.59	5.47	5.57	7.89	38.33	38.71	22.63	42.36	43.14	46.24	46.60	47.16	47.63	48.10	48.58
Shares outstanding - diluted	5.59	5.47	11.19	19.84	44.64	46.67	30.59	46.96	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 31-Dec-2014)**Juno** (JUNO.OQ, \$52.47)**Kite Pharma** (KITE.OQ, \$58.1, OUTPERFORM[V], TP \$71.0)**Novartis** (NOVN.VX, SFr92.35)

Disclosure Appendix

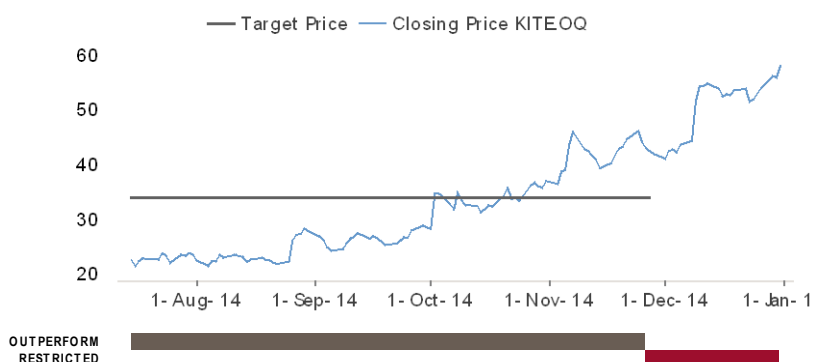
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3-Year Price and Rating History for Kite Pharma (KITE.OQ)

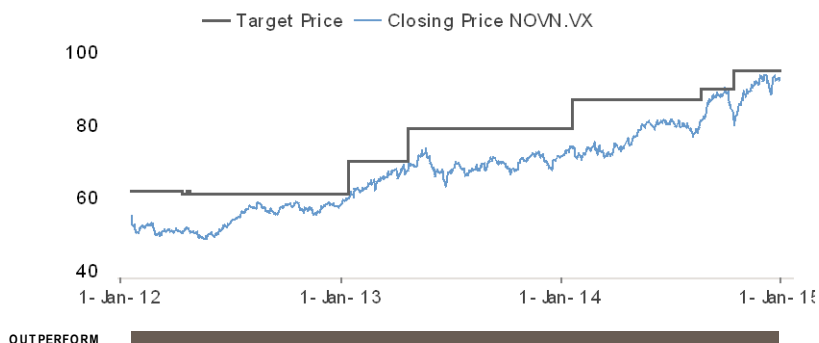
KITE.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
15-Jul-14	22.51	34.00	O *
27-Nov-14	42.96		R

* Asterisk signifies initiation or assumption of coverage.

**3-Year Price and Rating History for Novartis (NOVN.VX)**

NOVN.VX	Closing Price	Target Price	
Date	(SFr)	(SFr)	Rating
19-Jan-12	54.99	61.89	O
22-Feb-12	52.96		*
13-Apr-12	50.58	61.00	O
20-Apr-12	51.95	61.89	
25-Apr-12	50.68	61.00	
14-Jan-13	60.05	70.00	
22-Apr-13	67.55	79.00	
20-Jan-14	73.80	87.00	
22-Aug-14	81.35	90.00	
15-Oct-14	81.20	95.00	

* Asterisk signifies initiation or assumption of coverage.



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

Method: Our \$71 target includes \$1,832M DCF valuation of KTE-C19 and \$1500M 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 70% probability of success.

Risk: Risks to our \$71 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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