

Kite Pharma, Inc.

KITE - BUY - 1Q15 Report; Company Continues to Ramp Up Development; 2015 Burn Guidance and KTE-C19 Trial Set to Start

May 18, 2015

- 1Q15 report and Amgen (AMGN, NC, \$162.36) upfront payment amortization:** On 5/15, Kite Pharma reported 1Q15 non-GAAP earnings per share of (\$0.20) vs. the consensus estimate of (\$0.29). We believe the difference in Street expectations is attributed primarily to amortization of AMGN's upfront collaboration payment to KITE. The \$60M should be amortized over a four-year period. The \$525M in potential milestone payments are attributed to products. As in prior quarters, KITE did not host a conference call. Since the company's [4Q14 report on 3/27](#), there have not been major changes. To recap our general views on KITE, we still believe the company's stock is underpriced and is an attractive BUY, particularly when comparing with similar cell therapy companies in early-stage development. KITE's most advanced product candidate is KTE-C19, and we believe KTE-C19 will receive Breakthrough Designation, with approval and launch by 2H17/1H18 in the diffuse large B cell lymphoma (DLBCL) indication.

- Quarterly financial recap:** For the quarter, operating expenses (\$18.4M vs. \$3.2M GAAP), R&D (\$9.3M vs. \$2.1M GAAP), and G&A (\$9.2M vs. \$1.1M GAAP) costs all increased over 1Q14, which are expected as the company ramps up programs/development. We see the company as having sufficient cash (\$428.5M cash and cash equivalents on 3/31/15 vs. \$367M on 12/31/14) to support continued product development through 2017.

- KTE-C19/clinical programs advancing on track:** KITE plans to have an IND for KTE-C19 soon, followed by plans to treat the first patient in a pivotal study in DLBCL in 2Q15; a read-out from this study is expected in 2016. Additionally, data from KITE's ongoing TCR program are expected in 2016. Overall, we believe the company is making important strides in the clinic and in product development. The company continues to expand its European presence, and we expect that the mid-March T Cell Factory acquisition will help build out KITE's European infrastructure and establish points for commercialization.

TONY BUTLER, PHD
tony.butler@guggenheimpartners.com

ANALYST
212 823 6540

KITE BUY

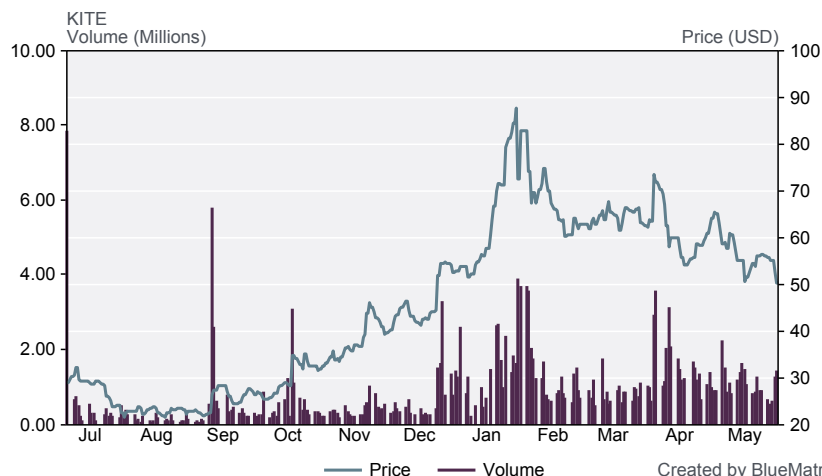
EARNINGS RELEASE

SHARE PRICE \$50.02
PRICE TARGET \$73.00

EPS (\$) (FY Dec)	1Q	2Q	3Q	4Q	FY
2014	—	—	—	(0.19)	(0.94)
P/E					NM
2015	(0.20)	(0.23)E	(0.24)E	(0.29)E	(0.87)E
Prior	(0.12)	(0.50)E	(0.29)E	(0.69)E	(1.61)E
P/E					NM
2016	—	—	—	—	(1.34)E
Prior	—	—	—	—	(1.12)E
P/E					NM

Market Data

52-Week Range	\$21.00 - \$89.21
Shares Out (M)	43.1
Market Cap (M)	\$2,154
ADV (3 mo; 000)	1,184



2015 Guidance: KITE's burn rate for 2015 is expected to be between \$100-\$125M, and this does not include business development.

Model updates: Our EPS estimates for 2015 move to (\$0.87) (non-GAAP) and (\$1.38) (GAAP), while our 2016 estimates move to (\$1.34) (non-GAAP) and (\$1.76) (GAAP).

KITE Valuation: As data continue to emerge supporting the viability of KITE's program/platform, we believe the risk could reduce and value could increase. Value should increase because the net present value of commercialization rises. We believe KITE may generate revenue by 2018. We estimate peak sales in second and third line NHL, assuming \$200-250k per treatment, approach \$1.5B by 2021. Medivation (MDVN, NC, \$122.90) and Pharmacyclics (PCYC, NC, \$255.42) are similar companies with early-stage product launches by partner companies and have market valuations approaching \$9.7 billion and \$19.7 billion, respectively. We estimate, at a current market cap of ~\$2.2 billion, it is possible KITE could grow to 7-9 times its current size by 2022. We discount that valuation to today by 15% annually, which yields our price target of \$73 (unchanged).

Key KITE Risks: KITE is an experimental stage company very early in development. Poor clinical readouts or inability to successfully commercialize its products is a risk. Risk of side effects of CAR-T therapies is also high, notably with cytokine release syndrome with even death in some patients, potentially limiting its use in earlier lines of therapy. There is also limited data outside of ALL, and establishing a durable response is critical to commercial success. Moreover, manufacturing and process development is not at commercial scale yet, and we note being able to deliver CAR-T to patients with affordable COGS is imperative. Further, given the number of companies currently in the CAR-T space, KITE's lead and platform could be commoditized. We believe profitability is several years away. Therefore, the stock can and may be highly volatile.

Guggenheim KITE KITE Pharmaceuticals INCOME STATEMENT \$ in millions											
	2014A	1Q15	2Q15	3Q15	4Q15	2015E	2016E	2017E	2018E	2019E	2020E
Revenues											
Product Sales											
KTE-C19 US sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$137.0	\$541.6	\$986.0
Growth rate										295%	82%
KTE-C19 Royalty on Ex-US sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$49.6	\$113.9
Growth rate											130%
Collaboration revenue	\$0.0	\$2.9	\$3.0	\$3.0	\$3.0	\$11.9	\$11.9	\$0.0	\$0.0	\$0.0	\$0.0
Milestones	\$0.0	\$0.0	\$3.8	\$3.8	\$3.8	\$15.0	\$15.0	\$60.0	\$15.0	\$0.0	\$0.0
Total revenue	\$0.0	\$2.9	\$6.8	\$6.8	\$6.8	\$26.9	\$15.0	\$60.0	\$152.0	\$591.2	\$1,099.9
Growth rate								300%	153%	289%	86%
Expenses											
COGS	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$45.5	\$148.1	\$227.3
% of revenue								0%	30%	25%	21%
Gross Margin								100%	70%	75%	79%
R&D	\$23.1	\$9.3	\$12.2	\$12.6	\$14.2	\$48.3	\$57.5	\$66.1	\$99.2	\$188.4	\$245.0
% of revenue						180%	383%	110%	65%	32%	22%
SG&A	\$13.7	\$9.2	\$9.4	\$9.5	\$9.7	\$37.8	\$40.9	\$49.1	\$71.2	\$106.8	\$133.5
Growth		2%	2%	2%	2%	277%	8%	20%	45%	50%	25%
% of revenue						141%	273%	82%	47%	18%	12%
Litigation	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total operating expenses	\$36.7	\$18.4	\$21.6	\$22.1	\$23.9	\$86.1	\$98.4	\$115.2	\$215.8	\$443.4	\$605.8
Growth		39%	17%	3%	8%	134%	14%	17%	87%	105%	37%
Operating income	(\$36.7)	(\$15.6)	(\$14.8)	(\$15.4)	(\$17.2)	(\$59.2)	(\$83.4)	(\$55.2)	(\$63.8)	\$147.8	\$494.2
Other income (expense), net	(\$0.0)	\$0.5	\$0.0	\$0.0	\$0.0	\$0.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Pre-tax income	(30.12)	(15.08)	(14.80)	(15.39)	(17.18)	(58.71)	(83.41)	(55.21)	(63.80)	147.79	494.16
Interest Expense, Net							(20)	(20)	(20)	(25)	(30)
Income tax expense (benefit)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$22.2	\$123.5
Net operating losses	(\$13.6)	(\$23.0)	(\$37.8)	(\$53.2)	(\$70.4)	(\$72.8)	(\$224.7)	(\$75.2)	(\$83.8)	\$127.8	\$491.3
Net Income	(\$30.1)	(\$15.1)	(\$14.8)	(\$15.4)	(\$17.2)	(\$58.7)	(\$83.4)	(\$55.2)	(\$63.8)	\$125.6	\$370.6
Basic, GAAP	(\$0.94)	(\$0.36)	(\$0.35)	(\$0.36)	(\$0.40)	(\$1.38)	(\$1.76)	(\$1.05)	(\$1.11)	\$2.01	\$5.58
Diluted EPS GAAP	(\$0.94)	(\$0.36)	(\$0.35)	(\$0.36)	(\$0.40)	(\$1.38)	(\$1.76)	(\$1.05)	(\$1.11)	\$2.01	\$5.58
Basic	41.9	42.5	42.5	42.5	42.5	42.5	47.5	52.5	57.5	62.5	66.5
Diluted-GAAP	41.9	42.5	42.5	42.5	42.5	42.5	47.5	52.5	57.5	62.5	66.5
Reconciliation GAAP to Non-GAAP											
Net income, GAAP	(\$30.1)	(15.1)	(14.8)	(15.4)	(17.2)	(\$58.7)	(\$83.4)	(\$55.2)	(\$63.8)	\$125.6	\$370.6
Non-cash stock-based compensation expense	\$15.5	6.7	5.0	5.0	5.0	\$21.7	\$20.0	\$21.0	\$22.1	\$23.2	\$24.3
Growth								5%	5%	5%	5%
Net income, Non-GAAP	(\$14.6)	(\$8.4)	(\$9.8)	(\$10.4)	(\$12.2)	(\$37.0)	(\$63.4)	(\$34.2)	(\$41.7)	\$148.8	\$394.9
Basic EPS, Non-GAAP	(\$0.35)	(\$0.20)	(\$0.23)	(\$0.24)	(\$0.29)	(\$0.87)	(\$1.34)	(\$0.65)	(\$0.73)	\$2.38	\$5.94
Diluted EPS, Non-GAAP	(\$0.35)	(\$0.20)	(\$0.23)	(\$0.24)	(\$0.29)	(\$0.87)	(\$1.34)	(\$0.65)	(\$0.73)	\$2.38	\$5.94
Weighted average share - Basic	41.9	42.5	42.5	42.5	42.5	42.5	47.5	52.5	57.5	62.5	66.5
Weighted average share - Diluted, Non-GAAP	41.9	42.5	42.5	42.5	42.5	42.5	47.5	52.5	57.5	62.5	66.5

*Source: Guggenheim Securities, LLC estimates

Guggenheim Research KITE KITE Pharmaceuticals REVENUE SUMMARY \$ in millions					
	2016E	2017E	2018E	2019E	2020E
<u>KTE-C19 (Adult ALL)</u>					
US	\$0	\$0	\$7	\$18	\$28
EU	\$0	\$0	\$0	\$9	\$15
Japan	\$0	\$0	\$0	\$0	\$2
Global	\$0	\$0	\$7	\$27	\$46
Royalty on Ex-US Sales	\$0	\$0	\$0	\$2	\$5
Royalty Rate		25%	25%	25%	28%
<u>KTE-C19 (Pedes ALL)</u>					
US	\$0	\$0	\$0	\$9	\$23
EU	\$0	\$0	\$0	\$0	\$9
Japan	\$0	\$0	\$0	\$0	\$0
Global	\$0	\$0	\$0	\$9	\$32
Royalty on Ex-US Sales	\$0	\$0	\$0	\$0	\$2
Royalty Rate					25%
<u>KTE-C19 (DLBCL)</u>					
US	\$0	\$0	\$130	\$216	\$328
EU	\$0	\$0	\$0	\$198	\$249
Japan	\$0	\$0	\$0	\$0	\$57
Global	\$0	\$0	\$130	\$415	\$634
Royalty on Ex-US Sales	\$0	\$0	\$0	\$50	\$76
Royalty Rate				25%	25%
<u>KTE-C19 (CLL)</u>					
US	\$0	\$0	\$0	\$70	\$91
EU	\$0	\$0	\$0	\$0	\$120
Japan	\$0	\$0	\$0	\$0	\$0
Global	\$0	\$0	\$0	\$70	\$211
Royalty on Ex-US Sales	\$0	\$0	\$0	\$0	\$30
Royalty Rate					25%
<u>KTE-C19 (MCL)</u>					
US	\$0	\$0	\$0	\$21	\$34
EU	\$0	\$0	\$0	\$0	\$30
Japan	\$0	\$0	\$0	\$0	\$0
Global	\$0	\$0	\$0	\$21	\$63
Royalty on Ex-US Sales	\$0	\$0	\$0	\$0	\$7
Royalty Rate					25%
Total KTE-C19 Sales	\$0	\$0	\$137	\$542	\$986
Royalty Sales	\$0	\$0	\$0	\$50	\$114
Growth				295%	82%

*Source: KITE company reports and Guggenheim Securities, LLC estimates

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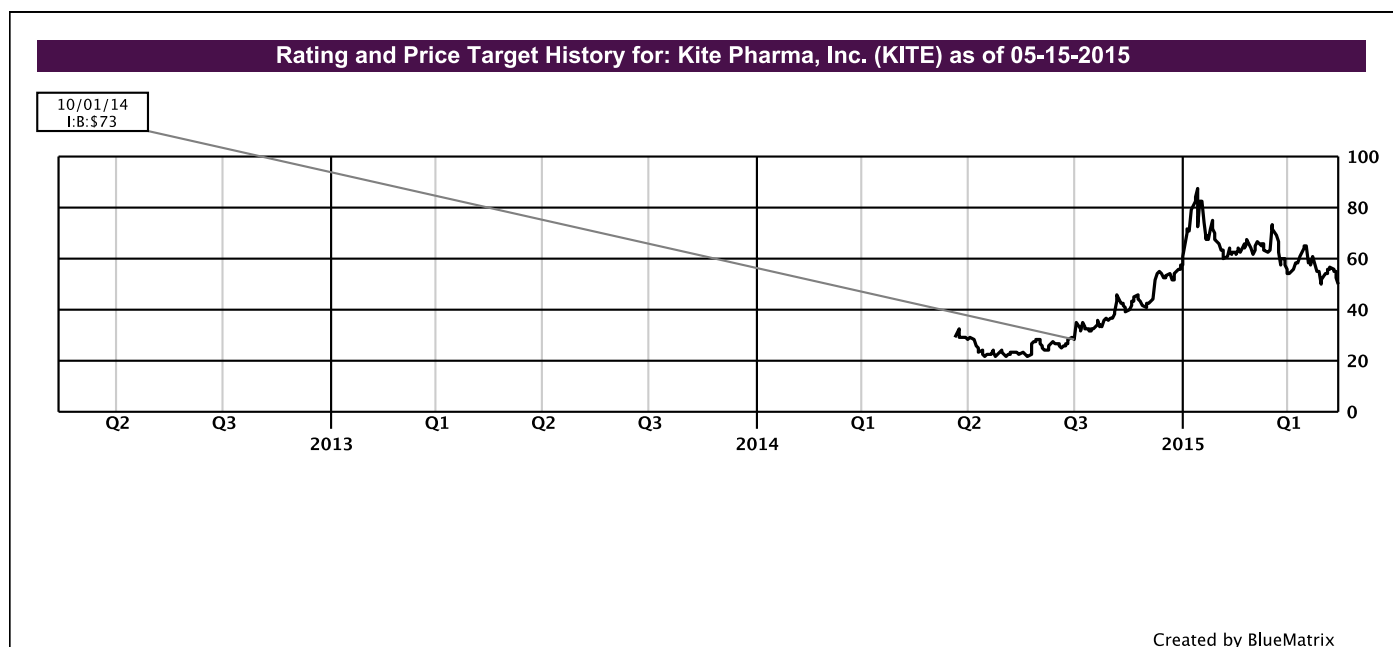
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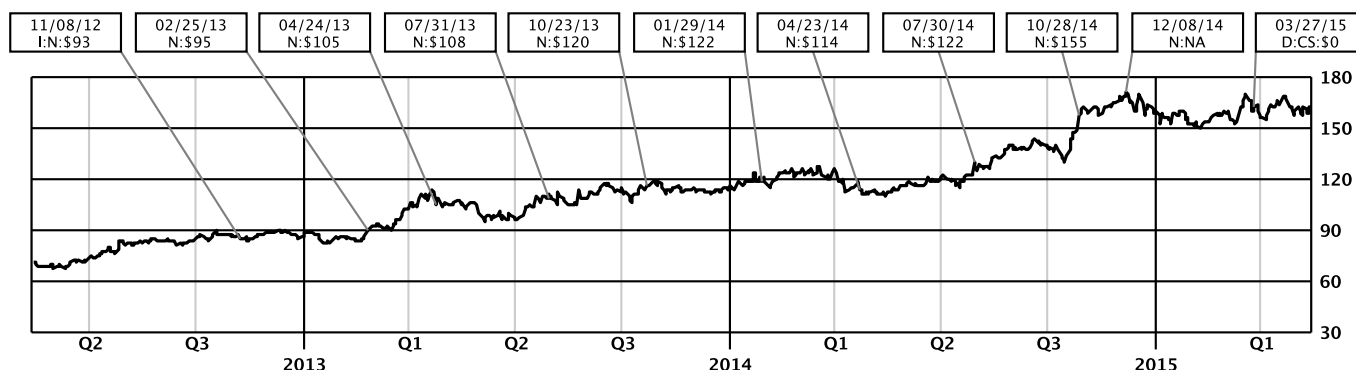
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Rating and Price Target History for: Amgen Inc. (AMGN) as of 05-15-2015



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			Count	Percent
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Contact Information

NEW YORK SALES & TRADING DESK
212 292 4700

EQUITY TRADING DESK
212 292 4701

MEDIA INQUIRIES
310 367 6567

EMAIL
general@guggenheimpartners.com

Locations

NEW YORK
330 Madison Avenue
New York, NY 10017

WASHINGTON, DC
1055 Thomas Jefferson Street, NW
Suite 450
Washington, DC 20007

BOSTON
500 Boylston Street, 13th Floor
Boston, MA 02116

LOS ANGELES
601 South Figueroa Street
Suite 4005
Los Angeles, CA 90017

DALLAS
1717 McKinney Avenue
Suite 870
Dallas, TX 75202

SAN FRANCISCO
50 California Street
Suite 1515
San Francisco, CA 94111

NASHVILLE
104 Woodmont Blvd
Suite 203
Nashville, TN 37205

RICHMOND
919 East Main Street
Suite 1605
Richmond, VA 23219

Guggenheim Equity Research

**ENERGY: EXPLORATION & PRODUCTION,
OIL SERVICES & EQUIPMENT**

Subash Chandra, CFA, Analyst
subash.chandra@guggenheimpartners.com
212 918 8771

Marshall Coltrain, Associate
marshall.coltrain@guggenheimpartners.com
212 518 9904

Michael LaMotte, Analyst
michael.lamotte@guggenheimpartners.com
972 638 5502

Eric Loyet, Associate
eric.w.loyet@guggenheimpartners.com
212 518 9782

ENERGY: POWER & UTILITIES

Shahriar Pourreza, CFA, Analyst
shahriar.pourreza@guggenheimpartners.com
212 518 5862

**FINANCIAL SERVICES: INVESTMENT
COMPANIES, COMMUNITY AND
REGIONAL BANKS**

Taylor Brodarick, Analyst
taylor.brodarick@guggenheimpartners.com
212 293 2820

**FINANCIAL SERVICES: COMMUNITY AND
REGIONAL BANKS, PAYMENTS & CREDIT
SERVICES**

David Darst, Analyst
david.darst@guggenheimpartners.com
615 208 1224

Ryan Strain, Associate
ryan.strain@guggenheimpartners.com
615 208 1226

**FINANCIAL SERVICES: SUPER REGIONAL
AND UNIVERSAL BANKS & BROKERS,
PAYMENTS & CREDIT SERVICES**

Eric Wasserstrom, Analyst
eric.wasserstrom@guggenheimpartners.com
212 823 6571

Jeff Cantwell, Associate
jeffrey.cantwell@guggenheimpartners.com
212 823 6543

HEALTHCARE: BIOPHARMA

Tony Butler, Analyst
tony.butler@guggenheimpartners.com
212 823 6540

HEALTHCARE: PHARMACEUTICALS

Louise Chen, Analyst
louise.chen@guggenheimpartners.com
212 381 4195

Swati Kumar, Analyst
swati.kumar@guggenheimpartners.com
212 918 8754

Brandon Folkes, Associate
brandon.folkes@guggenheimpartners.com
212 518 9976

**RETAIL & CONSUMER: CONSUMABLES;
FOOD & DRUG**

John Heinbockel, Analyst
john.heinbockel@guggenheimpartners.com
212 381 4135

Steven Forbes, Analyst
steven.forbes@guggenheimpartners.com
212 381 4188

RETAIL & CONSUMER: RESTAURANTS

Matthew DiFrisco, Analyst
matthew.difrisco@guggenheimpartners.com
212 823 6599

RETAIL & CONSUMER: SOFTLINES

Howard Tubin, Analyst
howard.tubin@guggenheimpartners.com
212 823 6558

**TMT: DATA & COMMUNICATION
INFRASTRUCTURE**

Ryan Hutchinson, Analyst
ryan.hutchinson@guggenheimpartners.com
415 852 6458

Nate Cunningham, Associate
nathaniel.cunningham@guggenheimpartners.com
212 823 6597

**TMT: MEDIA & ENTERTAINMENT,
CABLE & SATELLITE TV**

Michael Morris, Analyst
michael.morris@guggenheimpartners.com
804 253 8025

Curry Baker, Associate
curry.baker@guggenheimpartners.com