Kite Pharma (KITE)

Rating	**OUTPERFORM* [V]**
Price (05 Jan 15, US$)	69.75
Target price (US$)	(from 71.00) 79.00[1]
52-week price range	69.75 - 21.39
Market cap. (US$ m)	2,918.10
Enterprise value (US$ m)	2,640.42

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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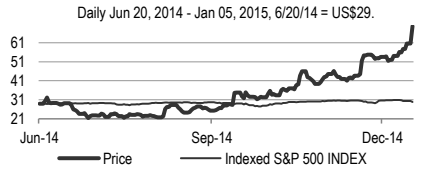
INCREASE TARGET PRICE

AMGN Deal Provides Pipeline, R&D Funds, Validation, and Retained Rights for KITE

The AMGN deal is a significant positive for KITE, which (1) gains access to targets, not necessarily in the public domain, to build its internal pipeline independent of the work at NCI, (2) receives funding to support the necessary build out of key R&D infrastructure, and (3) retains rights to its technology and clinical candidates both within and outside of the partnership. AMGN is an ideal partner because of its extensive work in the field of targeted T-cell therapies after its acquisition of Micromet. Investors can gain further confidence in KITE's manufacturing, which we assume AMGN diligenced carefully given their reliance on KITE for initial clinical manufacturing. The deal also provides additional non-dilutive funding (KITE will have approximately $450M in cash following the $60M upfront). We are increasing our TP to $79 from $71 following the announcement of the deal with AMGN.

- **Validates KITE's IP and capabilities:** AMGN completed a deep dive into KITE's IP and internal capabilities prior to the deal. Likewise KITE is highly familiar with AMGN's capabilities in T-cell therapies as many of the R&D hires at KITE have come from that group at AMGN.
- **Builds out a proprietary pipeline:** We believe the AMGN deal adds approximately three new preclinical candidates potentially with preclinical target validation and antibody reagents. KITE has control of these programs which may move more quickly than NCI programs.
- **Raising target to $79:** We believe the deal with AMGN validates a higher technology value and future pipeline value. It also lowers execution risk as AMGN likely brings additional expertise and oversight.

Share price performance



On 01/05/15 the S&P 500 INDEX closed at 2020.58

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	-0.20	-0.26	-0.27	-0.43
2014E	-0.66	-2.27	-0.24	-0.19
2015E	-0.24	-0.26	2.45	-0.31

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	-1.16	-1.68	1.72	-2.20
Prev. EPS (US$)	—	—	—	—
P/E (x)	-60.0	-41.6	40.5	-31.7
P/E rel. (%)	-322.6	-239.8	252.0	-221.7
Revenue (US$ m)	—	—	127.5	—
EBITDA (US$ m)	-6.4	-30.6	80.8	-94.7
OCFPS (US$)	-1.03	-0.52	2.13	-1.17
P/OCF (x)	—	-134.1	32.7	-59.4
EV/EBITDA (current)	-442.9	-92.8	35.1	-30.0
Net debt (US$ m)	-22	-278	-377	-545
ROIC (%)	827.88	-26.93	70.07	-90.14

Number of shares (m)	41.84	IC (current, US$ m)	-0.78
BV/share (Next Qtr., US$)	10.1	EV/IC (x)	23.1
Net debt (Next Qtr., US$ m)	-277.7	Dividend (current, US$)	—
Net debt/tot eq (Next Qtr., %)	-70.8	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates.

Favorable deal terms for KITE

The deal is intended to be financially balanced for both KITE and AMGN, but we view the terms as most advantageous for KITE, indicating AMGN's high value placed on the CAR-T technology/IP/expertise at KITE.

- AMGN will pay KITE $60M upfront and cover R&D costs for programs through IND filing. AMGN will provide the targets, key antibody reagents, and associated IP.
- KITE will develop the CAR-T constructs and manufacturing process through IND.
- Each company will be responsible for development costs for their respective clinical programs, which will be overseen by a joint steering committee. Each company will own full commercial rights to their programs and pay milestones and royalties to the other party.
- AMGN will KITE pay up to $525M in milestones per program and single- to double-digit royalties. This royalty rate is higher than the rate paid by KITE to AMGN.
- KITE will pay AMGN up to $525M in milestones per program and single-digit royalties.

The number of targets and other details were not announced but the deal does not include any of KITE's current pipeline programs. The targets have already been selected, and we believe there are likely three targets for each AMGN and KITE with the potential to add more to the collaboration.

One key aspect of the deal, which may not be immediately appreciated, is that KITE will be the manufacturing source for the initial clinical supply for AMGN, which likely ensures that AMGN has diligenced KITE's manufacturing process and expansion plans and will stay involved in the ultimate build out to ensure its products are adequately manufactured. This may lower the overall execution risk for KITE.

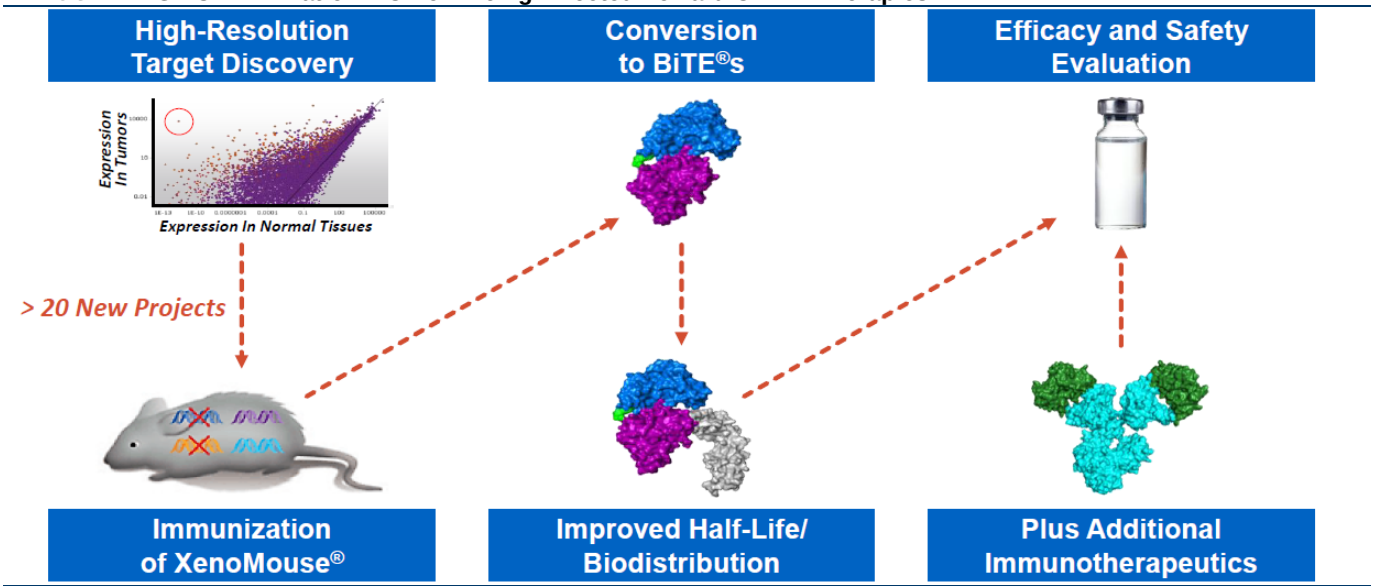
AMGN is an ideal partner

AMGN was an early mover in T cell therapy with the acquisition of Micromet in January 2012 for $1.2 billion. Micromet was the first company to develop a bispecific antibody to specifically target T-cells to kill tumor cells. AMGN recently gained FDA approval for that drug, blinatumomab, under Breakthrough Therapy Designation.

AMGN did the Micromet deal to build a platform of T-cell targeted therapies. In the three years since the acquisition, AMGN has identified over 20 targets with high tumor expression and has likely generated antibodies against most or all of these targets (Exhibit 1). Some of these have probably been tested preclinically as bispecific antibodies, further derisking the target.

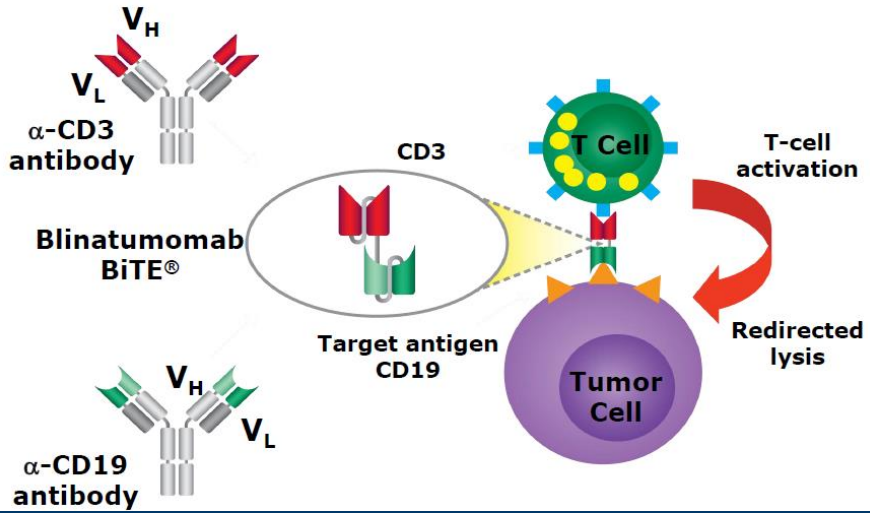
- AMGN is clearly committed to the space and will provide a strong partner for developing future CAR-T therapies. AMGN's expertise with its BiTE technology can be used or may have been already used to validate the targets.
- A significant portion of KITE scientific and clinical team is from AMGN, suggesting that KITE's team is familiar with several of the targets and KITE knows what it is getting.
- AMGN could provide regulatory expertise to KITE from its experience from blinatumomab.
- This deal will likely move AMGN and KITE closer to signing a deal for KITE's EGFRvIII CAR-T therapy, as AMGN has a patent that covers this target.

Exhibit 1: **AMGN's BiTE Platform Is Now Being Directed Toward CAR-T Therapies**



Source: AMGN Oct. 2014

Exhibit 2: **AMGN's Bispecific Technology**



Source: AMGN Dec. 2014

Partnership does not prevent large distribution agreement

We still believe that KITE will market its technology in the US and sign a partnership for ex-US markets. The scarcity value for late stage CAR-T programs make KITE's program attractive. We believe other global pharmas and/or large biotechs will likely consider an entry into the field, and KITE is well positioned with significant IP, promising data in DLBCL, and a move into pivotal trials in 2015.

Exhibit 3: KITE Earnings Model

	2012A	2013A	Q1:14A	Q2:14A	Q3:14A	Q4:14E	2014E	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 royalies 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								127.5			140.0				
Ex-US royalties on other CAR or TCR												1.1	4.2	14.0	17.1
Total Revenues								**127.5**		**38.4**	**266.0**	**314.6**	**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	5.0	20.3	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	3.4	2.4	10.5	10.0	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**	**7.4**	**30.8**	**47.0**	**95.0**	**133.7**	**179.4**	**217.2**	**252.2**	**275.7**	**294.8**
Operating income (loss)	**(2.6)**	(6.4)	(3.2)	(11.1)	(9.1)	(7.4)	(30.8)	80.5	(95.0)	(95.4)	86.6	97.5	285.3	448.2	511.3
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)	(9.1)	(7.3)	(36.9)	80.8	(94.8)	(95.2)	86.8	97.7	285.6	448.5	511.6
Income tax												34.2	100.0	157.0	179.1
Net Income	**(2.6)**	**(6.4)**	**(3.1)**	**(17.4)**	**(9.1)**	**(7.3)**	**(36.9)**	**80.8**	**(94.8)**	**(95.2)**	**86.8**	**63.5**	**185.6**	**291.5**	**332.5**
EPS - basic	($0.46)	($1.16)	($0.66)	($2.27)	($0.24)	($0.19)	($1.68)	$1.91	($2.20)	($2.06)	$1.86	$1.35	$3.90	$6.06	$6.84
EPS - diluted	($0.46)	($1.16)	($0.66)	($2.27)	($0.24)	($0.19)	($1.68)	$1.72	($2.20)	($2.06)	$1.68	$1.22	$3.52	$5.48	$6.19
Shares outstanding - basic	**5.59**	5.47	5.57	7.89	38.33	38.71	22.63	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

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Companies Mentioned *(Price as of 05-Jan-2015)*

Amgen Inc. (AMGN.OQ, $157.99)
Kite Pharma (KITE.OQ, $69.75, OUTPERFORM[V], TP $79.0)

Disclosure Appendix

Important Global Disclosures

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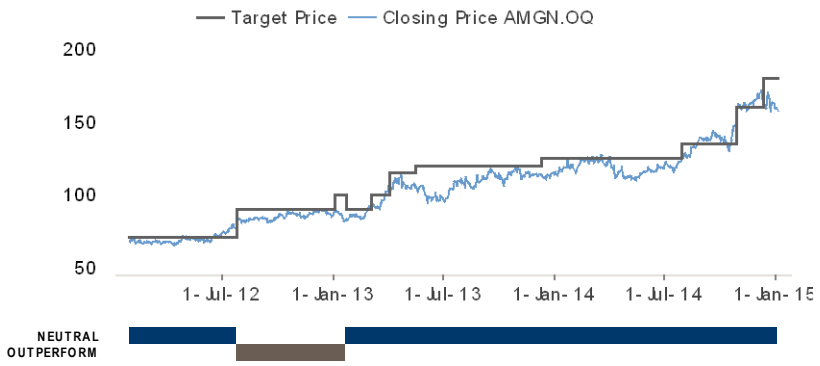
3-Year Price and Rating History for Amgen Inc. (AMGN.OQ)

AMGN.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
30-Jan-12	68.32	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	

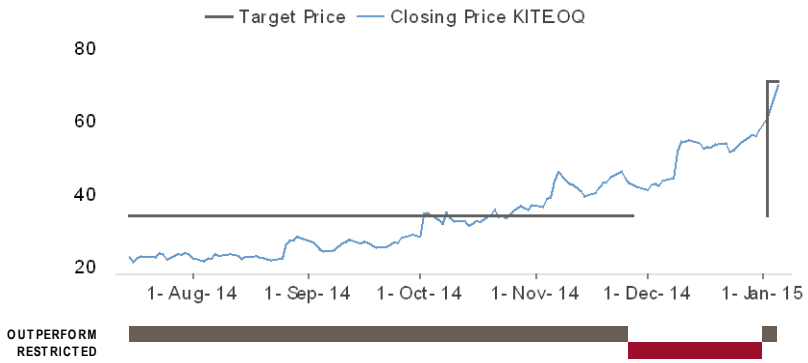
** Asterisk signifies initiation or assumption of coverage.*



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

** Asterisk signifies initiation or assumption of coverage.*



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Underperform/Sell*	14%	(43% banking clients)
Restricted	2%	

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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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See the Companies Mentioned section for full company names

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