

US Equity Research

18 May 2015

BUY

unchanged

PRICE TARGET US\$90.00

unchanged

Price (18-May) US\$50.02

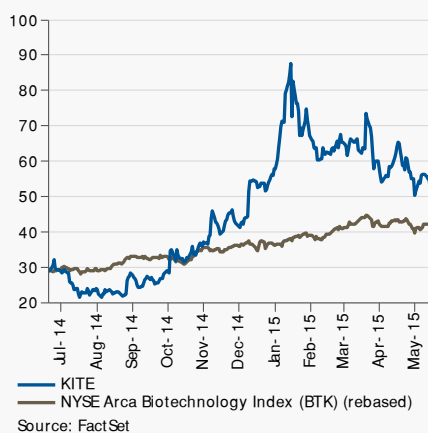
Ticker KITE-NASDAQ

52-Week Range (US\$): 21.00 - 89.21
 Avg Daily Vol (M): 880.7
 Shares Out. (M): 38.3
 Market Cap (US\$M): 1,917

FYE Dec	2014A	2015E	2016E
Revenue (US\$M)	0.0	2,881.0	0.0
Previous	0.0	0.0	-
EPS Adj&Dil (US\$)	(1.91)	(0.95)↑	(1.02)
Previous	(1.91)	(1.65)	-

Quarterly Revenue	Q1	Q2	Q3	Q4
2014A	0.0	0.0	0.0	0.0
2015E	2,881.0A	0.0	0.0	0.0
2016E	-	-	-	-

Quarterly EPS Adj&Dil	Q1	Q2	Q3	Q4
2014A	(0.66)	(2.27)	(0.24)	(0.33)
2015E	(0.20)A	(0.25)	(0.25)	(0.25)
2016E	-	-	-	-



Kite Pharma is focused on development of novel cancer immunotherapy using engineered autologous cell therapy (eACT).

John Newman, PhD | Canaccord Genuity Inc. (US) | JNewman@canaccordgenuity.com | 212.389.8042

Kevin Dai, PharmD, BCOP | Canaccord Genuity Inc. (US) | kdai@canaccordgenuity.com | 212.389.8043

Company Update

Pivotal DLBCL study underway, limited glioma read-thru to other solid tumors

NVS ASCO data similar to KITE

ASCO abstract with NVS/UPenn's CTL019 program in n=18 evaluable patients (12 DLBCL; 6 FL) demonstrated an overall response rate of 67% (DLBCL 50%; FL 100%), slightly lower than KITE's ORR of 76% in n=29 evaluable lymphoma patients. We believe the data are similar, but remind investors that KITE will file first for DLBCL vs. JUNO and NVS, which will file first in ALL, a much smaller revenue opportunity. Additionally, a similar toxicity profile was seen with UPenn's data, including cytokine release in 15 patients, neurologic toxicity in 3 patients, transient delirium in 2 patients, and 1 patient with grade 5 encephalopathy.

DLBCL pivotal study to start 2Q15, 3 additional pivotals to follow

KITE plans on launching 4 pivotal studies in various hematologic cancers in 2015, which we expect to be in DLBCL, ALL, CLL, or MCL/FL, each of which should serve as a pivotal study and facilitate filing with FDA assuming positive efficacy and safety data. Additionally, NIH could continue to present updated data on their TCR program in 2015, specifically with the NY-ESO-1 and HPV-16 target, which should continue to build the efficacy case in melanoma and head and neck cancer. KITE may file an IND to start a trial in solid tumors sometime in 2016, but we await details from the company. Finally, we expect ongoing followup to NIH's CART program in DLBCL to continue to add incremental benefit to Kite shares.

Melanoma data against NY-ESO-1 interesting, offsets ASGCT glioma data

We find the current data with NCI's NY-ESO-1 TCR program to be encouraging, given an ORR of 53% (32% PR, 21% CR) in melanoma (n=19) and ORR of 67% (60% PR, 7% CR) in synovial sarcoma (n=15). We believe the melanoma opportunity offsets the recent non-eventful update for UPenn/NVS EGFRvIII-CART construct in glioma, which showed no responses in a small, early study.

Revenues, EPS not meaningful at this point; maintain BUY, \$90 price target

KITE reported 1Q15 GAAP EPS of (\$0.36) vs. consensus (\$0.29), but this is a moot point due to the fact that KITE is a clinical stage company, not a commercial stage company (please note we are reporting non-GAAP EPS going forward). For early biotechnology companies, we remind investors that revenues and EPS do not hold much value since the valuation is mainly driven on potential future sales and clinical milestones for the company. We maintain our BUY position and remind investors not to focus on EPS and revenue numbers from earnings, but rather on long-term growth and upcoming milestones to be the driver for the stock.

Figure 1: KITE income statement

(\$000's) [FY - DEC]	2014A	1Q15A	2Q15E	3Q15E	4Q15E	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)											
Collaboration revenue		2,881									
Total revenues	-	2,881	-	-	-	2,881	-	290,423	873,455	1,296,863	1,410,191
Cost of goods sold	-		-	-	-	-	-	52,691	159,197	235,363	251,108
Gross profit	-	2,881	-	-	-	2,881	-	237,733	714,259	1,061,500	1,159,083
Operating expenses											
Research and Development	23,089	9,260	9,260	9,353	9,446	37,319	38,065	47,581	59,477	74,346	92,932
SG&A	13,569	9,171	9,263	9,355	9,449	37,238	39,100	39,491	41,070	42,713	44,422
Depreciation and amortization	264					-					
Total Operating Expense	36,658	18,431	18,523	18,708	18,895	74,557	77,165	87,072	100,547	117,059	137,354
EBITDA	(36,658)	(15,550)	(18,523)	(18,708)	(18,895)	(71,676)	(77,165)	150,661	613,712	944,441	1,021,729
Operating income (EBIT)	(36,658)	(15,550)	(18,523)	(18,708)	(18,895)	(71,676)	(77,165)	150,661	613,712	944,441	1,021,729
Non-operating Interest income	358	466	1,039	987	1,009	3,501	4,070	5,284	9,763	17,522	27,184
Other income/interest expense	(6,269)	(4)									
Pre-tax income (EBT)	(42,569)	(15,088)	(17,484)	(17,721)	(17,886)	(68,174)	(73,095)	155,944	623,475	961,963	1,048,912
Provision for Income Taxes	-	-	-	-	-	-	-	57,699	230,686	355,926	388,098
Net Income	(42,569)	(15,088)	(17,484)	(17,721)	(17,886)	(68,174)	(73,095)	98,245	392,789	606,037	660,815
Preferred Dividends	1,089										
Net Income to Common Shareholders	(43,658)										
Adjustments to Net income		(8,411)	(10,807)	(11,044)	(11,209)	(41,466)	(46,387)	124,953	419,497	632,745	687,523
GAAP EPS	(\$1.91)	(0.36)	(\$0.40)	(\$0.41)	(\$0.39)	(\$1.56)	(\$1.61)	\$1.96	\$6.99	\$9.63	\$9.37
Adjusted EPS		(0.20)	(0.25)	(0.25)	(0.25)	(\$0.95)	(\$1.02)	\$2.49	\$7.46	\$10.05	\$9.75
Diluted Weighted Average Shares	22,822,204	42,466,000	43,315,320	43,748,473	45,328,815	43,714,652	45,303,231	50,188,743	56,211,392	62,956,759	70,511,570

Source: Company reports, Canaccord Genuity estimates

Figure 2: 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	\$3,057	10/1/2017	2.4	70%	\$1,679	\$40
CLL US	\$83	2021	\$337	10/1/2018	3.4	60%	\$143	\$3
ALL US	\$195	2021	\$1,013	10/1/2018	3.4	65%	\$467	\$11
FL US	\$165	2021	\$760	10/1/2018	3.4	60%	\$323	\$8
MCL US	\$164	2021	\$755	10/2/2018	3.4	60%	\$321	\$8
US - total	\$1,298	2020	\$5,922	10/1/2018	3.4	60%	\$2,517	\$70
Ex-US								
DLBCL royalty Ex-US	\$53	2020	\$527	6/1/2018	3.0	70%	\$271	\$6
CLL royalty Ex-US	\$6	2021	\$58	6/1/2019	4.0	60%	\$23	\$1
ALL royalty Ex-US	\$15	2021	\$148	6/1/2019	4.0	65%	\$64	\$2
FL royalty Ex-US	\$13	2021	\$114	6/2/2019	4.0	60%	\$45	\$1
MCL royalty Ex-US	\$12	2021	\$113	6/3/2019	4.0	60%	\$45	\$1
Ex-US - royalty - total	\$99	2020	\$1,030	6/1/2018	3.0	60%	\$453	\$11
Total Product Value							\$3,385	\$80
Cash							\$400	\$9.5
Total Equity Value							\$3,785	\$90
Shares Outstanding (MM)							42	

Risk-Free Rate	3%
Beta	1.8
Risk Premium	5%
Discount Rate	11%

Source: Company reports, Canaccord Genuity estimates

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Target Price / Valuation Methodology:

Kite Pharma - KITE

Our target price is \$90, based on a probability adjusted NPV valuation.

Risks to achieving Target Price / Valuation:

Kite Pharma - KITE

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.

Distribution of Ratings:

Global Stock Ratings (as of 05/18/15)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	579	57.96%	32.12%
Hold	335	33.53%	16.72%
Sell	40	4.00%	5.00%
Speculative Buy	45	4.50%	55.56%
	999*	100.0%	

*Total includes stocks that are Under Review

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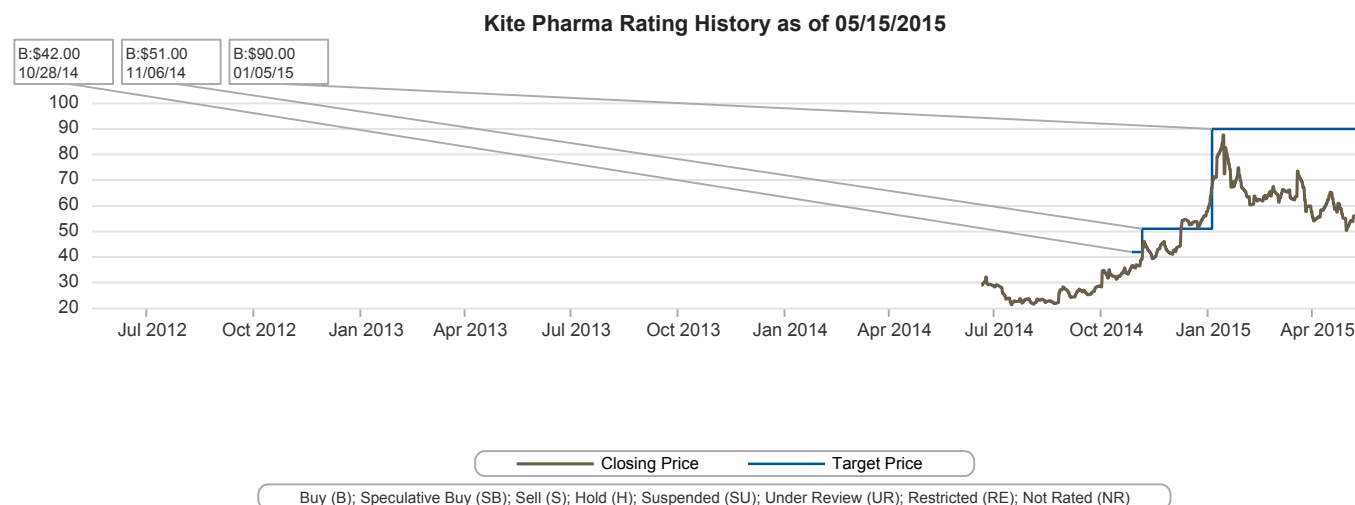
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