

Xencor (XNCR)

Q2 EPS; Data From 7195 and 5871 Coming Up by YE:14, Reiterate OUTPERFORM

- XNCR reported Q2:14 EPS of (\$0.16), in line with our (\$0.14) estimate, and reiterated guidance of ending 2014 with \$54M in cash—sufficient to fund operations through 2016.
- Two key catalysts for XNCR shares in the next ~6 months remain data from '7195's Phase I study in healthy volunteers (including IgE reduction along with safety data) and '5871's top-line Phase IIa data in rheumatoid arthritis, both expected by YE:14. Xencor retains commercialization rights for '7195, and Amgen (AMGN-not covered) has an option to a worldwide license for '5871, post a proof-of-concept clinical trial.
- Recall a study of '7195 in chimpanzees presented at the American Thoracic Society's meeting in May showed a rapid (within 1 hour) and sustained (p to 10 days) reduction of IgE to below the lower limit of quantification. These data showed '7195 had a much greater IgE lowering ability than Xolair, an FDA-approved IgE blocker.
- We believe XmAb7195 is likely to be a best-in-class drug for IgE-related diseases and may replace and expand the \$1.3B annual Xolair market in poorly controlled or ineligible patients.
- Reiterate OUTPERFORM rating and \$18 price target. Our \$18 price target is derived from the sum of multiples on sales and royalties from XNCR's proprietary and partnered products each discounted back to YE:14.
- Risks to the attainment of our price target include 1) failure to reach sales expectations for XmAb7195, XmAb5574, XmAb5871 2) failure in the clinic of either XmAb7195, XmAb5574, XmAb5871, 3) changes or discontinuation of Xencor's partnerships for XmAb5574, XmAb5871 or other partnered programs.

July 31, 2014

Price
\$9.66

Rating
OUTPERFORM

12-Month Price Target
\$18

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Company Information

Shares Outst (M)	31.4
Market Cap (M)	\$303.1
52-Wk Range	\$5.75 - \$14.41
Book Value/sh	\$2.23
Cash/sh	\$2.11
Enterprise Value (M)	\$236.8
LT Debt/Cap %	0.0
Cash Burn (2014) (M)	\$18.9
Current Cash (M)	\$66.2

Company Description

Xencor is a clinical-stage biopharmaceutical company focused on discovering and developing engineered monoclonal antibodies to treat severe and life-threatening diseases with unmet medical needs.



Source: Thomson Reuters

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	-A	\$2.2A	\$2.5A	\$2.2A	1.0E	2.5E	\$1.9E
Q2 Jun	-A	0.8A	2.5A	\$1.4A	1.0E	2.5E	\$1.9E
Q3 Sep	8.4A	1.0E	2.5E	\$1.4E	1.0E	2.5E	\$1.9E
Q4 Dec	1.7A	\$1.0E	\$2.5E	\$1.7E	1.0E	2.5E	\$2.2E
Year*	\$10.2A	\$5.0E	\$10.0E	\$6.7E	\$4.0E	\$10.0E	\$8.6E
Change	49%	--	--	--	--	--	--
EPS	2013A	2014E			2015E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	-A	(\$0.12)A	(\$0.14)A	(\$0.12)A	(\$0.17)E	(\$0.16)E	(\$0.16)E
Q2 Jun	-A	(\$0.16)A	(\$0.14)A	(\$0.18)A	(\$0.17)E	(\$0.16)E	(\$0.16)E
Q3 Sep	(782.22)A	(\$0.16)E	(\$0.15)E	(\$0.20)E	(\$0.16)E	(\$0.15)E	(\$0.11)E
Q4 Dec	(0.17)A	(\$0.16)E	(\$0.17)E	(\$0.21)E	(\$0.15)E	(\$0.15)E	(\$0.15)E
Year*	(\$3.85)A	(\$0.60)E	(\$0.72)E	(\$0.72)E	(\$0.64)E	(\$0.62)E	(\$0.73)E
P/E	--	--	--	--	--	--	--
Change	98%	--	--	--	--	--	--

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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Upcoming Milestones

Mid-2014 Initiation of IND-enabling studies for a bispecific candidate

H2:14 Top-line data from the Phase II trial of XmAb5574/MOR208 (CD19, enhanced ADCC Fc) in ALL

H2:14 Top-line data from the Phase IIa trial of XmAb5871 (CD19, immune inhibitor Fc) in rheumatoid arthritis

Dec 6-9, 2014 Potential full data from a Phase II trial of MOR208 in ALL at ASH

Dec 6-9, 2014 Potential interim data from a Phase II trial of MOR208 in NHL at ASH

YE:14 Top-line data from the Phase Ia trial of XmAb7195 in healthy subjects including IgE reduction



David M. Nierengarten, Ph.D.

7/31/2014

Xencor Inc.

Annual Financial Results & Projections

(\$ in thousands except per share data)

Ticker: XNCR (Nasdaq)

	FY:13A	Q1:14	Q2:14	Q3:14	Q4:14	FY:14E	FY:15E	FY:16E	FY:17E	FY:18E	FY:19E	FY:20E
Revenue:												
XmAb7195 Sales	0	0	0	0	0	0	0	0	0	0	0	85,738
Royalty Revenues	0	0	0	0	0	0	0	0	0	0	15,000	20,000
Collaboration revenue*	10,172	2,184	824	1,000	1,000	5,008	4,000	4,000	4,000	10,000	10,000	10,000
Total Revenues	\$10,172	\$2,184	\$824	\$1,000	\$1,000	\$5,008	\$4,000	\$4,000	\$4,000	\$10,000	\$25,000	\$120,738
Cost and Expenses:												
Costs of goods sold	0	0	0	0	0	0	0	0	0	0	0	12,861
Research and Development	17,001	4,228	4,283	4,497	4,722	17,730	19,365	21,265	23,695	26,403	29,420	32,781
Sales, General and Administrative	3,691	1,723	1,594	1,610	1,626	6,553	6,586	6,719	7,161	7,632	8,135	41,225
Other	0	0	0	0	0	0	0	0	0	0	0	0
Total Costs and Expenses	\$20,692	\$5,951	\$5,877	\$6,107	\$6,348	\$24,283	\$25,951	\$27,984	\$30,856	\$34,035	\$37,554	\$86,867
Operating Income (loss)	(10,520)	(3,767)	(5,053)	(5,107)	(5,348)	(19,275)	(21,951)	(23,984)	(26,856)	(24,035)	(12,554)	33,870
Net Interest Income (Expense)	(1,206)	16	8	199	181	403	680	836	1,033	1,225	985	1,006
Other income / (Expense)	(48,532)	0	1	0	0	1	0	0	44	80	66	0
Income Before Income Taxes	(60,258)	(3,751)	(5,044)	(4,908)	(5,167)	(18,871)	(21,270)	(23,148)	(25,778)	(22,730)	(11,503)	34,877
Net Income	(\$60,258)	(\$3,751)	(\$5,044)	(\$4,908)	(\$5,167)	(\$18,871)	(\$21,270)	(\$23,148)	(\$25,778)	(\$22,730)	(\$11,503)	\$32,261
GAAP Net Income	(\$60,258)	(\$3,751)	(\$5,044)	(\$4,908)	(\$5,167)	(\$18,871)	(\$21,270)	(\$23,148)	(\$25,778)	(\$22,730)	(\$11,503)	\$32,261
GAAP Basic EPS with sFAS123	(3.85)	(0.12)	(0.16)	(0.16)	(0.16)	(0.60)	(0.64)	(0.67)	(0.69)	(0.59)	(0.30)	0.84
GAAP Diluted EPS with sFAS123	(3.85)	(0.12)	(0.16)	(0.16)	(0.16)	(0.60)	(0.64)	(0.67)	(0.69)	(0.59)	(0.30)	0.84
Weighted shares outstanding	15,646	31,361	31,373	31,398	31,423	31,361	32,986	34,586	37,311	38,286	38,386	38,486
Fully diluted shares outstanding	15,646	31,361	31,373	31,398	31,423	31,389	32,986	34,586	37,311	38,286	38,386	38,486
Cash Burn	(60,258)	(3,751)	(5,044)	(4,908)	(5,167)	(18,871)	(21,270)	(23,148)	(25,778)	(22,730)	(11,503)	-
Cash Balance	77,975	72,536	66,218	60,200	54,032	54,032	78,185	55,037	110,611	87,612	75,428	104,424

*Milestone payments not modeled

Source: Wedbush Securities and PacGrow Life Sciences

Analyst Biography

David is an Analyst covering stocks in the Biotechnology/Biopharmaceuticals/BioDefense sector. His prior sell-side research experience at Robert W. Baird & Co. covered biotechnology companies of all market capitalizations, with a focus on oncology and rare diseases.

David received his B.S. (Biochemistry) from the University of Wisconsin-Madison and Ph.D. (Molecular and Cell Biology) from the University of California-Berkeley.

David's Edge: David's early stage venture capital investing experience gives him a balanced perspective on developmental-stage biotechnology companies and their ultimate risk/reward potential. His experience on the other side of that equation in a clinical-stage, venture backed biotechnology company provides him with insights into corporate operations. The combination of experiences creates a focus on value creation in this event-driven space.

Analyst Certification

I, David M. Nierengarten, Ph.D., Dilip Joseph, Liana Moussatos, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Company	Disclosure
Xencor	1,3,4,5

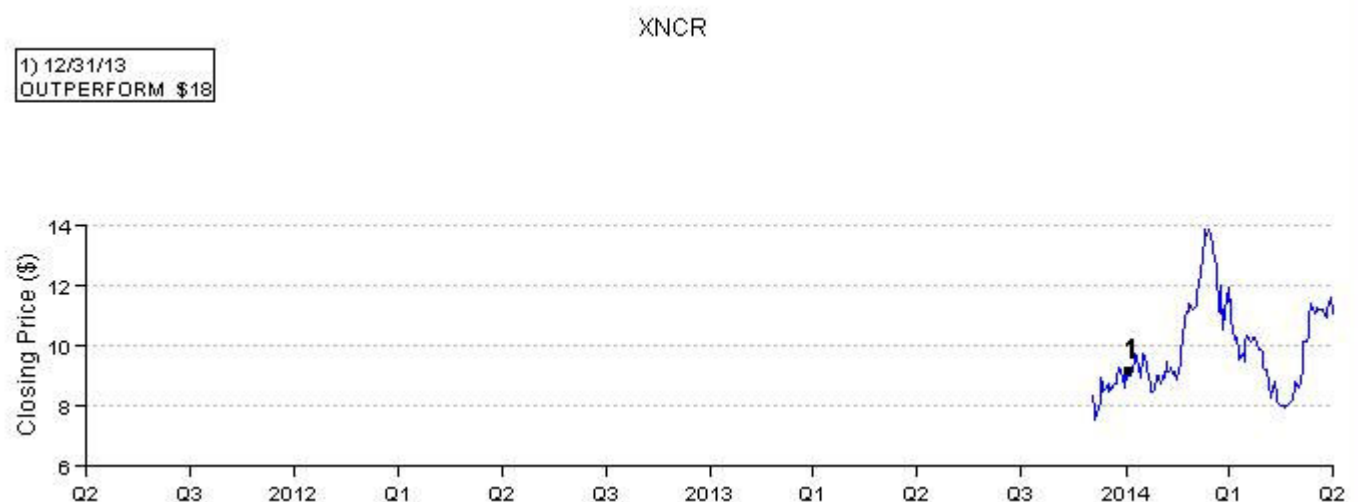
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