

November 28, 2014

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

OUTPERFORM

12-18 mo. Price Target \$22.00
XNCR - NASDAQ \$11.15

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$14.41-\$5.75
Shares Outstanding 31.4M
Float 24.2M
Market Capitalization \$350.1M
Avg. Daily Trading Volume 41,898
Dividend/Div Yield NA/NM
Book Value \$2.89
Fiscal Year Ends Dec
2014E ROE NA
LT Debt \$0.0M
Preferred NA
Common Equity \$70M
Convertible Available No

EPS	Q1	Q2	Q3	Q4	Year	Mult.
2013A	(63.78)	(3.88)	(57.87)	(0.37)	(3.85)	NM
2014E	(0.12)A	(0.16)A	(0.20)A	(0.18)	(0.66)	NM
2015E	(0.17)	(0.17)	(0.16)	(0.16)	(0.66)	NM
2016E	--	--	--	--	--	NM
Revenue (\$/mil)	Q1	Q2	Q3	Q4	Year	Mult.
2013A	1.3	3.9	3.2	1.7	10.2	25.4x
2014E	2.2A	0.8A	0.8	2.2	6.1	42.5x
2015E	2.2	2.2	2.2	2.2	8.8	29.4x
2016E	2.2	2.2	2.2	2.2	8.8	29.4x

Xencor, Inc.

XNCR Our Black Friday Special: Buy it for IgE, Get Bispecific Platform Free

SUMMARY

We are fighting the crowds and holiday traffic to camp outside Xencor's Monrovia, CA headquarters for what we view as the best "Black Friday" special and one of most undervalued companies in our coverage universe.

We recommend owning XNCR ahead of a catalyst-filled six months. We anticipate key value-inflection points with first-in-human results for XmAb7195 (an anti-IgE therapy, Xolair biobetter) (January 2015), P2 results for XmAb5574/MOR208 in ALL and NHL at ASH (Dec.6-9), and top-line results from the P2a of XmAb5871 in RA (YE14). We note that XNCR's \$350M market cap compares favorably to comps including MGNX (Outperform) ~\$750M MC, CLDX (Outperform) ~\$1.8B MC, and DYAX (Felt: Outperform), at \$1.9B MC. **XNCR will present at Oppenheimer's Healthcare Conference Dec. 11.**

KEY POINTS

- **XmAb7195, an anti-IgE, Xolair biobetter, is significantly de-risked ahead of 1H15 data.** We note XNCR's Xolair biosuperior is likely to be safe and to have anti-IgE activity given that the XNCR-engineered Fc-domain is currently safe/active in Phase II trials with '5871, and the target of the Fv-domain is validated by Xolair.
- **Xencor offers a best-in-class bispecific platform that compares favorably to other technologies directed to similar targets (i.e., CD123), CAR-T therapies and is, importantly, unpartnered.** The plug-and-play platform generates long half-life bispecifics that may overcome PK, manufacturing and immunogenicity barriers of other approaches. We anticipate bispecifics will facilitate more drug-like dosing and combinability vs. cell-based therapies.
- **XmAb5871 for rare IgG4-related disease may be XNCR's lead in 2015.** '5871, by inhibiting B-cell activation instead of depleting B-cells, may be similarly efficacious to rituximab but better tolerated, with a lower risk of serious infections. An update on a path forward for '5871 and trial endpoints is expected in 2015.
- **Reiterate Outperform rating, \$22 Price Target and Top Pick in the Group.** We note partnerships with Alexion (ALXN), MorphoSys (MOR), Janssen (JNJ), Merck (MRK) and others may yield up to \$900M in royalties and milestone payments to XNCR.

Stock Price Performance



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 need.

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Investment Thesis

Xencor is a biopharmaceutical company focused on developing and commercializing engineered antibody therapies to treat severe diseases with unmet medical need. Xencor's engineered Fc domains enable high-yield production of IgG-like bispecific antibodies that may enable cost-effective immunotherapy for the treatment of cancer. This potentially best-in-class platform, which has two partnered products in Phase II studies, a wholly owned candidate in a Phase I trial, five further internal early-stage programs and a total of seven collaborations is, in our opinion, the core of Xencor's current value. Merck, Boehringer Ingelheim and CSL are validating of Xencor's approach. These partnerships also provide non-dilutive capital in up-front payments and up to \$900 million in milestone payments as well as additional royalties (single- to double-digit percentages).

Price Target Calculation

We arrive at our \$22 price target by a sum-of-the-parts analysis. We ascribe \$12/share by applying a typical oncology multiple of 6x to our estimated 2022 revenues of \$1.2 billion for XmAb7195 in moderate to severe asthma, discounted 45% annually. We ascribe \$3/share to each of Xencor's two partnered programs XmAb5871 and XmAb5574 based on a typical multiple of 15x royalties (estimated 10%) from US and EU sales in 2022 of \$900M and \$600M discounted 40% and 30% annually, respectively. We ascribe \$3/share to XmAbCD123 as a surrogate for the bispecific candidate Xencor expects to advance into the clinic in 2015.

Key Risks to Price Target

These risks include: 1) failure to reach sales expectations for Xmab7195, XmAb5574/MOR208, or XmAb5871; 2) failure in the clinic of Xmab7195, XmAb5574/MOR208, or XmAb5871; 3) changes to or discontinuation of Xencor's partnerships for XmAb5574/MOR208; 4) intellectual property risk; 5) manufacturing risk; 6) competitive risk from biotech companies with more resources; 6) strategic risk; 7) the risk of a dilutive financing; and 8) insider ownership risk as approximately 35% of the shares are closely held.

Stock prices of other companies mentioned in this report (as of 11/26/14):

Merck (MRK-NYSE, \$59.75, Not Covered)

CSL Ltd (CSL-ASX, A\$80.86, Not Covered)

Morphosys (MOR-XETR, €77.88, Not Covered)

Johnson and Johnson (JNJ-NYSE, \$107.21, Not Covered)

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Stock Prices as of November 28, 2014

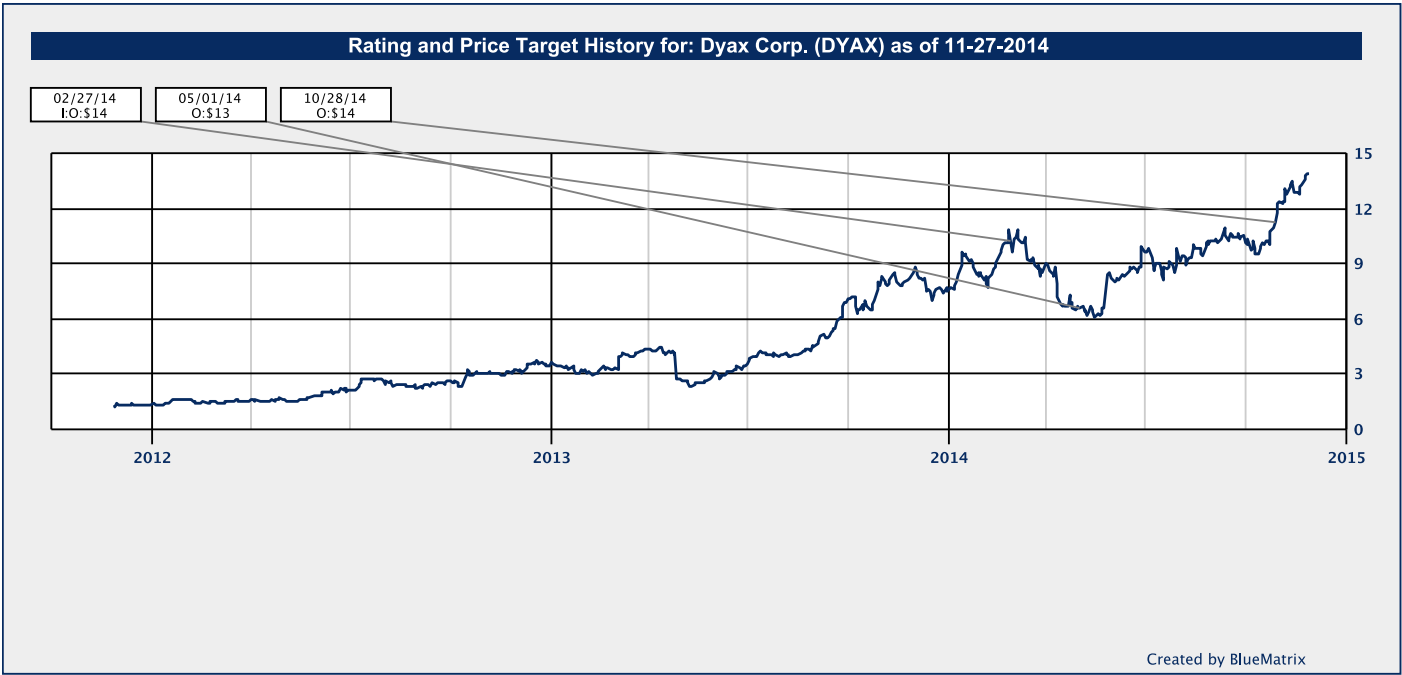
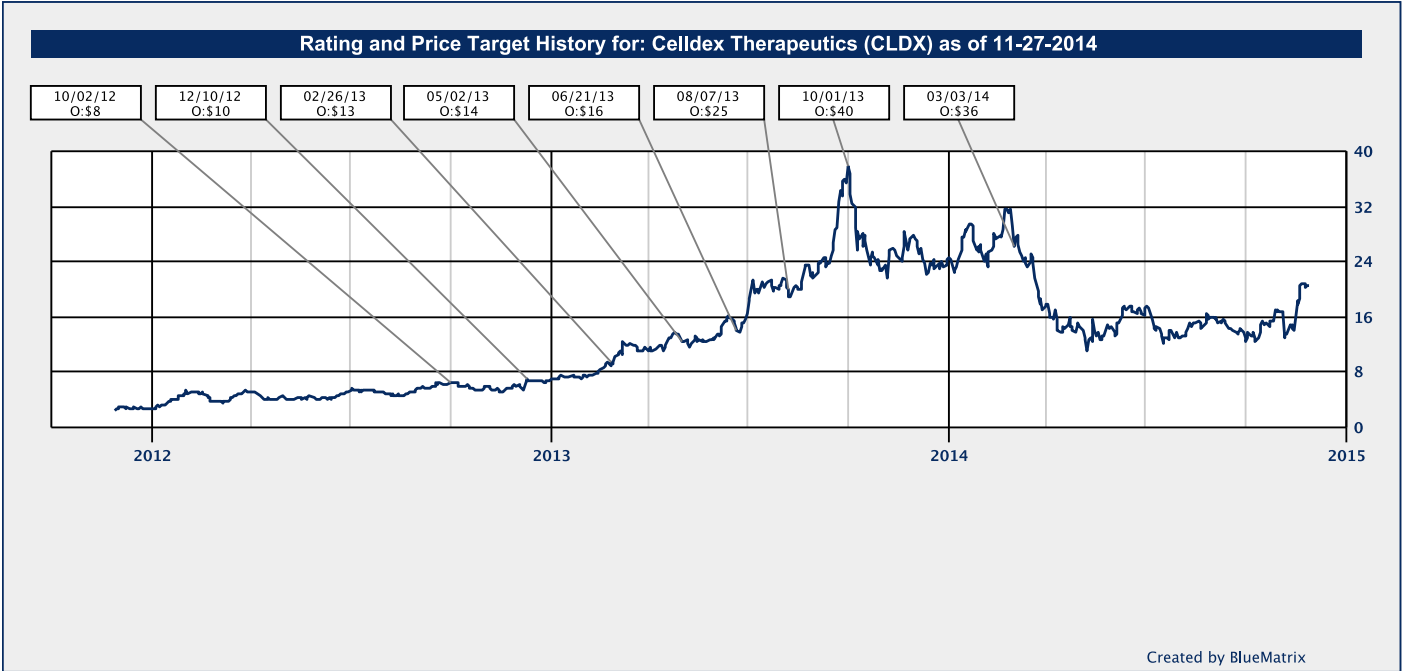
Alexion Pharmaceuticals (ALXN - NASDAQ, \$194.72, OUTPERFORM)

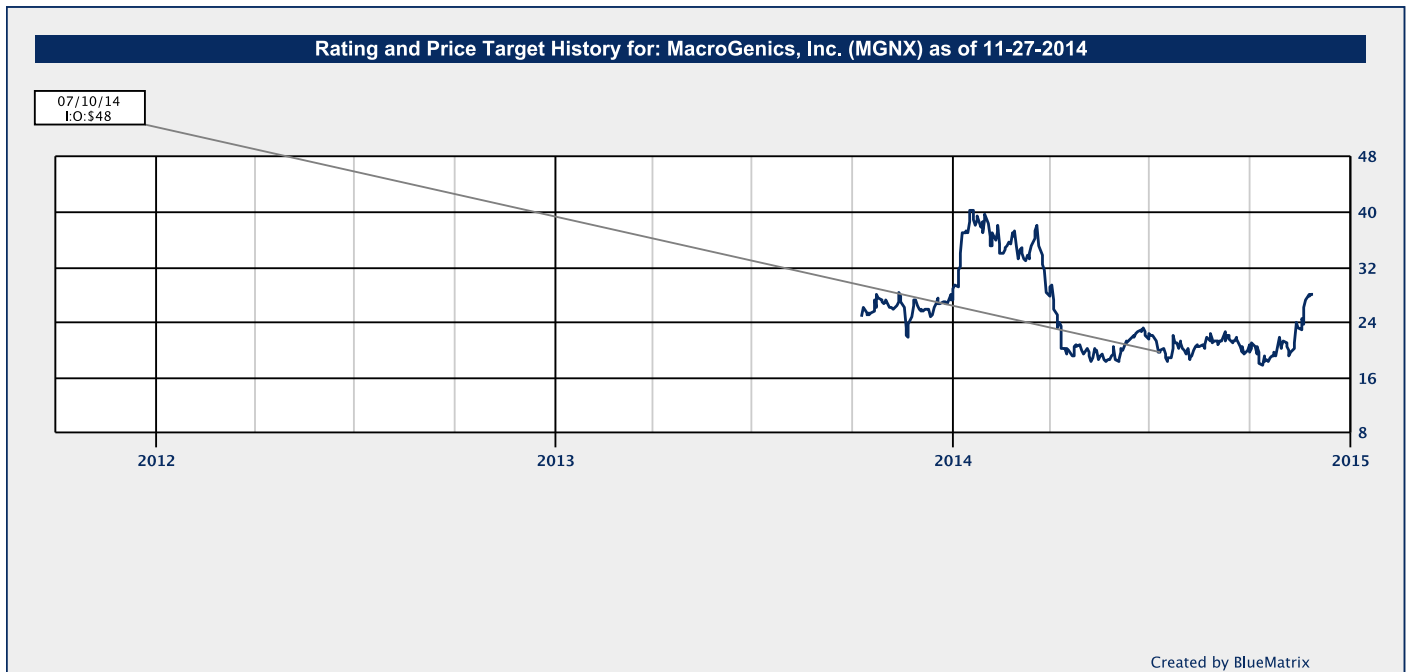
Celldex Therapeutics (CLDX - NASDAQ, \$20.54, OUTPERFORM)

Dyax Corp. (DYAX - NASDAQ, \$13.91, OUTPERFORM)

MacroGenics, Inc. (MGNX - NASDAQ, \$28.04, OUTPERFORM)







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Distribution of Ratings/IB Services Firmwide

Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	318	54.36	147	46.23
PERFORM [P]	260	44.44	97	37.31
UNDERPERFORM [U]	7	1.20	0	0.00

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