

## Kite Pharma, Inc.

KITE - BUY - 4Q14/2014 Earnings; Pipeline/Capacity Expansion; Several Clinical Programs to Initiate in 2015

March 27, 2015

**Conclusion:** KITE's earnings were in line with our expectations and with our continuing positive view on the potential of KITE's CAR-T/TCR platform. The company made important progress in expanding pipeline options for new target antigens and added new capacity and international presence with the acquisition of T Cell Factory.

On 3/26, KITE reported 4Q and full-year financial results. As in prior quarters, there was no conference call. KITE is focused in the CAR-T/TCR therapeutic space. We believe in the potential of CAR-T (chimeric antigen receptor T cells) therapy, an anti-cancer category that, in our view, has significant market potential across immuno-oncology. Importantly, as we move through this calendar year, it is our view that additional data will be forthcoming from a number of companies in the oncology space, especially in immuno-oncology. KITE is expected to begin enrollment in its first pivotal study with its lead product KITE-C19 in refractory diffuse large B cell lymphoma (DLBCL).

**KITE-C19 in registrational Phase 2 trial in DLBCL.** It is possible we may begin to see some data from patients by year end at the American Society of Hematology meeting (ASH). We should also see the initiation of other trials, including 3 trials in lymphoma and leukemia in 2H of this year (see Catalyst Calendar on Page 2). Under the CRADA with the National Cancer Institute, 6 trials are ongoing.

**Fourth Quarter Results.** KITE reported 4Q EPS of \$(0.19) on a non-GAAP basis but inclusive of non-cash based stock compensation of \$0.14, the GAAP loss was \$(0.33). This was based on shares outstanding of 38.9 million. The full year of 2014 had a non-GAAP loss of \$(1.91). Non-cash stock based compensation was \$0.71 for the full year. KITE did not provide guidance on its call. Our EPS estimate for 2015 is \$0.02 on \$100M in revenue with a projected upcoming milestone payment from AMGN (NEUTRAL, \$160.55).

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## KITE BUY

### EARNINGS RELEASE

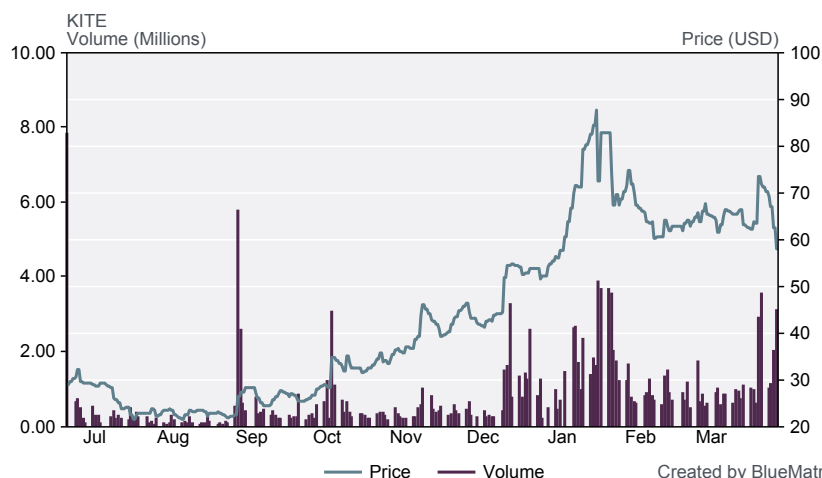
#### Investment Thesis: Growth

SHARE PRICE \$57.75  
PRICE TARGET \$73.00

EPS (\$) (FY Dec)	1Q	2Q	3Q	4Q	FY
2014	—	—	—	(0.19)	(1.91)
Prior	—	—	—	(0.17)	(1.23)
P/E					NM
2015	0.96E	(0.90)E	(0.47)E	0.09E	0.02E
Prior	—	—	—	—	(1.25)E
P/E					NM
2016	—	—	—	—	(3.91)E
Prior	—	—	—	—	—
P/E					NM

#### Market Data

52-Week Range	\$21.00 - \$89.21
Shares Out (M)	38.9
Market Cap (M)	\$2,456
ADV (3 mo; 000)	1,307



KITE catalyst calendar		
Product	Event	Status
KTE-C19	Initiate Ph 2 trials in DLBCL, PMBCL, TFL, MCL	1H15, est. 2017 completion
	Initiate Ph 2 trials in ALL, CLL	2H15; est. 2017 completion
EGFRvIII CAR	Initiate Ph 2 trials in glioblastoma	est. 2018 completion
NY-ESO-1 TCR	Initiate Ph 2 trials in solid tumors (lung, melanoma, bladder, ovarian, synovial sarcomas)	est. 2017 completion
HPV-16 E6 TCR	Initiate Ph 2 trials in cervical/head and neck cancer	est. 2019 completion
HPV-16 E7 TCR	Initiate Ph 1 trials in cervical/head and neck cancer	est. 2019 completion
NY-ESO-1 TCR	Initiate Ph 2 trials in solid tumors (lung, melanoma, bladder, ovarian, synovial sarcomas)	est. 2017 completion
HPV-16 E6 TCR	Initiate Ph 2 trials in cervical/head and neck cancer	est. 2019 completion
HPV-16 E7 TCR	Initiate Ph 1 trials in cervical/head and neck cancer	est. 2019 completion
MAGE A3/A6 TCR	Initiate Ph. 1 and Ph. 2 in multiple metastatic cancers that express MAGE-A3-DP4 antigen	est. 2017 completion
MAGE A3 TCR	Initiate Ph. 1 in multiple metastatic cancers and Ph.2 in metastatic melanoma	est. 2018 completion
SSX2 TCR	Pre-IND, targeting head and neck cancer, hepatocellular carcinoma, melanoma, prostate cancer and sarcoma	N/A

\*Source: KITE reports and Guggenheim Securities, LLC estimates

**Recent highlights:** 1. Expansion of potential pipeline opportunities in CAR-T cells and TCRs (T cells receptors) through collaborative agreements with AMGN to increase additional potential CAR antigens and the acquisition of T Cell Factory to increase additional potential TCR antigens. 2. Establish a laboratory in Europe with the T Cell Factory acquisition, and initiating a collaboration with the National Cancer Institute (NCI) equivalent in the Netherlands (Netherlands Cancer Institute). 3. Expand the Cooperative Research Agreement with the NCI. 4. Sign leases to develop clinical and commercial product.

**We are publishing a full model update for KITE.** We view KITE as successfully building out its CAR-T therapy in a variety of blood tumors. We believe KITE will achieve breakthrough designation for DLBCL that would put KITE at a 2018 launch. Our price estimates are \$225,000 in the U.S. and higher in the EU/Japan (\$250,000). We view KITE as capturing a large share of the r/r DLBCL and MCL market (30%), but less in ALL due to competition with other players, particularly NVS (NC, \$99.56) and JUNO (JUNO, NEUTRAL, \$53.43).

## VALUATION AND RISK

**Valuing KITE has risk but as data continue to emerge supporting the viability of the program/platform, we believe value could increase.** Value should increase because the net present value of commercialization rises. We believe KITE may generate revenue by 2017. We estimate peak sales in second and third line NHL, assuming \$200-250k per treatment, approach \$1.4B by 2021. Medivation (MDVN, NC, \$128.38) and Pharmacyclics (PCYC, NC, \$256.37) are similar companies with early stage product launches by partner companies and have market valuations approaching \$7.5 billion and \$8.8 billion, respectively. We estimate, at a current market cap. of \$2.5 billion, it is possible KITE could grow to 7-9 times its current size by 2022. We discount that valuation to today by 15% annually, which derives our price target of \$73.

**Risks are high.** KITE is an experimental stage company very early in development. Poor clinical readouts or inability to successfully commercialize its products is a risk. Risk of side effects of CAR-T therapies is also high, notably with cytokine release syndrome with even death in some patients, potentially limiting its use in earlier lines of therapy. There is also limited data outside of ALL, and establishing a durable response is critical to commercial success. Moreover, manufacturing and process development is not at commercial scale yet, and we note being able to deliver CAR-T to patients with affordable COGS is imperative. Further, given the number of companies currently in the CAR-T space, KITE's lead and platform could be commoditized. We believe profitability is several years away. Therefore, the stock can and may be highly volatile.

## SECTOR: BIOPHARMACEUTICALS

March 27, 2015

Guggenheim KITE   KITE Pharmaceuticals INCOME STATEMENT \$ in millions																	
	2014A	1Q15	2Q15	3Q15	4Q15	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
<b>Revenues</b>																	
<b>Product Sales</b>																	
KTE-C19 US sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$4.5	\$95.5	\$454.1	\$846.5	\$1,397.4	\$2,047.7	\$2,711.9	\$3,423.3	\$4,045.7	\$4,596.1
Growth rate									2033%	376%	86%	65%	47%	32%	26%	18%	14%
KTE-C19 Royalty on Ex-US sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$27.1	\$99.9	\$153.9	\$285.1	\$374.7	\$527.1	\$643.5	\$731.7
Growth rate											269%	54%	85%	31%	41%	22%	14%
<b>Milestones</b>	\$0.0	\$60.0	\$0.0	\$0.0	\$40.0	\$100.0	\$60.0	\$60.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total revenue</b>	<b>\$0.0</b>	<b>\$60.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$40.0</b>	<b>\$100.0</b>	<b>\$60.0</b>	<b>\$64.5</b>	<b>\$95.5</b>	<b>\$481.2</b>	<b>\$946.4</b>	<b>\$1,551.3</b>	<b>\$2,332.8</b>	<b>\$3,086.5</b>	<b>\$3,950.5</b>	<b>\$4,689.2</b>	<b>\$5,327.9</b>
Growth rate								7%	48%	404%	97%	64%	50%	32%	28%	19%	14%
<b>Expenses</b>																	
<b>COGS</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.8	\$22.1	\$82.6	\$151.0	\$247.1	\$363.6	\$479.1	\$604.9	\$714.7	\$809.8
% of revenue								1%	23%	17%	16%	16%	16%	16%	15%	15%	15%
Gross Margin								99%	77%	83%	84%	84%	84%	84%	85%	85%	85%
<b>R&amp;D</b>	\$23.1	\$8.7	\$25.4	\$9.6	\$27.9	\$71.6	\$229.9	\$275.9	\$303.5	\$321.7	\$337.8	\$347.9	\$358.3	\$365.5	\$372.8	\$372.8	\$372.8
Growth		10%	10%	10%	10%	10%	10%	20%	10%	6%	5%	3%	3%	2%	2%	0%	0%
<b>SG&amp;A</b>	\$13.7	\$5.9	\$6.5	\$7.2	\$7.9	\$27.6	\$40.4	\$50.5	\$60.5	\$66.6	\$73.3	\$79.1	\$85.4	\$90.6	\$95.1	\$98.9	\$100.9
Growth		10%	10%	10%	10%	202%	46%	25%	20%	10%	10%	8%	8%	6%	5%	4%	2%
<b>Litigation</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total operating expenses</b>	<b>\$36.7</b>	<b>\$14.6</b>	<b>\$31.9</b>	<b>\$16.7</b>	<b>\$35.8</b>	<b>\$99.2</b>	<b>\$270.3</b>	<b>\$327.1</b>	<b>\$386.1</b>	<b>\$470.9</b>	<b>\$562.0</b>	<b>\$674.1</b>	<b>\$807.3</b>	<b>\$935.2</b>	<b>\$1,072.8</b>	<b>\$1,186.4</b>	<b>\$1,283.4</b>
Growth		10%	118%	-48%	114%	170%	173%	21%	18%	22%	19%	20%	20%	16%	15%	11%	8%
<b>Operating income</b>	<b>(\$36.7)</b>	<b>\$45.4</b>	<b>(\$31.9)</b>	<b>(\$16.7)</b>	<b>\$4.2</b>	<b>\$0.8</b>	<b>(\$210.3)</b>	<b>(\$262.6)</b>	<b>(\$290.6)</b>	<b>\$10.3</b>	<b>\$384.3</b>	<b>\$877.2</b>	<b>\$1,525.5</b>	<b>\$2,151.4</b>	<b>\$2,877.7</b>	<b>\$3,502.8</b>	<b>\$4,044.4</b>
Other income (expense), net	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Pre-tax income</b>	<b>(\$30.12)</b>	<b>45.37</b>	<b>(\$31.93)</b>	<b>(\$16.75)</b>	<b>4.16</b>	<b>0.85</b>	<b>(\$210.26)</b>	<b>(\$262.65)</b>	<b>(\$290.59)</b>	<b>10.30</b>	<b>384.35</b>	<b>877.18</b>	<b>1525.45</b>	<b>2151.38</b>	<b>2877.68</b>	<b>3502.85</b>	<b>4044.42</b>
Income tax expense (benefit)	\$0.0	\$11.3	\$0.0	\$0.0	\$1.0	\$0.2	(\$52.6)	(\$65.7)	(\$72.6)	\$2.6	\$96.1	\$219.3	\$381.4	\$537.8	\$719.4	\$875.7	\$1,011.1
Tax rate	0%	25%	0%	0%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
<b>Net operating losses</b>	<b>(\$13.6)</b>	<b>\$37.9</b>	<b>\$6.0</b>	<b>(\$10.8)</b>	<b>(\$6.6)</b>	<b>(\$12.8)</b>	<b>(\$223.0)</b>	<b>(\$485.7)</b>	<b>(\$776.3)</b>	<b>(\$766.0)</b>	<b>(\$381.6)</b>	<b>\$495.6</b>	<b>\$2,021.0</b>	<b>\$4,172.4</b>	<b>\$7,050.1</b>	<b>\$10,552.9</b>	<b>\$14,597.3</b>
<b>Net Income</b>	<b>(\$30.1)</b>	<b>\$34.0</b>	<b>(\$31.9)</b>	<b>(\$16.7)</b>	<b>\$3.1</b>	<b>\$0.6</b>	<b>(\$157.7)</b>	<b>(\$197.0)</b>	<b>(\$217.9)</b>	<b>\$7.7</b>	<b>\$288.3</b>	<b>\$657.9</b>	<b>\$1,144.1</b>	<b>\$1,613.5</b>	<b>\$2,158.3</b>	<b>\$2,627.1</b>	<b>\$3,033.3</b>
Basic, GAAP	(1.32)	0.96	(0.90)	(0.47)	0.09	0.02	(3.91)	(4.34)	(4.33)	0.14	5.21	11.88	20.66	29.14	38.98	47.45	54.79
<b>Diluted EPS, GAAP</b>	<b>(1.32)</b>	<b>0.96</b>	<b>(0.90)</b>	<b>(0.47)</b>	<b>0.09</b>	<b>0.02</b>	<b>(3.91)</b>	<b>(4.34)</b>	<b>(4.33)</b>	<b>0.14</b>	<b>5.21</b>	<b>11.88</b>	<b>20.66</b>	<b>29.14</b>	<b>38.98</b>	<b>47.45</b>	<b>54.79</b>
Basic	22.8	35.4	35.4	35.4	35.4	35.4	40.4	45.4	50.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4
Diluted-GAAP	22.8	35.4	35.4	35.4	35.4	35.4	40.4	45.4	50.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4

\*Source: Guggenheim Securities, LLC estimates

## SECTOR: BIOPHARMACEUTICALS

March 27, 2015

Guggenheim Research KITE   KITE Pharmaceuticals REVENUE SUMMARY \$ in millions											
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
<b>KTE-C19 (Adult ALL)</b>											
US	\$0	\$4	\$13	\$25	\$38	\$44	\$49	\$55	\$61	\$70	\$73
EU	\$0	\$0	\$5	\$12	\$24	\$35	\$40	\$43	\$48	\$51	\$58
Japan	\$0	\$0	\$0	\$2	\$5	\$9	\$13	\$15	\$17	\$18	\$20
<b>Global</b>	<b>\$0</b>	<b>\$4</b>	<b>\$17</b>	<b>\$39</b>	<b>\$67</b>	<b>\$88</b>	<b>\$103</b>	<b>\$113</b>	<b>\$126</b>	<b>\$140</b>	<b>\$152</b>
Royalty on Ex-US Sales	\$0	\$0	\$1	\$4	\$8	\$12	\$16	\$17	\$19	\$21	\$24
Royalty Rate		25%	25%	25%	28%	28%	30%	30%	30%	30%	30%
<b>KTE-C19 (Pedes ALL)</b>											
US	\$0	\$0	\$0	\$57	\$14	\$38	\$64	\$71	\$89	\$90	\$111
EU	\$0	\$0	\$0	\$0	\$6	\$20	\$42	\$64	\$71	\$78	\$85
Japan	\$0	\$0	\$0	\$0	\$2	\$7	\$15	\$24	\$26	\$30	\$32
<b>Global</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$57</b>	<b>\$22</b>	<b>\$65</b>	<b>\$121</b>	<b>\$159</b>	<b>\$186</b>	<b>\$198</b>	<b>\$228</b>
Royalty on Ex-US Sales	\$0	\$0	\$0	\$0	\$2	\$7	\$16	\$25	\$27	\$30	\$35
Royalty Rate					25%	25%	28%	28%	28%	28%	30%
<b>KTE-C19 (DLBCL)</b>											
US	\$0	\$0	\$78	\$135	\$191	\$341	\$431	\$597	\$724	\$848	\$951
EU	\$0	\$0	\$0	\$108	\$178	\$250	\$422	\$530	\$696	\$840	\$930
Japan	\$0	\$0	\$0	\$0	\$34	\$57	\$80	\$139	\$174	\$233	\$281
<b>Global</b>	<b>\$0</b>	<b>\$0</b>	<b>\$78</b>	<b>\$244</b>	<b>\$403</b>	<b>\$648</b>	<b>\$933</b>	<b>\$1,266</b>	<b>\$1,595</b>	<b>\$1,920</b>	<b>\$2,163</b>
Royalty on Ex-US Sales	\$0	\$0	\$0	\$27	\$53	\$77	\$141	\$187	\$261	\$322	\$364
Royalty Rate				25%	25%	25%	28%	28%	30%	30%	30%
<b>KTE-C19 (CLL)</b>											
US	\$0	\$0	\$0	\$87	\$127	\$220	\$286	\$385	\$481	\$547	\$632
EU	\$0	\$0	\$0	\$0	\$151	\$208	\$358	\$440	\$590	\$697	\$789
Japan	\$0	\$0	\$0	\$0	\$0	\$38	\$53	\$92	\$116	\$155	\$187
<b>Global</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$87</b>	<b>\$278</b>	<b>\$466</b>	<b>\$697</b>	<b>\$918</b>	<b>\$1,187</b>	<b>\$1,399</b>	<b>\$1,608</b>
Royalty on Ex-US Sales	\$0	\$0	\$0	\$0	\$38	\$61	\$115	\$149	\$212	\$256	\$293
Royalty Rate					25%	25%	28%	28%	30%	30%	30%
<b>KTE-C19 (MCL)</b>											
US	\$0	\$0	\$0	\$27	\$39	\$68	\$88	\$119	\$148	\$168	\$195
EU	\$0	\$0	\$0	\$0	\$37	\$51	\$88	\$108	\$145	\$172	\$194
Japan	\$0	\$0	\$0	\$0	\$0	\$12	\$16	\$28	\$36	\$48	\$58
<b>Global</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$27</b>	<b>\$76</b>	<b>\$131</b>	<b>\$193</b>	<b>\$255</b>	<b>\$329</b>	<b>\$388</b>	<b>\$446</b>
Royalty on Ex-US Sales	\$0	\$0	\$0	\$0	\$9	\$16	\$29	\$38	\$54	\$66	\$76
Royalty Rate					25%	25%	28%	28%	30%	30%	30%
<b>Total KTE-C19 Sales</b>	<b>\$0</b>	<b>\$4</b>	<b>\$95</b>	<b>\$454</b>	<b>\$847</b>	<b>\$1,397</b>	<b>\$2,048</b>	<b>\$2,712</b>	<b>\$3,423</b>	<b>\$4,046</b>	<b>\$4,596</b>
<b>Royalty Sales</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$27</b>	<b>\$100</b>	<b>\$154</b>	<b>\$285</b>	<b>\$375</b>	<b>\$527</b>	<b>\$644</b>	<b>\$732</b>
<b>Growth</b>			2033%	376%	86%	65%	47%	32%	26%	18%	14%

\*Source: Guggenheim Securities, LLC estimates

## ANALYST CERTIFICATION

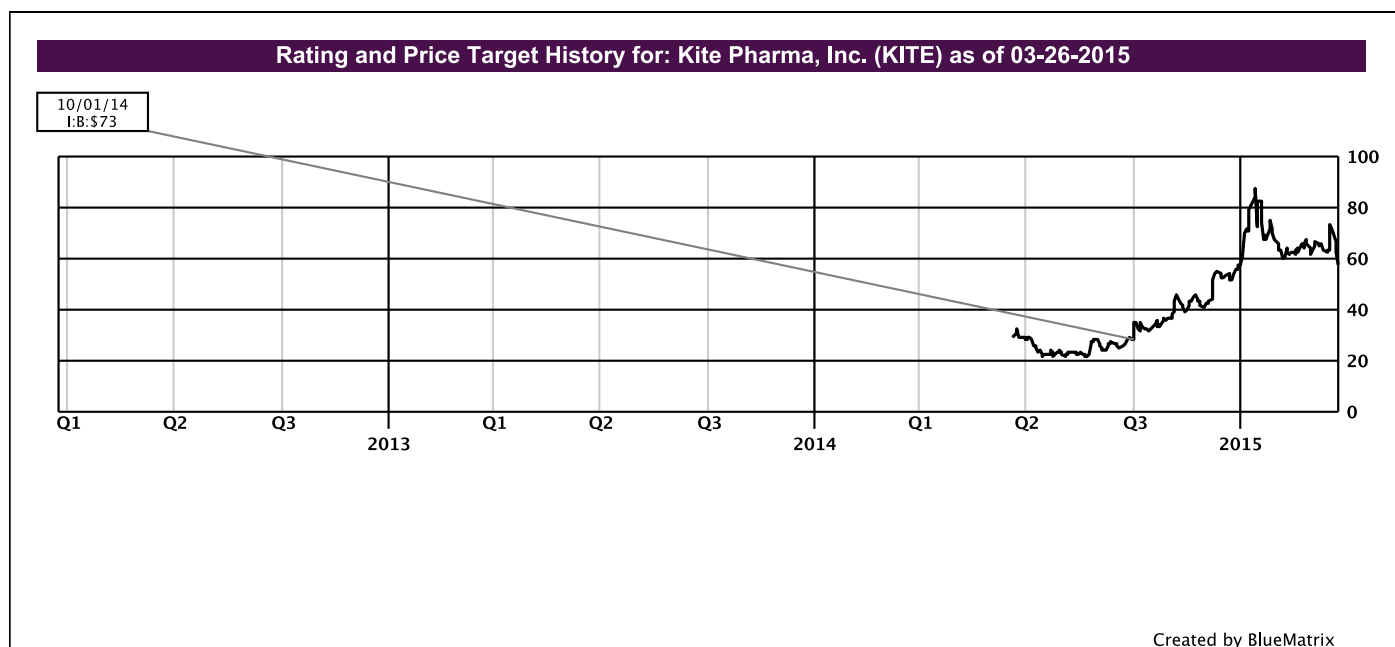
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## IMPORTANT DISCLOSURES

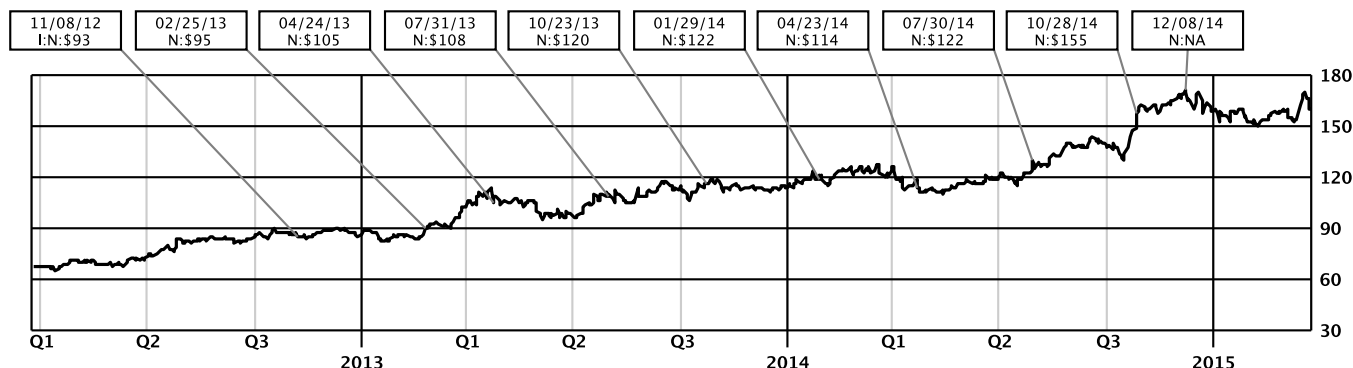
The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenues, which includes investment banking revenues.

Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Kite Pharma, Inc., Amgen Inc. and Juno Therapeutics Inc. in the next 3 months.

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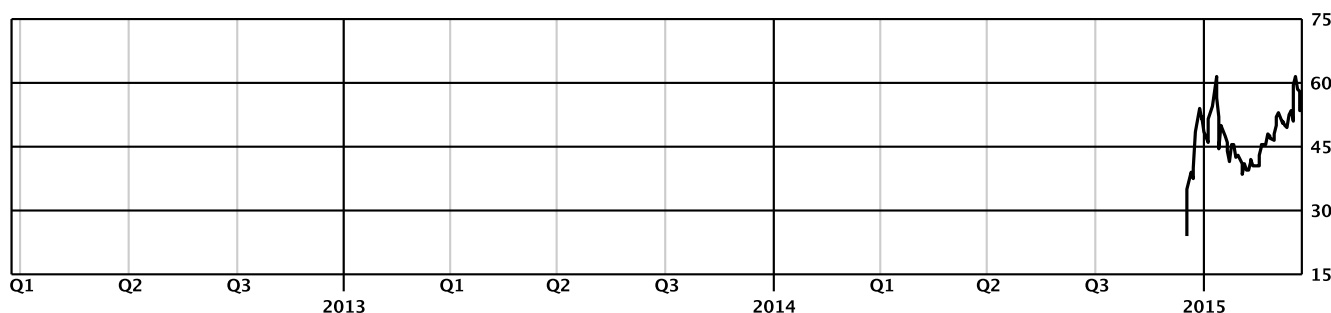


## Rating and Price Target History for: Amgen Inc. (AMGN) as of 03-26-2015



Created by BlueMatrix

## Rating and Price Target History for: Juno Therapeutics Inc. (JUNO) as of 03-26-2015



Created by BlueMatrix

## RATING DEFINITIONS

**BUY (B)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

**NEUTRAL (N)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

**SELL (S)** - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

**NR** - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

**CS** - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

**NC** - Not covered. Guggenheim Securities, LLC does not cover this company.

**Restricted** - Describes issuers where, in conjunction with Guggenheim Securities, LLC engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

**Monitor** - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market

risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Prior to 12/8/14, Guggenheim Securities, LLC's BUY, NEUTRAL, and SELL ratings definitions were as follows (no other ratings definitions were changed):

**BUY (B)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

**NEUTRAL (N)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

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Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	86	45.50%	23	26.74%
Neutral	103	54.50%	4	3.88%
Sell	0	0.00%	0	0.00%

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