Xencor

Pharma & biotech

24 June 2014

Price	$11.23
Market cap	$352m

New improved antibodies

Xencor has demonstrated that its novel mAb technology can create superior versions of biologic blockbusters such as Humira, Xolair and Rituxan, albeit with early-stage data. At the 2014 ATS conference, XmAb7195 showed greater IgE clearance than Xolair in chimps and is now in Phase Ia in healthy and allergic subjects, with initial results by YE14. Phase Ib/IIa data for XmAb5871 in RA are due in H214. We believe the potential of Xencor's candidates more than justifies the EV of c $280m.

XmAb7195 beats Xolair in vivo; Phase I data H214

Xencor technology mutates the antibody Fc domain to enhance desirable characteristics such as half-life or target cell inhibition/killing, and could give efficacy and side effects benefits over older generation mAbs. Xencor's XmAb7195 is more effective than Roche/Novartis' Xolair by inhibiting IgE production by B cells and enhancing clearance by the liver. In chimpanzees it rapidly reduced free IgE to >tenfold lower levels than Xolair (data ATS 2014). XmAb7195 has recently started Phase Ia in healthy and allergic subjects, with initial IgE reduction data anticipated by YE14. Sales of Xolair for asthma exceeded $1.4bn in 2013.

XmAb5871 for RA – top-line Phase II data H214

Amgen has an opt-in after Phase IIb for XmAb5871, a B cell inhibitor with potential in autoimmune diseases such as RA, MS and lupus. Unlike Roche's Rituxan, it reduces B cells only transiently and this may reduce side effects. XmAb5871 is in Phase Ib/IIa in active RA patients, with Phase IIa data expected H214. A 24-week, 200-patient, Phase IIb trial is planned for early 2015. The global RA market, worth c $41bn in 2013, represents an attractive opportunity for an improved biologic.

Upside from technology deals and Bispecifics in 2014

Revenue and milestones are expected from technology out-licensing deals. Morphosys has taken MOR208 into Phase II in B-cell lymphoma, CLL and NHL. A candidate from the Bispecifics programme should also start exploratory studies.

EV of $280m undemanding given product potential

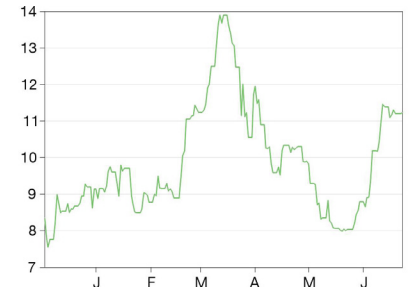
Since pricing at $5.50 in its December 2013 IPO, the stock has seen highs of $14, triggered by XmAb5871 entering Phase II in RA. Data in H214 for XmAb7195 and XmAb5871 could provide positive impetus from current levels. The current EV of c $280m (including Q114 net cash of $72m) is modest considering that success in any one of Xencor's antibody programs could unlock significant value.

Consensus estimates

Year end	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
12/12	9.5	(8.6)	(118.9)	0.0	N/A	N/A
12/13	10.2	(60.3)	(3.85)	0.0	N/A	N/A
12/14e	5.7	(24.4)	(0.77)	0.0	N/A	N/A
12/15e	8.5	(25.3)	(0.77)	0.0	N/A	N/A

Source: Thomson Reuters

Share price graph



Share details

Code	XNCR
Listing	NASDAQ
Shares in issue	31.36m

Business description

California-based Xencor develops next-generation monoclonal antibodies and has seven candidates in early clinical development internally/with partners for the treatment of autoimmune diseases, allergic diseases and blood cancers (NHL/CLL).

Bull

- Technology platform offers benefits over existing mAbs.
- Candidates target known pathways in commercially significant disease markets.
- Clinical data catalysts in H214.

Bear

- Pipeline yet to be proven in clinic.
- Chosen therapeutic areas are highly competitive.
- Cash expected sufficient to end 2016; Amgen decision not to opt-in would necessitate partnering.

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