Kite Pharma

KITE : NASDAQ : US$44.39

BUY

Target: US$51.00

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COMPANY STATISTICS:

Forecast Return:	14.9%
Shares Out (M):	38.3
Market Cap (M):	US$1,701.5
52-week Range:	21.00 - 48.19
Avg. Daily Vol. (000s):	501.8

EARNINGS SUMMARY:

FYE Dec		2013A	2014E	2015E
Revenue (M):		0.0	0.0	0.0
EPS:		(1.42)	(1.70)	(1.30)
Revenue (M):	Q1	0.0	0.0A	0.0
	Q2	0.0	0.0A	0.0
	Q3	0.0	0.0A	0.0
	Q4	0.0	0.0	0.0
Total		0.0	0.0	0.0
EPS:	Q1	-	(0.66)A	(0.33)
	Q2	-	(2.27)A	(0.33)
	Q3	-	(0.24)A	(0.33)
	Q4	-	(0.23)	(0.32)
Total		(1.42)	(1.70)	(1.30)

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:
Kite Pharma is a clinical-stage biotechnology company incorporated in June 2009 focused on the development of novel cancer immunotherapy using engineered autologous cell therapy (eACT). The technology genetically modifies T-cells to express chimeric antigen receptors (CAR) or T-cell receptors (TCR) which can specifically recognize and destroy the cancer cells.

All amounts in US$ unless otherwise noted.

Life Sciences -- Biotechnology

KITE'S CART THERAPY CONTINUES TO MAINTAIN DURABLE RESPONSE WITH IMPRESSIVE 44 MONTHS IN DLBCL

Investment highlights

Update on NCI's CART therapy extends response to 44 months, important in DLBCL and non-transplant patients

Recent data presented for NCI's CART in Diffuse Large Cell Lymphoma (DLBCL) at ASH shows that 11 patients with CRs had increased their duration of CR to an impressive 44 months from a previously-reported 37 months, which we believe is significant. Most relapsed/refractory DLBCL patients cannot undergo transplant vs. acute leukemia, relying on a lasting CR/PR in DLBCL. Additionally, none of the 9 patients evaluated lost their remission status, demonstrating the robustness and longevity of NCI's T-cells. This long-term remission may show that persistent in vivo T-cell detection may not be needed for durable response, which we believe is positive as this point has been questioned by Novartis.

One patient achieved CR after persistent PR, reflects persistent activity of CART therapy and possible cure

One follicular lymphoma patient with 6 months of partial remission actually obtained a CR from the updated analysis, which we believe reflects the continued activity of NCI's CART therapy against the disease. If this response data is maintained in a larger patient population, we believe CART therapy can possibly be a cure for these patients who previously had dismal prognosis, with physicians possibly considering the use of this technology in earlier lines of therapy.

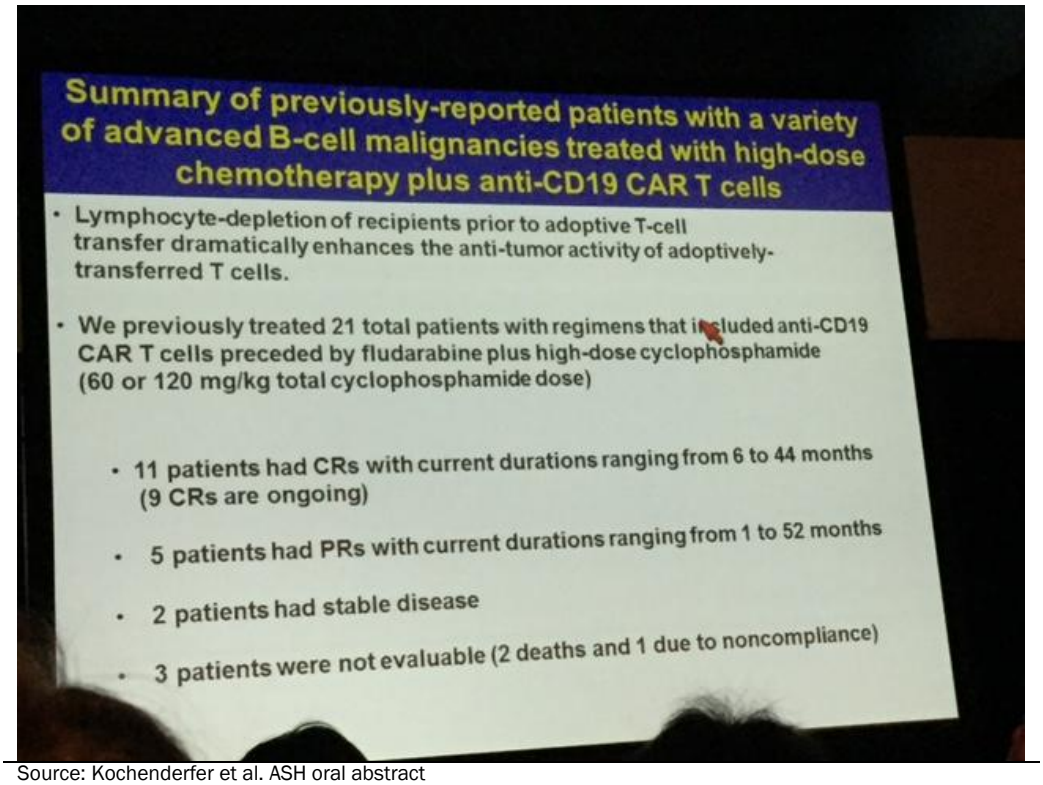
70% CR and low toxicity in pediatric ALL positive proof of concept

We believe the 70% CR rate in NIH's pediatric ALL CART study demonstrates a positive proof of concept in the company's technology against this disease. Additionally, there was only 32% grade III-IV CRS and transient neurologic toxicity, demonstrating an acceptable toxicity profile in a therapy that is plagued by high safety issues.

NCI'S CART MAINTAINS DURABLE REMISSION UP TO 44 MONTHS

NCI's CART maintains duration of response up to 44 months, an increase from previous reports of 37 months, demonstrating the persistent and durable response rate of the company's CART technology (see Figure 1 below). Additionally, 5 patients with PRs continue to have durations of as high as 52 months, which we believe is still important since most relapsed/refractory patients do not respond to conventional therapies. This was reflected by the current evaluation where 56% of the patients were refractory to chemotherapy and have no therapeutic options left. .

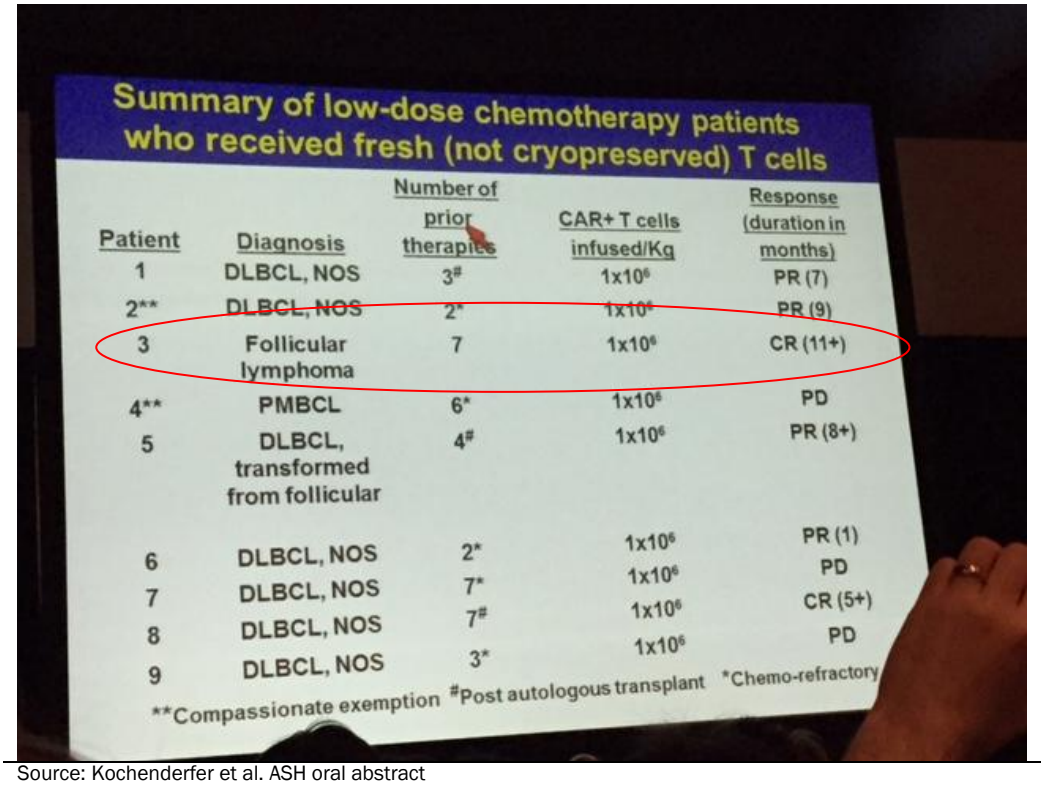
Figure 1: CART in DLBCL – maintains CR of 44 months



Source: Kochenderfer et al. ASH oral abstract

The two figures below demonstrate that patient number 3 actually obtained a CR after 6 months of PR, which we find surprising. The gain of response after 6 months of PR demonstrate the continued efficacy of the company's CART against the lymphoma even after months of treatment.

Figure 2: NCI's CART updated results – Dec 8th 2014



Source: Kochenderfer et al. ASH oral abstract

Figure 3: NCI's CART abstract – November 7th 2014

Patient	Age/Gender	Malignancy	Number of Prior Therapies	Clinical Situation	Response (Duration in Months)
1	66/M	DLBCL	3	Post ASCT relapse	PR (7)
2*	63/F	DLBCL	2	Chemo-refractory	PR (7+)
3	63/M	FL	7	Not chemo-refractory	PR (6+)
4*	22/M	DLBCL	6	Chemo-refractory	Progression
5	65/M	DLBCL	4	Post ASCT relapse	PR (5+)
6	47/M	DLBCL	2	Chemo-refractory	PR (1)
7	28/M	DLBCL	7	Chemo-refractory	Progression
8	62/M	DLBCL	7	Post ASCT relapse	CR (1+)
9	54/M	DLBCL	3	Chemo-refractory	Progression

Source: ASH Abstract

Figure 4: KITE income statement

($000's) [FY - DEC]	2012 A	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	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)	**2012 A**	**2013A**	**1Q14A**	**2Q14A**	**3Q14A**	**4Q14E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
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	2,062	7,424	5,716	5,773	20,975	39,619	40,412	50,515	63,144	78,929	98,662
SG&A	770	1,339	**1,070**	3,668	3,385	3,419	11,542	14,021	14,722	14,869	15,464	16,082	16,726
Depreciation and amortization	9	17	30	48			78	-					
Total Operating Expense	**2,581**	**6,427**	**3,162**	**11,140**	**9,101**	**9,192**	**32,595**	**53,640**	**55,134**	**65,384**	**78,607**	**95,012**	**115,387**
Depreciation and amortization	9	17	30	48			78	-					
EBITDA	**(2,572)**	**(6,410)**	(3,132)	(11,092)	**(9,101)**	**(9,192)**	(32,517)	(53,640)	(55,134)	172,349	635,651	966,489	1,043,695
Operating income (EBIT)	**(2,581)**	**(6,427)**	**(3,162)**	(11,140)	**(9,101)**	**(9,192)**	**(32,595)**	**(53,640)**	(55,134)	172,349	635,651	966,489	1,043,695
Non-operating Interest income	36	52	**-**	47	**61**	**290**	398	809	714	1,769	6,034	13,578	23,019
Other income/interest expense	(27)	13	**21**	(6,266)	**(11)**								
Pre-tax income (EBT)	**(2,571)**	**(6,362)**	**(3,141)**	**(17,359)**	**(9,051)**	**(8,902)**	**(32,197)**	**(52,832)**	**(54,419)**	**174,118**	**641,685**	**980,066**	**1,066,715**
Provision for Income Taxes	-	-	-	-	-	-	-	-	-	64,424	237,423	362,625	394,684
Net Income	**(2,571)**	**(6,362)**	**(3,141)**	(17,359)	(9,051)	(8,902)	**(38,454)**	**(52,832)**	**(54,419)**	**109,694**	**404,262**	**617,442**	**672,030**
Preferred Dividends		**1,436**	557	532									
Net Income to Common Shareholders	**(2,571)**	**(7,797)**	**(3,698)**	(17,891)									
Adjustments to Net income													
GAAP EPS	**(0.48)**	**(1.42)**	**(0.66)**	**(2.27)**	**($0.24)**	**($0.23)**	**($1.70)**	**($1.30)**	**($1.29)**	**$2.34**	**$7.70**	**$10.50**	**$10.21**
Adjusted EPS excl options expense													
Diluted Weighted Average Shares	5,314,214	5,473,384	5,571,499	7,890,029	38,330,026	38,713,326	22,626,220	40,668,708	42,196,368	46,864,399	52,488,127	58,786,703	65,841,107

Source: Canaccord Genuity Estimates

Figure 5: 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	$2,976	10/1/2017	2.8	45%	$989	$26
CLL US	$83	2021	$334	10/1/2018	3.8	30%	$66	$2
ALL US	$195	2021	$967	10/1/2018	3.8	30%	$192	$5
FL US	$165	2021	$732	10/1/2018	3.8	30%	$146	$4
MCL US	$164	2021	$728	10/2/2018	3.8	30%	$145	$4
US - total	**$1,298**	**2020**	**$5,736**	**10/1/2017**	**2.8**	30%	**$1,271**	**$33**
Ex-US								
DLBCL royalty Ex-US	$53	2020	$494	6/1/2018	3.5	45%	$153	$4
CLL royalty Ex-US	$6	2021	$55	6/1/2019	4.5	30%	$10	$0
ALL royalty Ex-US	$15	2021	$139	6/1/2019	4.5	30%	$26	$1
FL royalty Ex-US	$13	2021	$107	6/2/2019	4.5	30%	$20	$1
MCL royalty Ex-US	$12	2021	$106	6/3/2019	4.5	30%	$20	$1
Ex-US - royalty - total	**$99**	**2020**	**$969**	**6/1/2018**	**3.5**	30%	**$200**	**$5**
Total Product Value							**$1,737**	**$46**
Cash							$200	$5.3
Total Equity Value							**$1,937**	**$51**
Shares Outstanding (MM)							38	

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

Source: Canaccord Genuity Estimates

Investment risks

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.

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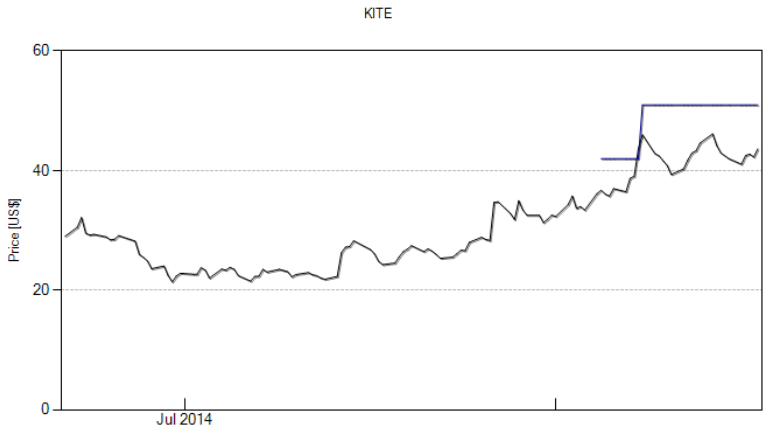
Site Visit: An analyst has not visited Kite Pharma's material operations.

Price Chart:*



	Date	Analyst	Rating	Target Price		Date	Analyst	Rating	Target Price
1)	10/28/2014	Newman	Buy	42.00	2)	11/07/2014	Newman	Buy	51.00

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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(as of 1 October 2014)

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Speculative Buy	53	5.1%	54.7%
Hold	317	30.5%	13.9%
Sell	43	4.1%	2.3%
	1041	100.0%	

*Total includes stocks that are Under Review

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Kite Pharma	5, 7

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