COMPANY NOTE

Target Change

USA | Healthcare | Biotechnology

June 4, 2015

Jefferies

EQUITY RESEARCH AMERICAS

Atara Biotherapeutics (ATRA)

Update from Jefferies H/C Conference: PT to $47 on EBV-CTL data at ASCO

BUY
Price target $47.00
(from $43.00)
Price $40.89

Key Takeaway

Mgmt highlighted continued positive data from collaborator MSK's EBV-CTL program in post-transplant oncology indications that was presented at ASCO. Based on the high and durable response rate seen across both HSC/SOT rituximab refractory patients, we have increased the probability of success for EBV-CTL (60%) and our PT to $47. Mgmt also stressed the potential broad applicability of both their own clinical programs (745/343) and the MSK T-cell therapies.

Data from collaborator Memorial Sloan Kettering's (MSK) 'off-the-shelf' T-cell therapies continue to impress across multiple indications. On Monday at ASCO, MSK presented new data for the Epstein-Barr virus (EBV) directed T-cell therapy (EBV-CTL) in patients suffering from rituximab refractory lymphoproliferative disorder (LPD) following either a bone marrow (eg hematopoetic stem cell or HSC) or solid organ transplant (SOT). Post-HSC data (n=34) is an update from the recent plenary presentation at AACR, and demonstrate a continued high response rate (CR+PR of 65%) and a 2 year survival rate of ~47-64% (vs historical data of 16-56 days median survival). The newly presented SOT patient population data (n=13) suggest a similar response rate (CR+PR of ~62%) and a 2 year survival rate of ~58% (vs historical data of 0% in similar high-risk patients). Across both datasets, no significant Graft vs Host Disease (GvHD) was seen. We believe the SOT data are particularly compelling as they demonstrate safety/efficacy of EBV-CTL across multiple patient populations that are high-risk and have a very poor prognosis. Additionally, EBV-CTL demonstrated efficacy despite concomitant administration of immunosuppressants. Based on these data, we have increased our probability of success of EBV-CTL from 45% to 60% and our PT to $47. We estimate peak-adjusted sales of ~$172M for EBV-CTL.

'745 and '434 on track for initial data YE15/1H16. The ongoing ph 2 trial for '745 in dialysis patients suffering from protein energy wasting (PEW) is on track with 12 wk data expected by YE15. Mgmt highlighted the anti-inflammatory properties of '745 & the potential benefits in this population (e.g. reduction of CV-related events and increased supportive care drugs). The ph 1 trial of '434 in ovarian/solid tumors on-track, with interim data expected by 1H16. We estimate peak-adjusted sales of ~$696M & ~$94M for '745 & '434, respectively.

Valuation/Risks

Our $47 PT (was $43) is DCF-based. Risks include clinical, regulatory, competitive, commercial.

Financial Summary	
Net Debt (MM):	$0.0
Cash & ST Invest. (MM):	$164.9

Market Data	
52 Week Range:	$64.35 - $9.66
Total Entprs. Value (MM):	$1,014.1
Market Cap. (MM):	$1,014.1
Insider Ownership:	66.3%
Institutional Ownership:	8.7%
Shares Out. (MM):	24.8
Float (MM):	11.5
Avg. Daily Vol.:	198,356

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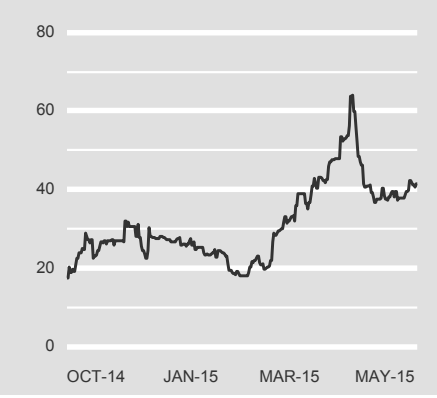
USD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	0.0	--	0.0	--	0.0	--	0.0
EPS								
Mar	--	--	--	(1.02)	--	(0.38)A	--	--
Jun	--	--	--	(0.33)	--	(0.44)	--	--
Sep	--	--	--	(0.31)	--	(0.46)	--	--
Dec	--	--	--	(0.53)	--	(0.46)	--	--
FY Dec	--	(1.28)	--	(1.42)	--	(1.75)	--	(2.82)
FY P/E		NM		NM		NM		NM

Price Performance



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Atara Biotherapeutics

BUY: $47.00 Price Target

THE LONG VIEW

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)
- We project a 20% probability of STM 434 approval in 2020 for recurrent ovarian cancer (peak adjusted sales reach ~$94M)
- We project a 60% and 35% probability of approval in 2019 for EBV-CTL & CMV-CTL, respectively (combined peak adjusted WW sales reach ~$230M)
- DCF-based PT: $47

Upside Scenario

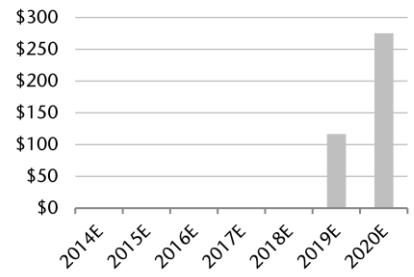
- '745 achieves higher than expected market penetration (peak adjusted WW sales of ~$836)
- EBV-CTL and CMV-CTL achieve higher than expected market penetration (peak adjusted WW sales of ~$293M)
- DCF-based PT: $62

Downside Scenario

- 745 is launched in 2019 for PEW in ESRD patients (peak adjusted WW sales of ~$696M)
- EBV-CTL is launched in 2019 for hematological malignancies (peak adjusted sales of ~$172M)
- Both '434 and CMV-CTL fail to gain approval
- DCF-based PT: $32

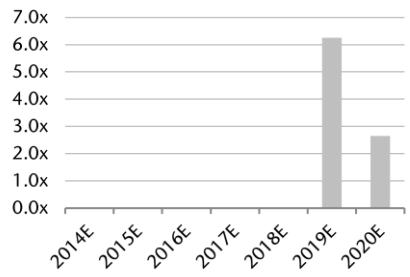
Long Term Analysis

Revenue (M)



Source: Factset, Jefferies estimates

Enterprise Value (EV)/Revenue



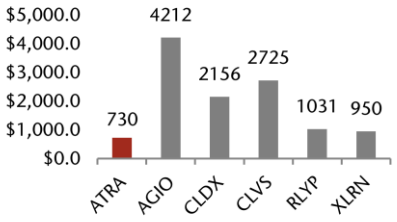
Source: Factset, Jefferies estimates

Other Considerations

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

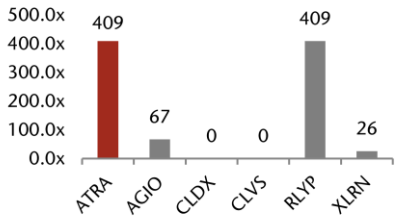
Peer Group

Enterprise Value (EV)



Source: Factset

Enterprise Value (EV)/Revenue



Source: Factset

Recommendation / Price Target

Ticker	Rec.	PT
ATRA	**BUY**	**$47.00**
AGIO	NC	NC
CLDX	BUY	$36.00
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 biotechnolgy 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.

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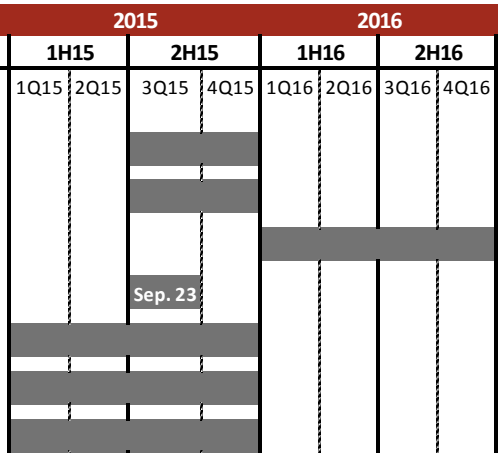
Upcoming catalysts for ATRA

Drug	Indication	Phase	Catalyst
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
EBV T-cell	EBV-assoc. cancers	2	Potential data update
CMV T-cell	CMV infection in immunocompromised	2	Potential data update
WT1 T-cell	Various solid tumors	1	Potential data update



Source: Jefferies estimates, company data

ATRA Income Statement: 2014A-2020E ($M)

(In Millions, except per share data)	2013A	2014A	1Q15A	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues												
PINTA 745 WW Sales (prob. adjusted)											81.3	185.3
STM 434 WW Sales (prob. adjusted)											-	15.8
EBV-CTL WW sales (prob. adjusted)											26.6	55.8
CMV-CTL WW sales (prob. adjusted)											8.7	18.4
Total Revenues	-	-	-	-	-	-	-	-	-	-	**116.6**	**275.3**
Operating Expenses												
COGS											17.5	41.3
% 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	15.4	5.8	5.8	5.8	5.8	23.1	35.0	50.0	65.0	80.0	90.0
% of sales	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*69%*	*33%*
SG&A	3.8	12.7	3.5	5.0	5.5	5.5	19.5	25.0	30.0	45.0	60.0	75.0
% of sales	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*51%*	*27%*
Milestone payments								8.0		10.0	20.0	
Total Operating expenses	**8.6**	**28.2**	**9.3**	**10.8**	**11.3**	**11.3**	**42.6**	**68.0**	**80.0**	**120.0**	**177.5**	**206.3**
Net Operating Income (Expense)	**(8.6)**	**(28.2)**	**(9.3)**	**(10.8)**	**(11.3)**	**(11.3)**	**(42.6)**	**(68.0)**	**(80.0)**	**(120.0)**	**(60.9)**	**69.0**
Other Income (Expense)												
Interest income	0.0	0.1	0.2	0.2	0.2	0.2	0.9	0.9	0.9	0.9	0.9	0.9
Total Other Income (Expense)	**0.0**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**
Income before taxes	(8.6)	(28.0)	(9.1)	(10.5)	(11.0)	(11.0)	(41.7)	(67.1)	(79.1)	(119.1)	(59.9)	69.9
Taxes	0.2	(0.0)	0.0	-	-	-	-	-	-	-	-	-
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income (Loss)	**(8.8)**	**(28.0)**	**(9.1)**	**(10.5)**	**(11.0)**	**(11.0)**	**(41.7)**	**(67.1)**	**(79.1)**	**(119.1)**	**(59.9)**	**69.9**
Basic EPS	(1.28)	(1.42)	(0.38)	(0.44)	(0.46)	(0.46)	(1.75)	(2.82)	(2.97)	(4.03)	(2.03)	2.37
Diluted EPS	(1.28)	(1.35)	(0.37)	(0.42)	(0.44)	(0.44)	(1.68)	(2.70)	(2.85)	(3.90)	(1.96)	2.29
Shares outstanding (Basic)	6.9	19.7	23.8	23.8	23.8	23.8	23.8	23.8	26.7	29.5	29.5	29.5
Shares outstanding (Diluted)	6.9	20.7	24.8	24.8	24.8	24.8	24.8	24.8	27.7	30.6	30.6	30.6

Source: Jefferies estimates, company data

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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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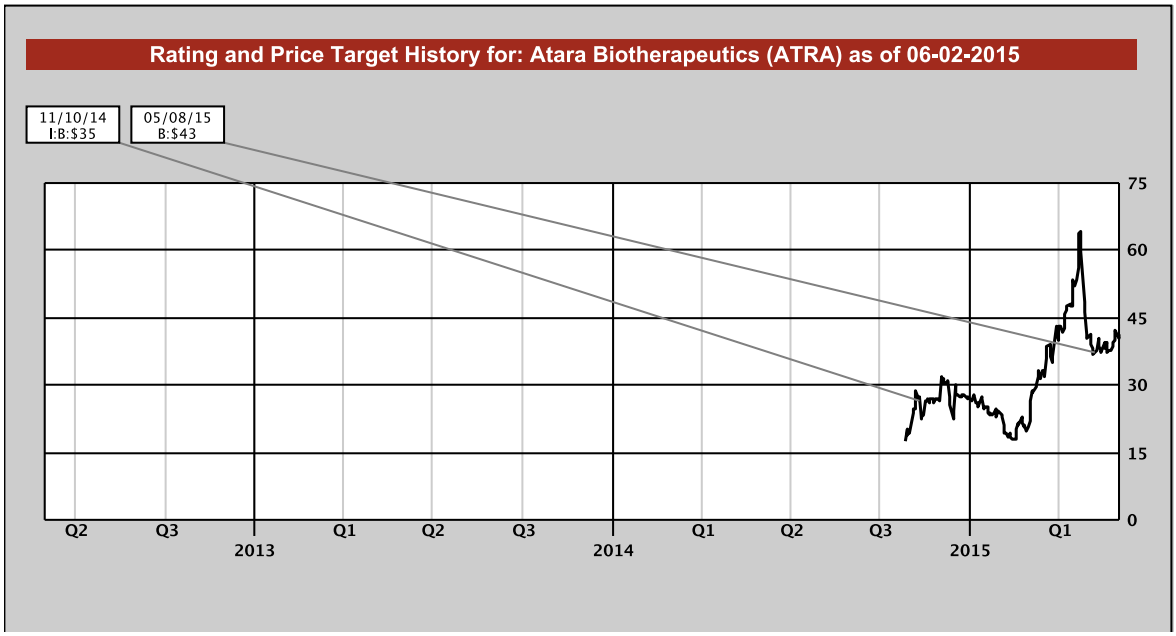
- Celldex Therapeutics, Inc. (CLDX: $27.20, BUY)



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BUY	1075	51.61%	294	27.35%
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