

August 13, 2012

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$12.00
MACK - NASDAQ \$7.38

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$9.20-\$5.66
Shares Outstanding 92.3M
Float 81.3M
Market Capitalization \$688.6M
Avg. Daily Trading Volume 136,945
Dividend/Div Yield NA/NM
Book Value NA
Fiscal Year Ends Dec
2012E ROE NA
LT Debt NA
Preferred NA
Common Equity NA
Convertible Available No
52-week range as of 3/29/12.

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2010A	--	--	--	--	(4.60)	NM
2011A	(1.21)	(2.60)	(1.65)	(1.53)	(6.98)	NM
2012E	(1.97)A	(0.22)A	(0.24)	(0.25)	(1.24)	NM
Prior (E)	--	--	--	--	(1.23)	NM
2013E	--	--	--	--	(0.94)	NM
Prior (E)	--	--	--	--	(0.93)	NM

Merrimack Pharmaceuticals

2Q12 Results; Development Remains On-Track; Maintain Outperform

SUMMARY

Merrimack Pharmaceuticals reported 2Q12 results on Friday and provided an update on its clinical development initiatives. We believe that Merrimack is executing well and actively advancing its broad pipeline of antibody-based and nanotherapeutic candidates. Management announced several upcoming milestones for 2H12, including data expected from the Phase I studies of MM-111 and MM-302. Over the next 12 months Merrimack expects to initiate a Phase I study of MM-141, an IGF signaling inhibitor, and initiate a Phase I study of MM-DX-929, a nanotherapeutic imaging diagnostic. Merrimack's cash of \$106.7M leaves it capitalized sufficiently to fund its development initiatives into 2H13. We have updated our model following Merrimack's in-line 2Q results. We maintain our Outperform rating and \$12 PT.

KEY POINTS

- Net loss per share of (\$0.22), was a penny wider than our projection. Results included collaborative revenues of \$12.1M versus our \$12.0M projection. Non-GAAP 2Q burn was \$20.1M, excluding non-recurring items.
- Data from the multi-arm Phase I MM-111 study is expected to be presented along with data from the Phase I study of MM-121 in combination with paclitaxel at ESMO (Sept. 19-20). Phase II studies of MM-121 in ovarian, breast, and lung cancer are enrolling patients, with top-line data expected in the next 12 months.
- Merrimack recently expanded its Phase III NAPOLI-1 trial of MM-398 in pancreatic cancer to include a third arm to study MM-398 plus 5-FU leucovorin. As a result, the size will increase from 270pt to 405pt and the expected date of completion is now under review, but will be after prior expectations of mid-2013.
- We believe the NAPOLI-1 expansion was made to increase the commercial potential of MM-398, given combined therapy data will allow physicians to consider adding MM-398 to 5-FU. We note Merrimack is looking for a six-week survival difference versus 398 and 5-FU, and a three-month difference for the combination versus 5-FU leucovorin alone.
- MM-141 is expected to enter Phase I by YE12, and we understand MM-151 is moving through Phase I dose escalation studies. The recently announced partnership with CTCA for tumor samples is valuable to R&D.

Stock Price Performance



Company Description

Merrimack is a biopharmaceutical company engaged in the discovery and development of novel cancer therapeutics.

Oppenheimer & Co. Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. See "Important Disclosures and Certifications" section at the end of this report for important disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Boris Peaker, Ph.D., CFA
212 667-8564
Boris.Peaker@opco.com

Matthew Pommer, Ph.D.
212-667-8124
Matthew.Pommer@opco.com

Exhibit 1: Merrimack Pharmaceuticals Key Milestones

Date	Stage	Milestone
MM-398		
1H13	Phase II	Complete enrollment in Phase II in CRC
mid-13	Phase II	Phase II results in CRC
MM-121		
Sept-12	Phase I	Phase I data in combo w/ pac
2H12	Phase II	Complete enrollment for Phase II trial in ER/PR+ mBC
2H12	Phase II	Complete enrollment in Groups A&C Phase II trial in NSCLC
mid-13	Phase II	Phase II results from Groups A&C in NSCLC
1H13	Phase II	Complete enrollment in neoadj. ER+/HER2- Phase II
2H13	Phase II	Phase II data in neoadj. ER+/HER2- mBC
2H12	Phase II	Complete enrollment in Group B Phase II trial in NSCLC
2H13	Phase II	Complete enrollment Phase II trial in ovarian cancer
2H13	Phase II	Complete enrollment in TNBC Phase II trial
MM-111		
2H12	Phase I	Multi-arm Phase I data
MM-151		
2H13	Phase I	Phase I data
2H13	Phase II	Phase II initiation
MM-141		
2H12	Phase I	Initiate Phase I
2H13	Phase I	Phase I data
MM-302		
2H12	Phase I	Phase I data
1H13	Phase II	Phase II initiation
MM-310		
1H13	Phase I	Phase I initiation
MM131		
2H13	Phase I	Phase I initiation

Source: Company reports, Oppenheimer estimates.

Exhibit 2: Merrimack Pharmaceuticals Historical & Projected Income Statement

Historical and Projected Income Statement				OpCo Prior (E)	Prior Street (E)		OpCo Prior (E)	Prior Street (E)		OpCo Prior (E)	Prior Street (E)		OpCo Prior (E)	Prior Street (E)					
FY Ending Dec 31st	FY11A	Mar-12 1QA	Jun-12 2QA	Jun-12 2QE	Jun-12 2QE	Sep-12 3QE	Sep-12 3QE	Sep-12 3QE	Dec-12 4QE	Dec-12 4QE	Dec-12 4QE	FY12E	FY12E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Revenues:																			
MM-398 pancreatic cancer sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32,091	71,318	143,976	240,960
MM-121 breast cancer royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,312
Collaborative revenue (Sanofi)	34,215	11,344	12,063	12,200		12,400	12,400		12,600	12,600		48,407	48,544		50,700	55,200	59,763	68,575	
Total operating revenue	34,215	11,344	12,063	12,200	11,100	12,400	12,400	11,200	12,600	12,600	11,300	48,407	48,544	41,800	50,700	55,200	59,763	68,575	322,846
Operating expenses																			
Cost of goods	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,690	8,202	16,557	27,710
Research & development	100,630	31,651	28,758	29,045	28,800	30,258	30,258	39,600	31,374	31,374	30,400	122,041	122,327	118,200	124,791	130,447	136,134	139,604	143,108
Selling, general & administrative	14,454	3,728	3,610	3,928	3,700	3,910	4,228	3,900	4,310	4,628	4,100	15,558	16,512	15,400	22,559	41,734	54,255	65,106	71,616
Contingent consideration/other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	115,084	35,379	32,368	32,973		34,168	34,486		35,684	36,002		137,599	138,839		147,351	175,872	198,590	221,267	242,434
Income (loss) from operations	(80,869)	(24,035)	(20,305)	(20,773)	(21,400)	(21,768)	(22,086)	(22,300)	(23,084)	(23,402)	(23,300)	(89,192)	(90,295)	(89,200)	(96,651)	(88,580)	(70,072)	(17,528)	80,412
Interest income	56	9	-	14		40	40		39	39		88	99		170	585	609	766	2,922
Interest expense	(13)	(1)	-	(4)		(4)	(4)		(4)	(4)		(9)	(16)		(12)	(18)	(26)	(42)	(67)
Other, net	1,150	625	166	(130)		(135)	(135)		(140)	(140)		516	226		413	330	264	211	169
Pretax income (loss)	(79,676)	(23,402)	(20,139)	(20,892)		(21,867)	(22,185)		(23,189)	(23,507)		(88,596)	(89,987)		(96,079)	(87,683)	(69,225)	(16,593)	83,436
Benefit from income taxes	-	-	-	-		-	-		-	-		-	-		-	-	-	-	(8,344)
Net income (loss)	(79,676)	(23,402)	(20,139)	(20,892)	(21,300)	(21,867)	(22,185)	(22,200)	(23,189)	(23,507)	(23,100)	(88,596)	(89,987)	(96,000)	(96,079)	(87,683)	(69,225)	(16,593)	75,093
Less net loss attributable to NCI	(453)	(118)	(113)	(124)		(119)	(130)		(125)	(137)		(474)	(509)		(507)	(533)	(554)	(571)	(588)
Net income attributed to Merrimack	(79,223)	(23,284)	(20,026)	(20,769)		(21,748)	(22,055)		(23,064)	(23,371)		(88,122)	(89,478)		(95,572)	(87,150)	(68,671)	(16,022)	75,680
Net loss per share	(\$6.98)	(\$1.97)	(\$0.22)	(\$0.22)	(\$0.27)	(\$0.24)	(\$0.24)	(\$0.26)	(\$0.25)	(\$0.25)	(\$0.27)	(\$1.24)	(\$1.23)	(\$1.81)	(\$0.94)	(\$0.78)	(\$0.61)	(\$0.14)	\$0.58
Basic common shares outstanding	11,343	11,846	90,581	92,646		90,831	92,896		91,081	93,146		71,085	72,634		102,081	111,181	112,281	113,381	114,481
Diluted common shares outstanding	11,343	11,846	106,436	108,501		106,686	108,751		106,936	109,001		82,976	84,525		117,936	127,036	128,136	129,236	130,336
Margins																			
Gross Margin	NM	NM	NM	NM		NM	NM		NM	NM		NM	NM		NM	11.5%	11.5%	11.5%	11.5%
R&D as percent of revenue	NM	NM	NM	NM		NM	NM		NM	NM		NM	NM		NM	149.4%	105.9%	68.5%	44.3%
G&A as percent of revenue	NM	NM	NM	NM		NM	NM		NM	NM		NM	NM		NM	47.8%	42.2%	32.0%	22.2%
Operating margin	NM	NM	NM	NM		NM	NM		NM	NM		NM	NM		NM	NM	NM	NM	24.9%
Pretax margin	NM	NM	NM	NM		NM	NM		NM	NM		NM	NM		NM	NM	NM	NM	25.8%
Profit margin	NM	NM	NM	NM		NM	NM		NM	NM		NM	NM		NM	NM	NM	NM	23.4%
Tax rate	NM	NM	NM	NM		NM	NM		NM	NM		NM	NM		NM	NM	NM	NM	10.0%

Source: Company reports, FactSet; Oppenheimer estimates.

Investment Thesis

With a novel network biology platform, MACK has developed a broad pipeline of antibody-based and nanotherapeutic cancer therapies. We view MM-121, an ErbB3 antibody, as the most promising. We believe ErbB3 inhibition has applicability in several cancers, and MACK, with partner SNY, is evaluating MM-121 in a comprehensive ph.II program. MM-398, a liposomal irinotecan, has shown strong ph.II pancreatic cancer results, and we see a good probability of ph.III success, mid-'13. Additionally, MACK's earlier antibody-based compounds, MM-111/MM-302/MM-151, address blockbuster markets. We believe MACK is an attractive long-term value based on the company's pipeline/platform, and we would position in the stock ahead of key MM-121/MM-398 data in '13.

Price Target Calculation

Our 12-18 month price target of \$12 is based on a sum-of-the parts NPV, which reflects value for MM-121, MM-398, MM-111, MM-302, MACK's technology platform and cash on hand. To determine the value of each clinical program, we performed a discounted cash flow valuation. For each program, our cash flows reflect a 15% discount rate and a 25-40% probability of success for clinical risk and are based on an out-year EBIT margin of ~45%.

Key Risks to Price Target

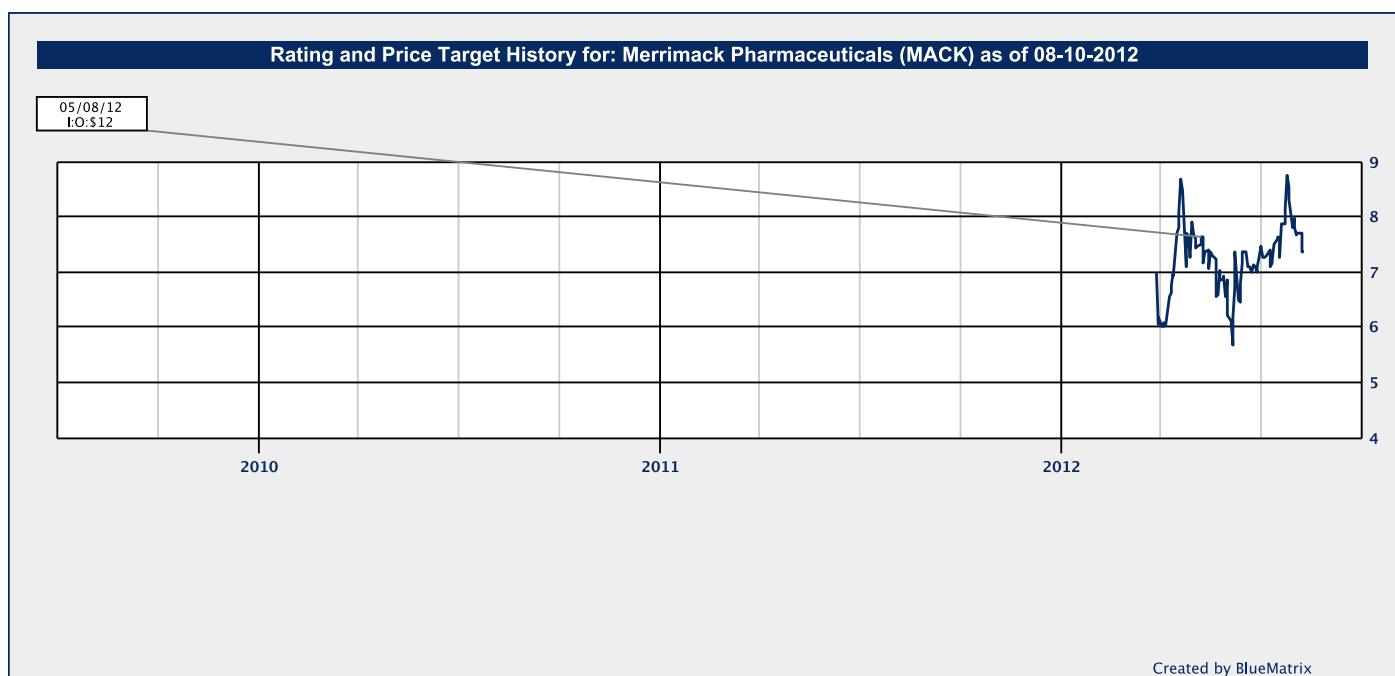
Key risks to our price target include, but are not limited to, clinical, regulatory, and commercial failure of MM-121, MM-398, MM-111 and MM-302. An additional risk includes an inability to raise future capital to support operations.

Important Disclosures and Certifications

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Potential Conflicts of Interest:

Equity research analysts employed by Oppenheimer & Co. Inc. are compensated from revenues generated by the firm including the Oppenheimer & Co. Inc. Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. Oppenheimer & Co. Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Oppenheimer & Co. Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers. In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, Oppenheimer & Co. Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.



All price targets displayed in the chart above are for a 12- to 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

Outperform(O) - Stock expected to outperform the S&P 500 within the next 12-18 months.

Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:

Buy - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide

Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	322	56.10	135	41.93
PERFORM [P]	249	43.38	88	35.34
UNDERPERFORM [U]	3	0.52	1	33.33

Although the investment recommendations within the three-tiered, relative stock rating system utilized by Oppenheimer & Co. Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with FINRA rules, Oppenheimer & Co. Inc. has assigned buy ratings to securities rated Outperform, hold ratings to securities rated Perform, and sell ratings to securities rated Underperform.

Company Specific Disclosures

Oppenheimer & Co. Inc. makes a market in the securities of MACK.

Oppenheimer & Co. Inc. expects to receive or intends to seek compensation for investment banking services in the next 3 months from MACK.

In the past 12 months Oppenheimer & Co. Inc. has received compensation for investment banking services from MACK.

In the past 12 months Oppenheimer & Co. Inc. has managed or co-managed a public offering of securities for MACK.

In the past 12 months Oppenheimer & Co. Inc. has provided investment banking services for MACK.

Additional Information Available

Please log on to <http://www.opco.com> or write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

Other Disclosures

This report is issued and approved for distribution by Oppenheimer & Co. Inc. Oppenheimer & Co. Inc. transacts Business on all Principal Exchanges and Member SIPC. This report is provided, for informational purposes only, to institutional and retail investor clients of Oppenheimer & Co. Inc. and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Oppenheimer & Co. Inc. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. We recommend that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor. Oppenheimer & Co. Inc. will not treat non-client recipients as its clients solely by virtue of their receiving this report. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Oppenheimer & Co. Inc. accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to Oppenheimer & Co. Inc. All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Oppenheimer & Co. Inc. does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by Oppenheimer & Co. Inc. or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed

herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. Oppenheimer & Co. Inc. has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Oppenheimer & Co. Inc. Copyright © Oppenheimer & Co. Inc. 2012.