

Today's Changes	Annual EPS	Annual Revenue	Target
	No change	No change	\$51.00 from \$42.00

Kite Pharma

KITE : NASDAQ : US\$43.64

BUY

Target: US\$51.00 ↑

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COMPANY STATISTICS:

Forecast Return:	-3.8%
Shares Out (M):	43.6
Market Cap (M):	US\$1,902.7
52-week Range:	21.00 - 36.41
Avg. Daily Vol. (000s):	523.0

EARNINGS SUMMARY:

FYE Dec	2013A	2014E	2015E
Revenue (M):	0.0	0.0	0.0
EPS:	(1.42)	(1.85)	(1.49)

Revenue (M):	Q1	0.0	0.0A	0.0
	Q2	0.0	0.0A	0.0
	Q3	0.0	0.0	0.0
	Q4	0.0	0.0	0.0
Total		0.0	0.0	0.0
EPS:	Q1	-	(0.66)A	(0.38)
	Q2	-	(2.27)A	(0.37)
	Q3	-	(0.28)	(0.37)
	Q4	-	(0.28)	(0.36)
Total		(1.42)	(1.85)	(1.49)

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 CELL THERAPY SHOWS LONG RESPONSE DURATION OF 37 MONTHS; RAISING PT TO \$51

Investment highlights

NCI's CART suggest prolonged survival of T-cells; significant

Recently published ASH abstract on NCI's CART cell therapy, in collaboration with KITE, added 9 more DLBCL patients with a reported 55% ORR (1 CR, 4 PR). Importantly, follow-up of the current ten patients who have ongoing CRs is surprisingly long-lasting, with one patient maintaining the CR for 37 months. Unlike ALL, where CRs are crucial for a successful stem cell transplant (SCT) as the only cure, the goal for relapsed DLBCL patients is maintaining a durable remission and OS since they do not undergo SCT. We find the long term duration a strong positive for the company going forward as they start their own trials in this disease.

UPenn's CART in NHL shows positive response; KITE still ahead

Data from UPenn's CART program, in collaboration with Novartis, demonstrated positive response with ORR of 50% in 8 patients (6 DLBCL, 2 FL). Although very limited in sample size, we remind investors that NCI's recently published CART program had a 92% ORR in 13 B-cell malignant patients with prolonged duration, which we believe gives KITE's technology a lead in the chimeric antigen receptor landscape.

Raising price target to \$51, maintain BUY

We are raising our price target to \$51 from \$42 due to the positive outcomes seen with the recently published ASH abstract. We use a probability-adjusted net present valuation and have increased our probability of approval in DLBCL to 45% from 30% to reach our new PT.

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7 November 2014

Figure 1: 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	\$2,970	10/1/2017	2.9	45%	\$985	\$26
CLL US	\$83	2021	\$327	10/1/2018	3.9	30%	\$65	\$2
ALL US	\$195	2021	\$979	10/1/2018	3.9	30%	\$195	\$5
FL US	\$165	2021	\$736	10/1/2018	3.9	30%	\$146	\$4
MCL US	\$164	2021	\$732	10/2/2018	3.9	30%	\$146	\$4
US - total	\$1,298	2020	\$5,744	10/1/2017	2.9	30%	\$1,269	\$33
Ex-US								
DLBCL royalty Ex-US	\$53	2020	\$508	6/1/2018	3.6	45%	\$157	\$4
CLL royalty Ex-US	\$6	2021	\$56	6/1/2019	4.6	30%	\$10	\$0
ALL royalty Ex-US	\$15	2021	\$142	6/1/2019	4.6	30%	\$26	\$1
FL royalty Ex-US	\$13	2021	\$110	6/2/2019	4.6	30%	\$20	\$1
MCL royalty Ex-US	\$12	2021	\$109	6/3/2019	4.6	30%	\$20	\$1
Ex-US - royalty - total	\$99	2020	\$994	6/1/2018	3.6	30%	\$205	\$5
Total Product Value							\$1,741	\$46
Cash							\$200	\$5.3
Total Equity Value							\$1,941	\$51
Shares Outstanding (MM)							38	
Risk-Free Rate		3.0%						
Beta		1.8						
Risk Premium		5%						
Discount Rate		11%						

Source: Canaccord Genuity

Figure 2: Income statement

(\$000's) [FY - DEC]	2012 A	2013A	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues													
CAR T-cells													
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)													
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	7,498	7,573	24,557	46,946	47,885	59,857	74,821	93,526	116,908
SG&A	770	1,339	1,070	3,668	3,705	3,742	12,184	15,345	16,112	16,273	16,924	17,601	18,305
Depreciation and amortization	9	17	30	48			78	-					
Total Operating Expense	2,581	6,427	3,162	11,140	11,203	11,315	36,820	62,291	63,997	76,130	91,745	111,127	135,213
Depreciation and amortization	9	17	30	48			78	-					
EBITDA	(2,572)	(6,410)	(3,132)	(11,092)	(11,203)	(11,315)	(36,742)	(62,291)	(63,997)	161,603	622,514	950,373	1,023,870
Operating income (EBIT)	(2,581)	(6,427)	(3,162)	(11,140)	(11,203)	(11,315)	(36,820)	(62,291)	(63,997)	161,603	622,514	950,373	1,023,870
Non-operating													
Non-operating Interest income	36	52	-	47	741	696	1,483	2,281	2,044	2,994	7,157	14,574	23,858
Other income/interest expense	(27)	13	21	(6,266)									
Pre-tax income (EBT)	(2,571)	(6,362)	(3,141)	(17,359)	(10,462)	(10,619)	(35,337)	(60,010)	(61,953)	164,597	629,671	964,947	1,047,728
Provision for Income Taxes													
Provision for Income Taxes	-	-	-	-	-	-	-	-	-	60,901	232,978	357,031	387,659
Net Income	(2,571)	(6,362)	(3,141)	(17,359)	(10,462)	(10,619)	(41,582)	(60,010)	(61,953)	103,696	396,693	607,917	660,069
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)	(\$0.28)	(\$0.28)	(\$1.85)	(\$1.49)	(\$1.48)	\$2.23	\$7.62	\$10.43	\$10.11
Adjusted EPS excl options expense													
Diluted Weighted Average Shares	5,314,214	5,473,384	5,571,499	7,890,029	38,000,000	38,380,000	22,460,382	40,321,006	41,841,712	46,484,917	52,063,107	58,310,680	65,307,962

Source: Company reports, 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.

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	#	%	%
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	1041	100.0%	

*Total includes stocks that are Under Review

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Kite Pharma	5, 7

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