

Kite Pharma (KITE)

Rating	OUTPERFORM* [V]
Price (26 Mar 15, US\$)	58.42
Target price (US\$)	79.00 ¹
52-week price range	87.62 - 21.39
Market cap. (US\$ m)	2,474.63
Enterprise value (US\$ m)	2,164.92

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

¹Target price is for 12 months.

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

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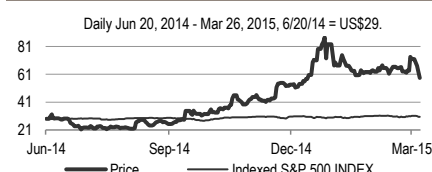
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FORECAST REDUCTION

Q4 Earnings: Uneventful with Focus on Recent Advances

- KITE continues to be on track to initiate its first pivotal study for KTE-C19 for DLBCL in H1:15. KITE also anticipates initiating other registration enabling studies for KTE-C19 in other indications later this year.
- KITE has been extremely active in building out its pipeline and infrastructure including deals with AMGN, NCI, and T cell Factory (see note published 03/17/15 - [LINK](#)).
- KITE ended 2014 with \$367M cash and cash equivalents and expects approximately \$300M at year-end 2015. Our 2015 EPS estimate decreases to \$1.15 from \$1.72 on anticipated higher operating expenses. Our 2015 estimate includes a forecast upfront payment for an ex-US partnership. Given the high cash balance at year-end 2014 and the recent geographic expansion with the acquisition of T cell Factory, KITE may be less likely sign an ex-US deal in 2015. Without this deal our EPS estimate would be (\$1.74) for 2015.

Share price performance



On 03/26/15 the S&P 500 INDEX closed at 2065.43

Quarterly EPS	Q1	Q2	Q3	Q4
2014A	-0.66	-2.27	-0.24	-0.33
2015E	-0.34	-0.40	-0.47	2.23
2016E	-0.54	-0.55	-0.57	-0.56

Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (US\$)	-1.91	1.15	-2.22	-2.08
Prev. EPS (US\$)	—	1.72	-2.20	-2.06
P/E (x)	-30.5	51.0	-26.3	-28.1
P/E rel. (%)	-170.4	288.0	-168.3	-201.3
Revenue (US\$ m)	—	139.5	12.0	50.4
EBITDA (US\$ m)	-36.4	53.9	-95.5	-95.9
OCFPS (US\$)	-0.56	2.78	-1.16	-0.93
P/OCF (x)	-103.3	21.0	-50.2	-62.7
EV/EBITDA (current)	-62.2	42.0	-23.7	-23.6
Net debt (US\$ m)	-209	-310	-449	-371
ROIC (%)	-23.91	39.68	-57.66	-46.34
Number of shares (m)	42.36	IC (current, US\$ m)		153.29
BV/share (Next Qtr., US\$)	8.4	EV/IC (x)		21.5
Net debt (Next Qtr., US\$ m)	-250.6	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	-70.7	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	Potential Breakthrough Therapy Designation	H1:15	Medium
KTE-C19	Begin registration trials in other indications	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	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 Q4 Variance Table

Income Statement	4Q:14 Act.	CS 4Q:14	
		Est	Delta
Revenues			\$ -
Total Revenues	\$ -	\$ -	\$ -
Expenses	\$ -	\$ -	\$ -
Cost of goods	\$ -	\$ -	\$ -
Research and development	\$ 7.9	\$ 5.0	\$ 2.8
Sales, general, administrative	\$ 5.4	\$ 2.4	\$ 3.0
Total Operating Expenses	\$ 13.3	\$ 7.4	\$ 5.9
Operating income (loss)	\$ (13.3)	\$ (7.4)	\$ (5.9)
Total Other Income (Expense)	\$ 0.2	\$ 0.1	\$ 0.1
Pre Tax Income	\$ (13.0)	\$ (7.3)	\$ (5.7)
Income tax	\$ -	\$ -	\$ -
Net Income	\$ (13.0)	\$ (7.3)	\$ (5.7)
			\$ -
EPS - basic (proforma)	\$ (0.33)	\$ (0.19)	\$ (0.1)
EPS - diluted (proforma)	\$ (0.33)	\$ (0.19)	\$ (0.1)
			\$ -
Shares outstanding - basic (proforma)	\$ -	\$ -	\$ -

Source: Company data, Credit Suisse estimates

Exhibit 3: KITE Earnings Model

	2012A	2013A	Q1:14A	Q2:14A	Q3:14A	Q4:14A	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues															
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								139.5	12.0	12.0	143.0	3.0			
Ex-US royalties on other CAR or TCR												1.1	4.2	14.0	17.1
Total Revenues								139.5	12.0	50.4	269.0	317.6	537.5	723.9	806.1
Expenses															
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	7.9	23.1	60.0	77.0	85.0	89.0	93.0	97.0	101.0	105.0
Sales, general, administrative	0.8	1.3	1.1	3.7	3.4	5.4	13.6	26.0	36.0	52.6	77.5	85.5	90.5	95.5	100.5
Total Operating Expenses	2.6	6.4	3.2	11.1	9.1	13.3	36.7	86.0	113.0	146.7	192.4	230.2	265.2	288.7	307.8
Operating income (loss)	(2.6)	(6.4)	(3.2)	(11.1)	(9.1)	(13.3)	(36.7)	53.5	(96.0)	(96.4)	76.6	87.5	272.3	435.2	498.3
Total Other Income (Expense)	0.0	0.1	0.0	(6.2)	0.1	0.2	(5.9)	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)	(13.0)	(42.6)	53.8	(95.7)	(96.2)	76.8	87.7	272.6	435.5	498.6
Income tax													95.4	152.4	174.5
Net Income	(2.6)	(6.4)	(3.1)	(17.4)	(9.1)	(13.0)	(42.6)	53.8	(95.7)	(96.2)	76.8	87.7	177.2	283.1	324.1
EPS - basic	(\$0.46)	(\$1.16)	(\$0.66)	(\$2.27)	(\$0.24)	(\$0.33)	(\$1.91)	\$1.27	(\$2.22)	(\$2.08)	\$1.65	\$1.86	\$3.72	\$5.88	\$6.67
EPS - diluted	(\$0.46)	(\$1.16)	(\$0.66)	(\$2.27)	(\$0.24)	(\$0.33)	(\$1.91)	\$1.15	(\$2.22)	(\$2.08)	\$1.49	\$1.68	\$3.36	\$5.32	\$6.03
Shares outstanding - basic	5.59	5.47	5.57	7.89	38.33	38.96	22.82	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

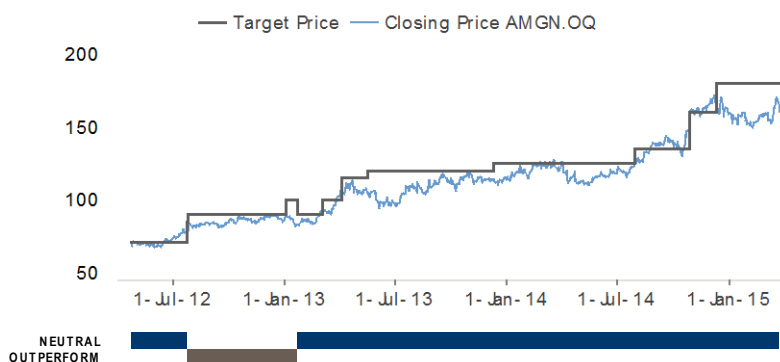
Companies Mentioned (Price as of 26-Mar-2015)**Amgen Inc.** (AMGN.OQ, \$161.75)**Kite Pharma** (KITE.OQ, \$58.42, OUTPERFORM[V], TP \$79.0)**Disclosure Appendix****Important Global Disclosures**

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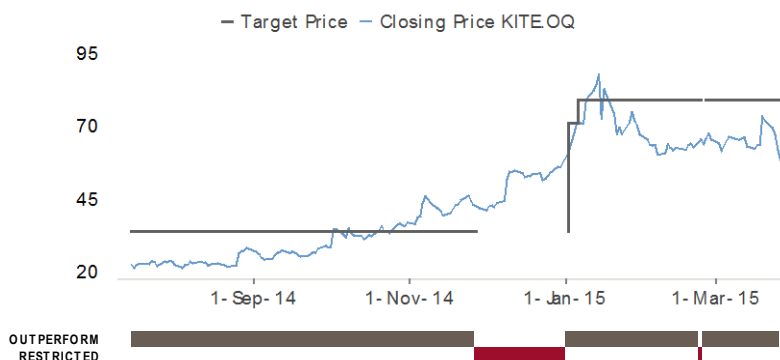
AMGN.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
24-Apr-12	68.63	71.00	N
25-Jul-12	77.96	85.00	O
26-Jul-12	79.30	90.00	
03-Jan-13	88.59	100.00	
22-Jan-13	83.29	90.00	N
04-Mar-13	92.73	100.00	
04-Apr-13	105.90	115.00	
17-May-13	105.63	120.00	
10-Dec-13	114.10	125.00	
30-Jul-14	130.01	135.00	
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*	16%	(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.

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