

Kite Pharma Inc KITE (NAS) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
62.72 USD	70.00 USD	35.00 USD	122.50 USD	Very High	None	Positive	Standard	Biotechnology

Kite Investor Day Highlights Ongoing Progress of CAR T and TCR Programs; Maintaining FVE

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The primary analyst covering this company does not own its stock.

Research as of 24 Jun 2015
Estimates as of 18 May 2015
Pricing data through 23 Jun 2015
Rating updated as of 23 Jun 2015

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 24 Jun 2015

We're maintaining our \$70 fair value estimate and no moat, positive trend rating for Kite Pharma following the company's first investor day, which highlighted its progress and leadership in the fast-moving chimeric antigen receptor T-cell and T-cell receptor space but provided limited new information on its main clinical programs. The recent initiation of the pivotal study for its lead product, KTE-C19, in diffuse large B cell lymphoma and the reiteration of its plans to start trials in other hematological cancers (mantle cell lymphoma, acute lymphoblastic leukemia, and chronic lymphocytic leukemia) in the second half of the year keep the company on track to meet its key milestone of potentially reporting results in DLBCL in 2016. Kite also provided an update for its earlier TCR pipeline programs (NY-ESO-1, HPV-16 E6, and MAGE A3), which are targeting a variety of solid tumors. While our current view is that KTE-C19 will probably be successful as a high-priced niche therapy in a number of hematological cancers because of its complex manufacturing and challenging side effect profile, we continue to believe that Kite's technology has much broader potential in oncology should it demonstrate similar strong efficacy in solid tumors.

Vital Statistics

Market Cap (USD Mil)	2,701
52-Week High (USD)	89.21
52-Week Low (USD)	21.00
52-Week Total Return %	105.4
YTD Total Return %	8.8
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	NM
5-Yr Forward EPS CAGR %	—
Price/Fair Value	0.90

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings	—	NM	NM	NM
EV/EBITDA	—	NM	NM	NM
EV/EBIT	—	NM	NM	NM
Free Cash Flow Yield %	—	-0.8	-0.9	-2.6
Dividend Yield %	—	—	—	—

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue	—	—	19	20
Revenue YoY %	—	—	NM	8.1
EBIT	-6	-37	-87	-120
EBIT YoY %	146.4	470.3	136.0	38.7
Net Income, Adjusted	-8	-44	-87	-120
Net Income YoY %	203.7	458.5	98.2	38.7
Diluted EPS	-1.43	-1.91	-2.03	-2.82
Diluted EPS YoY %	194.9	34.0	6.4	38.7
Free Cash Flow	-6	-29	-70	-153
Free Cash Flow YoY %	110.7	384.6	139.0	118.0

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Kite Pharma is a clinical-stage biopharmaceutical company engaged in the development of novel cancer immunotherapy products. In partnership with the National Cancer Institute Surgery Branch through a cooperative research and development agreement, Kite is advancing a pipeline of proprietary product candidates, both chimeric antigen receptor and T-cell receptor products, directed to a wide range of cancer indications. The company also has a strategic collaboration with Amgen to develop and commercialize next-generation CAR-T therapies.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					
		2012	2013	2014	2015	2016	5-Year Proj. CAGR
Growth (% YoY)							
Revenue	—	—	—	—	NM	8.1	NM
EBIT	—	—	146.4	470.3	136.0	38.7	—
EBITDA	—	—	146.6	467.8	136.9	38.8	—
Net Income	—	—	203.7	458.5	98.2	38.7	—
Diluted EPS	—	—	194.9	34.0	6.4	38.7	—
Earnings Before Interest, after Tax	—	—	143.4	374.6	184.2	38.7	—
Free Cash Flow	—	—	110.7	384.6	139.0	118.0	—
Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	—	—	-642,734,700- 0,000,000,000.000,000,000.0	-3,665,800,0- 0,000,000,000.000,000,000.0	-467.6	-600.0	-361.0
EBITDA Margin %	—	—	-641,055,700- 0,000,000,000.000,000,000.0	-3,639,600,0- 0,000,000,000.000,000,000.0	-466.1	-598.6	-360.1
Net Margin %	—	—	-781,452,300- 0,000,000,000.000,000,000.0	-4,364,500,0- 0,000,000,000.000,000,000.0	-467.6	-600.1	-361.7
Free Cash Flow Margin %	—	—	NM	NM	NM	NM	NM
Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	—	—	—	—	—	—	—
Total Debt/EBITDA	—	—	—	—	—	—	—
EBITDA/Interest Expense	-1,468.37	-2,599.59	-1,799.71	-5.81	—	—	—

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	—	—	—	—
Price/Earnings	—	NM	NM	NM
EV/EBITDA	—	NM	NM	NM
EV/EBIT	—	NM	NM	NM
Free Cash Flow Yield %	—	-0.8	-0.9	-2.6
Dividend Yield %	—	—	—	—

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	9.0
Long-Run Tax Rate %	32.5
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	20.0
Perpetuity Year	11

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	293	10.8	6.90
Present Value Stage II	155	5.7	3.65
Present Value Stage III	2,265	83.5	53.26
Total Firm Value	2,713	100.0	63.81
Cash and Equivalents	367	—	8.63
Debt	—	—	—
Preferred Stock	—	—	—
Other Adjustments	-217	—	-5.09
Equity Value	2,864	—	67.35

Projected Diluted Shares

43

Fair Value per Share (USD)

—

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Revenue	—	—	—	19	20
Cost of Goods Sold	—	—	—	—	—
Gross Profit	—	—	—	19	20
Selling, General & Administrative Expenses	1	1	14	40	50
Research & Development	2	5	23	65	90
Other Operating Expense (Income)	0	—	—	—	—
Depreciation & Amortization (if reported separately)	—	—	—	—	—
Operating Income (ex charges)	-3	-6	-37	-87	-120
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	0	0	0	—	—
Operating Income (incl charges)	-3	-6	-37	-87	-120
Interest Expense	0	0	6	—	—
Interest Income	0	0	0	—	—
Pre-Tax Income	-3	-6	-43	-87	-120
Income Tax Expense	—	—	—	—	—
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	-1	-1	—	—
Net Income	-3	-8	-44	-87	-120
Weighted Average Diluted Shares Outstanding	5	5	23	43	43
Diluted Earnings Per Share	-0.49	-1.43	-1.91	-2.03	-2.82
Adjusted Net Income	-3	-8	-44	-87	-120
Diluted Earnings Per Share (Adjusted)	-0.48	-1.43	-1.91	-2.03	-2.82
Dividends Per Common Share	—	—	—	—	—
EBITDA	-3	-6	-36	-86	-120
Adjusted EBITDA	-3	-6	-36	-86	-120

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Cash and Equivalents	9	22	367	297	144
Investments	—	—	—	—	—
Accounts Receivable	—	—	—	1	1
Inventory	—	—	—	—	—
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	0	0	1	1	1
Current Assets	9	23	368	299	146
Net Property Plant, and Equipment	0	0	2	20	30
Goodwill	—	—	—	5	5
Other Intangibles	—	—	—	13	13
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	—	—	—	—	—
Long-Term Non-Operating Assets	0	0	0	0	0
Total Assets	9	23	371	337	194
Accounts Payable	0	0	2	13	14
Short-Term Debt	—	—	—	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	0	1	4	24	23
Current Liabilities	1	1	7	37	36
Long-Term Debt	—	—	—	—	—
Deferred Tax Liabilities (Long-Term)	—	—	—	—	—
Other Long-Term Operating Liabilities	0	0	0	23	—
Long-Term Non-Operating Liabilities	0	—	1	1	1
Total Liabilities	1	1	8	61	38
Preferred Stock	—	0	—	—	—
Common Stock	0	0	0	0	0
Additional Paid-in Capital	0	37	421	421	421
Retained Earnings (Deficit)	-6	-15	-58	-145	-265
(Treasury Stock)	—	—	—	—	—
Other Equity	14	—	0	0	0
Shareholder's Equity	8	22	363	276	156
Minority Interest	—	—	—	—	—
Total Equity	8	22	363	276	156

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	
				2015	2016
Net Income	-3	-6	-43	-87	-120
Depreciation	0	0	0	0	0
Amortization	—	—	—	—	—
Stock-Based Compensation	0	0	16	48	59
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	—	—	6	—	—
(Increase) Decrease in Accounts Receivable	—	—	—	-1	0
(Increase) Decrease in Inventory	—	—	—	—	—
Change in Other Short-Term Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	—	—	2	10	1
Change in Other Short-Term Liabilities	0	1	1	20	-2
Cash From Operations	-3	-6	-17	-9	-61
(Capital Expenditures)	0	0	-2	-15	-10
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	-21	—
Net Sales (Purchases) of Investments	—	—	-158	—	—
Other Investing Cash Flows	—	—	—	22	-23
Cash From Investing	0	0	-160	-14	-33
Common Stock Issuance (or Repurchase)	0	—	338	—	—
Common Stock (Dividends)	—	—	—	—	—
Short-Term Debt Issuance (or Retirement)	—	—	—	—	—
Long-Term Debt Issuance (or Retirement)	—	—	50	—	—
Other Financing Cash Flows	0	20	-24	-48	-59
Cash From Financing	0	20	364	-48	-59
Exchange Rates, Discontinued Ops, etc. (net)	—	20	—	—	—
Net Change in Cash	-3	33	187	-70	-153

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Price/Fair Value Morningstar data as of Jun 23, 2015



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