

Merrimack Pharmaceuticals

(MACK/ NASDAQ)

March 15, 2013

Gene Mack, (212) 702-6616
Daniel Brims, (212) 702-6607

GMack@breancapital.com
DBrims@breancapital.com

MACK: 4Q Results; ASCO Looks Lighter Than We Expected With More Data in 2H13

Buy
PT: \$14.00

Investment Summary

NAPOLI-1 Now to Readout in 2H13. Merrimack amended the NAPOLI-1 protocol to add a third arm, which has resulted in a readout being pushed back slightly from mid-2013 to 2H13.

Back Half of 2013 Will Be Data Heavy for MM-121. While we expect Phase 2 NSCLC data at AACR and possibly updated at ASCO in June, the majority of ongoing studies for MM-121 likely won't yield data until 2H13. There are four phase 2 trials being conducted for MM-121 in breast, ovarian, and non-small cell lung cancer, and we expect data from each of these studies to read out in 2H13. We do expect the mutant EGFR, NSCLC cohort to read out earlier, in 1H13.

Merrimack reported Earnings of \$(1.28) Per Share. The loss of \$(1.28) per share was in line but slightly below our estimate of \$(1.26) per share for FY12. Merrimack ended the quarter with ~\$110M in cash including a \$40M line of credit, which we believe will fund operations into 2014.

Discussion

Amendment to the NAPOLI-1 Study Cause Data to Be Pushed Back. NAPOLI-1 is Merrimack's only Phase 3 study and comparing MM-398 vs 5-FU/Leucovorin in 2nd line pancreatic cancer. The study was amended to add 5-FU/Leucovorin/MM-398 as a third arm due to the prevalence of FOLFIRI use, and adoption of the amended protocol has caused data to be delayed from mid-2013 to 2H13. MACK expects the MM-398 monotherapy arm to show a survival difference of approximately six-weeks compared to 5-FU Leucovorin alone and up to a three month difference when the combination of MM-398 and 5-FU Leucovorin is compared to 5-FU Leucovorin alone.

MM-121 is currently being evaluated in Phase II trials for ovarian, breast and lung cancer and these studies will read out in 2013. The Phase 2 study of MM-121/Tarceva for NSCLC has two cohorts, EGFR mutant and wild type, and we expect data from the mutant EGFR cohort to be presented at AACR and possibly an update at ASCO in June, but that we have wait until 2H13 for the EGFR WT cohort. In 2H13, we also expect the data from ER/PR+ HER2- metastatic breast cancer in patients treated with Exemestane w/wo MM-121. The phase 2 study of platinum resistant ovarian cancer patients treated with paclitaxel w/wo MM-121, which had been expected to read out in 2014 has recruited more quickly than expected and will read out also in 2H13.

Merrimack Reports FY12 Loss of \$(1.28) per Share. The loss suffered by Merrimack of \$(1.28) per share for FY12 was in line with \$(1.26) per share we modeled. Merrimack ended the quarter with ~\$110M in cash including a \$40M line of credit, which we believe will fund operations into 2014.

Valuation / Target Price

Our \$14 target price for MACK shares is based on the NPV of MM-398 global revenue (discounted 20%) in pancreatic cancer alone, which we forecast will peak at \$800M (see Exhibit 1). We assume orphan pricing for MM-398 peaking at \$80k per course in the US with conservative peak penetration in the US (35%) and ex-U.S. (25%). MACK's early stage pipeline, which is not included in our revenue forecasts, lends significant upside to our current valuation.

Price	\$6.15
52-Week High/Low	\$11.11-\$5.66
Shares Out (mm)	94.2
Market Cap (mm)	\$579
Avg. Daily Vol (000)	308,742
Short Interest	3.2%
Cash (mm)	NA
EV (mm)	NA
Book Value / Share	NA

EPS	FY12A	FY13E	FY14E
Mar	\$(2.14)	\$(0.25)	--
June	\$(0.22)	\$(0.26)	--
Sept	\$(0.25)	\$(0.26)	--
Dec	\$(0.26)	\$(0.28)	--
FY (Dec)	\$(1.28)	\$(1.05)	\$(0.90)
Prior:	\$(1.26)	\$(0.78)	--
P/E (x)	NM	NM	NM
Revenue (\$M)			
FY (Dec)	\$48.9	\$50.0	\$81.7
Prior:	\$45.7	--	--
P/S (x)	11.8	11.6	7.1



Source: Bloomberg

Exhibit 1: MACK Milestones

MM-398 (encapsulated irinotecan)	Indication/Setting	Comment	Timing
Phase 3 (NAPOLI-1)	pancreatic (2nd line)	1 st OS; N= 405; Randomization= MM-398 vs. 5FU Leucovorin vs 5FU Leucovorin + MM-398	YE13
Phase 2	CRC	Investigator sponsored studies that will evaluate MM-398+5FU Leucovorin vs. FOLFIRI	Pending update
MM-121 (ErbB3 Mab)	Indication/Setting	Comment	Timing
Phase 2	NSCLC (EGFR naïve, EGFR refractory, EGFR responders)	1 st = PFS; N= 260; Randomization= RMM-121 + Tarceva vs. Tarceva; Mutant EGFR; Phase 1 dose escalation into Phase 2	1H13
Phase 2	breast (mets HER-, ER+, PR+)	1 st = PFS; N= 130; Randomization= MM-121 + Exemestane vs. Exemestane in anti-estrogen failures	2H13
Phase 2	breast (neoadjvant HER-, ER+)	1 st = RR; N= 200; Randomization= MM-121 + paclitaxel vs. paclitaxel in neo-adjuvant setting	2H13
Phase 2	Ovarian (platinum resistant)	1 st = PFS (38 wks); N= 210; Randomization= 2:1, MM-121 + paclitaxel vs. paclitaxel	2H13
Phase 2	NSCLC (EGFR naïve, EGFR refractory, EGFR responders)	1 st = PFS; N= 260; Randomization= RMM-121 + Tarceva vs. Tarceva; WT EGFR; Phase 1 dose escalation into Phase 2	2H13
MM-111 (ErbB3, ErbB2 bi-specific)	Indication/Setting	Comment	Timing
Phase 2	HER2+ and FISH+/FISH- gastric cancer	1 st = PFS, N= 180; Randomization= paclitaxel +/- MM-111 +/- Herceptin	2014

Source: Company Reports and Brean Capital, LLC estimates

Exhibit 2: MACK Income Statement

Merrimack Pharmaceuticals														
INCOME STATEMENT														
Brean Murray, Carret & Co. Gene Mack, 212.702.6616														
Fiscal Period: ends Dec. 31														
	2010	2011	1Q	2Q	3Q	4Q	2012	1Q	2Q	3QE	4QE	2013E	2014E	2015E
MM-398 US sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26.7	\$ 166.8
MM-398 ex-US sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23.6
Total WW sales MM-398	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26.7	\$ 190.4
Product sales, net	-	-	-	-	-	-	-	-	-	-	-	-	26.7	190.4
Collaboration revenue	20.3	34.2	11.3	12.1	11.3	14.2	48.9	11.5	12.0	12.5	14.0	50.0	55.0	60.0
Other Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	\$ 20.3	\$ 34.2	\$ 11.3	\$ 12.1	\$ 11.3	\$ 14.2	\$ 48.9	\$ 11.5	\$ 12.0	\$ 12.5	\$ 14.0	\$ 50.0	\$ 81.7	\$ 250.4
Cost of product sales	-	-	-	-	-	-	-	-	-	-	-	-	3.5	22.9
Gross Profit	20.3	34.2	11.3	12.1	11.3	14.2	48.9	11.5	12.0	12.5	14.0	50.0	78.3	227.6
Research and development	58.3	100.6	31.7	28.8	30.9	34.6	125.9	31.7	33.0	34.0	36.3	135.0	145.0	150.0
Selling, general and administrative	11.4	14.5	3.7	3.6	4.3	4.2	15.8	5.0	5.2	5.5	6.3	22.0	26.6	76.6
Contingent consideration	(0.2)	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expense (including COGS)	69.5	115.1	35.4	32.4	35.2	38.7	141.7	36.7	38.2	39.5	42.6	157.0	175.0	249.5
Operating Income	(49.2)	(80.9)	(24.0)	(20.3)	(23.9)	(24.5)	(92.7)	(25.2)	(26.2)	(27.0)	(28.6)	(107.0)	(93.3)	0.9
Interest Income	0.1	0.1	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(3.7)	(0.0)	-	-	-	-	-	-	-	-	-	-	-	-
Other Income/ Expense	2.7	1.2	0.6	0.2	0.6	(0.4)	1.0	-	-	-	-	-	-	-
net loss (gain) from non-controlling interest	0.1	0.5	0.1	0.1	0.1	0.1	0.5	-	-	-	-	-	-	-
Net Income Before Taxes	(50.1)	(79.2)	(23.3)	(20.0)	(23.2)	(24.8)	(91.3)	(25.2)	(26.2)	(27.0)	(28.6)	(107.0)	(93.3)	0.9
Provision for Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2
Net Income After Taxes	\$ (50.1)	\$ (79.2)	\$ (23.3)	\$ (20.0)	\$ (23.2)	\$ (24.8)	\$ (91.28)	\$ (25.2)	\$ (26.2)	\$ (27.0)	\$ (28.6)	\$ (107.0)	\$ (93.3)	\$ 0.7
Basic Weighted Average Shares	11.0	11.3	11.8	90.6	93.7	94.7	72.8	100.7	101.7	102.7	103.7	102.2	103.2	104.2
Diluted Weighted Average Shares	11.0	11.3	11.8	90.6	93.7	94.7	72.8	100.7	101.7	102.7	103.7	102.2	103.2	104.2
Basic EPS as-reported (GAAP)	\$ (4.56)	\$ (6.98)	\$ (1.97)	\$ (0.22)	\$ (0.25)	\$ (0.26)	\$ (1.28)	\$ (0.25)	\$ (0.26)	\$ (0.26)	\$ (0.28)	\$ (1.05)	\$ (0.90)	\$ 0.01
Diluted EPS as-reported (GAAP)	\$ (5.57)	\$ (7.67)	\$ (2.14)	\$ (0.22)	\$ (0.25)	\$ (0.26)	\$ (1.28)	\$ (0.25)	\$ (0.26)	\$ (0.26)	\$ (0.28)	\$ (1.05)	\$ (0.90)	\$ 0.01
Cash and Equivalents	\$ 31	\$ 50	\$ 106	\$ 87			\$ 48					\$ 78	\$ 21	\$ 59
E=Estimate														

E=Estimate

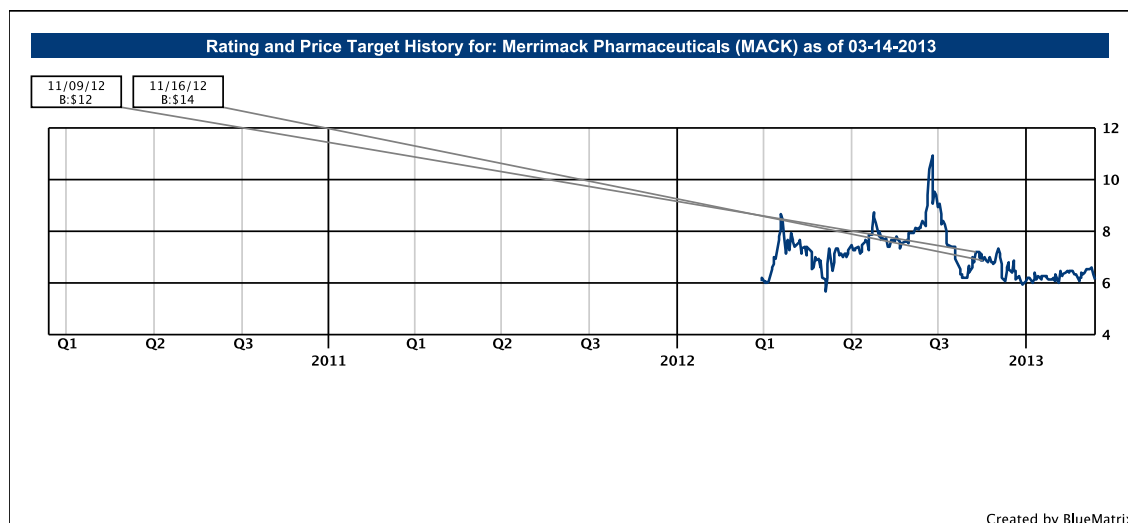
Source: Company Reports and Brean Capital, LLC estimates

Risks

Key risks to MACK shares include: (1) significant clinical failure risk of MM-398 or any of the company's other candidates in ongoing and planned clinical trials; (2) regulatory risk stemming from FDA perception of adequate data support for approval of MM-398 in any of the indications in which it is being developed or any of the other candidates in MACK's pipeline; and (3) financial risk from disappointing outcomes to MM-121 clinical studies should Sanofi choose to end the co-development arrangement; (4) risk from failure to successfully invalidate third party patent claims in an ongoing opposition proceeding in Europe that could otherwise limit the ability of MM-121 and MM-111 to be commercialized in Europe.

Important Disclosures

Ratings and Target Price History



At the time this report was published, Brean Capital, LLC made a market in the securities of Merrimack Pharmaceuticals .

In the normal course of its business, Brean Capital, LLC intends to seek compensation for investment banking or non-investment banking services from the companies in its coverage universe. 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 decisions.

The research analyst(s) or research associate(s) principally responsible for the preparation of this research report has received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues. The compensation is determined exclusively by research management and senior management (not including investment banking).

Brean Capital, LLC Stock Rating System

Buy - Expected to appreciate by at least 10% within the next 12 months.

Hold - Fully valued, not expected to appreciate or decline materially within the next 12 months.

Sell - Expected to decline by at least 10% within the next 12 months.

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
BUY	141	65.58%	8	5.67%
HOLD	68	31.63%	2	2.94%
SELL	6	2.79%	1	16.67%
NOT RATED				

Note: Stock price volatility may cause temporary non-alignment of some ratings with some target prices.

Analyst Certification

We, Gene Mack and Daniel Brims, hereby certify that the views expressed in this research report accurately reflect our personal views about any and all of the subject securities or issuers referred to in this document. The analyst and associate analyst further certify that they have not received and will not be receiving direct or indirect compensation in exchange for expressing the recommendation contained in this publication.

Disclaimers

Some companies that Brean Capital, LLC follows are emerging growth companies whose securities typically involve a higher degree of risk and more volatility than the securities of more established companies. The securities discussed in Brean Capital, LLC research reports may not be suitable for some investors. Investors must make their own determination as to the appropriateness of an investment in any securities referred to herein, based on their specific investment objectives, financial status and risk tolerance. This report may discuss numerous securities, some of which may not be qualified for sale in certain states and to certain categories of investors. Readers are advised that this analysis report is issued solely for informational purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy. The information contained herein is based on sources which we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data on the company, industry or security discussed in the report. Past performance is no guarantee of future results. Any opinions expressed herein are statements of our judgment as of the date of publication and are subject to change without notice. Entities including but not limited to the Firm, its officers, directors, employees, customers, affiliates may have a position, long or short, in the securities referred to herein, and/or other related securities, and from time to time may increase or decrease such position or take a contra position. The Firm (or persons related thereto) may make a market in the securities mentioned herein, and may from time to time perform investment banking or other services for, or solicit investment banking or other business from, and may have other relationships with any company mentioned in this report. Brean Capital, LLC (the "Firm") is a member of SIPC, FINRA, licensed with various state securities regulatory authorities, and a registered U.S. Broker-Dealer. No part of this report may be reproduced in any form without the express permission of Brean Capital, LLC.

Additional information is available upon request.