

Kite Pharma (KITE)

SMALL & MID CAP RESEARCH

Published Data Provides Only Modest Incremental Information

Data published in the Journal of Clinical Oncology provides additional details on Cohort 2 of the NCI CAR-T trial, which was previously presented and included in KITE's regulatory filings. The only substantial changes from previously reported results were one patient with low-grade NHL who is now listed as a CR (previously PR) and one CR that is no longer listed as ongoing. There was no change to the number of responses for patients with DLBCL (the lead indication).

- **Next update at ASH:** The next clinical update is expected at ASH. We expect longer follow up on the patients from Cohorts 1 and 2 and additional patients in Cohort 3, including more patients with DLBCL. For us, the most important data point will be the durability of existing responses. Inducing a high response rate is extremely important, but durability of response is likely the better predictor of survival benefit.
- **Eight complete responses:** The JCO publication lists 8 complete responses. Among the fifteen patients reported in this publication, KITE and its NCI collaborators previously reported 7 complete responses. The one new CR (pt #10 in publication) is a patient with low-grade NHL.
- **One CR no longer ongoing:** Patient #14 in the JCO paper was previously listed as an ongoing CR. In the JCO paper, that patient has a response duration of 6 months (not ongoing). Patient #14 is a DLBCL patient.

Rating	OUTPERFORM* [V]
Price (14 Aug 14, US\$)	22.22
Target price (US\$)	34.00 ¹
52-week price range	32.15 - 21.39
Market cap. (US\$ m)	844.17
Enterprise value (US\$ m)	649.54

*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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Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-1.16	-1.82	-1.32	-2.39
Prev. EPS (US\$)	—	-0.96	-1.29	-2.19
P/E (x)	-19.1	-12.2	-16.8	-9.3
P/E rel. (%)	-104.7	-72.6	-111.6	-68.6
Revenue (US\$ m)	—	—	—	—
EBITDA (US\$ m)	-6.4	-28.0	-46.8	-94.8
OCFPS (US\$)	-1.03	-0.50	-0.72	-1.37
P/OCF (x)	—	-44.8	-30.9	-16.3
EV/EBITDA (current)	-100.0	-22.9	-13.7	-6.8
Net debt (US\$ m)	-22	-195	-152	-247
ROIC (%)	827.88	1,161.37	2,583.14	914.02
Number of shares (m)	37.99	IC (current, US\$ m)		-0.78
BV/share (Next Qtr., US\$)	7.5	EV/IC (x)		-249.9
Net debt (Next Qtr., US\$ m)	-199.3	Dividend (current, US\$)		—

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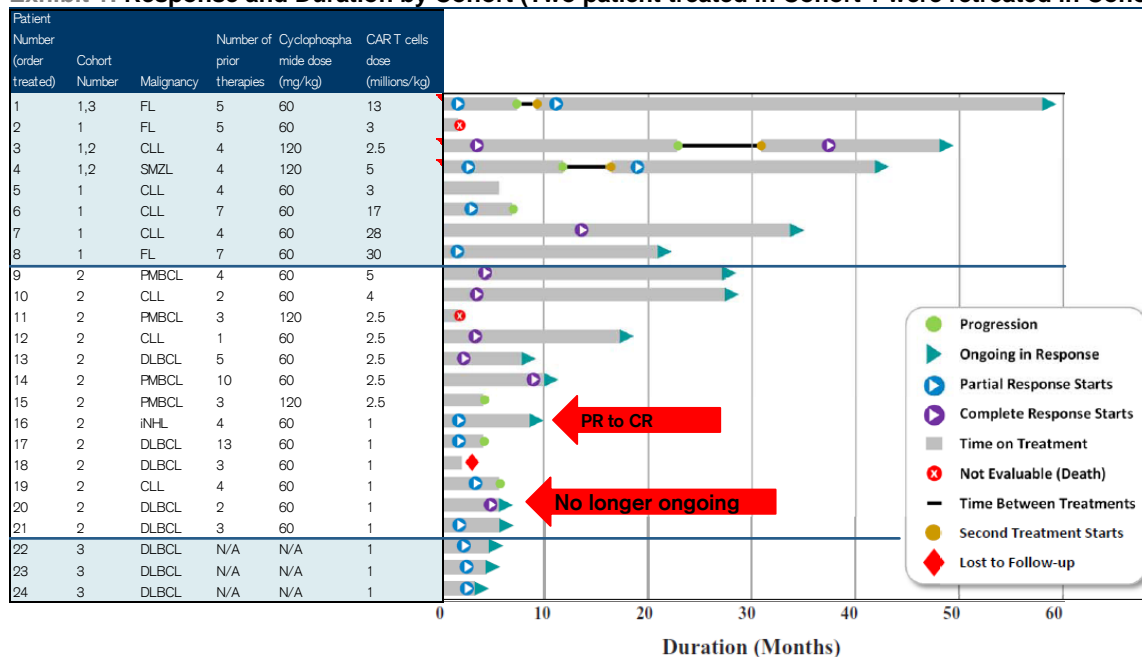
Net debt/tot eq (Next Qtr., %)

-101.3

Dividend yield (%)

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Source: Company data, Credit Suisse estimates

Exhibit 1: Response and Duration by Cohort (Two patient treated in Cohort 1 were retreated in Cohort 2)

Source: Company data, Credit Suisse estimates

Exhibit 2: Patient responses in Cohort 2

Patient No.	Age (years)	Sex	Malignancy	No. of Prior Therapies ^a	sAAIPI Risk Group	Total Cyclophosphamide Dose (mg/kg) ^b	No. of CAR-Positive T Cells Infused (x 10 ⁶ /kg)	Response ^c			Grade ≥ 3 Toxicities ^d
								Type	Duration (months)		
1 ^a	56	Male	SMZL	4	NA	120	5	PR	23+ ^f		Hypotension, confusion, acute renal failure, fever
2	43	Female	PMBCL ^a	4	Low	60	5	CR	22+ ^f		Fever, confusion, aphasia, facial nerve palsy, headache, urinary tract infection
3	61	Male	CLL (FR)	2	NA	60	4	CR	23+ ^f		Headache, fever, confusion, hypotension
4	30	Female	PMBCL ^a	3	High	120	2.5	NE			Nausea, hypoxia, dyspnea, tachycardia, fever, bacteremia, malaise, vascular leak syndrome, death
5 ^a	63	Male	CLL	4	NA	120	2.5	CR	15+ ^f		None
6	48	Male	CLL (FR)	1	NA	60	2.5	CR	14+ ^f		None
7	42	Male	DLBCL NOS ^a	5	High	60	2.5	CR	9+ ^f		Influenza, fever, headache, bacteremia
8	44	Female	PMBCL ^a	10	High	60	2.5	CR	12+ ^f		Fever, pneumonitis, hypotension, hypoxia, bacteremia, obtundation, elevated creatinine
9	38	Male	PMBCL ^a	3	High	120	2.5	SD	1		Fever, aphasia, myoclonus
10	57	Female	Low-grade NHL ^b	4	NA	60	1	CR	11+ ^f		Bacteremia, fever, fatigue
11	58	Female	DLBCL ^a from CLL	12	High	60	1	PR	1		Bacteremia, urinary tract infection, fever
12	60	Female	DLBCL NOS ^a	3	High	60	1	NE ⁱ			Fever, urinary tract infection, bacteremia, upper extremity thrombosis
13	68	Male	CLL	4	NA	60	1	PR	4		Dyspnea, upper extremity thrombosis, urinary tract infection, creatinine increase, hypotension
14	43	Male	DLBCL NOS ^a	2	High	60	1	CR	6		Fever
15	64	Female	DLBCL NOS ^b	3	Intermediate	60	1	PR	6+ ^f		Fever, aphasia, encephalopathy, neuropathy, gait disturbance

Source: JCO August 2014

Exhibit 3: KITE Earnings Model

	2012A	2013A	Q1:14A	Q2:14A	Q3:14E	Q4:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues															
US sales of KTE-C19										32.9	105.0	239.0	364.9	439.2	470.3
Ex-US royalties on KTE-C19												1.3	4.3	11.7	22.0
Other CAR or TCR program(s)												18.0	60.0	120.0	122.4
Ex-US royalties on other CAR or TCR												0.9	3.6	12.0	14.7
Total Revenues										32.9	105.0	259.2	432.8	582.9	629.4
Expenses															
Cost of goods											22.2	44.3	66.6	79.0	83.4
Research and development	1.8	5.1	2.1	7.4	4.3	5.0	18.9	37.0	59.0	72.0	76.0	80.0	84.0	88.0	92.0
Sales, general, administrative	0.8	1.3	1.1	3.7	2.2	2.4	9.3	10.0	36.0	51.2	74.0	82.0	87.0	92.0	97.0
Total Operating Expenses	2.6	6.4	3.2	11.1	6.5	7.4	28.2	47.0	95.0	131.1	172.2	206.3	237.6	259.0	272.4
Operating income (loss)	(2.6)	(6.4)	(3.2)	(11.1)	(6.5)	(7.4)	(28.2)	(56.0)	(95.0)	(98.2)	(67.2)	52.9	195.2	323.9	357.0
Total Other Income (Expense)	0.0	0.1	0.0	(6.2)	0.1	0.1	(6.0)	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)	(6.4)	(7.3)	(34.2)	(55.7)	(94.8)	(98.0)	(66.9)	53.1	195.4	324.2	357.3
Income tax														113.5	125.0
Net Income	(2.6)	(6.4)	(3.1)	(17.4)	(6.4)	(7.3)	(34.2)	(55.7)	(94.8)	(98.0)	(66.9)	53.1	195.4	210.7	232.2
EPS - basic	(\$0.46)	(\$1.16)	(\$0.66)	(\$2.27)	(\$0.25)	(\$0.19)	(\$1.82)	(\$1.52)	(\$2.39)	(\$2.08)	(\$1.41)	\$1.11	\$4.02	\$4.29	\$4.69
EPS - diluted	(\$0.46)	(\$1.16)	(\$0.66)	(\$2.27)	(\$0.25)	(\$0.19)	(\$1.82)	(\$1.52)	(\$2.39)	(\$2.08)	(\$1.41)	\$0.96	\$3.50	\$3.74	\$4.08
Shares outstanding - basic	5.59	5.47	5.57	7.89	26.14	38.09	19.42	36.56	39.69	47.16	47.53	48.09	48.57	49.06	49.55
Shares outstanding - diluted	5.59	5.47	11.19	19.84	44.64	44.75	30.11	45.03	47.48	53.99	54.73	55.28	55.83	56.39	56.96

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 14-Aug-2014)

Kite Pharma (KITE.OQ, \$22.22, OUTPERFORM[V], TP \$34.0)

Disclosure Appendix

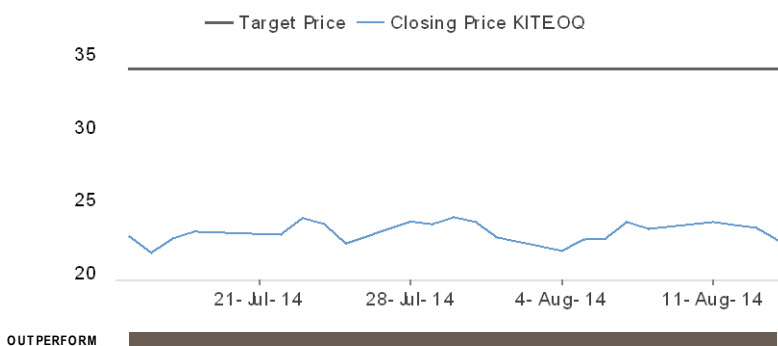
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3-Year Price and Rating History for Kite Pharma (KITE.OQ)

KITE.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
15-Jul-14	22.51	34.00	O *

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Kite Pharma (KITE.OQ)

Method: Our \$34 target includes \$1,041M DCF valuation of KTE-C19 and \$459M 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 60% probability of success.

Risk: Risks to our \$34 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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