

Xencor

4Q23 Earnings Takeaways: Vudalimab data show early promise, safety will be watched

Reiterate Rating: BUY | PO: 34.00 USD | Price: 26.52 USD

Vudalimab mono efficacy promising especially in later-line

XNCR stock trading down on earnings (-7.2%; NBI: +1.36%) after company reported interim phase 2 monotherapy data for Vudalimab (33% ORR (4/12)). While we acknowledge that stock reaction might have reflected the market's mild disappointment given the lower-than-expected ORR (lower if only counting the 3 confirmed responses), we do think the data is promising, especially given the difficult patient profiles (79% (11/14) had metastatic disease, 4 median lines of prior therapy). Management also notes that the responders in the cohort were "in really bad shape" prior to enrolling in the trial with one responder receiving 6 prior lines of therapy. The Grade 5 event, although rare, could be viewed as an overhang for the program; we will therefore look for reappearance of autoimmune hepatitis in additional data updates. Taking into account of the extreme difficulty for treating this specific patient demographic, we continue to see promise in vudalimab. Reiterate Buy and \$34 PO.

Vudalimab presents better option in comparison to comp

To put the data presented in perspective of a benchmark, we look into past studies for clues and potentially frame a bogey for vudalimab. In comparison, the CHECKMATE-650 study (Nivolumab plus ipilimumab) in mCRPC, in its phase 2 study, reported 9-15% ORR with 24-37% PSA50 reductions. Vudalimab's objective response rate was 33% (4/12) and prostate-specific antigen (PSA) reductions of more than 90% from baseline (PSA90) were observed in 25% (3/12) of evaluable patients. In our view, while we do note that cross trial comparisons are far from ideal, we do think vudalimab's data at least presents an encouraging option for mCRPC patients.

To be watched: safety profile, upcoming catalysts

While not perfect considering the nature of the patients treated, safety continues to be robust: TEAEs led to treatment discontinuation for two patients (14%). One Grade 5 AE of autoimmune hepatitis was deemed treatment related; there have been no known additional cases of Grade 5 autoimmune hepatitis among three clinical studies with more than 240 patients treated with vudalimab. Upcoming catalysts include 1) additional data on vudalimab mono (1H25e), 2) vudalimab combo data (1H25e), both of which will inform a decision on whether to advance the studies to later stages or not.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.93)	(1.95)	(3.67)	(2.22)	2.53
EPS Change (YoY)	NM	-109.7%	-88.2%	39.5%	NM
Consensus EPS (Bloomberg)			(3.71)	(2.68)	(0.77)
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	NM	10.5x
EV / EBITDA*	NM	NM	NM	NM	15.1x
Free Cash Flow Yield*	-0.9%	-4.3%	-10.7%	-5.6%	14.4%

* For full definitions of *IQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 28 February 2024 05:00AM EST

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	188.4	93.4
2025E Rev (m)	331.9	226.9
2026E Rev (m)	664.6	608.7
2024E EPS	-3.22	-3.67
2025E EPS	-2.13	-2.22
2026E EPS	1.32	2.53

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Stock Data

Price	26.52 USD
Price Objective	34.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-1-9
52-Week Range	16.49 USD - 33.38 USD
Mkt Val (mn) / Shares Out (mn)	1,614 USD / 60.9
Free Float	98.7%
Average Daily Value (mn)	16.49 USD
BofA Ticker / Exchange	XNCR / NAS
Bloomberg / Reuters	XNCR US / XNCR.QQ
ROE (2024E)	-36.7%
Net Dbt to Eqty (Dec-2023A)	-15.0%

Abbreviations:

ORR: Overall response rate

PSA: Prostate specific antigen

TEAE/AE: Treatment effected adverse events

QoL: Quality of life

PRO: Patient reported outcome

NBI: Nasdaq biotech index

ALT: alanine transaminase

iQprofileSM Xencor

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-9.0%	-16.3%	-34.5%	-24.3%	7.9%
Return on Equity	-7.6%	-16.8%	-36.7%	-21.6%	18.8%
Operating Margin	-50.1%	-82.4%	-278.0%	-88.8%	14.7%
Free Cash Flow	(14)	(70)	(173)	(91)	232

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	1.5x
Asset Replacement Ratio	4.3x	1.4x	1.4x	1.4x	1.1x
Tax Rate	NM	NM	NM	NM	7.2%
Net Debt-to-Equity Ratio	-7.4%	-15.0%	-11.8%	-46.4%	-53.4%
Interest Cover	-16.5x	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	165	168	93	227	609
% Change	-40.2%	2.3%	-44.5%	142.9%	168.3%
Gross Profit	165	168	93	199	541
% Change	-40.2%	2.3%	-44.5%	112.8%	172.0%
EBITDA	(74)	(128)	(247)	(186)	108
% Change	NM	-73.4%	-93.6%	24.6%	NM
Net Interest & Other Income	23	8	5	3	2
Net Income (Adjusted)	(55)	(118)	(222)	(143)	172
% Change	NM	-113.6%	-88.2%	35.6%	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(55)	(118)	(222)	(143)	172
Depreciation & Amortization	9	11	13	15	19
Change in Working Capital	49	3	2	4	5
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	22	49	51	54	57
Capital Expenditure	(38)	(15)	(18)	(21)	(21)
Free Cash Flow	-14	-70	-173	-91	232
% Change	53.5%	-400.0%	-146.9%	47.5%	NM
Share / Issue Repurchase	6	20	22	350	26
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	54	102	62	367	559
Trade Receivables	29	36	41	50	61
Other Current Assets	592	500	392	354	429
Property, Plant & Equipment	59	63	68	74	76
Other Non-Current Assets	112	125	135	151	171
Total Assets	846	826	699	997	1,296
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	64	79	91	111	134
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	55	68	78	95	115
Total Liabilities	119	148	170	206	250
Total Equity	728	679	530	791	1,047
Total Equity & Liabilities	847	827	700	997	1,296

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Biotechnology

Company Description

Xencor is a clinical-stage biopharmaceutical company developing protein therapeutics (antibodies, cytokines) for the treatment of cancer and inflammatory diseases. The company was founded in 1997 following development of the proprietary XmAb platform which has served as the foundation for both the company's in-house programs and licensing partnerships. Since its inception, Xencor has become one of the leading antibody engineering companies of bispecific antibodies and cytokine therapies.

Investment Rationale

Xencor offers a compelling approach to protein engineering given 1) differentiated XmAb platform, 2) validating partnerships offering milestones/royalties with low opportunity cost, 3) multiple shots on goal across CD3 and CD28 bispecifics, 4) strong IP estate of >1,400 issued and pending patents, 5) capital-light R&D and manufacturing costs through outsourcing, and 6) additional partnership opportunities for later-stage studies or new pipeline candidates.

Stock Data

Average Daily Volume 621,900

Quarterly Earnings Estimates

	2023	2024
Q1	-1.02A	NAE
Q2	-0.34A	NAE
Q3	-0.40A	NAE
Q4	-0.21A	NAE

Exhibit 1: XNCR Model Changes

Minor adjustments to OpEx

\$ in thousands	2024E		2025E		2025E	
	Prior	Current	Prior	Current	Prior	Current
Vudalimab (PD-1 x CTLA-4)	0	0	126	126	328	328
Plamotamab (CD20 x CD3)	0	0	0	0	2	2
XmAb306/RO7310729 (IL15/IL15Ra-Fc)	0	0	15	15	11	11
XmAb104 (PD-1 x ICOS)	0	0	0	0	0	0
XmAb564 (IL2-Fc)	0	0	0	0	0	0
XmAb819 (ENPP3 x CD3)	0	0	0	0	0	0
XmAb808 (B7-H3 x CD28)	0	0	0	0	0	0
XmAb968 (CD38 x CD3)	0	0	0	0	0	0
XmAb662 (IL12-Fc)	0	0	0	0	0	0
XmAb541 (CLDN6 x CD3)	0	0	0	0	0	0
Other Revenue (licensing/collaboration)	293	168	86	86	269	269
Total Revenues	293	168	227	227	609	609
Costs of goods sold	0	0	28	28	68	68
Research and development	298	292	334	327	368	359
General and administrative	62	61	75	74	93	92
Operating income (loss)	(267)	(260)	(210)	(202)	80	89
Interest expense	9	0	8	0	7	0
Unrealized gain (loss) on available-for-sale securities	(3)	33	(6)	56	(10)	95
Total other income (expenses), net	(7)	5	(4)	3	(3)	2
Consolidated net income (loss)	(269)	(222)	(269)	(222)	63	172
Net income (loss) per share	(4.45)	(3.67)	(3.30)	(2.22)	0.92	2.53
Shares outstanding, diluted ('000)	60,402	60,402	64,303	64,303	68,203	68,203

Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Xencor (XNCR)

Our \$34/share price objective is based on a probability-adjusted net present value (NPV) for vudalimab (\$7/sh), plamotamab royalties (\$0/sh), XmAb306 (\$2/sh), XmAB104 (-\$1/sh), XmAb564 (\$2/sh), XmAb819 (\$2/sh), XmAb808 (\$2/sh), XmAb968 (\$1/sh), XmAb662 (\$1/sh), XmAb541 (\$1/sh), partnered programs (\$9/sh), and cash and equivalents (\$9/sh). We apply probabilities of success ranging from 6% (XmAb968) to 20% (vudalimab), a weighted-average cost of capital (WACC) of 11-14%, and -5% to 0% terminal growth rate.

Downside risks: 1) Clinical studies fail to yield viable drug profiles or validate preclinical observations, 2) a decline in partnership royalties creates a near-term revenue trough, 3) Xencor therapies against historically challenging targets fail to be competitive, 4) licensed assets miss endpoints in clinical studies or are deprioritized by partners, 5) Xencor fails to strike new partnership/licensing deals for XmAb platform, and 6) funding is insufficient to move forward pipeline aspirations or further commercial/manufacturing build out.

Analyst Certification

I, Alec W. Stranahan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	89bio, Inc	ETNB	ETNB US	Geoff Meacham
	Acumen Pharma	ABOS	ABOS US	Geoff Meacham
	Agios Pharmaceuticals	AGIO	AGIO US	Greg Harrison, CFA
	Amylyx Pharmaceuticals	AMLX	AMLX US	Geoff Meacham
	BioMarin	BMRN	BMRN US	Geoff Meacham
	BioXcel Therapeutics	BTAI	BTAI US	Greg Harrison, CFA
	BridgeBio Pharma	BBIO	BBIO US	Greg Harrison, CFA
	Caribou	CRBU	CRBU US	Geoff Meacham
	CRISPR Therapeutics	CRSP	CRSP US	Geoff Meacham
	Eli Lilly and Company	LLY	LLY US	Geoff Meacham
	Gilead Sciences Inc.	GILD	GILD US	Geoff Meacham
	HUTCHMED	HCM	HCM US	Alec W. Stranahan
	Immatics	IMTX	IMTX US	Alec W. Stranahan
	Insmed Incorporated	INSM	INSM US	Jason Zemansky
	Intellia Therapeutics	NTLA	NTLA US	Greg Harrison, CFA
	Keros	KROS	KROS US	Greg Harrison, CFA
	Kiniksa Pharmaceuticals, Ltd.	KNSA	KNSA US	Geoff Meacham
	Krystal Biotech	KRYS	KRYS US	Alec W. Stranahan
	Kura Oncology	KURA	KURA US	Jason Zemansky
	Liquidia Corporation	LQDA	LQDA US	Greg Harrison, CFA
	Lyell Immunopharma	LYEL	LYEL US	Geoff Meacham
	MeiraGTx	MGTX	MGTX US	Alec W. Stranahan
	Merck & Co.	MRK	MRK US	Geoff Meacham
	Mineralys Therapeutics	MLYS	MLYS US	Greg Harrison, CFA
	Neumora Therapeutics	NMRA	NMRA US	Geoff Meacham
	Rani Therapeutics	RANI	RANI US	Geoff Meacham
	Regenxbio, Inc.	RGNX	RGNX US	Alec W. Stranahan
	Revolution Medicines	RVMD	RVMD US	Alec W. Stranahan
	Rocket Pharmaceuticals, Inc.	RCKT	RCKT US	Greg Harrison, CFA
	Royalty Pharma	RPRX	RPRX US	Geoff Meacham
	Sana Biotechnology	SANA	SANA US	Geoff Meacham
	SpringWorks	SWTX	SWTX US	Alec W. Stranahan

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Syndax Pharmaceuticals	SNDX	SNDX US	Jason Zemansky
	Traverse Therapeutics Inc	TVTX	TVTX US	Greg Harrison, CFA
	Turnstone Biologics	TSBX	TSBX US	Geoff Meacham
	Vertex Pharmaceuticals Inc.	VRTX	VRTX US	Geoff Meacham
	Werewolf Therapeutics	HOWL	HOWL US	Jason Zemansky
	Xencor	XNCR	XNCR US	Alec W. Stranahan
NEUTRAL				
	AbbVie	ABBV	ABBV US	Geoff Meacham
	Alector, Inc	ALEC	ALEC US	Greg Harrison, CFA
	Amgen Inc.	AMGN	AMGN US	Geoff Meacham
	Arcus Biosciences	RCUS	RCUS US	Jason Zemansky
	Beam Therapeutics	BEAM	BEAM US	Greg Harrison, CFA
	Biogen Inc.	BIIB	BIIB US	Geoff Meacham
	Bristol-Myers Squibb	BMJ	BMJ US	Geoff Meacham
	Cytokinetics, Incorporated	CYTK	CYTK US	Jason Zemansky
	Editas Medicine	EDIT	EDIT US	Greg Harrison, CFA
	Erasca	ERAS	ERAS US	Alec W. Stranahan
	Esperion	ESPR	ESPR US	Jason Zemansky
	Exscientia	EXAI	EXAI US	Alec W. Stranahan
	IGM Biosciences	IGMS	IGMS US	Greg Harrison, CFA
	Johnson & Johnson	JNJ	JNJ US	Geoff Meacham
	Kymira Therapeutics	KYMR	KYMR US	Geoff Meacham
	Moderna	MRNA	MRNA US	Geoff Meacham
	Pfizer	PFE	PFE US	Geoff Meacham
	Recursion Pharmaceuticals, Inc.	RXR	RXR US	Alec W. Stranahan
	Tyra Biosciences	TYRA	TYRA US	Greg Harrison, CFA
	Vir	VIR	VIR US	Alec W. Stranahan
	Y-mAbs Therapeutics, Inc	YMAB	YMAB US	Alec W. Stranahan
UNDERPERFORM				
	AlloVir, Inc.	ALVR	ALVR US	Jason Zemansky
	CureVac	CVAC	CVAC US	Geoff Meacham
	Day One Biopharmaceuticals	DAWN	DAWN US	Alec W. Stranahan
	Novavax	NVAX	NVAX US	Alec W. Stranahan
	Regeneron Pharmaceuticals Inc.	REGN	REGN US	Geoff Meacham
	Reneo Pharmaceuticals	RPHM	RPHM US	Jason Zemansky
	TG Therapeutics	TGTX	TGTX US	Alec W. Stranahan
	United Therapeutics Corporation	UTHR	UTHR US	Greg Harrison, CFA
RSTR				
	Janux Therapeutics	JANX	JANX US	Alec W. Stranahan



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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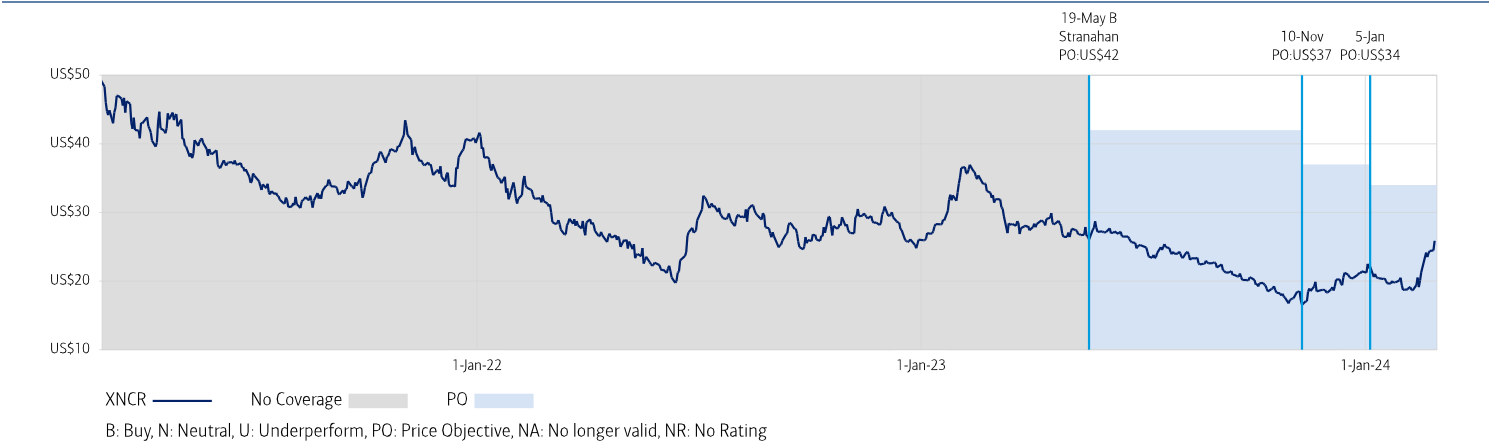
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Xencor (XNCR) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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