

December 11, 2012

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:
OUTPERFORM

12-18 mo. Price Target	\$12.00
MACK - NASDAQ	\$6.46

3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	\$11.11-\$5.66
Shares Outstanding	94.2M
Float	82.4M
Market Capitalization	\$608.4M
Avg. Daily Trading Volume	710,465
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
2013E	(0.28)	(0.25)	(0.25)	(0.27)	(1.05)	NM

Merrimack Pharmaceuticals

Encouraging MM-302 Data Presented At SABCS; Maintain Outperform

SUMMARY

Data from the MM-302 monotherapy Phase I study in traditional HER2 positive (HER2+ or ErbB2+) breast cancer was presented at the San Antonio Breast Cancer Symposium (SABCS). The company also presented preclinical data pertaining to MM-DX-929, the company's proprietary imaging agent being developed to serve as a companion diagnostic to its nanotherapeutics that in this preclinical study was shown to be predictive of treatment response. We highlight that the findings show MM-302 to be safe and well tolerated. We anticipate that based on these data the company will commence a Phase II study of MM-302 in 1H13. Merrimack expects MM-DX-929 to enter Phase I testing in 2013. We maintain our Outperform rating and \$12/share PT.

KEY POINTS

- MM-302, a HER2-targeted PEGylated liposomal doxorubicin was found to be well tolerated in 34 HER2+ metastatic breast cancer patients with a median of seven prior therapies. Five dose levels were given every four weeks, and no dose-limiting toxicities were reached and no meaningful decline in left ventricle ejection fraction was observed.
- In the Phase I, AEs were consistent with liposomal doxorubicin, and of the 22pts evaluable, 12 achieved stable disease and two achieved partial response. The most frequent AEs were fatigue (47%), nausea (41%) and decreased appetite (31%). Grade 3-4 AEs occurred in 4 patients.
- As a reminder, MM-302 is a nanotherapeutic encapsulation of doxorubicin that is designed to allow for the toxin to travel through the blood stream while encased in a liposomal membrane, avoiding harmful exposure to the heart. Antibodies at the liposomal membrane surface bind to the HER2 receptor, thus providing targeted doxorubicin delivery within the tumor.
- MM-DX-929, if successful, may serve as a companion diagnostic to MM-302. MM-DX-929 is a novel ⁶⁴Cu-liposomal PET imaging agent that provides a quantifiable image of liposome deposition in tumors. In xenograft models MM-DX-929 correlated well with treatment response to MM-302. We believe this preliminary work provides proof of predictive capability.

Stock Price Performance

Company Description

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

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

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

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 Sanofi (SNY-NYSE, \$46.91, 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

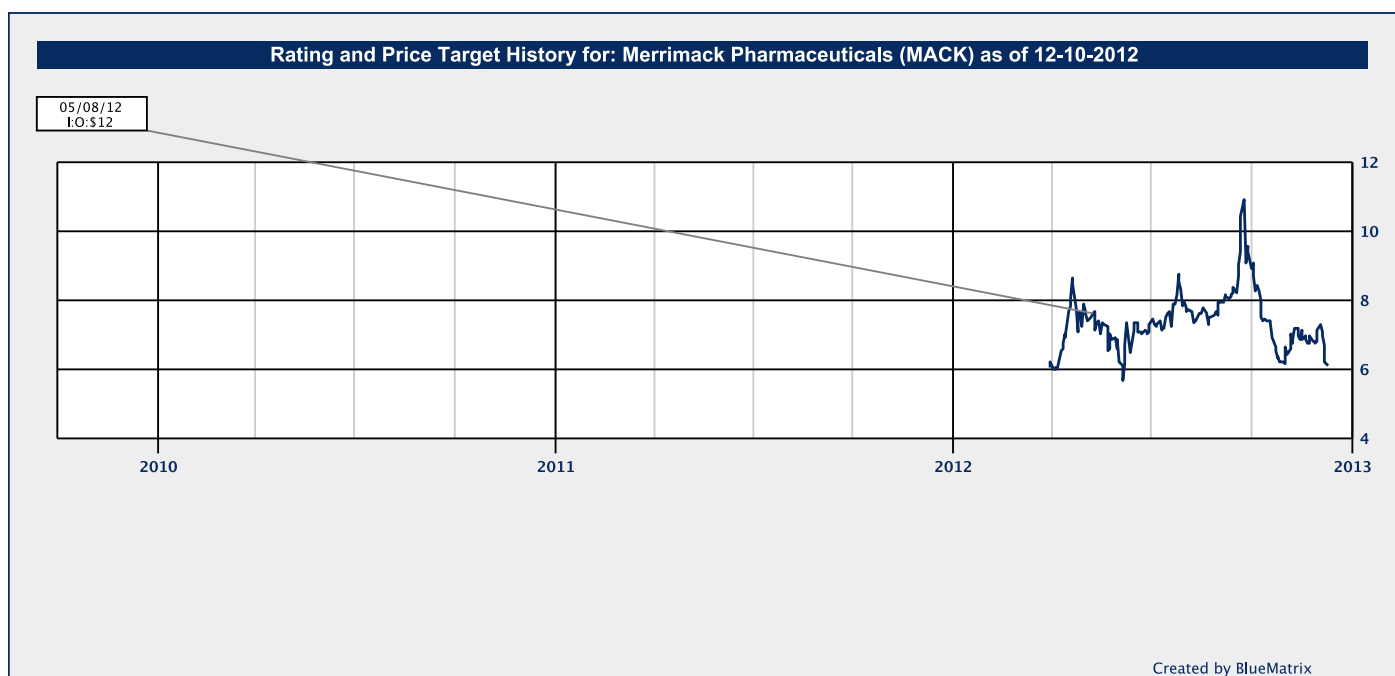
Key risks to our price target include, but are not limited to, clinical, regulatory, and commercial failure of MM-121, MM-398, MM-111 and MM-302. An additional risk includes an inability to raise future capital to support operations.

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Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent
OUTPERFORM [O]	312	53.79	138	44.23
PERFORM [P]	263	45.34	90	34.22
UNDERPERFORM [U]	5	0.86	2	40.00

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