Equity Research

Mara Goldstein
212-610-2215
mgoldstein@cantor.com

NewLink Genetics Corporation (NLNK-$10.07)

Rating: BUY

Target Price: $12.00

Conversion of Loan to Modest Royalty - Incremental Positive - Maintain BUY

EPS	1Q	2Q	3Q	4Q
2010A	(1.02)A	(1.21)A	(1.49)A	(1.12)A
2011E	(1.07)A	(1.20)A	(1.09)A	(0.36)E
2012E	(0.59)E	(0.59)E	(0.52)E	(0.48)E
2013E	—	—	—	—

REV	1Q	2Q	3Q	4Q
2010A	0.3A	0.4A	0.4A	1.0A
2011E	0.6A	0.5A	0.4A	0.4E
2012E	0.4E	0.3E	0.3E	0.3E
2013E	—	—	—	—

FY	2010A	2011E	2012E	2013E
EPS	(4.84)A	(2.73)E	(2.19)E	(2.07)E
REV	2.1A	2.0E	1.3E	1.0E

- NewLink announced today that the Iowa Economic Development Authority (IEDA) will exchange its $6 million loan to NewLink in exchange for a 0.5% royalty on future products up to the total amount of the loan. Given the modest size of the royalty and our expectation that if HyperAcute Pancreas is approved, it will take four years to satisfy the loan conversion, we are not altering our forward projections at this time.
- This conversion is an incremental positive as it (1) removes any overhang associated with repayment of loan and (2) allows the company to repay the loan from product sales rather than from current cash. Though the second was not a great concern to us given that NewLink had been able to secure waivers for repayment annually, it nonetheless frees up funds that otherwise would have been earmarked for payment, which we believe will make NewLink more attractive to potential partners.
- The royalty is capped and is payable from any of NewLink's product portfolio. As the cap is basically the value of the loan, NewLink will need to earn $1.2 billion in product sales to satisfy the agreement.
- NewLink will report 4Q:11 and year-end EPS on March 29 after market close. We expect the company will provide updates on clinical trial programs, including HyperAcute Pancreas and HyperAcute NSCLC, which should enter Phase III trials in 2011. We also expect the company to provide an update on the IDO program as it could generate early safety data this year.
- We maintain our price target of $12 and BUY rating. This is based on a 40x multiple on our forecasted 2016 EPS of $2.26 discounted at 50%.

Current Statistics

Market Cap ($Mil)	**$207.4**	**Float Shares (Mil):**	**NA**
Short Interest (Mil):	**NA**		
52 Wk. Range	**$10.85-$6.25**		
Avg. Daily Trading Volume (3 mo.):	**23,628**		
Shares Out (Mil):	**20.591**		

Company Description

NewLink Genetics is a development stage company focused on cancer treatments. Founded in 1999, NewLink has two technology platforms, HyperAcute (allogeneic vaccine) and IDO inhibition (oral, small molecule), in various stages of trials. The HyperAcute program is the furthest in development, with the lead candidate, HyperAcute Pancreas, in a Phase III trial for pancreatic cancer. NewLink also has mid-stage trials underway in non small cell lung cancer and melanoma.

The Disclosure Section may be found on pages 7 - 8 of this report.

Investment Thesis: NewLink is working in the rapidly developing field of cancer immunotherapy. The company has a novel approach based on a solid scientific foundation and is working in areas of tremendous unmet need. We have identified what we believe to be critical success factors for a cancer immunotherapy company, and further believe that NewLink meets these criteria. The company has identified appropriate clinical settings with which to test their technology (modest disease burden, consistent booster dosing); has a robust trial design; is addressing critical unmet medical needs; and has a scalable, financially reasonable manufacturing process and technology.

- **Indications & Unmet Medical Needs**. Initial clinical programs are focused on pancreatic and lung cancer and melanoma, diseases of major unmet medical need. The company has identified patient populations within these groups that are likely to benefit from the HyperAcute immunotherapy program, and has designed clinical trials around appropriate patient populations.

- **Trial Design.** NewLink's Phase III trial of HyperAcute Pancreas is a large, randomized Phase III clinical trial consisting of over 700 patients. The company has vetted the trial design with the FDA, and it will be conducted with a Special Protocol Assessment (SPA), mitigating the risk that the Agency takes issue with the trial design or other elements once the trial has been completed.

- **Manufacturing.** NewLink's HyperAcute technology is an "off the shelf" vaccine. As such, there is no need to harvest patient cells, which is time consuming and expensive. NewLink's HyperAcute therapeutic vaccine has a streamline manufacturing process with attractive margins.

- **Milestones**. A key component of valuation building is derived from milestone events. NewLink has a full milestone calendar over the next 24 months, and we expect news flow from such events will provide incremental opportunities to build value. In 2012, we also expect two candidates to advance into later trials.

Valuation

Our 12-month price target is $12, and this is based on a discounted present value earnings calculation of EPS of $2.26 in 2016, and a multiple on those earnings of 40x, discounted by 50%. NewLink shares appear to be significantly undervalued vs. this calculated value of $12. We have used a multiple on 2016 EPS consistent with valuation for early stage biotechnology companies, which ranges from 30-50x forward EPS, reflecting the opportunity for rapid growth. In arriving at this range, we explored historical data as well as forward consensus multiples for companies with newly launched products.

Risks

NewLink is a development stage company, and investment is subject to risk. These risks include but are not limited to:

- Development of new drugs carries a high failure rate, either because the drug in question fails to show efficacy or significant safety issues arise during the clinical trial process. Additionally, regulatory authorities such as the FDA (Food & Drug Administration) may delay the approval process or reject NewLink's clinical findings. Because we can never dismiss such a possibility, we use a high discount rate in our valuation model to compensate for such risk. We note that NewLink's HyperAcute Pancreas program is being conducted

under an SPA (special protocol assessment), and while it is not a guarantee that the FDA will endorse NewLink's data, it mitigates risk against the FDA disputing the company's clinical trial design.

- Some of NewLink's clinical programs that are being co-sponsored by the NCI are in investigator-initiated clinical trials, which means that the company does not have full control over the conduct of the trials or the release of data, and this may impact trial results and/or milestones as it relates to public disclosure of clinical data.
- NewLink's manufacturing process has been validated in its early clinical trial work. However, we cannot exclude the possibility that this process may not be seamless from clinical trials to commercialization.
- The company has $6 million in outstanding debt under a forgivable loan agreement with the Iowa Department of Economic Development, of which $4.7 million may be accelerated and require repayment as early March 18, 2012. Though we expect that the Iowa Department of Economic Development will continue to defer repayment of principal until such time that NewLink is in a cash flow positive position, we cannot exclude the possibility that repayment will be required sooner.
- The clinical landscape is crowded with hundreds of oncology clinical trials. It is possible that other technologies show greater benefit to patients than NewLink's product candidates, thus tendering products obsolete or non-competitive.
- NewLink has a large intellectual property estate protecting its technology, know-how and applications of such. However, it is always possible that a party will bring forward infringement claims that would need to be heard by a court.
- NewLink has a history of net losses. We are forecasting profitability for NewLink in 2016 based on market acceptance of HyperAcute Pancreas, but profitability could be delayed or not reached at all, depending on a variety of clinical and regulatory factors.

Exhibit 1: Annual Income Statement

NewLink Genetics Corporation

All figures in millions, Year Ended 31 December	2016E	2015E	2014E	2013E	2012E	2011E	2010A	2009A
Revenue	**$270.00**	**$28.95**	**$0.65**	**$1.01**	**$1.26**	**$1.95**	**$2.08**	**$0.93**
Cost of Goods Sold	77.69	15.47	0.00	0.00	0.00	0.00	0.00	0.00
Gross Profit	**$192.31**	**$13.48**	**$0.65**	**$1.01**	**$1.26**	**$1.95**	**$2.08**	**$0.93**
Gross Profit Margin	*71.23%*	*46.55%*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Operating Expenses								
SG&A	72.65	41.18	27.51	18.16	12.65	5.23	6.07	3.71
R&D	54.31	42.25	37.74	28.66	23.62	14.23	12.67	7.58
Total Operating Expenses	$126.96	$83.43	$65.25	$46.82	$36.27	$19.46	$18.74	$11.28
Profit (Loss) from Operations	**$65.35**	**($69.95)**	**($64.60)**	**($45.81)**	**($35.01)**	**($17.51)**	**($16.66)**	**($10.35)**
Operating Profit Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Other Income (Expense)	$1.15	$0.75	($0.03)	($0.00)	$0.07	($0.03)	$0.10	$0.14
Pretax Income	**$66.50**	**($69.20)**	**($64.63)**	**($45.81)**	**($34.94)**	**($17.54)**	**($16.56)**	**($10.21)**
Pretax Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Net loss attributable to noncontrolling interest	0.00	0.00	0.00	0.00	0.00	0.00	0.35	0.23
Net Income (Loss)	**$66.50**	**($69.20)**	**($64.63)**	**($45.81)**	**($34.94)**	**($17.54)**	**($16.21)**	**($9.97)**
Net Margin	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Basic & Diluted Net Loss Per Share	***$2.22***	***($2.52)***	***($2.62)***	***($2.07)***	***($2.19)***	***($2.73)***	***($4.84)***	***($3.16)***
Shares Outstanding	*30.00*	*27.50*	*24.65*	*22.08*	*15.96*	*6.44*	*3.35*	*3.16*

Percent Change, Year-Over-Year	***2016E***	***2015E***	***2014E***	***2013E***	***2012E***	***2011E***	***2010A***	***2009A***
Revenue	832.61%	4354.09%	-35.64%	-19.84%	-35.42%	-6.16%	122.59%	47.55%
SG&A	*76.42*	*49.69*	*51.49*	*43.56*	*141.74*	*(13.85)*	*63.94*	*(5.92)*
R&D	*28.54*	*11.95*	*31.68*	*21.34*	*66.03*	*12.32*	*67.14*	*30.88*
Operating Expenses	*52.18*	*27.86*	*39.36*	*29.09*	*86.39*	*3.84*	*66.09*	*15.98*
Other Income, net	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*

Source: NewLink Genetics, Cantor Fitzgerald estimates

Exhibit 2: Pancreatic Cancer Model

NewLink Genetics Corporation

($ in millions)	2014E	2015E	2016E	2017E	2018E	2019E
Number of diagnoses (US)	45,769	46,341	46,341	46,920	47,507	48,101
% Stage I	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
% treated	*0.0%*	*1.2%*	*4.8%*	*7.0%*	*7.4%*	*7.5%*
# treated	0.00	556	2,224	3,303	3,497	3,617
% Stage II	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
% treated	*0.0%*	*1.4%*	*5.9%*	*9.5%*	*12.4%*	*15.9%*
# treated	0.00	626	2,753	4,434	5,900	7,662
Total Treated	**0.00**	**1,182**	**4,977**	**7,737**	**9,397**	**11,280**
Average Injections/year/patient	0	7	15.5	15.7	16.1	16.4
Cost of injection	$0	$3,500	$3,500	$3,500	$3,500	$3,500
Cost per year	$0	$24,500	$54,250	$55,118	$56,275	$57,514
Total sales	**$0.0**	**$29.0**	**$270.0**	**$426.5**	**$528.8**	**$648.7**
Percent Change, year-over-year						
Diagnoses	1.30%	1.30%	1.25%	1.25%	1.25%	1.25%
Stage I - % treated	*NA*	*NA*	300.00	48.50	5.85	3.45
Stage II - % treated	*NA*	*NA*	340.00	61.08	33.07	29.86
Total treated	*NA*	*NA*	321.18	55.46	21.45	20.04
Average Injections/year/patient	*NA*	*NA*	*NA*	1.60	2.10	2.20
Annual cost	*NA*	*NA*	*NA*	0.00	0.00	0.00
Total sales	*NA*	*NA*	832.61	57.94	24.00	22.68

Source: NewLink Genetics, American Cancer Society, CMS, Cantor Fitzgerald estimates

Exhibit 3: R&D Pipeline

Product Name	Description/Indication	Core Technology	Phase of Development				Comments
			PreClinical	Phase I	Phase II	Phase III	
HyperAcute Pancreas	Allogenic vaccine/resectable pancreatic cancer	HyperAcute	→	→	→	→	722-patient trial, >200 enrolled, interim look 4Q12
HyperAcute Lung	Allogenic vaccine/NSCLC	HyperAcute	→	→	→		Data expected 1H12, Phase II/III expected 1H12
HyperAcute Melanoma	Allogeneic vaccine/non-visceral metastatic melanoma	HyperAcute	→	→	→		Data expected, likely next step is Phase II/III in 2H12
HyperAcute Prostate	Allogeneic vaccine/prostate cancer	HyperAcute	→	→			Possible partnering candidate
HyperAcute various	Exhibit 16: Pancreatic Cancer Model	HyperAcute	→				May explore NCI funding
D-1MT	Small molecule inhibitor of IDO/solid tumors	IDO pathway inhibitor	→	→	→		NCI-funded Phase II studies, preliminary data expected
2nd generation IDO	Small molecule inhibitor of IDO/solid tumors	IDO pathway inhibitor	→				Higher potency vs. D-1MT

Source: NewLink Genetics, Cantor Fitzgerald

Disclosures Appendix

Analyst Certification

The analyst primarily responsible for this research report, and whose name appears on the front cover, certifies that: (i) all of the views expressed in this research report accurately reflects his or her personal views about any and all of the subject securities or issuers featured in this report; and (ii) no part of any of the research analyst's compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

Legal Disclosures

Cantor Fitzgerald and/or its affiliates and/or its officers, directors and employees may be a market maker or hold a position in any instrument or related instrument discussed in this report.

Lead or Co-manager: Cantor Fitzgerald and/or its affiliates, has acted as lead or co-manager in a public offering of equity and/or debt securities for NewLink Genetics Corporation within the last 12 months

Investment banking (last 12 months): Cantor Fitzgerald and/or its affiliates has received compensation for investment banking services in the last 12 months from NewLink Genetics Corporation.

Investment banking (next 3 months): Cantor Fitzgerald and/or its affiliates, expect to receive, or intend to seek, compensation for investment banking services within the next three months from all of the companies referenced within this report.

Cantor Fitzgerald's rating system

BUY: We have a positive outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors add to their position.

HOLD: We have a neutral outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation.

SELL: We have a negative outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors reduce their position.

NC: Not Covered. Cantor Fitzgerald does not provide an investment opinion or does not provide research coverage on this stock.

Prior to September 12, 2006, Cantor Fitzgerald had the below ratings:

BUY - denotes stocks that we expect will provide a total return (price appreciation plus yield) of 15% or more over a 12-month period. a BUY rated stock is expected to outperform the total average return of analyst's industry coverage universe on a risk adjusted basis.

HOLD - denotes stocks that we suggest will provide a total return or total negative return of up to 15% over 12-month period. A HOLD rated stock is expected to perform in-line with the total average return of the analyst's industry coverage universe on a risk adjusted basis.

SELL - denotes stocks that we expect to provide a total negative return of more than 15% over a 12 month period. A SELL rated stock is expected to underperform the total average return of the analyst's industry coverage universe on a risk adjusted basis.

NC - Not Covered. Cantor Fitzgerald does not provide research coverage on this company.

Other Disclosures

This report is for informational purposes only and is based on publicly available data believed to be reliable, but no representation is made that such data are accurate or complete. Opinions and projections contained herein reflect our opinion as of the date of this report and are subject to change. Pursuant to Cantor Fitzgerald's policy, the author of this report does not own shares in any company he/she covers.

Additional material for UK investors

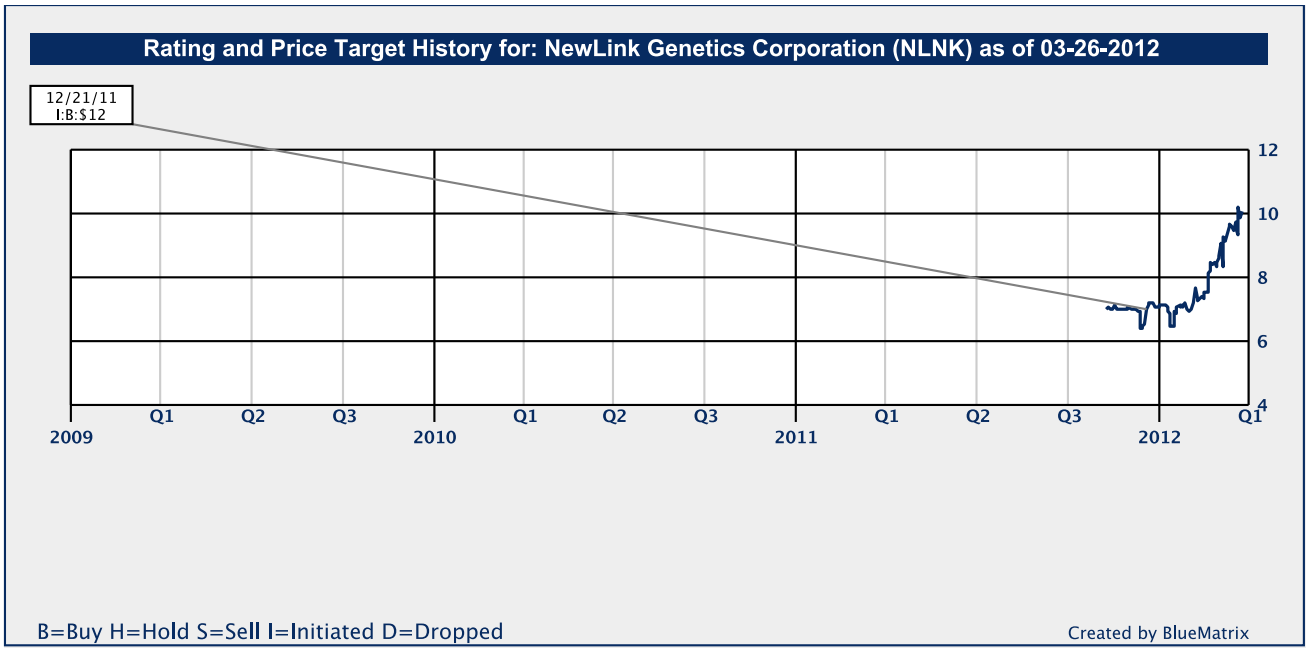
This material is approved for distribution in the United Kingdom by Cantor Fitzgerald Europe, regulated by the Financial Services Authority (FSA). While we believe this information and the materials upon which this information was based is accurate, except for any obligations under the rules of the FSA, we do not guarantee its accuracy. This material is only intended for use by professionals or institutional investors who fall within articles 19 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and not the general investing public. None of the investments or investment services mentioned or described herein are available to other persons in the U.K and in particular are not available to "private customers" as defined by the rules of the FSA.

Disclosure for Canadian Institutional Investors

This research report was prepared by analysts of Cantor Fitzgerald & Co. and not by Cantor Fitzgerald Canada Corporation. As a result this report has not been prepared subject to Canadian Disclosure requirements. Cantor Fitzgerald Canada Corporation itself does not issue research reports but may distribute research reports prepared by its affiliates.

Risks

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based on their specific investment objectives. Past performance should not be taken as an indication or guarantee of future performance. The price, value of and income from, any of the financial instruments featured in this report can rise as well as fall and be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's currency, a change in exchange rates may adversely affect the price or value of, or income derived from, the financial instrument, and such investors effectively assume currency risk. In addition, investors in securities such as ADRs, whose value is affected by the currency of the home market of the underlying security, effectively assume currency risk.



Distribution of Ratings/Investment Banking Services (IB) as of 03/27/12

Cantor

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [B]	67	55.83	9	13.43
HOLD [H]	39	32.50	1	2.56
SELL [S]	14	11.67	1	7.14