

Merrimack Pharmaceuticals, Inc.

MACK - BUY - Reports 4Q12; Multiple Clinical Catalysts in '13

March 14, 2013

- On 3/14, MACK reported 4Q12 EPS of (\$0.26), in line with our est. of (\$0.25). We would be buyers of MACK into '13 in advance of numerous mid- and late-stage results for MM-121 and MM-398.
- MM-121 has promise in NSCLC.** While we believe MM-121+Tarceva will likely show a benefit in Tarceva-experienced mutEGFR NSCLC, the top-line Ph.II PFS results, expected 2Q13, may not be as predictive of future results as RR/biomarker results, expected 2H13 or later. We believe the top-line results for MM-121+Tarceva in 2nd-line wtEGFR NSCLC (2H13) have a greater potential for driving upside in MACK, given a strong mechanistic rationale.
- Expecting positive Ph. II MM-121 breast cancer (BC)/ovarian cancer results.** Based on encouraging Ph. I data, we see a good probability of positive Ph. II results for MM-121+exemestane in ER/PR+ mBC (2H13). Additionally, MM-121+paclitaxel has shown initial activity in gynecologic tumors, and, based on this, we have a favorable stance on Ph.II results for the combo in neoadjuvant breast and ovarian cancers (2H13).
- MM-398 Phase III pancreatic cancer (PC) results expected in 4Q13.** We view the Ph. II results for MM-398 in pancreatic cancer, particularly landmark OS analyses, as highly encouraging. However, we continue to view the Ph.III NAPOLI-1 trial in 2nd-line PC as higher-risk, given a lack of controlled Ph.II results and combo '398+5-FU/LV data.
- Earlier-stage pipeline should not be discounted.** MACK expects MM-111 (bi-specific ErbB2/ErbB3 Ab) to enter Ph. II testing in HER2+/FISH- gastric cancer in the near term. Additionally, Ph.I testing of MM-302, MM-151, and MM-141 is continuing. With impressive breadth and solid rationale, we see clear potential for longer-term value creation from MACK's pipeline beyond MM-121/MM-398.

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MACK BUY

EARNINGS RELEASE

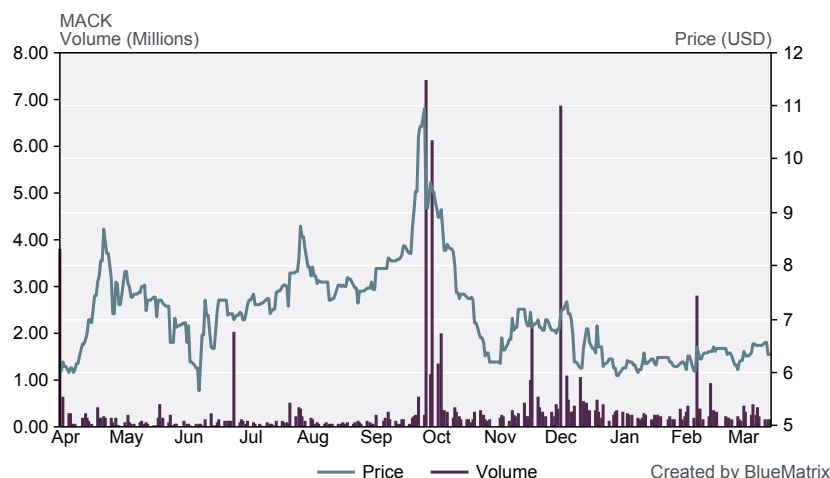
Investment Thesis: Growth

SHARE PRICE \$6.15
PRICE TARGET \$13.00

EPS (\$) (FY Dec)	1Q	2Q	3Q	4Q	FY
2011	(1.21)	(2.60)	(1.65)	(1.53)	(6.98)
P/E					NM
2012	(1.97)	(0.22)	(0.25)	(0.26)	(1.28)
Prior	—	—	—	(0.25)	(0.97)
P/E					NM
2013	(0.27)E	(0.22)E	(0.24)E	(0.24)E	(0.96)E
Prior	—	—	—	—	(0.95)E
P/E					NM

Market Data

52-Week Range	\$5.66 - \$11.11
Shares Out (M)	94.2
Market Cap (M)	\$597
ADV (3 mo; 000)	312



SECTOR: BIOTECHNOLOGY

March 14, 2013

Merrimack Pharmaceuticals, Inc.

	2012					Prior		Prior	2013					Prior		Prior		Prior
Amounts in thousands, except per-share figure	2011A	1QA	2QA	3QA	4QA	4QE	2012A	2012E	1QA	2QA	3QA	4QA	2013E	2013E	2014E	2014E	2015E	2015E
Income Statement																		
Revenues:																		
MM-398 pancreatic cancer sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32,091	32,091	71,318	71,318
MM-121 breast cancer royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collaborative revenue (Sanofi)	34,215	11,344	12,063	11,323	14,191	12,600	48,921	47,330	12,152	12,922	12,130	13,496	50,700	50,700	55,200	55,200	57,200	57,200
Total operating revenue	34,215	11,344	12,063	11,323	14,191	12,600	48,921	47,330	12,152	12,922	12,130	13,496	50,700	50,700	87,291	87,291	128,518	128,518
Operating expenses																		
Cost of goods	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,690	3,690	8,202	8,202
Research & development	100,630	31,651	28,758	30,885	34,564	31,374	125,858	122,668	32,199	29,256	31,420	31,916	124,791	124,791	130,447	130,447	136,134	136,134
Selling, general & administrative	14,454	3,728	3,610	4,312	4,155	4,712	15,805	16,362	5,406	5,235	6,252	6,832	23,725	23,725	43,891	43,891	57,058	57,058
Contingent consideration/other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	115,084	35,379	32,368	35,197	38,719	36,086	141,663	139,030	37,605	34,491	37,672	38,748	148,516	148,516	178,028	178,028	201,394	201,394
Income (loss) from operations	(80,869)	(24,035)	(20,305)	(23,874)	(24,528)	(23,486)	(92,742)	(91,700)	(25,453)	(21,569)	(25,542)	(25,252)	(97,816)	(97,816)	(90,737)	(90,737)	(72,876)	(72,876)
Other income and expenses, net	1,193	633	166	554	(365)	(80)	988	845	(430)	(812)	(408)	(973)	(2,623)	(2,623)	(1,648)	(1,639)	341	355
Pretax income (loss)	(79,676)	(23,402)	(20,139)	(23,320)	(24,893)	(23,566)	(91,754)	(90,855)	(25,883)	(22,381)	(25,950)	(26,225)	(100,439)	(100,440)	(92,385)	(92,376)	(72,534)	(72,520)
Benefit from income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(79,676)	(23,402)	(20,139)	(23,320)	(24,893)	(23,566)	(91,754)	(90,855)	(25,883)	(22,381)	(25,950)	(26,225)	(100,439)	(100,440)	(92,385)	(92,376)	(72,534)	(72,520)
Less net loss attributable to NCI	(453)	(118)	(113)	(121)	(77)	(127)	(439)	(479)	(126)	(121)	(129)	(136)	(513)	(513)	(538)	(538)	(560)	(560)
Net income attributed to Merrimack	(79,223)	(23,284)	(20,026)	(23,199)	(24,816)	(23,439)	(91,315)	(90,376)	(25,756)	(22,260)	(25,821)	(26,089)	(99,927)	(99,927)	(91,847)	(91,838)	(71,975)	(71,960)
Net loss per share	(\$6.98)	(\$1.97)	(\$0.22)	(\$0.25)	(\$0.26)	(\$0.25)	(\$1.28)	(\$0.97)	(\$0.27)	(\$0.22)	(\$0.24)	(\$0.24)	(\$0.96)	(\$0.95)	(\$0.81)	(\$0.81)	(\$0.63)	(\$0.62)
Basic common shares outstanding	11,343	11,846	90,581	93,724	94,703	93,974	72,831	92,760	95,682	101,941	109,178	110,157	104,240	104,974	113,340	114,074	114,440	115,174

Source: Company documents and Guggenheim Securities LLC

Margins

Gross Margin	NM	NM	NM	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	NM	NM	NM	149.4%	149.4%	105.9%	105.9%
G&A as percent of revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	50.3%	50.3%	44.4%	44.4%
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Pretax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Profit margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Tax rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

Source: Guggenheim Securities LLC

Risks and Valuation

Our valuation is based on sales estimates for MACK's MM-121 and MM-398 projected out to 2022, using a discount rate of 21%, terminal value at 1% growth rate, plus current net cash. We present our sensitivity analysis using changing discount rates and terminal growth rates (+1% in 0.25% increments). Key risks to our price target include, but are not limited to, unfavorable clinical/regulatory outcomes for MACK's pipeline, as well as unexpectedly more dilutive financings.

		<i>Terminal growth rate</i>									
		0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	
Discount rate	19.71%	\$ 14.29	\$ 14.40	\$ 14.52	\$ 14.63	\$ 14.75	\$ 14.87	\$ 15.00	\$ 15.13	\$ 15.26	
	19.96%	\$ 13.95	\$ 14.05	\$ 14.16	\$ 14.27	\$ 14.39	\$ 14.50	\$ 14.62	\$ 14.75	\$ 14.87	
	20.21%	\$ 13.61	\$ 13.71	\$ 13.81	\$ 13.92	\$ 14.03	\$ 14.14	\$ 14.26	\$ 14.37	\$ 14.50	
	20.46%	\$ 13.28	\$ 13.38	\$ 13.48	\$ 13.58	\$ 13.69	\$ 13.79	\$ 13.90	\$ 14.02	\$ 14.13	
	20.71%	\$ 12.97	\$ 13.06	\$ 13.16	\$ 13.25	\$ 13.35	\$ 13.46	\$ 13.56	\$ 13.67	\$ 13.78	
	20.96%	\$ 12.66	\$ 12.75	\$ 12.84	\$ 12.94	\$ 13.03	\$ 13.13	\$ 13.23	\$ 13.33	\$ 13.44	
	21.21%	\$ 12.37	\$ 12.45	\$ 12.54	\$ 12.63	\$ 12.72	\$ 12.81	\$ 12.91	\$ 13.01	\$ 13.11	
	21.46%	\$ 12.08	\$ 12.16	\$ 12.25	\$ 12.33	\$ 12.42	\$ 12.51	\$ 12.60	\$ 12.69	\$ 12.79	
	21.71%	\$ 11.80	\$ 11.88	\$ 11.96	\$ 12.04	\$ 12.13	\$ 12.21	\$ 12.30	\$ 12.39	\$ 12.48	
	21.96%	\$ 11.53	\$ 11.61	\$ 11.68	\$ 11.76	\$ 11.84	\$ 11.92	\$ 12.01	\$ 12.10	\$ 12.18	

Source: Guggenheim Securities LLC

ANALYST CERTIFICATION

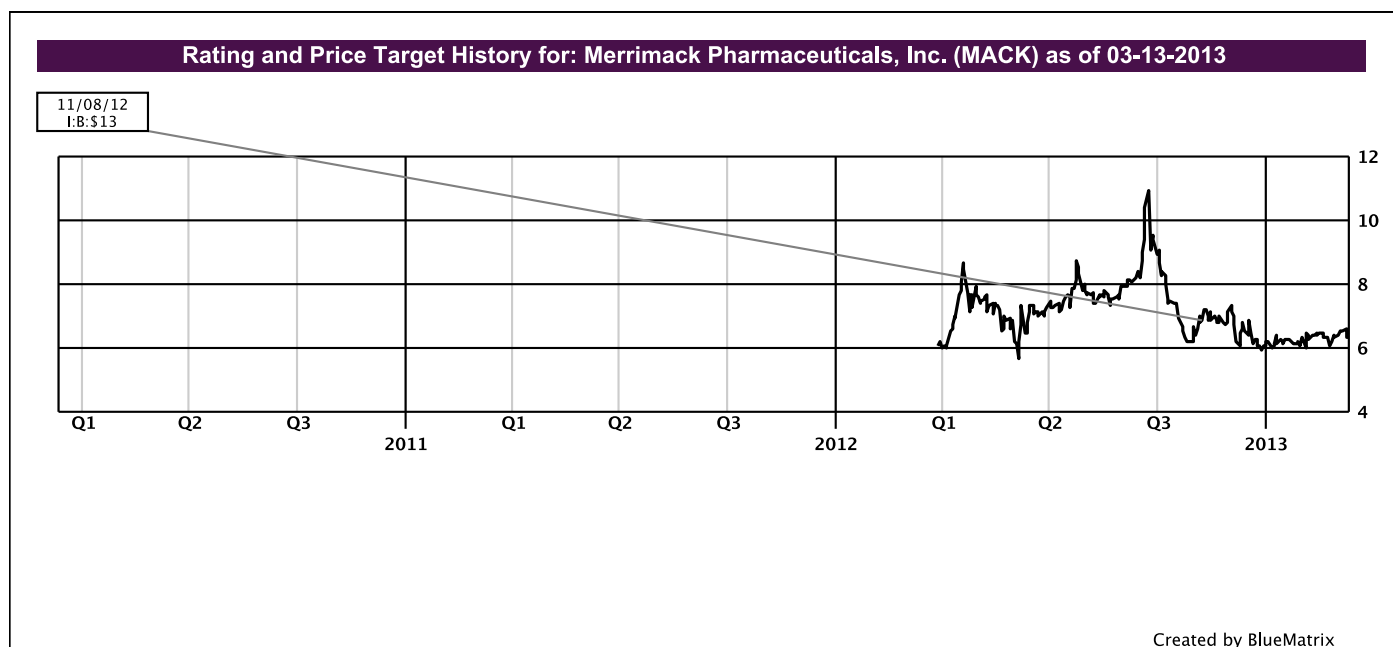
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