

COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Biotechnology

January 6, 2015

Jefferies

Kite Pharma (KITE) AMGN Partnership Provides Additional Validation Of CAR-T Platform

Key Takeaway

AMGN and KITE have entered into a collaboration to develop next-gen CAR-T therapies. AMGN/KITE will investigate multiple cancer targets applicable to both hematological malignancies and solid tumors, and does not involve KITE's existing KTE-CD19 program in lymphoma/leukemia. We believe the partnership validates KITE's CAR-T platform, and we have thus reduced our DCF discount rate to 11% (v. 13%) and included milestones that increase our PT to \$84 (v. \$46).

AMGN and KITE Announce CAR-T Collaboration: AMGN (\$157.99, Buy) and KITE announced that they have entered into a strategic collaboration and license agreement to develop and commercialize next-generation CAR-T therapies leveraging KITE's engineered autologous cell therapy (eACT) platform and AMGN's diversity of cancer targets. AMGN/KITE will investigate multiple potential cancer targets that may be applicable to both hematological malignancies and solid tumors (targets not disclosed), and does not involve KITE's existing program for KTE-C19 targeting CD19-expressed lymphoma/leukemia. The agreement only covers the CAR-T platform. KITE will be responsible for all preclinical research and cell manufacturing and processing through IND filing. AMGN and KITE will each be responsible for clinical development and commercialization of their respective CAR-T candidates, including expenses. We view the collaboration as a significant positive as it further validates KITE's CAR-T platform and manufacturing capability. KITE noted that other companies had expressed interest in establishing partnership agreements.

Terms of the Agreement: KITE will receive an upfront payment of \$60M, and funding for R&D costs through IND filing. KITE will be eligible to receive up to \$525M in regulatory/commercial payments per AMGN program, and tiered high single- to double-digit royalties for sales. AMGN is eligible to receive up to \$525M in milestone payments per KITE program, and tiered single-digit sales royalties. Interestingly, a standstill agreement was not included and if the joint collaboration is productive, it could lead to Kite's acquisition. We have increased our PT to incorporate value of the AMGN agreement, a lower risk discount on our DCF, and higher KTE-C19 peak U.S. sales.

Valuation/Risks

Our PT of \$84 (v. \$46 prev) is DCF-based. Risks include clinical, manufacturing, competitive, regulatory, and commercial.

USD	Prev.	2013A	Prev.	2014E	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	0.0	--	0.0	0.0	60.0	--	0.0
EV/Rev						47.3x		
EPS								
Mar	--	--	--	(0.66)A	--	8.86	--	--
Jun	--	--	--	(2.27)A	--	(1.56)	--	--
Sep	--	--	--	(0.24)A	--	(0.41)	--	--
Dec	--	--	--	(0.13)	--	(0.48)	--	--
FY Dec	--	(1.18)	--	(3.30)	(1.32)	6.42	(1.31)	(2.44)
FY P/E		NM		NM		10.9x		NM

BUY

Price target \$84.00

(from \$46.00)

Price \$69.75

Financial Summary

Net Debt (MM):	(\$195.4)
Long-Term Debt (MM):	\$0.0
Cash & ST Invest. (MM):	\$195.4
Cash/Share:	\$5.10
Cash (MM):	\$195.4

Market Data

52 Week Range:	\$70.21 - \$21.00
Total Entprs. Value (MM):	\$2,838.7
Market Cap. (MM):	\$3,034.1
Shares Out. (MM):	43.5
Float (MM):	26.7
Avg. Daily Vol.:	674,782

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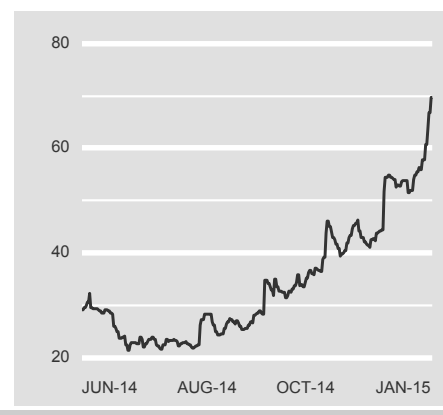
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Price Performance



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Kite Pharma**Buy: \$84 Price Target****Scenarios****Target Investment Thesis**

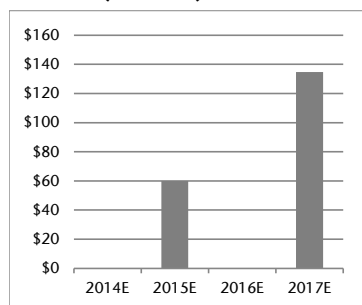
- Positive outcome from the PII registration study of KTE-C19 in DLBCL
- We expect KTE-C19 approval for DLBCL in 2017 and peak sales of \$909M by 2028 (risk-adj)
- We expect KTE-C19 approval for PMBCL, MCL, FL, ALL and CLL in 2019 and peak sales of \$725M by 2028 (risk-adj)
- We expect peak EU royalties of \$177M (risk-adj) by 2028 for KTE-C19.
- DCF-based PT: \$84

Upside Scenario

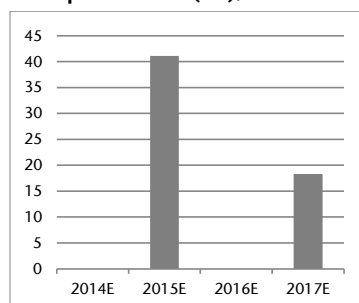
- De-risked KTE-C19 program through Phase II/III trial datasets
- DCF-based PT: \$128
- Positive proof-of-concept for EGFRvIII CAR program in GBM
- DCF-based PT: an add'l \$5
- Positive proof-of-concept for NY-ESO-1 TCR program in synovial and bladder cancer
- DCF-based PT: an add'l \$5

Downside Scenario

- Negative outcome for KTE-C19 in DLBCL
- DCF-based PT: \$43
- Negative outcome for KTE-C19 in other hem malignancies
- DCF-based PT: \$39
- Negative outcome for KTE-C19 in all indications
- Cash-based PT: \$13

Long Term Analysis**Revenue (millions)**

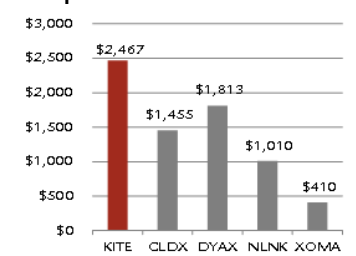
Source: Company data; Jefferies estimates

Enterprise Value (EV)/Sales

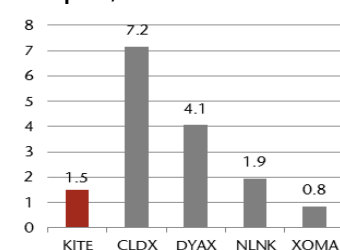
Source: Company data; Jefferies estimates

Other Considerations

We consider small-cap and mid-cap biotech companies with late-stage programs to continue to be attractive targets for partnering or M&A partnering with large-cap biotech and pharma companies, which we believe will be a driving factor for performance in the biotech sector 2014-2015.

Peer Group**Group EV**

Source: Factset, Jefferies estimates

Group EV/2023E Sales

Source: Factset, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
KITE	Buy	\$84
CLDX	Buy	\$24
DYAX	Buy	\$13
NLNK	Buy	\$36
XOMA	Buy	\$9

Catalysts

- Initiation of PI/IIb trial of KTE-C19 in DLBCL in H1 2015
- Interim data from the NCI EGFRvIII CAR in 2015
- Preliminary data from pivotal PI/IIb trial of KTE-C19 in DLBCL in H1 2015
- IND filing and PI study initiation of NY-ESO-TCR program in Q4 2015

Company Description

Kite Pharma, Inc. is a biopharmaceutical company focused on the development and commercialization of cancer immunotherapy products involving the engineering of T-cells to express chimeric antigen receptors (CARs) or T-cell receptors (TCRs) to combat cancer. Its lead candidate is KTE-C19, a CAR-T product for the treatment of heavily pre-treated relapsed/refractory DLBCL which is set to begin a pivotal Phase I/IIb trial. KITE intends to expand KTE-C19 into other difficult-to-treat hem malignancies, including FL, MCL, PMBCL, CLL and ALL. KITE's technology has been developed in part through its collaboration with the National Cancer Institute through a cooperative research agreement (CRADA).

Valuation

We arrive at our \$84 PT (v. \$46 previously) based on a DCF valuation model and is driven by the following changes to our KITE valuation: including AMGN upfront payment of \$60M, including value for milestones of two targets, and assumes a WACC of 11% (v. 13% previously). We have also modified our outstanding shares of 47.6 million which incorporates the secondary equity financing conducted in December. We have increased our peak U.S. sales of KTE-C19 to \$1.6B (incorporates a 40% risk discount) from \$1.2B as we have may have been using more conservative estimates generated from the Globocan database versus the NCI's SEER database. We assume market entry for KTE-C19 for third-line refractory diffuse large B-cell lymphoma (DLBCL) in 2017 based on accelerated approval on a positive data package from its pivotal Phase I/IIb trial.

Exhibit 1: DCF sensitivity analysis

Equity Value	Price/Share
\$5,244.8	\$110.23
\$4,573.4	\$96.12
\$4,016.4	\$84.41
\$3,551.7	\$74.64
\$3,161.6	\$66.45

Source: Jefferies estimates

Risks

Clinical Failure: As with all companies in biotechnology and pharmaceuticals developing treatments of the future, a clinical failure can lead to delays in approval or possibly discontinuation of programs.

Regulatory Failure: The FDA could determine the Biologic Licensing Application is inadequate for KTE-C19 for DLBCL and could delay approval. KITE is under the assumption that an ORR >50% with a duration of response >6 months in patients from a single-arm trial will be sufficient for accelerated approval, but the FDA could decide that is inadequate. Any delays in approval timelines could impact our earnings estimates, price target, and/or rating.

Commercial Failure: We currently assume peak sales for KTE-C19 of \$1.0 billion in the U.S. (risk adjusted) and royalty revenue of \$92 million (risk-adjusted) on EU sales by 2028. Our estimates may rely on the success of the company/partners to receive drug reimbursement from private/public payors.

Manufacturing Risks: KITE relies on its eACT process to manufacture its CAR-T products, and involves 1) harvesting T-cells from the patient's blood, 2) genetically engineering the T-cells to express cancer-specific receptors, and 3) increasing the number of engineered T-cells and 4) infusing the modified T-cells back into the patient. Assuming approval, KITE will require reliable commercial supplies for the materials used to manufacture and process its eACT-based candidates. KITE will need a consistent and reliable process, while limiting contamination risks, for manufacturing these candidates for the approved patient population. Any supply or manufacturing disruption could negatively impact KTE-C19 supply and sales.

Competitive Risks: Other companies are rapidly developing CAR-T product candidates in various stages of clinical development for hematological malignancies that may compete with KTE-C19. If any of these product candidates have an improved therapeutic

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profile over KTE-C19 and is approved, KTE-C19's growth trajectory in the marketplace, even if approved, could be adversely impacted.

Financing Risks: We expect KITE to have adequate cash to support the KTE-C19 launch in 2017, and we do not currently model any equity financing. However, KITE may need additional dilutive financing to fund the potential U.S. launch of KTE-C19 and its R&D programs in additional indications.

Exhibit 2: KITE Income Statement

Kite Pharma, Inc.

Quarterly Income Statement

(All values in \$MM except EPS and average shares)

	2012A	2013A	2014E					2015E					2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
	FY	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
Revenue:																						
CD19 CAR-T U.S. Sales	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	109.7	446.8	808.8	1041.2	1276.5	1368.7	1448.4	1499.0	1551.1
CD19 CAR-T EU Royalty	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	11.1	52.1	99.2	128.3	158.7	163.9
Amgen collaboration revenues			0.0	0.0	0.0	0.0	0.0	60.0	0.0	0.0	0.0	60.0	0.0	26.0	25.0	25.0	25.0	75.0	75.0	75.0	75.0	50.0
Total revenue, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	60.0	0.0	0.0	0.0	60.0	0.0	134.7	471.8	833.8	1077.2	1403.6	1542.9	1651.8	\$ 1,657.7	1,865.0
Costs and expenses:																						
Cost of goods sold	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	11.7	202.2	260.3	306.4	314.8	316.7	299.8	310.2
Research & development	18	5.1	2.1	7.4	5.7	3.0	16.2	7.6	9.1	12.6	17.7	47.0	47.0	49.4	51.8	54.4	56.0	57.7	59.5	60.6	61.2	61.9
Selling, general & administrative	0.9	1.3	1.1	3.7	3.4	2.8	11.0	2.8	2.7	3.0	3.1	11.6	12.3	26.5	35.8	39.4	41.3	42.1	43.0	43.8	44.7	45.6
Total operating expenses	2.6	6.4	3.2	11.1	9.1	5.8	29.2	10.4	11.8	15.6	20.8	58.6	59.3	75.9	199.3	296.0	357.7	406.2	417.2	423.1	405.8	417.7
Income (loss) from operations	(2.6)	(6.4)	(3.2)	(11.1)	(9.1)	(5.8)	(29.2)	49.6	(11.8)	(15.6)	(20.8)	1.4	(59.3)	58.9	272.5	537.8	719.6	997.3	1,125.6	1,228.6	1,251.9	1,447.3
Other income (expense):																						
Miscellaneous (expense) income	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	0.0	0.0	0.0	0.0	0.0
Interest income	0.0	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense	(0.0)	(0.0)	0.0	(6.3)	0.0	0.0	(6.3)	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
Other	(0.0)	(1.4)	(0.6)	0.0	(0.0)	0.0	(0.6)	0.0	0.0	0.0	0.0	0.0	0.0	(6.0)	0.0	0.0	(10.0)	0.0	0.0	0.0	0.0	0.0
Net profit (loss) before income taxes	(2.6)	(7.9)	(3.7)	(17.4)	(9.1)	(5.8)	(35.9)	49.6	(11.8)	(15.6)	(20.8)	1.5	(59.3)	52.9	272.5	537.8	709.6	997.3	1,125.6	1,228.6	1,251.9	1,447.3
Income tax expense (benefit)	(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	53.8	71.0	349.1	394.0	430.0	438.2	506.5
Income tax (%)	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%	10.0%	10.0%	35.0%	35.0%	35.0%	35.0%
Net income (GAAP)	(2.6)	(7.8)	(3.7)	(17.9)	(9.1)	(5.8)	(36.4)	49.6	(12.3)	(15.6)	(20.8)	0.9	(59.3)	52.9	272.5	484.0	638.6	648.3	731.7	798.6	813.7	940.7
Adjusted Items (Non-GAAP)																						
Stock options	0.0	0.0	0.0	7.0	3.4	0.3	10.7	2.5	2.5	2.5	2.5	10.0	10.0	10.0	15.0	20.0	22.0	23.0	24.0	25.0	25.0	25.0
Other	0.0	1.4	0.6	0.0	0.0	0.0	0.6	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
Net income (Non-GAAP)	(2.6)	(6.4)	(3.1)	(10.9)	(5.7)	(5.5)	(25.2)	52.1	(9.8)	(13.1)	(18.3)	10.9	(49.3)	62.9	287.5	504.0	660.6	671.3	755.7	823.6	838.7	965.7
EPS, GAAP	(0.49)	(1.43)	(0.66)	(2.27)	(0.24)	(0.13)	(3.30)	8.86	(1.56)	(0.41)	(0.48)	6.42	(2.44)	2.13	10.77	18.75	24.25	24.14	26.71	28.58	28.55	32.36
Basic shares	5.3	5.5	5.6	7.9	38.3	43.6	23.8	5.6	7.9	38.3	43.6	23.8	24.3	24.8	25.3	25.8	26.3	26.9	27.4	27.9	28.5	29.1
Diluted shares	5.3	5.5	5.6	7.9	38.3	43.6	23.8	5.6	7.9	38.3	43.6	23.8	24.3	24.8	25.3	25.8	26.3	26.9	27.4	27.9	28.5	29.1
EPS, Non-GAAP	(0.49)	(0.22)	(0.18)	(0.34)	(0.15)	(0.13)	(0.73)	1.10	(0.29)	(0.28)	(0.38)	0.23	(1.02)	1.27	5.69	9.79	12.58	12.53	13.83	14.77	14.75	16.65
Basic shares	5.4	29.2	29.3	316	38.3	43.6	35.7	47.6	47.6	47.6	47.6	47.6	48.5	49.5	50.5	51.5	52.5	53.6	54.7	55.7	56.9	58.0
Diluted shares	5.4	29.2	29.3	316	38.3	43.6	35.7	47.6	47.6	47.6	47.6	47.6	48.5	49.5	50.5	51.5	52.5	53.6	54.7	55.7	56.9	58.0

Source: Jefferies estimates, company data

Exhibit 3: KITE DCF Analysis**Kite Pharma, Inc.****Discounted Cash Flow Analysis**

<i>(All values in \$MM)</i>	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Sales	0.0	0.0	0.0	60.0	0.0	134.7	471.8	833.8	1,077.2	1,403.6	1,542.9	1,651.8	1,657.7	1,865.0
Operating Expenses	7.7	9.4	29.2	58.6	59.3	75.9	199.3	296.0	357.7	406.2	417.2	423.1	405.8	417.7
EBIT	(7.7)	(9.4)	(29.2)	1.4	(59.3)	58.9	272.5	537.8	719.6	997.3	1125.6	1228.6	1251.9	1447.3
(-): Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	53.8	71.0	349.1	394.0	430.0	438.2	506.5
EBIAT	(7.7)	(9.4)	(29.2)	1.4	(59.3)	58.9	272.5	484.0	648.6	648.3	731.7	798.6	813.7	940.7
(+): Depreciation	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
(+): FAS-123 Options	3.4	0.3	10.7	10.0	10.0	10.0	15.0	20.0	22.0	23.0	24.0	25.0	25.0	25.0
(-): Capital expenditures	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
(-): Changes in working capital	0.0	0.0	2.7	0.7	0.7	0.3	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Unlevered free cash flow	(4.3)	(9.1)	(21.4)	10.4	(50.3)	68.4	286.5	503.1	669.7	670.3	754.7	822.6	837.8	964.7

Source: Jefferies estimates, company data

Company Description

Kite Pharma, Inc. operates as a clinical stage biotechnology company which engages in the development of novel cancer immunotherapeutic products with focus on engineered autologous T cell therapeutics targeted to different tumor types. In addition, the company is advancing a novel therapeutic cancer vaccine aimed to trigger potent and specific immunity against multiple epithelial cancers, which has the potential to complement its eACT programs.

Analyst Certification:

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The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

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NC - Not covered. Jefferies does not cover this company.

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Jefferies Franchise Picks

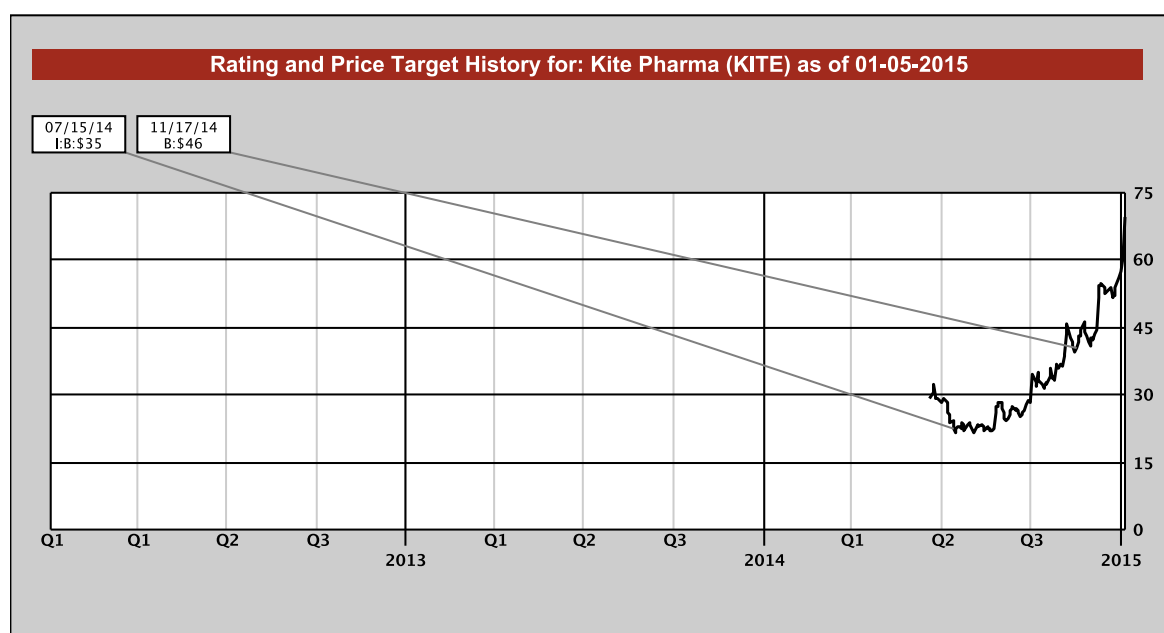
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Risk which may impede the achievement of our Price Target

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Other Companies Mentioned in This Report

- Amgen, Inc. (AMGN: \$157.99, BUY)
- Celldex Therapeutics, Inc. (CLDX: \$18.97, BUY)
- Dyax (DYAX: \$14.07, BUY)
- Newlink Genetics Corp. (NLNK: \$41.48, BUY)
- XOMA Ltd. (XOMA: \$3.87, BUY)



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1042	51.94%	281	26.97%
HOLD	819	40.83%	144	17.58%
UNDERPERFORM	145	7.23%	5	3.45%

Other Important Disclosures

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