

US Equity Research

22 January 2015

BUY

unchanged

PRICE TARGET US\$90.00

unchanged

Price (21-Jan) US\$67.32

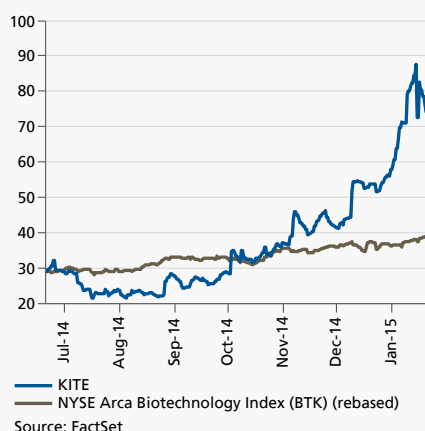
Ticker KITE-NASDAQ

52-Week Range (US\$): 21.00 - 89.21
 Avg Daily Vol (M) : 723.8
 Shares Out. (M) : 38.3
 Market Cap (US\$M): 2,580

FYE Dec	2013A	2014E	2015E
Revenue (US\$M)	0.0	0.0	0.0
EPS Adj&Dil (US\$)	(1.42)	(1.70)	(1.30)

Quarterly Revenue	Q1	Q2	Q3	Q4
2013A	-	-	-	-
2014E	0.0A	0.0A	0.0A	0.0
2015E	0.0	0.0	0.0	0.0

Quarterly EPS Adj&Dil	Q1	Q2	Q3	Q4
2013A	-	-	-	-
2014E	(0.66)A	(2.27)A	(0.24)A	(0.23)
2015E	(0.33)	(0.33)	(0.33)	(0.32)



Kite Pharma is focused on development of novel cancer immunotherapy using engineered autologous cell therapy (eACT).

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Company Update

NCI data in solid tumors may surface during 2015, significant catalyst

Possible data on EGFRvIII program in GBM during 2015

NCI could present data on CAR-T targeting EGFRvIII during 2015, potentially by mid-2015, and we remind investors that NCI's timing is independent of KITE; therefore, KITE does not project NCI data in its slides. Kite is currently funding an NCI phase 1-2a clinical trial of CAR-based T-cell therapy targeting EGFRvIII antigen in patients with glioblastoma multiforme (GBM), which we find interesting since the EGFRvIII mutation is the most common mutation (~30-67%) found in only glioblastoma and not in normal tissues. We remind investors that standard treatment, involving resection, radiation, and chemotherapy, maintains a median overall survival of only 14.6 months, while relapsed/refractory GBM is limited to only supportive care. Bevacizumab was previously studied in 154 randomized patients, but overall response rates were moderate (37.8%) and median survival was only ~9 months, making this disease an area of high unmet medical need (Kreisl et al 2011). We expect possible first-look data by ASCO 2015.

Ongoing followup to NIH's CART program in DLBCL will continue to add incremental benefit to Kite shares

We expect that response duration for NCI's CAR-T therapy in DLBCL will continue to increase during 2015, with data updates at medical meetings. Recent data presented at ASH showed that 11 patients with CRs had increased their duration of CR to an impressive 44 months from a previously-reported 37 months, which we believe is significant. Moving forward, data showing continued and lasting response duration is significant for Kite since the goal of DLBCL patients is long-term survival rather than cure with bone marrow transplant, further validating the probability of success for Kite's technology and a driver for the stock, in our view.

Updates possible on NCI TCR programs

NIH could present updated data on their TCR program during 2015, which Kite has the option to negotiate commercialization licenses from the NCI, potentially adding another revenue driver for the company. Kite recently announced the opt-in license of the HPV16 oncoprotein from the NIH for its TCR program, which is currently in phase 1/2 clinical trials. Additionally, Kite is also funding a phase 2 clinical trial involving TCR-based T-cell therapy targeting NY-ESO-1 antigen, particularly in melanoma.

Expect 4 pivotal studies in 2015 for various hematologic cancers

Kite plans on launching 4 pivotal studies in various hematologic cancers in 2015, which we expect to be in DLBCL, ALL, CLL, or MCL/FL, each of which should serve as a pivotal study and facilitate filing with FDA assuming positive efficacy and safety data. In addition, we expect possible new antigen targets to be established through their collaboration with Amgen, which can add value to the company.

Figure 1: Kite income statement

(\$000's) (FY - DEC)	2012 A	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues													
CAR T													
US			-	-	-	-	-	-	-	263,453	795,983	1,176,814	1,255,539
Ex-US			-	-	-	-	-	-	-	179,806	516,481	800,327	1,031,009
Ex-US royalty			-	-	-	-	-	-	-	26,971	77,472	120,049	154,651
Total revenues	-	-	-	-	-	-	-	-	-	290,423	873,455	1,296,863	1,410,191
Income Statement (\$000's)													
Total revenues	-	-	-	-	-	-	-	-	-	290,423	873,455	1,296,863	1,410,191
Cost of goods sold	-	-	-	-	-	-	-	-	-	52,691	159,197	235,363	251,108
Gross profit	-	-	-	-	-	-	-	-	-	237,733	714,259	1,061,500	1,159,083
Operating expenses													
Research and Development	1,802	5,071	2,062	7,424	5,716	5,773	20,975	39,619	40,412	50,515	63,144	78,929	98,662
SG&A	770	1,339	1,070	3,668	3,385	3,419	11,542	14,021	14,722	14,869	15,464	16,082	16,726
Depreciation and amortization	9	17	30	48			78	-					
Total Operating Expense	2,581	6,427	3,162	11,140	9,101	9,192	32,595	53,640	55,134	65,384	78,607	95,012	115,387
Depreciation and amortization	9	17	30	48			78	-					
EBITDA	(2,572)	(6,410)	(3,132)	(11,092)	(9,101)	(9,192)	(32,517)	(53,640)	(55,134)	172,349	635,651	966,489	1,043,695
Operating income (EBIT)	(2,581)	(6,427)	(3,162)	(11,140)	(9,101)	(9,192)	(32,595)	(53,640)	(55,134)	172,349	635,651	966,489	1,043,695
Non-operating Interest income	36	52	-	47	61	290	398	809	714	1,769	6,034	13,578	23,019
Other income/interest expense	(27)	13	21	(6,266)	(11)								
Pre-tax income (EBT)	(2,571)	(6,362)	(3,141)	(17,359)	(9,051)	(8,902)	(32,197)	(52,832)	(54,419)	174,118	641,685	980,066	1,066,715
Provision for Income Taxes	-	-	-	-	-	-	-	-	-	64,424	237,423	362,625	394,684
Net Income	(2,571)	(6,362)	(3,141)	(17,359)	(9,051)	(8,902)	(38,454)	(52,832)	(54,419)	109,694	404,262	617,442	672,030
Preferred Dividends		1,436	557	532									
Net Income to Common Shareholders	(2,571)	(7,797)	(3,698)	(17,891)									
Adjustments to Net income													
GAAP EPS	(0.48)	(1.42)	(0.66)	(2.27)	(\$0.24)	(\$0.23)	(\$1.70)	(\$1.30)	(\$1.29)	\$2.34	\$7.70	\$10.50	\$10.21
Adjusted EPS excl options expense													
Diluted Weighted Average Shares	5,314,214	5,473,384	5,571,499	7,890,029	38,330,026	38,713,326	22,626,220	40,668,708	42,196,368	46,864,399	52,488,127	58,786,703	65,841,107

Source: Canaccord Genuity estimates, Company reports

Figure 2: Kite Valuation

Product	Peak Sales/Royalty (\$MM)	Year	NPV at launch	Estimated launch	Time to launch	Probability Adjustment	Current Value (\$MM)	Value / Share
KTE-C19								
US								
DLBCL US	\$691	2020	\$3,002	10/1/2017	2.7	70%	\$1,568	\$40
CLL US	\$83	2021	\$337	10/1/2018	3.7	60%	\$135	\$3
ALL US	\$195	2021	\$976	10/1/2018	3.7	65%	\$425	\$11
FL US	\$165	2021	\$738	10/1/2018	3.7	60%	\$297	\$8
MCL US	\$164	2021	\$734	10/2/2018	3.7	60%	\$295	\$8
US - total	\$1,298	2020	\$5,788	10/1/2018	3.7	60%	\$2,328	\$70
Ex-US								
DLBCL royalty Ex-US	\$53	2020	\$499	6/1/2018	3.4	70%	\$243	\$6
CLL royalty Ex-US	\$6	2021	\$55	6/1/2019	4.4	60%	\$21	\$1
ALL royalty Ex-US	\$15	2021	\$140	6/1/2019	4.4	65%	\$57	\$1
FL royalty Ex-US	\$13	2021	\$108	6/2/2019	4.4	60%	\$40	\$1
MCL royalty Ex-US	\$12	2021	\$107	6/3/2019	4.4	60%	\$40	\$1
Ex-US - royalty - total	\$99	2020	\$977	6/1/2018	3.4	60%	\$407	\$10
Total Product Value							\$3,129	\$80
Cash							\$400	\$10.3
Total Equity Value							\$3,529	\$90
Shares Outstanding (MM)							39	

Risk-Free Rate	3.0%
Beta	1.8
Risk Premium	5%
Discount Rate	11%

Source: Canaccord Genuity estimates, Company reports

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Target Price / Valuation Methodology:

Kite Pharma - KITE

Our target price is \$90 based on a probability adjusted NPV valuation.

Risks to achieving Target Price / Valuation:

Kite Pharma - KITE

Although NCI is conducting a phase 1-2a trial of anti-CD19 CAR T-cell therapy, KITE's KTE-C19 trial has not begun. Any delays or significant negative results from NCI's clinical trials could negatively affect Kite's IND application and delay the timing to start their own phase 1-2 clinical trial. KITE is highly dependent on the third parties for R&D and early clinical testing of CAR and TCR product candidates. These collaborations related to the intellectual property licensed from the NIH relating to product candidates targeting the EGFRvIII antigen, the SSX2 antigen and the NY-ESO-1 antigen and from Cabaret for intellectual property relating to KTE-C19. The differences in manufacturing compared to NCI may render the product incomparable, particularly with respect to clinical trials, which could negatively affect our valuation. Although plans for manufacturing and processing is based on current approach undertaken by the NCI, the company cannot ensure that even minor changes in the product process will not result in significantly different T-cells that may not have similar efficacy or toxicity. KTE-C19 could fail in clinical studies, resulting in significant downside to our price target and shares of the stock. Kite faces significant competition from other biotechnology and pharmaceutical companies in the space of immunotherapy, including Novartis, Juno, Bluebird, Cellectis and Adaptimmune, as well as companies developing novel targeted therapies for cancer.

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Rating	Coverage Universe		IB Clients
	#	%	%
Buy	633	58.61%	30.96%
Hold	348	32.22%	13.79%
Sell	51	4.72%	1.96%
Speculative Buy	48	4.44%	60.42%
	1080*	100.0%	

*Total includes stocks that are Under Review

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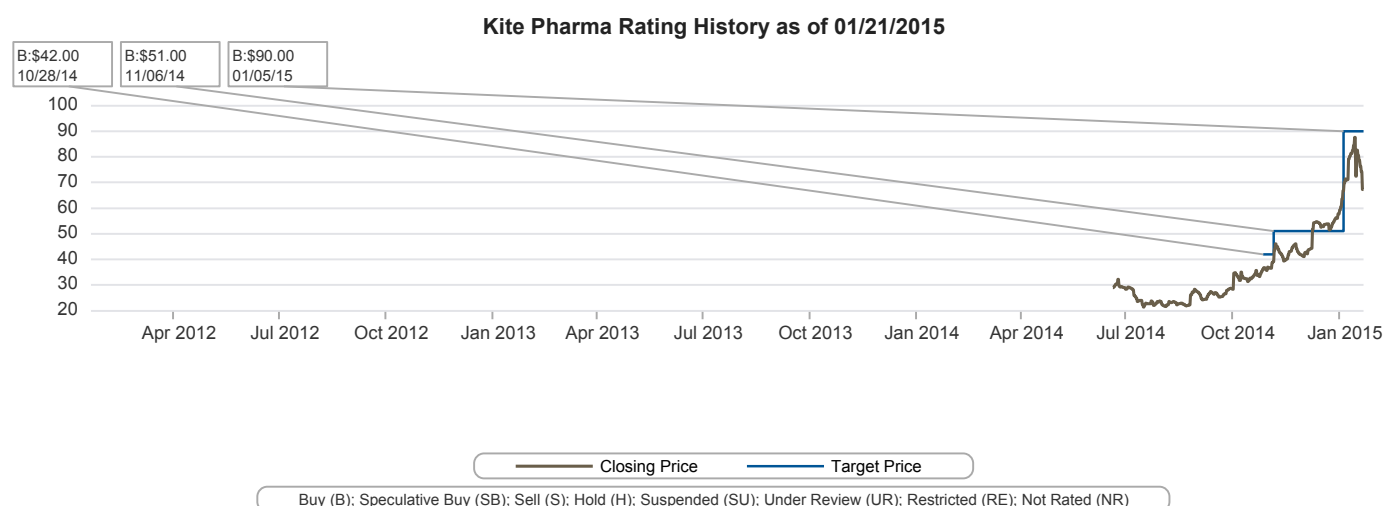
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