

## COMPANY NOTE

Estimate Change

USA | Healthcare | Biotechnology

November 12, 2014

# Jefferies

## Atara Biotherapeutics (ATRA) Reports 3Q - Model Update

### Key Takeaway

**ATRA reported 3Q earnings this morning and confirmed that its clinical programs for lead drug PINTA745 to treat protein energy wasting (PEW) in end stage renal disease (ESRD) patients and STM434 in ovarian/solid tumors are on track. Phase 2 data in treatment resistant and recurrent cytomegalovirus (CMV) infection with allogeneic T cell therapies will be presented at ASH.**

**PINTA745 phase 2 trial ongoing with timelines maintained.** PINTA745 is enrolling a phase 2 study to treat PEW in ESRD patients on dialysis with topline results expected in 2H15. We project ~\$696M in worldwide peak adjusted sales for PINTA745 in this indication.

**STM434 phase 1 trial recently initiated.** '434 is in a phase 1 study for the treatment of ovarian and other solid tumors with data expected in 1H16. We estimate ~\$94M in worldwide peak adjusted sales for '434 in recurrent ovarian cancer. '434 monotherapy data in the clear cell and/or granulosa cell sub-types of ovarian cancer in the phase 1 study could potentially lead to an accelerated path to approval.

**Memorial Sloan Kettering (MSK) phase 2 CMV data to be presented at the ASH meeting (Dec 6-9).** Research collaborators at MSK will present two posters on their allogeneic T-cell therapy targeting CMV. One poster will present preliminary efficacy results from the ongoing phase 2 trial, and the other will highlight response rates as it relates to HLA genotype of the patient/cell-line. ATRA's current option period to acquire these T-cell therapies expires in Sept. 15, but may be extended up to 27 months with additional payments.

**Financial/Model update.** ATRA reported a net loss of \$5.9M in 3Q, with the largest single expense related to a \$2.0M payment to MSK for the option agreement. ATRA ended 3Q14 with \$51.7M in cash/cash-equivalents, which excludes the \$55.8M recently raised from their IPO in Oct.

### Valuation/Risks

Our \$35 PT is DCF-based. Risks include clinical, regulatory, competitive, commercial.

USD	Prev.	2013A	Prev.	2014E	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	0.0	--	0.0	--	0.0	--	0.0
<b>EPS</b>								
Mar	--	--	--	(1.02)A	--	--	--	--
Jun	--	--	--	(0.33)A	--	--	--	--
Sep	--	--	(0.39)A	(0.31)A	--	--	--	--
Dec	--	--	(0.40)	(0.31)	--	--	--	--
FY Dec	--	(1.28)	(1.34)	(1.16)	(1.41)	(1.48)	--	(2.00)
FY P/E		NM		NM		NM		NM

**BUY**

Price target \$35.00

Price \$27.21

### Financial Summary

Net Debt (MM):	\$0.0
Cash & ST Invest. (MM):	\$104.0

### Market Data

52 Week Range:	\$29.51 - \$9.66
Total Entprs. Value (MM):	\$644.9
Market Cap. (MM):	\$644.9
Insider Ownership:	66.3%
Institutional Ownership:	8.7%
Shares Out. (MM):	23.7
Float (MM):	5.0
Avg. Daily Vol.:	NA

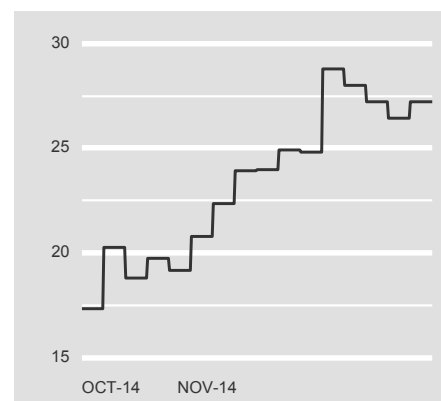
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### Price Performance



**ATRA**

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**Atara Biotherapeutics****BUY: \$35.00 Price Target****Scenarios****Target Investment Thesis**

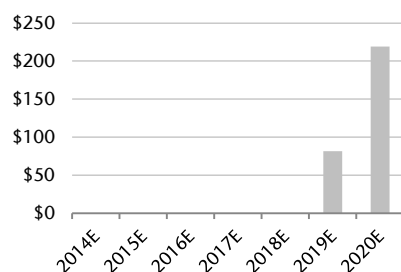
- We project a 40% probability of PINTA 745 approval in 2019 for PEW in ESRD patients (peak adjusted WW sales of ~\$696M in 2029)
- We project a 20% probability of STM 434 approval in 2020 for recurrent ovarian cancer (peak adjusted sales reach ~\$94M in 2029)
- We do not assign any value to other pipeline products or the T-cell therapies from MSK
- DCF-based PT: \$35

**Upside Scenario**

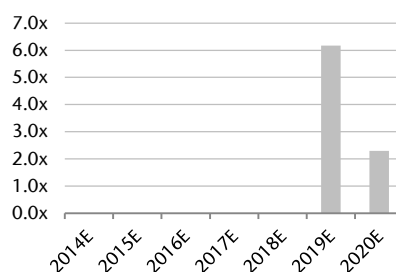
- '745 achieves higher than expected market penetration (peak adjusted WW sales of ~\$836 in 2029)
- ATRA licenses the EBV T-cell therapy from MSK and is approved for EBV associated hematological malignancies in 2019 (peak adjusted sales of ~\$42.8M in 2029)
- DCF-based PT: \$47

**Downside Scenario**

- '745 is not successful in its phase 3 trial
- '434 is launched in 2020 for recurrent ovarian cancer (peak adjusted sales reach ~\$94M in 2029)
- DCF-based PT: \$9

**Long Term Analysis****Revenue (M)**

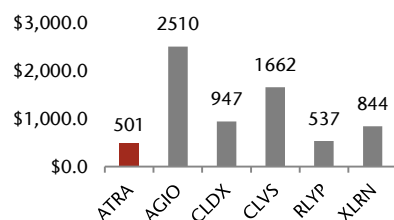
Source: Factset, Jefferies estimates

**Enterprise Value (EV)/Revenue**

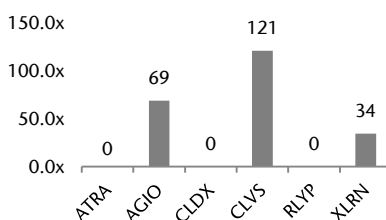
Source: Factset, Jefferies estimates

**Other Considerations**

Continued acquisition of valuable clinical stage assets by ATRA could provide additional upside to our estimates.

**Peer Group****Enterprise Value (EV)**

Source: Factset

**Enterprise Value (EV)/Revenue**

Source: Factset

**Recommendation / Price Target**

Ticker	Rec.	PT
ATRA	BUY	\$35.00
AGIO	NC	NC
CLDX	BUY	\$24.00
CLVS	NC	NC
RLYP	NC	NC
XLRN	NC	NC

**Catalysts**

- Topline data from phase 2 trial of '745 treating PEW in ESRD patients— 2H15
- Potential for preliminary data for phase 1 trial of '434 in OC/solid tumors – 2H15
- Top-line data from phase 1 trial of '434 in OC/solid tumors – 1H16
- Initial option period for MSK T-cell therapies expires –Sep. 23, 2015

**Company Description**

Atara is a US biotechnology company focused on developing a pipeline of clinical stage in-licensed assets. The key value driver for ATRA is Pinta 745, which is currently being evaluated in a phase 2 proof-of-concept trial for the treatment of protein energy wasting (PEW) syndrome in end-stage renal disease (ESRD). The second pipeline product, STM 434, has just entered the clinic in a multi-part phase 1 trial for the treatment of ovarian and other solid tumors. ATRA has also secured an option agreement with Memorial Sloan Kettering (MSK) to in-license 3 clinical-stage T-cell immunotherapies. This agreement with MSK also allows for collaborative R&D efforts for the development of other cellular immuno-therapies, such as CAR-T cells.

**Upcoming catalysts for ATRA**

Drug	Indication	Phase	Catalyst	2015				2016			
				1H15		2H15		1H16		2H16	
				1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Pinta 745	PEW in ESRD patients	2	Topline data								
STM 434	Ovarian & other solid tumors	1	Potential Prelim. Data								
STM 434	Ovarian & other solid tumors	1	Topline data								
MSK T-cell	Various	N/A	Option to license period expires			Sep. 23					
EBV T-cell	EBV-assoc. cancers	2	Topline data								
CMV T-cell	CMV infection in immunocompromised	2	Topline data								
WT1 T-cell	Various solid tumors	1	Topline data								

Source: Jefferies estimates, company data

**ATRA Income Statement: 2013A-2020E**

(In Millions, except per share data)	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenues</b>												
PINTA 745 WW Sales (prob. adjusted)											81.3	185.3
STM 434 WW Sales (prob. adjusted)											-	15.8
EBV T-cell WW sales (prob. adjusted)											-	-
<b>Total Revenues</b>	-	-	-	-	-	-	-	-	-	-	<b>81.3</b>	<b>201.1</b>
<b>Operating Expenses</b>												
COGS											12.2	30.2
% of sales	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15%	15%
R&D	4.9	3.0	3.2	4.2	4.5	14.7	19.0	25.0	40.0	55.0	65.0	70.0
% of sales	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	80%	35%
SG&A	3.8	4.1	1.4	1.7	1.7	8.9	11.0	16.0	20.0	35.0	50.0	60.0
% of sales	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	62%	30%
Milestone payments								8.0		10.0	20.0	
<b>Total Operating expenses</b>	<b>8.6</b>	<b>7.1</b>	<b>4.5</b>	<b>5.9</b>	<b>6.2</b>	<b>23.5</b>	<b>30.0</b>	<b>49.0</b>	<b>60.0</b>	<b>100.0</b>	<b>147.2</b>	<b>160.2</b>
<b>Net Operating Income (Expense)</b>	<b>(8.6)</b>	<b>(7.1)</b>	<b>(4.5)</b>	<b>(5.9)</b>	<b>(6.2)</b>	<b>(23.5)</b>	<b>(30.0)</b>	<b>(49.0)</b>	<b>(60.0)</b>	<b>(100.0)</b>	<b>(65.9)</b>	<b>40.9</b>
<b>Other Income (Expense)</b>												
Interest income	0.0	0.0	-	0.0	-	0.0	-	-	-	-	-	-
<b>Total Other Income (Expense)</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Income before taxes	(8.6)	(7.0)	(4.5)	(5.9)	(6.2)	(23.5)	(30.0)	(49.0)	(60.0)	(100.0)	(65.9)	40.9
Taxes	0.2	(0.0)	-	-	-	(0.0)	-	-	-	-	-	-
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Net Income (Loss)</b>	<b>(8.8)</b>	<b>(7.0)</b>	<b>(4.5)</b>	<b>(5.9)</b>	<b>(6.2)</b>	<b>(23.5)</b>	<b>(30.0)</b>	<b>(49.0)</b>	<b>(60.0)</b>	<b>(100.0)</b>	<b>(65.9)</b>	<b>40.9</b>
Basic EPS	(1.28)	(1.02)	(0.33)	(0.31)	(0.31)	(1.16)	(1.48)	(2.00)	(2.45)	(3.66)	(2.40)	1.49
Diluted EPS	(1.28)	(1.02)	(0.33)	(0.26)	(0.26)	(0.99)	(1.26)	(1.75)	(2.14)	(3.24)	(2.13)	1.32
Shares outstanding (Basic)	6.9	6.9	13.7	19.4	20.2	20.2	20.2	24.5	24.5	27.4	27.4	27.5
Shares outstanding (Diluted)	6.9	6.9	13.7	23.0	23.7	23.7	23.8	28.0	28.0	30.9	31.0	31.0

Source: Jefferies estimates, company data

## Company Description

Atara Biotherapeutics, Inc. is a clinical stage biopharmaceutical company focused on developing novel therapeutics for serious unmet medical needs, with an initial focus on muscle wasting conditions and oncology. Its product candidates are biologics targeting myostatin and activin, members of the transforming growth factor-beta, protein superfamily, which play roles in the growth and maintenance of muscle and many other body tissues. The company's product candidate includes PINTA 745, STM 434 and ATA 842. Atara Biotherapeutics was founded by Isaac E. Ciechanover on August 22, 2012 and is headquartered in Brisbane, CA.

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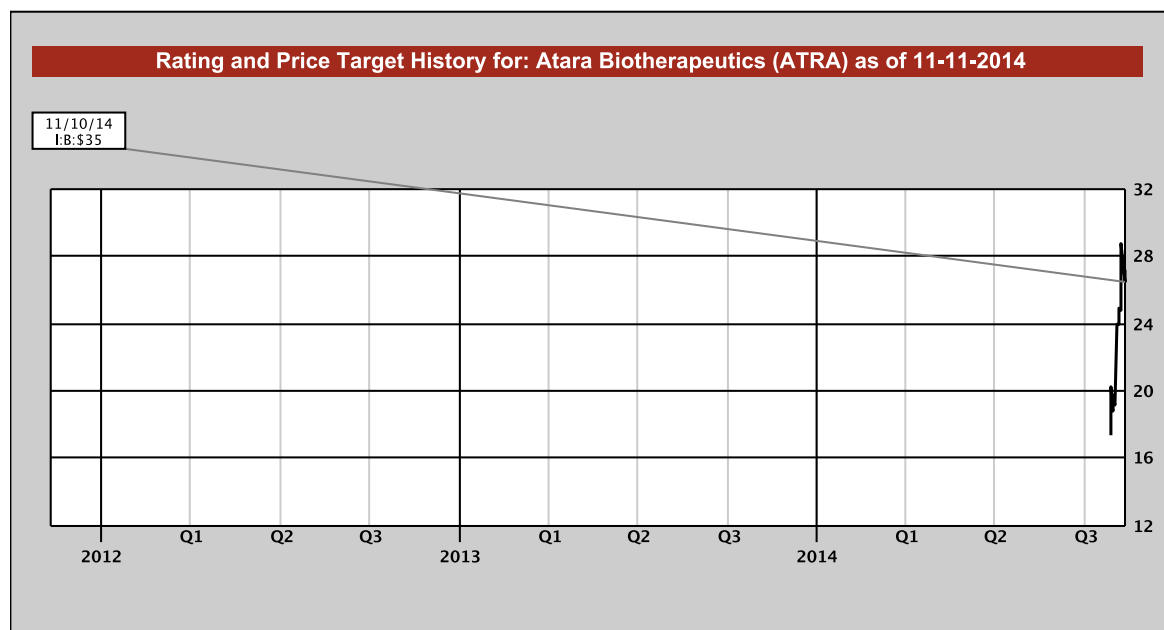
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## Other Companies Mentioned in This Report

- Celldex Therapeutics, Inc. (CLDX: \$14.46, BUY)



**Rating and Price Target History for: Celldex Therapeutics, Inc. (CLDX) as of 11-11-2014**

**Distribution of Ratings**

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1019	52.04%	268	26.30%
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