

COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Biotechnology

May 8, 2015

Jefferies

Atara Biotherapeutics (ATRA) Reports 1Q: Raising PT to \$43 Based on Impressive Data from T-cell Programs

Key Takeaway

We are increasing our DCF based PT to \$43 after including the 'off-the-shelf' T-cell therapies directed against EBV and CMV from MSK that ATRA has an exclusive option to license. A recent plenary presentation at AACR highlighted the efficacy of the EBV-CTL program in rituximab refractory pts (~63% CR +PR). Recent competitor data suggesting increases in muscle mass and physical function with myostatin inhibition serves to validate the mechanism of '745.

We are increasing our PT to \$43 from \$35 based on the T-cell programs from MSK. Memorial Sloan Kettering (MSK) has developed 3 banks of 3rd-party donor cells directed against Epstein Barr Virus (EBV), cytomegalovirus (CMV) and Wilms Tumor 1 (WT1), which serve as 'off-the-shelf' T-cell therapies for a broad range of oncology and viral indications. A recent plenary presentation at AACR highlighted the efficacy of the EBV therapy (63% CR+PR) in patients with rituximab refractory EBV-associated lymphoproliferative disorders (EBV-LPD) following a bone marrow transplant, for which breakthrough designation was recently granted. We expect data updates from the ongoing trials (EBV & CMV ph 2; WT1 ph 1) at scientific & medical conferences throughout the year. Mgmt plans to meet with the FDA in 3Q to obtain feedback on its regulatory strategy. They believe the potential exists to file an NDA for the EBV program in rituximab refractory EBV-LPD based on data generated so far. We estimate peak-adjusted sales of ~\$117M and ~\$52M from the EBV and CMV programs, respectively, and do not currently value the WT1 program.

PINTA 745 phase 2 trial ongoing with preliminary data expected by YE15. ATRA is enrolling a phase 2 trial of '745 to treat protein energy wasting (PEW) in end-stage renal disease (ESRD) patients on dialysis. The trial is designed to obtain insight into other indications where '745 could be developed, including: orthopedic indications, inflammatory conditions, age related sarcopenia, & cancer cachexia. Competitor data presented at the International Conference on Frailty & Sarcopenia Research (ICFSR) that demonstrated concomitant increases in lean muscle and physical function with anti-myostatin therapies serves to validate '745's mechanism. We forecast WW peak-adjusted sales of ~\$696M for '745 in PEW.

Financial update. ATRA reported a net loss of \$9.2M & ended 1Q15 with \$166.7M in cash.

Valuation/Risks

Our \$43 PT is DCF-based. Risks include clinical, regulatory, competitive, commercial.

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)	(0.42)	(0.44)	--	--
Sep	--	--	--	(0.31)	(0.44)	(0.46)	--	--
Dec	--	--	--	(0.53)	(0.44)	(0.46)	--	--
FY Dec	--	(1.28)	--	(1.42)	(1.68)	(1.75)	(2.43)	(2.82)
FY P/E		NM		NM		NM		NM

BUY

Price target \$43.00

(from \$35.00)

Price \$36.67

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):	\$909.4
Market Cap. (MM):	\$909.4
Insider Ownership:	66.3%
Institutional Ownership:	8.7%
Shares Out. (MM):	24.8
Float (MM):	11.2
Avg. Daily Vol.:	197,378

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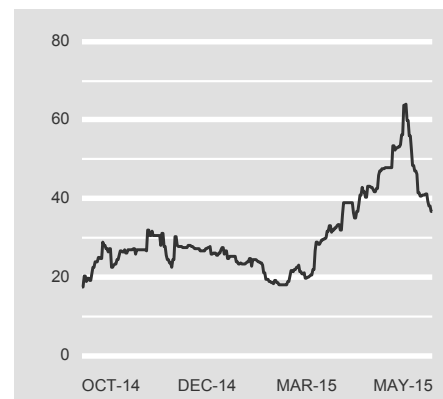
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Price Performance



ATRA

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Atara Biotherapeutics**BUY: \$43.00 Price Target****Scenarios****Target Investment Thesis**

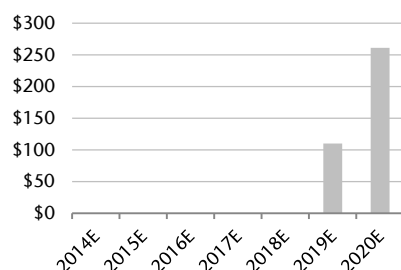
- We project a 40% probability of PINTA 745 approval in 2019 for PEW in ESRD patients (peak adjusted WW sales of ~\$696M)
- We project a 20% probability of STM 434 approval in 2020 for recurrent ovarian cancer (peak adjusted sales reach ~\$94M)
- We project a 45% and 35% probability of approval in 2019 for EBV-CTL & CMV-CTL, respectively (combined peak adjusted WW sales reach ~\$169M)
- DCF-based PT: \$43

Upside Scenario

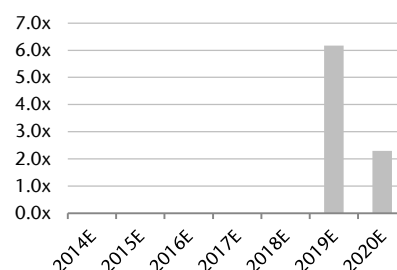
- '745 achieves higher than expected market penetration (peak adjusted WW sales of ~\$836)
- EBV-CTL and CMV-CTL achieve higher than expected market penetration (peak adjusted WW sales of ~\$275M)
- DCF-based PT: \$58

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 ~\$117M)
- Both '434 and CMV-CTL fail to gain approval
- DCF-based PT: \$28

Long Term Analysis**Revenue (M)**

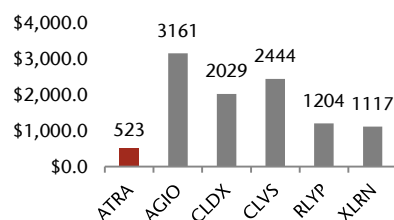
Source: Factset, Jefferies estimates

Enterprise Value (EV)/Revenue

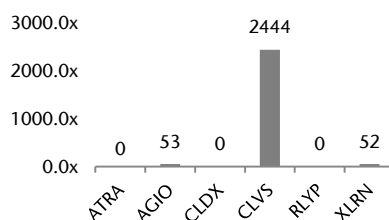
Source: Factset, Jefferies estimates

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	\$43.00
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	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)											20.0	41.5
CMV-CTL WW sales (prob. adjusted)											8.7	18.2
Total Revenues	-	-	-	-	-	-	-	-	-	-	110.0	260.8
Operating Expenses												
COGS											16.5	39.1
% 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	73%	35%
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	55%	29%
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	176.5	204.1
Net Operating Income (Expense)	(8.6)	(28.2)	(9.3)	(10.8)	(11.3)	(11.3)	(42.6)	(68.0)	(80.0)	(120.0)	(66.5)	56.6
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)	(65.6)	57.6
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)	(65.6)	57.6
Basic EPS	(1.28)	(1.42)	(0.38)	(0.44)	(0.46)	(0.46)	(1.75)	(2.82)	(2.97)	(4.03)	(2.22)	1.95
Diluted EPS	(1.28)	(1.35)	(0.37)	(0.42)	(0.44)	(0.44)	(1.68)	(2.70)	(2.85)	(3.90)	(2.14)	1.88
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

EBV-CTL Market Model

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
EBV T-cells											
B-cell & T/NK-cell lymphomas incidence											
Total	14,472	14,704	14,939	15,178	15,421	15,668	15,918	16,173	16,432	16,695	16,962
EBV associated w/ tumor	3,184	3,235	3,287	3,339	3,393	3,447	3,502	3,558	3,615	3,673	3,732
r/r from 1st/2nd line therapies	955	970	986	1,002	1,018	1,034	1,051	1,067	1,084	1,102	1,119
HIV associated NHL											
HIV prevalence	1,243,043	1,262,931	1,283,138	1,303,669	1,324,527	1,345,720	1,367,251	1,389,127	1,411,353	1,433,935	1,456,878
NHL cases (pts on HAART)	2,548	2,589	2,630	2,673	2,715	2,759	2,803	2,848	2,893	2,940	2,987
EBV associated w/ tumor	561	570	579	588	597	607	617	626	637	647	657
r/r from 1st/2nd line therapies	168	171	174	176	179	182	185	188	191	194	197
PTLDs											
Solid organ transplants											
PTLD incidence	1,223	1,235	1,247	1,260	1,273	1,285	1,298	1,311	1,324	1,337	1,351
EBV associated w/ tumor	856	865	873	882	891	900	909	918	927	936	946
Relapse from rituximab	488	493	498	503	508	513	518	523	528	534	539
HSC transplants											
Autologous	12,752	13,135	13,529	13,934	14,353	14,783	15,227	15,683	16,154	16,638	17,138
PTLD incidence (Auto)	455	469	483	498	513	528	544	560	577	594	612
Allogeneic	9,274	9,552	9,839	10,134	10,438	10,751	11,074	11,406	11,748	12,101	12,464
PTLD incidence (Allo)	686	707	728	750	772	796	819	844	869	895	922
Total post-HSCT PTLD	1,142	1,176	1,211	1,248	1,285	1,324	1,363	1,404	1,446	1,490	1,534
EBV associated w/ tumor	1,062	1,094	1,126	1,160	1,195	1,231	1,268	1,306	1,345	1,385	1,427
Relapse from rituximab	605	623	642	661	681	702	723	744	767	790	813
Total eligible patient population (US)	2,217	2,258	2,299	2,342	2,386	2,431	2,476	2,523	2,570	2,619	2,669
EBV-CTL penetration	10%	20%	30%	40%	40%	40%	40%	40%	40%	40%	40%
EBV-CTL treated patients	222	452	690	937	954	972	990	1,009	1,028	1,048	1,068
Price/pt/yr (\$)	\$125,000	\$ 127,500	\$ 130,050	\$ 132,651	\$ 135,304	\$ 138,010	\$ 140,770	\$ 143,586	\$ 146,457	\$ 149,387	\$ 152,374
EBV-CTL US Sales (\$M)	\$ 27.7	\$ 57.6	\$ 89.7	\$ 124.3	\$ 129.1	\$ 134.2	\$ 139.4	\$ 144.9	\$ 150.6	\$ 156.5	\$ 162.7
EBV-CTL Ex-US Sales (\$M) as % of US	\$ 18.0	\$ 37.4	\$ 58.3	\$ 80.8	\$ 83.9	\$ 87.2	\$ 90.6	\$ 94.2	\$ 97.9	\$ 101.7	\$ 105.7
EBV-CTL WW Sales (\$M)	\$ 45.7	\$ 95.0	\$ 148.0	\$ 205.1	\$ 213.1	\$ 221.4	\$ 230.1	\$ 239.1	\$ 248.5	\$ 258.2	\$ 268.4
EBV-CTL WW Sales excluding MSK royalty (3%)	\$ 44.3	\$ 92.1	\$ 143.6	\$ 198.9	\$ 206.7	\$ 214.8	\$ 223.2	\$ 231.9	\$ 241.0	\$ 250.5	\$ 260.4
Prob. Adj. EBV-CTL WW Sales (\$M)	\$ 20.0	\$ 41.5	\$ 64.6	\$ 89.5	\$ 93.0	\$ 96.6	\$ 100.4	\$ 104.4	\$ 108.5	\$ 112.7	\$ 117.2

Source: Jefferies estimates, company data

CMV-CTL Market Model

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
CMV-CTL											
Post-transplant CMV infection											
Solid organ transplants	30,306	30,609	30,915	31,224	31,536	31,852	32,170	32,492	32,817	33,145	33,477
CMV incidence	7,667	7,744	7,822	7,900	7,979	8,059	8,139	8,220	8,303	8,386	8,470
Refractory to antivirals	653	659	666	672	679	686	693	700	707	714	721
HSC transplants	9,274	9,552	9,839	10,134	10,438	10,751	11,074	11,406	11,748	12,101	12,464
CMV incidence	7,011	7,222	7,438	7,661	7,891	8,128	8,372	8,623	8,882	9,148	9,423
Refractory to antivirals	597	615	633	652	672	692	712	734	756	779	802
Total eligible patient population	1,249	1,274	1,299	1,324	1,351	1,378	1,405	1,433	1,462	1,492	1,523
CMV-CTL penetration	10%	20%	30%	40%	40%	40%	40%	40%	40%	40%	40%
CMV-CTL treated patients	125	255	390	530	540	551	562	573	585	597	609
Price/pt/yr (\$)	\$125,000	\$ 127,500	\$ 130,050	\$ 132,651	\$ 135,304	\$ 138,010	\$ 140,770	\$ 143,586	\$ 146,457	\$ 149,387	\$ 152,374
CMV-CTL US Sales (\$M)	\$ 15.6	\$ 32.5	\$ 50.7	\$ 70.3	\$ 73.1	\$ 76.0	\$ 79.1	\$ 82.3	\$ 85.7	\$ 89.2	\$ 92.8
CMV-CTL Ex-US Sales (\$M) as % of US	\$ 10.2	\$ 21.1	\$ 32.9	\$ 45.7	\$ 47.5	\$ 49.4	\$ 51.4	\$ 53.5	\$ 55.7	\$ 58.0	\$ 60.3
CMV-CTL WW Sales (\$M)	\$ 25.8	\$ 53.6	\$ 83.6	\$ 115.9	\$ 120.6	\$ 125.5	\$ 130.6	\$ 135.8	\$ 141.4	\$ 147.1	\$ 153.1
CMV-CTL WW Sales excluding MSK royalty (3%)	\$ 25.0	\$ 52.0	\$ 81.1	\$ 112.5	\$ 117.0	\$ 121.7	\$ 126.6	\$ 131.8	\$ 137.1	\$ 142.7	\$ 148.5
Prob. Adj. CMV-CTL WW Sales (\$M)	\$ 8.7	\$ 18.2	\$ 28.4	\$ 39.4	\$ 40.9	\$ 42.6	\$ 44.3	\$ 46.1	\$ 48.0	\$ 49.9	\$ 52.0

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

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Jefferies Franchise Picks

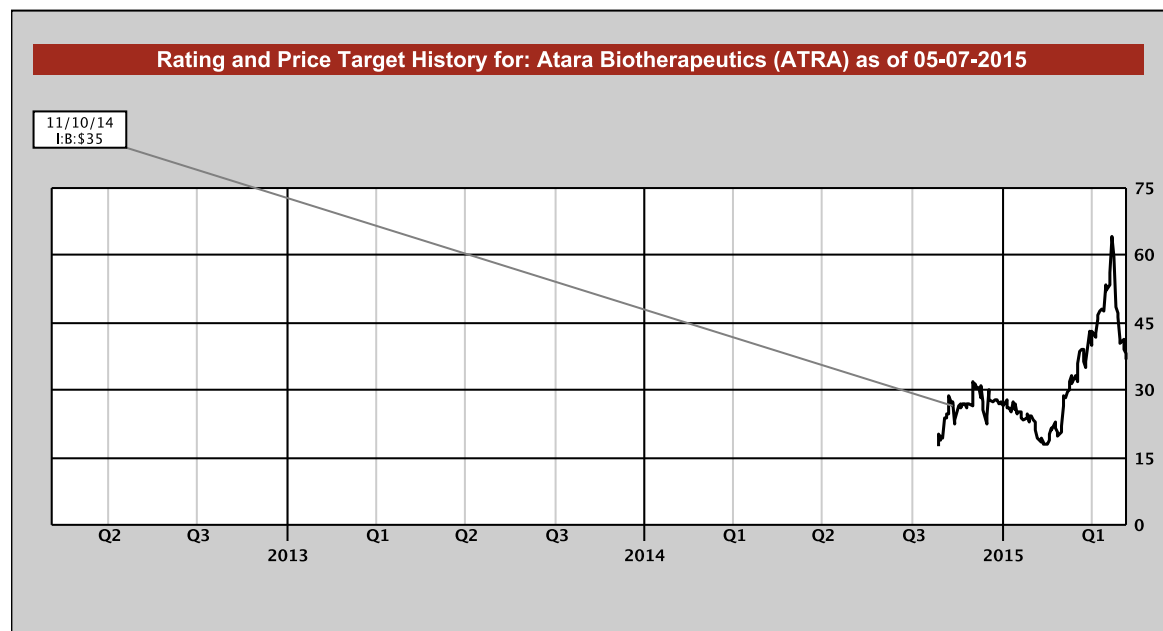
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Other Companies Mentioned in This Report

- Celldex Therapeutics, Inc. (CLDX: \$24.76, BUY)



Rating and Price Target History for: Celldex Therapeutics, Inc. (CLDX) as of 05-07-2015

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1064	51.23%	287	26.97%
HOLD	841	40.49%	159	18.91%
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