

November 15, 2012

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

OUTPERFORM

12-18 mo. Price Target \$12.00
MACK - NASDAQ \$7.14

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$11.11-\$5.66
Shares Outstanding 94.2M
Float 82.4M
Market Capitalization \$672.4M
Avg. Daily Trading Volume 466,790
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.
2011A	(1.21)	(2.60)	(1.65)	(1.53)	(6.98)	NM
2012E	(1.97)A	(0.22)A	(0.25)A	(0.26)	(1.25)	NM
Prior (E)	--	--	(0.24)	(0.25)	(1.24)	NM
2013E	(0.28)	(0.25)	(0.25)	(0.27)	(1.05)	NM
Prior (E)	--	--	--	--	(0.94)	NM

Merrimack Pharmaceuticals

Earnings, Clinical Update, MM-398 Back On Track; Outperform

SUMMARY

Merrimack Pharmaceuticals reported 3Q12 results earlier today and provided an update on its clinical development programs. We continue to believe Merrimack is executing well and rapidly advancing its broad pipeline of antibody-based and nanotherapeutic candidates. Management announced several upcoming milestones, including the reaffirmed expectation for MM-398 (NAPOLI-I) data in mid-2013; MM-302 monotherapy data at SABCS in Dec-'12; and the initiation of the MM-141 Phase I study. Importantly, Merrimack noted that since amending its MM-398 NAPOLI-I study, the enrollment rates have picked up. Including \$40M in new venture debt, Merrimack guided that it is capitalized into 2014. We have updated our model following Merrimack's in-line 3Q results. We maintain our Outperform rating and \$12 PT.

KEY POINTS

- EPS of (\$0.25), was a penny wider than our projection. Collaborative revenue was \$11.3M, versus our \$12.4M projection. Total 3Q cash was \$83.7M, which excludes a \$40M loan entered following 3Q. Merrimack stated that its pro forma cash of \$126.7M is sufficient to fund operations into 2014.
- All seven MM-121 indications are generally on track with expectations. One of the arms of the lung cancer study in combination with Tarceva in wild-type EGFR is enrolling slower than expected and might delay expectations for lung data in 1H13. All other studies are progressing to plan.
- Merrimack restated its outlook for data at mid-2013 for its Phase III (NAPOLI-I) trial in pancreatic cancer. Recall that Merrimack recently expanded NAPOLI-I to include a third arm, 5-FU leucovorin. The result was a size increase to 405pts, from 270pts, and Merrimack withdrew its expectations for data in mid-2013.
- Merrimack provided an update on its MM-111 program and plans to initiate a Phase II study in second-line gastric cancer in 2013. The open-label, randomized, Phase II will have an adaptive design up to 180pts with documented HER2 expression and failed first-line 5-FU/platinum therapy. Primary endpoint is PFS.
- Data from the MM-302 monotherapy Phase I will be presented at SABCS and a Phase II is expected to commence in 1H13. MM-141 is expected to begin enrollment in the next few weeks. Merrimack expects MM-DX-929, an imaging diagnostic, to enter Phase I in the next 12 months.

Stock Price Performance



Company Description

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

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Exhibit 1: Merrimack Pharmaceuticals Key Milestones

Date	Stage	Milestone
MM-398		
2013	Phase III	Top line data from NAPOLI-I in pancreatic cancer
1H13	Phase II	Complete enrollment in Phase II in CRC
mid-13	Phase II	Phase II results in CRC
MM-121		
2H12	Phase II	Complete enrollment for Phase II trial in ER/PR+ mBC
1H13	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		
2013	Phase II	Initiate study in second line gastric cancer
MM-151		
2H13	Phase I	Phase I data
2H13	Phase II	Phase II initiation
MM-141		
4Q12	Phase I	Initiate Phase I
2H13	Phase I	Phase I data
MM-302		
Dec-'12	Phase I	Data from monotherapy study at SABCS
1H13	Phase II	Phase II initiation
MM-310		
1H13	Phase I	Phase I initiation
MM131		
2H13	Phase I	Phase I initiation
MM-DX-929		
2013	Phase I	Phase I initiation

Source: Company reports, Oppenheimer estimates.

Exhibit 2: Merrimack Pharmaceuticals Historical & Projected Income Statement

Historical and Projected Income Statement FY Ending Dec 31st	FY10A	Mar-11 1QA	Jun-11 2QA	Sep-11 3QA	Dec-11 4QA	FY11A	Mar-12 1QA	Jun-12 2QA	Sep-12 3QA	Dec-12 4QE	FY12E	Mar-13 1QE	Jun-13 2QE	Sep-13 3QE	Dec-13 4QE	FY13E
Revenues:																
MM-398 pancreatic cancer sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MM-121 breast cancer royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collaborative revenue (Sanofi)	20,305	6,461	6,595	8,582	12,577	34,215	11,344	12,063	11,323	12,600	47,330	13,000	12,750	12,750	12,750	51,250
Total operating revenue	20,305	6,461	6,595	8,582	12,577	34,215	11,344	12,063	11,323	12,600	47,330	13,000	12,750	12,750	12,750	51,250
Operating expenses																
Cost of goods	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	58,278	18,001	31,187	23,913	27,529	100,630	31,651	28,758	30,885	31,374	122,668	34,000	33,050	32,500	32,950	132,500
Selling, general & administrative	11,381	3,101	4,832	3,306	3,215	14,454	3,728	3,610	4,312	4,712	16,362	4,721	5,427	6,456	7,121	23,725
Contingent consideration/other	(178)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	69,481	21,102	36,019	27,219	30,744	115,084	35,379	32,368	35,197	36,086	139,030	38,721	38,477	38,956	40,071	156,225
Income (loss) from operations	(49,176)	(14,641)	(29,424)	(18,637)	(18,167)	(80,869)	(24,035)	(20,305)	(23,874)	(23,486)	(91,700)	(25,721)	(25,727)	(26,206)	(27,321)	(104,975)
Interest income	74	14	29	8	5	56	9	-	64	39	112	43	47	39	45	174
Interest expense	(3,726)	(6)	(4)	(2)	(1)	(13)	(1)	-	-	(750)	(751)	(750)	(750)	(750)	(1,200)	(3,450)
Other, net	2,669	1,098	203	(93)	(58)	1,150	625	166	490	(140)	1,141	200	200	200	200	800
Pretax income (loss)	(50,159)	(13,535)	(29,196)	(18,724)	(18,221)	(79,676)	(23,402)	(20,139)	(23,320)	(24,337)	(91,198)	(26,228)	(26,230)	(26,717)	(28,276)	(107,451)
Benefit from income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(50,159)	(13,535)	(29,196)	(18,724)	(18,221)	(79,676)	(23,402)	(20,139)	(23,320)	(24,337)	(91,198)	(26,228)	(26,230)	(26,717)	(28,276)	(107,451)
Less net loss attributable to NCI	(55)	(78)	(145)	(125)	(105)	(453)	(118)	(113)	(121)	(127)	(479)	(134)	(134)	(136)	(144)	(548)
Net income attributed to Merrimack	(50,104)	(13,457)	(29,051)	(18,599)	(18,116)	(79,223)	(23,284)	(20,026)	(23,199)	(24,210)	(90,719)	(26,094)	(26,096)	(26,581)	(28,132)	(106,903)
Unrealized gain on available-for-sale securities	-	-	-	-	-	-	-	-	59	-	59	-	-	-	-	-
Comprehensive loss	(50,104)	(13,457)	(29,051)	(18,599)	(18,116)	(79,223)	(23,284)	(20,026)	(23,140)	(24,210)	(90,660)	(26,094)	(26,096)	(26,581)	(28,132)	(106,903)
Net loss per share	(\$4.60)	(\$1.21)	(\$2.60)	(\$1.65)	(\$1.53)	(\$6.98)	(\$1.97)	(\$0.22)	(\$0.25)	(\$0.26)	(\$1.25)	(\$0.28)	(\$0.25)	(\$0.25)	(\$0.27)	(\$1.05)
Basic common shares outstanding	10,901	11,106	11,158	11,292	11,816	11,343	11,846	90,581	93,724	93,974	72,531	94,429	104,429	104,629	104,829	102,079
Diluted common shares outstanding	10,901	11,106	11,158	11,292	11,816	11,343	11,846	106,436	109,579	109,829	84,423	110,284	120,284	120,484	120,684	117,934

Source: Company reports; 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 (SNY-NYSE, \$42.73, Not Covered), 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

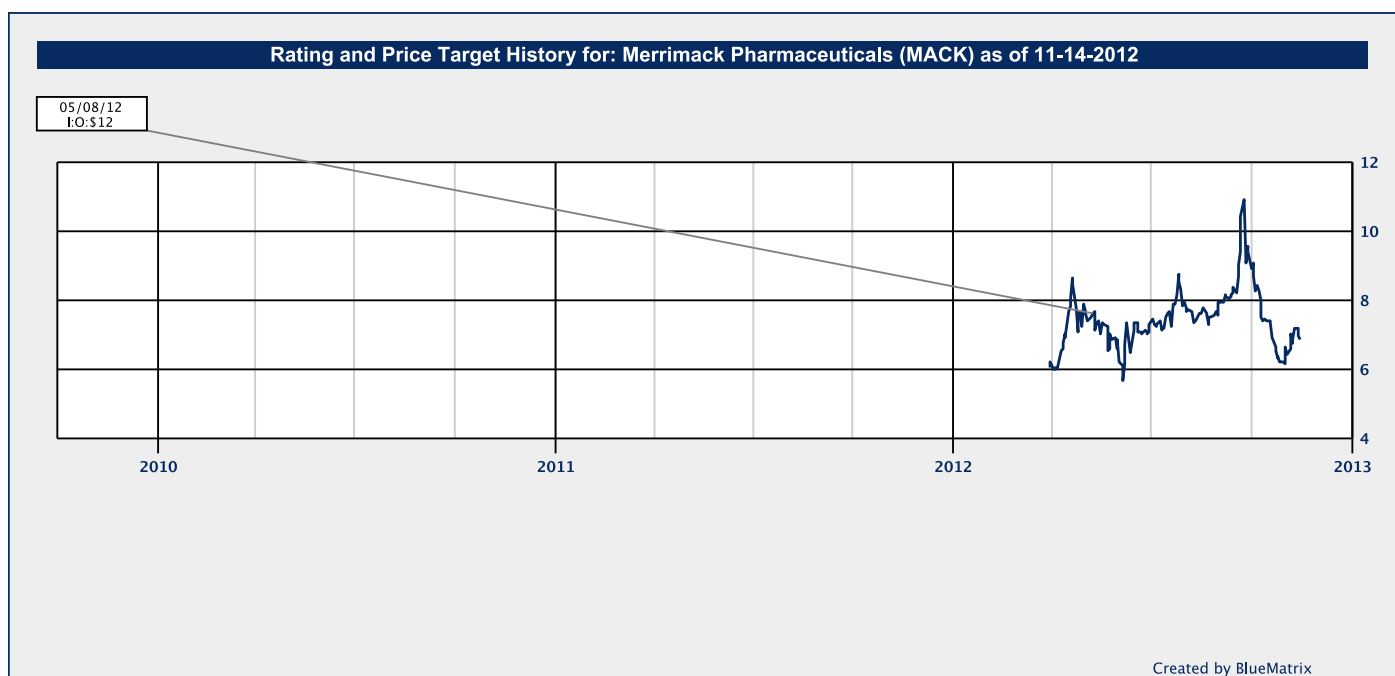
Key risks to our price target include, but are not limited to, clinical, regulatory, and commercial failure of MM-121, MM-398, MM-111 and MM-302. An additional risk includes an inability to raise future capital to support operations.

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Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	312	54.07	141	45.19
PERFORM [P]	260	45.06	86	33.08
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