

# Kite Pharma (KITE)

Rating	<b>OUTPERFORM*</b> [V]
Price (16 Mar 15, US\$)	62.20
Target price (US\$)	79.00 <sup>1</sup>
52-week price range	87.62 - 21.39
Market cap. (US\$ m)	2,634.75
Enterprise value (US\$ m)	2,357.07

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

<sup>1</sup>Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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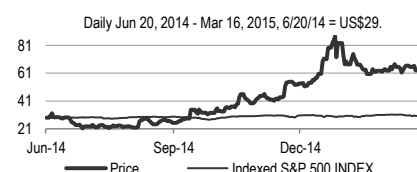
## COMPANY UPDATE

## Expanding Operations and Collaborations

In the past month, KITE has aggressively expanded operations with several key announcements. (1) It leased two manufacturing facilities in Southern California, (2) it expanded its research agreement with the NCI, and (3) it established an EU operation and expanded its TCR pipeline through the acquisition of privately held T-Cell Factory. These announcements follow the license from NIH for TCRs targeting HPV and the collaboration with AMGN for new CAR-T targets.

- **Ex-US footprint established with acquisition of T-Cell Factory:** This deal expands KITE's expertise and technology in the TCR space and provides a platform to build European clinical and potentially commercial operations. Given the patient-specific manufacturing process for CAR-T and TCR, having "local" operations is critical to expanding outside of the US. It may also establish a favorable tax rate for KITE in Europe. The deal cost \$21M (including \$4M in KITE stock).
- **Additional manufacturing capabilities prepares KITE for commercial readiness in 2017:** KITE leased two facilities: an 18,000 square foot facility in Santa Monica and 44,500 square feet in El Segundo with an option to expand by 17,000 square feet. These facilities, in addition to its contract manufacturer, will support ongoing clinical development of its pipeline programs and initial commercial launch of KTE-C19.
- **Expanded CRADA provides more candidates:** The expanded collaboration includes technology to develop TCR candidates against patient specific neo-antigens, and also includes specific new TCR and CAR-T product candidates against solid tumors. The cost to KITE is minimal with quarterly payments totaling \$3M per year, up from \$1M.

## Share price performance



On 03/16/15 the S&P 500 INDEX closed at 2081.19

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	-0.20	-0.26	-0.27	-0.43
2014E	-0.66	-2.27	-0.24	-0.19
2015E	-0.24	-0.26	2.45	-0.31

## 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\$)	—	—	—	—
P/E (x)	-53.5	-37.1	36.1	-28.3
P/E rel. (%)	-296.4	-209.9	231.0	-203.5
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)	—	-119.6	29.2	-53.0
EV/EBITDA (current)	-398.7	-83.6	31.6	-27.0
Net debt (US\$ m)	-22	-278	-377	-545
ROIC (%)	827.88	-26.93	70.07	-90.14
Number of shares (m)	42.36	IC (current, US\$ m)	—	-0.78
BV/share (Next Qtr., US\$)	10.1	EV/IC (x)	—	20.6
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: KITE Newsflow

Product	Catalyst	Expected Date	Price Sensitivity
KTE-C19	Initiate Pivotal Phase I/II trial in DLBCL 3rd line+	H1:15	Low
KTE-C19	Clear initial safety review	H1:15	Medium
KTE-C19	Begin registration trials in other indications (MCL, CLL, and ALL)	H2:15	Medium
Various	Updated data from various NCI trials	2015	Medium
KTE-C19	Potential Breakthrough Therapy Designation	H1:15	Medium
ND	File IND for second product	Late 2015	Medium
KTE-C19	Complete enrollment in Phase I/II 3rd line DLBCL trial	Early 2016	Medium
KTE-C19	Initial results from Phase I/II 3rd line DLBCL trial	Mid-2016	High
KTE-C19	Start trial for 2nd line DLBCL	2016	Medium
KTE-C19	BLA submission for KTE-C19 in DLBCL	Q4:16	Medium

Source: Company data, Credit Suisse estimates

## Exhibit 2: KITE Earnings Model

	2012A	2013A	Q1:14A	Q2:14A	Q3:14A	Q4:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
<b>Revenues</b>															
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
<b>Total Revenues</b>								<b>127.5</b>		<b>38.4</b>	<b>266.0</b>	<b>314.6</b>	<b>537.5</b>	<b>723.9</b>	<b>806.1</b>
<b>Expenses</b>															
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
<b>Total Operating Expenses</b>	<b>2.6</b>	<b>6.4</b>	<b>3.2</b>	<b>11.1</b>	<b>9.1</b>	<b>7.4</b>	<b>30.8</b>	<b>47.0</b>	<b>95.0</b>	<b>133.7</b>	<b>179.4</b>	<b>217.2</b>	<b>252.2</b>	<b>275.7</b>	<b>294.8</b>
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
<b>Net Income</b>	<b>(2.6)</b>	<b>(6.4)</b>	<b>(3.1)</b>	<b>(17.4)</b>	<b>(9.1)</b>	<b>(7.3)</b>	<b>(36.9)</b>	<b>80.8</b>	<b>(94.8)</b>	<b>(95.2)</b>	<b>86.8</b>	<b>63.5</b>	<b>185.6</b>	<b>291.5</b>	<b>332.5</b>
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 16-Mar-2015)

**Amgen Inc.** (AMGN.OQ, \$163.03, NEUTRAL, TP \$180.0)  
**Kite Pharma** (KITE.OQ, \$62.2, OUTPERFORM[V], TP \$79.0)

## Disclosure Appendix

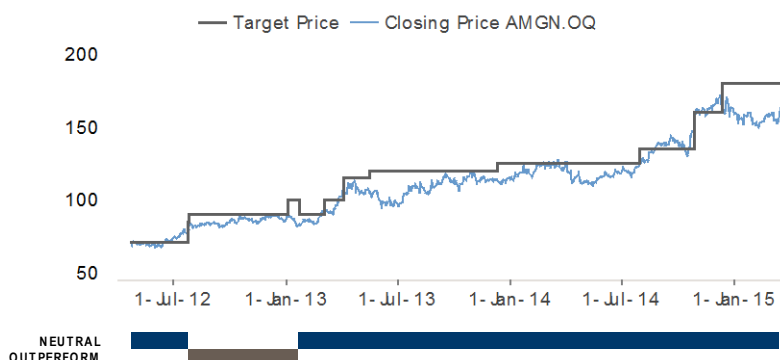
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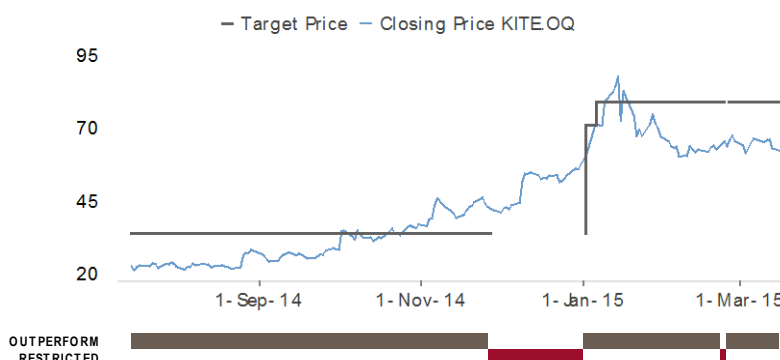
AMGN.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
24-Apr-12	68.63	71.00	N
25-Jul-12	77.96	85.00	O
26-Jul-12	79.30	90.00	
03-Jan-13	88.59	100.00	
22-Jan-13	83.29	90.00	N
04-Mar-13	92.73	100.00	
04-Apr-13	105.90	115.00	
17-May-13	105.63	120.00	
10-Dec-13	114.10	125.00	
30-Jul-14	130.01	135.00	
28-Oct-14	157.19	160.00	
11-Dec-14	166.08	180.00	

\* Asterisk signifies initiation or assumption of coverage.

**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
02-Jan-15	60.61	71.00	O
06-Jan-15	71.45	79.00	
23-Feb-15	65.54		R
25-Feb-15	65.89	79.00	O

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Underperform/Sell*	15%	(44% banking clients)
Restricted	3%	

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

**Method:** Our \$79 target includes \$1,892M DCF valuation of KTE-C19 and \$1800M 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 \$79 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.

#### Price Target: (12 months) for Amgen Inc. (AMGN.OQ)

**Method:** Our \$180 target price for AMGN implies a 17.2x PE multiple on our 2016 non-GAAP EPS estimate. This represents a 16% premium to the S&P 500 2016 PE multiple.

**Risk:** We see several risks to AMGN's achievement of our \$180 target price. (1) More or less biosimilar competition relative to our model. (2) Denosumab could exceed or miss our expectations. (3) Erythropoietin safety concerns could be more or less than our model. (4) Pipeline exceeds expectations. (5) Share buyback could be less aggressive than our model.

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