

May 15, 2012

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

OUTPERFORM

12-18 mo. Price Target \$12.00
MACK - NASDAQ \$7.41

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$9.00-\$5.81
Shares Outstanding 92.3M
Float 81.3M
Market Capitalization \$684.7M
Avg. Daily Trading Volume NA
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)	(0.24)	(0.25)	(1.23)	NM
Prior (E)	(0.21)	--	--	--	(0.93)	NM
2013E	--	--	--	--	(0.93)	NM
Prior (E)	--	--	--	--	(0.94)	NM

Merrimack Pharmaceuticals

1Q12 Results; Progressing Toward Key Data in '13

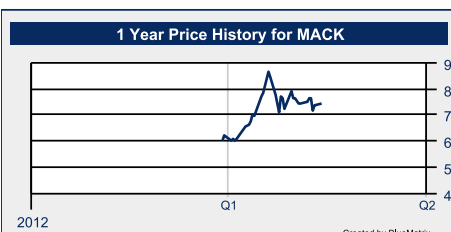
SUMMARY

On 5/15, MACK announced 1Q12 results. We see significant opportunities in the company's broad pipeline of antibody-based and nanotherapeutic therapies for oncology. We believe MM-121 has potential across several major cancers, given the compound's unique target, ErbB3. Based on this MoA and early ph.I results, we have optimistic expectations for ph.II results in NSCLC/breast cancer (BC) in '13. We also believe MM-398, a liposomal irinotecan, has shown promising ph.II results in refractory pancreatic cancer and see a reasonable probability of ph.III success in mid-'13. Based on the potential of MM-121/MM-398 and the promise of the earlier pipeline, we believe MACK is undervalued and would position in the stock ahead of a data-rich '13.

KEY POINTS

- **1Q loss of \$23.3M was above our \$19.8M est.** This difference was largely due to a \$5M milestone payment to PharmaEngine recognized in R&D expense. With recent IPO proceeds, we estimate MACK has approximately \$130M in cash, which we believe will fund operations in late '13.
- **MM-121 ph.II proof-of-concept results in '13.** As ErbB3 may provide an escape from EGFR inhibition, we believe MM-121+Tarceva may be especially effective and look forward to ph.II NSCLC results in 1H13. Additionally, we believe MM-121 has clear potential in BC and we expect ph.II results in 2H13 to better define this opportunity.
- **Reasonable probability of MM-398 ph.III success in mid-'13.** In ph.II, MM-398 demonstrated 5-6mos survival (vs. ~2mo historically) in refractory pancreatic cancer. We believe these results should raise expectations for the ph.III results in mid-'13. We also expect potentially favorable ph.II colorectal cancer results in mid-'13, given irinotecan's proven efficacy in this setting.
- **Additional opportunities in the earlier pipeline.** We believe MM-111 (bispecific HER2/ErbB3 antibody) and MM-302 (liposomal doxorubicin attached to HER2 antibodies) have compelling MoAs and could improve on current therapies in the blockbuster HER2+ breast cancer market. Additionally, MM-151, a powerful EGFR inhibitor, could address a wide range of major cancers.

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.

Bret Holley, Ph.D
212-667-7289
Bret.Holley@opco.com

Eric Chang
212-667-6557
eric.chang@opco.com

Changes to Our Model

Following 1Q12 results, we are updating our model. Our new 2012-2016 EPS estimates are (\$1.23), (\$0.93), (\$0.79), (\$0.63) and (\$0.17), compared to our prior EPS estimates of (\$0.93), (\$0.94), (\$0.80), (\$0.64), and (\$0.18), respectively. Our 2017 EPS estimate of \$0.54 is unchanged.

Merrimack Pharmaceuticals Income Statement 2010A-2017E

Amounts in thousands, except per-share figures

Merrimack Pharmaceuticals Income Statement 2010-2017E																		
Amounts in thousands, except per-share figures																		
	2010A	2011A		2012														
			1QA	Prior 1QE	2QE	Prior 2QE	3QE	Prior 3QE	4QE	Prior 4QE	2012E	Prior 2012E	2013E	2014E	2015E	2016E	2017E	
Revenues:																		
MM-398 pancreatic cancer sales	-	-	-	-	-	-	-	-	-	-	-	-	-	32,091	71,318	143,976	240,960	
MM-121 breast cancer royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,312	
Collaborative revenue (Sandif)	20,305	34,215	11,344	12,000	12,200	12,200	12,400	12,400	12,600	12,600	48,544	49,200	50,700	55,200	57,200	59,763	68,575	
Total operating revenue (Sandif)	20,305	34,215	11,344	12,000	12,200	12,200	12,400	12,400	12,600	12,600	48,544	49,200	50,700	57,291	128,518	203,739	322,846	
Operating expenses																		
Cost of goods	-	-	-	-	-	-	-	-	-	-	-	-	-	3,690	8,202	16,557	27,710	
Research & development	58,278	100,630	31,651	28,084	29,045	29,045	30,258	30,258	31,374	31,374	122,327	118,760	124,791	130,447	136,134	139,604	143,108	
Selling, general & administrative	11,381	14,454	3,728	3,750	3,928	3,950	4,228	4,250	4,628	4,650	16,512	16,600	23,942	44,293	57,581	69,098	76,008	
Contingent consideration/other	(178)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total operating expenses	69,481	115,084	35,379	31,834	32,973	32,995	34,486	34,508	36,002	36,024	138,839	135,360	148,734	178,431	201,917	225,259	246,825	
Income (loss) from operations	(49,176)	(80,869)	(24,035)	(19,834)	(20,773)	(20,795)	(22,086)	(22,108)	(23,402)	(23,424)	(90,295)	(86,160)	(98,034)	(91,139)	(73,399)	(21,520)	76,021	
Interest income	74	56	6	13	14	23	40	38	39	36	99	111	170	585	609	765	2,921	
Interest expense	(3,726)	(13)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(16)	(16)	(21)	(31)	(47)	(75)	(120)	
Other, net	2,669	1,150	631	(125)	(130)	(130)	(135)	(135)	(140)	(140)	226	(530)	181	145	116	93	74	
Pretax income (loss)	(50,159)	(79,676)	(23,402)	(19,950)	(20,892)	(20,905)	(22,185)	(22,209)	(23,507)	(23,532)	(89,987)	(86,595)	(97,704)	(90,441)	(72,721)	(20,737)	78,897	
Benefit from income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,890)	
Net income (loss)	(50,159)	(79,676)	(23,402)	(19,950)	(20,892)	(20,905)	(22,185)	(22,209)	(23,507)	(23,532)	(89,987)	(86,595)	(97,704)	(90,441)	(72,721)	(20,737)	71,007	
Less net loss attributable to NCI	(55)	(453)	(118)	(110)	(124)	(116)	(130)	(122)	(137)	(128)	(509)	(475)	(544)	(571)	(594)	(612)	(630)	
Net income attributed to Merrimack	(50,104)	(79,223)	(23,284)	(19,839)	(20,769)	(20,790)	(22,055)	(22,087)	(23,371)	(23,404)	(89,478)	(86,120)	(97,160)	(89,869)	(72,126)	(20,125)	71,637	
Net loss per share	(\$4.60)	(\$6.98)	(\$1.97)	(\$0.21)	(\$0.22)	(\$0.22)	(\$0.24)	(\$0.24)	(\$0.25)	(\$0.25)	(\$1.23)	(\$0.93)	(\$0.93)	(\$0.79)	(\$0.63)	(\$0.17)	\$0.54	
Basic common shares outstanding	10,901	11,343	11,846	92,396	92,646	92,646	92,896	92,896	93,146	93,146	72,634	92,771	104,146	113,246	114,346	115,446	116,546	
Diluted common shares outstanding	10,901	11,343	11,846	108,251	108,501	108,501	108,751	108,751	109,001	109,001	84,525	108,626	120,001	129,101	130,201	131,301	132,401	
Margins																		
Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	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%	105.9%	68.5%	
G&A as percent of revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	50.7%	44.8%	33.9%	
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	23.5%	
Pretax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	24.4%	
Profit margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	22.2%	
Tax rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	10.0%	

Source: Oppenheimer & Co.

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

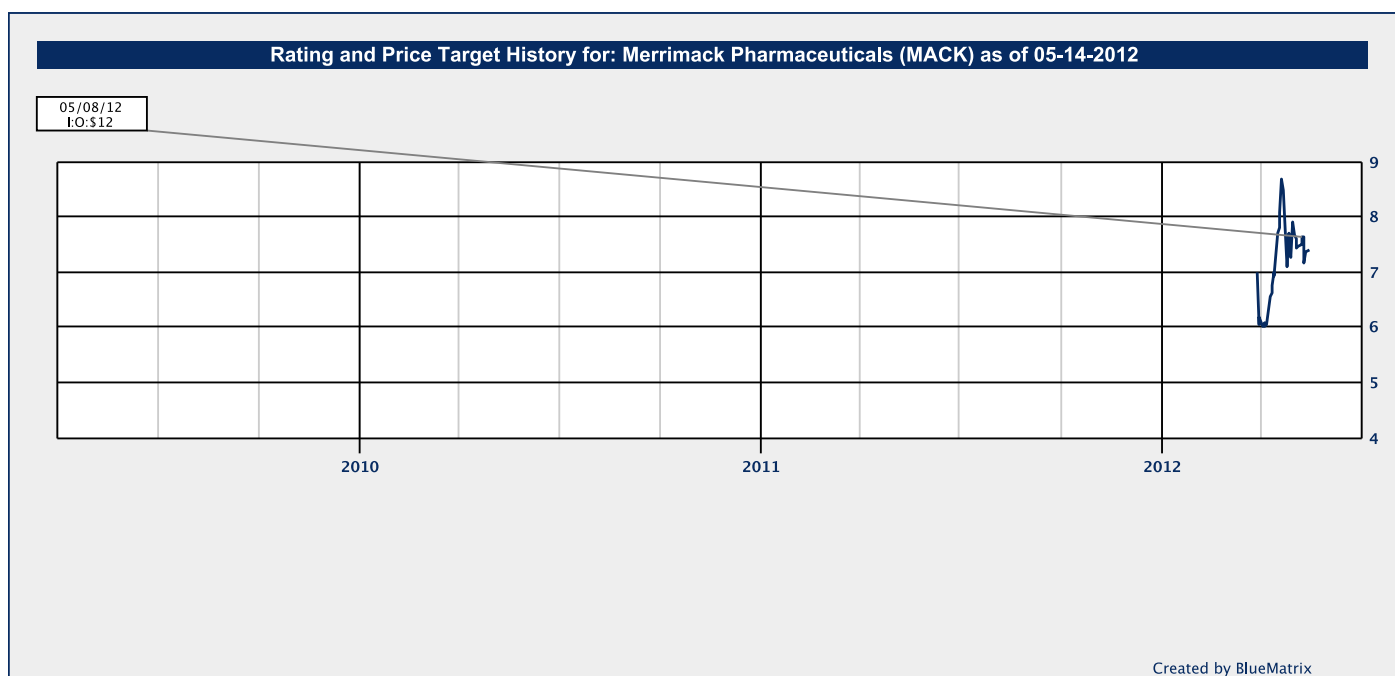
Key risks to our price target include, but are not limited to, clinical, regulatory, and commercial failure of MM-121, MM-398, MM-111 and MM-302. An additional risk includes an inability to raise future capital to support operations.

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]	325	55.65	144	44.31
PERFORM [P]	251	42.98	85	33.86
UNDERPERFORM [U]	8	1.37	3	37.50

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.

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.