

Xencor (XNCR)

Q3 EPS; Bispecific Antibody Chosen; '7195 Early Results on Tap for January '15

- XNCR reported EPS of (\$0.20), a slightly larger loss than our estimate of (\$0.16) and consensus of (\$0.19) and a cash balance of \$61M, enough to fund R&D and operations through 2016.
- As expected, XNCR plans to report data for XmAb7195, for the Phase Ia clinical trial in healthy and allergic subjects in January 2015. Although most results will be related to IgE reductions in healthy volunteers, data from a small number of allergic patients could provide hints of efficacy. Preclinical data from May 2014 demonstrated that IgE reductions in chimpanzees were more rapid and sustained than animals administered Xolair, an FDA-approved IgE blocker. Management also reiterated plans to initiate a Phase 1b clinical trial of XmAb7195 in healthy volunteers and in patients with mild-to-moderate asthma in 2015.
- In addition, management confirmed they anticipate data for the Phase IIa trial of XmAb5871 in patients with moderate to severe rheumatoid arthritis (RA) to be released by the end of 2014. Although XNCR recently switched focus of XmAb5871 from RA to IgG4-related disease (IgG4-RD), these data will be an important proof of concept for '5871 in an autoimmune disease.
- Last week, XNCR released three abstracts for the American Society of Hematology (ASH) meeting detailing promising preclinical results for three of their bispecific programs, CD3 x CD123, CD3 x CD20 and CD3 x CD38. The data reported each program demonstrated activation of T cells that killed target cells from a single bolus dose in primates. Additional data on primate pharmacokinetics, efficacy and tolerability, will be presented at the meeting. We believe these data are particularly noteworthy given preclinical results of bispecific therapies in hematological malignancies tend to be more predictive of clinical benefit than other indications. XNCR selected a lead preclinical candidate, XmAb14045, an anti-CD123 x CD3 bispecific antibody, for IND-enabling studies and plans to begin clinical trials by mid-2016.
- Reiterate OUTPERFORM 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.

November 10, 2014

Price
\$11.22

Rating
OUTPERFORM

12-Month Price Target
\$18

David M. Nierengarten, Ph.D.
(415) 274-6862
david.nierengarten@wedbush.com

Heather Behanna, Ph.D.
(415) 274-6874
heather.behanna@wedbush.com

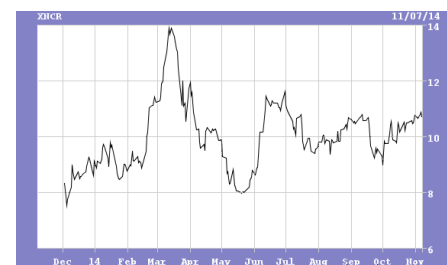
Dilip Joseph
(415) 273-7308
dilip.joseph@wedbush.com

Company Information

Shares Outst (M)	31.4
Market Cap (M)	\$303.3
52-Wk Range	\$5.75 - \$14.41
Book Value/sh	\$2.09
Cash/sh	\$1.94
Enterprise Value (M)	\$242.4
LT Debt/Cap %	0.0
Cash Burn (2014) (M)	\$21.3
Current Cash (M)	\$60.9

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		\$2.2A	1.0E		\$2.1E
Q2 Jun	-A	0.8A		\$0.8A	1.0E		\$2.1E
Q3 Sep	8.4A	0.8A	1.0A	\$1.2A	1.0E		\$2.1E
Q4 Dec	1.7A	\$1.0E		\$1.5E	1.0E		\$2.3E
Year*	\$10.2A	\$4.9E	\$5.0E	\$5.7E	\$4.0E		\$7.4E
Change	49%	--			--		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	-A	(\$0.12)A		(\$0.12)A	(\$0.20)E	(\$0.17)E	(\$0.16)E
Q2 Jun	-A	(\$0.16)A		(\$0.16)A	(\$0.20)E	(\$0.17)E	(\$0.16)E
Q3 Sep	(782.22)A	(\$0.20)A	(\$0.16)A	(\$0.19)A	(\$0.19)E	(\$0.16)E	(\$0.17)E
Q4 Dec	(0.17)A	(\$0.20)E	(\$0.16)E	(\$0.19)E	(\$0.19)E	(\$0.15)E	(\$0.15)E
Year*	(\$3.85)A	(\$0.68)E	(\$0.60)E	(\$0.66)E	(\$0.78)E	(\$0.64)E	(\$0.69)E
P/E	--	--			--		
Change	98%	--			--		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

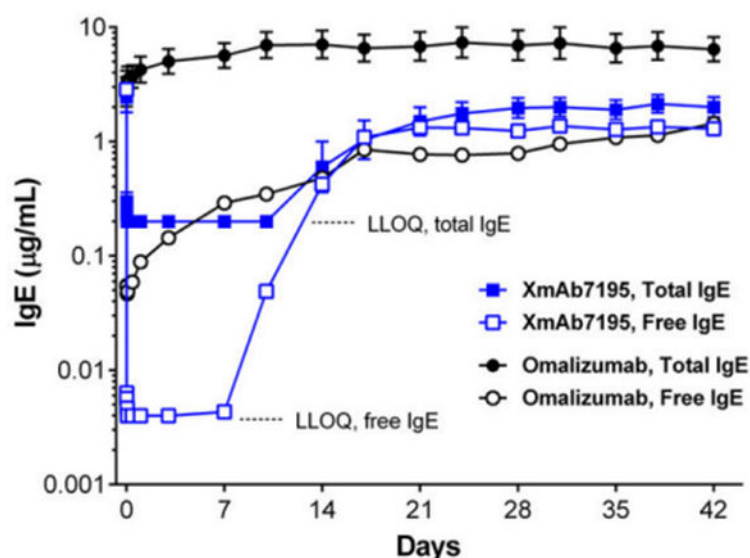
Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see page 4 of this report for analyst certification and important disclosure information.

- XNCR also reported that Alexion (ALXN, not covered) is advancing an undisclosed antibody utilizing the Xtend Fc Domain technology into a Phase I clinical trial, further validating XNCR's technology platform.
- Another oral and poster abstract released for the ASH meeting by XNCR's partner MorphoSys AG (MOR.DE, not covered) will present final results and the follow-up of a Phase I/IIa study of XmAb5574/MOR00208 in patients with relapsed or refractory (r/r) chronic lymphocytic leukemia (CLL) or small lymphocytic lymphoma (SLL). 8 patients (29.6%) achieved a PR and 16 patients (59.3%) achieved stable disease. Median progression free survival (PFS) for all patients was 199 days (95% CI: 168-299 days) and 420 days for the 8 patients on the extended treatment cohort. Toxicity was also modest with no maximum tolerated dose identified. MorphoSys AG will also present first clinical data on a Phase II study in patients with non-Hodgkin's Lymphoma at ASH.
- Risks to the attainment of our price target include 1) failure to reach sales expectations for XmAb7195, XmAb5574, XmAb5871 and 2) failure in the clinic of either XmAb7195, XmAb5574, XmAb5871.

Upcoming Milestones

Q4:14	Top-line data from the Phase IIa trial of XmAb5871 (CD19, immune inhibitor Fc) in rheumatoid arthritis
Dec 6-9, 2014	Full data from a Phase II trial of MOR208 in CLL/SLL at ASH
Dec 6-9, 2014	Interim data from a Phase II trial of MOR208 in NHL at ASH
Q4:14	Top-line data from the Phase II trial of XmAb5574/MOR208 (CD19, enhanced ADCC Fc) in ALL
Jan 15, 2015	Top-line data from the Phase Ia trial of XmAb7195 in healthy subjects including IgE reduction
Mid 2016	Initiation of clinical trial for bispecific candidate XmAb14045

Figure 1: Free & Total IgE in Chimpanzees after a Single 5 mg/kg IV Dose



Source: Moore, et al. "Accelerated Clearance of IgE in Chimpanzees is Mediated by XmAb7195, an Fc-Engineered Antibody with Enhanced Affinity for Inhibitory Receptor FcγRIIb".

Xencor Inc.

Annual Financial Results & Projections

(\$ in thousands except per share data)

Ticker: XNCR (Nasdaq)

	FY:13A	Q1:14A	Q2:14A	Q3:14A	Q4:14E	FY:14E	FY:15E	FY:16E	FY:17E	FY:18E	FY:19E	FY:20E
Revenue:												
Product sales	0	0	0	0	0	0	0	0	0	0	49,440	191,741
Royalty Revenues	0	0	0	0	0	0	0	0	0	0	7,500	20,000
Collaboration revenue*	10,172	2,184	824	848	1,000	4,856	4,000	4,000	4,000	10,000	10,000	10,000
Total Revenues	\$10,172	\$2,184	\$824	\$848	\$1,000	\$4,856	\$4,000	\$4,000	\$4,000	\$10,000	\$66,940	\$214,241
Cost and Expenses:												
Costs of goods sold	0	0	0	0	0	0	0	0	0	0	7,416	28,761
Research and Development	17,001	4,228	4,283	4,953	5,201	18,665	21,328	23,421	26,097	29,079	32,402	36,104
Sales, General and Administrative	3,691	1,723	1,594	2,182	2,204	7,703	8,926	9,106	9,705	10,344	11,025	69,473
Other	0	0	0	0	0	0	0	0	0	0	0	0
Total Costs and Expenses	\$20,692	\$5,951	\$5,877	\$7,135	\$7,404	\$26,367	\$30,254	\$32,527	\$35,802	\$39,423	\$50,843	\$134,338
Operating Income (loss)	(10,520)	(3,767)	(5,053)	(6,287)	(6,404)	(21,511)	(26,254)	(28,527)	(31,802)	(29,423)	16,097	79,903
Net Interest Income (Expense)	(1,206)	16	8	0	183	207	657	760	899	1,028	808	1,229
Other income / (Expense)	(48,532)	0	1	9	0	10	0	0	(88)	(159)	(132)	0
Income Before Income Taxes	(60,258)	(3,751)	(5,044)	(6,278)	(6,222)	(21,295)	(25,597)	(27,767)	(30,991)	(28,554)	16,774	81,131
Net Income	(\$60,258)	(\$3,751)	(\$5,044)	(\$6,278)	(\$6,222)	(\$21,295)	(\$25,597)	(\$27,767)	(\$30,991)	(\$28,554)	\$15,257	\$75,047
GAAP Net Income	(\$60,258)	(\$3,751)	(\$5,044)	(\$6,278)	(\$6,222)	(\$21,295)	(\$25,597)	(\$27,767)	(\$30,991)	(\$28,554)	\$15,257	\$75,047
GAAP Basic EPS with sFAS123	(3.85)	(0.12)	(0.16)	(0.20)	(0.20)	(0.68)	(0.78)	(0.80)	(0.83)	(0.75)	0.40	1.95
GAAP Diluted EPS with sFAS123	(3.85)	(0.12)	(0.16)	(0.20)	(0.20)	(0.68)	(0.78)	(0.80)	(0.83)	(0.75)	0.40	1.95
Weighted shares outstanding	15,646	31,361	31,373	31,396	31,421	31,361	32,983	34,583	37,308	38,283	38,383	38,483
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	38,483
Cash Burn	(60,258)	(3,751)	(5,044)	(6,278)	(6,222)	(21,295)	(25,597)	(27,767)	(30,991)	(28,554)	16,774	-
Cash Balance	77,975	72,536	66,218	60,923	53,701	53,701	73,528	45,761	96,189	67,679	80,949	151,228

*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., Heather Behanna, Ph.D., Dilip Joseph, 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.

Disclosure information regarding historical ratings and price targets is available at <http://www.wedbush.com/ResearchDisclosure/DisclosureQ314.pdf>

Investment Rating System:

Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of September 30, 2014)	Investment Banking Relationships (as of September 30, 2014)
Outperform: 54%	Outperform: 23%
Neutral: 43%	Neutral: 1%
Underperform: 3%	Underperform: 0%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Wedbush Equity Research Disclosures as of November 10, 2014

Company	Disclosure
Xencor	1,3,4,5

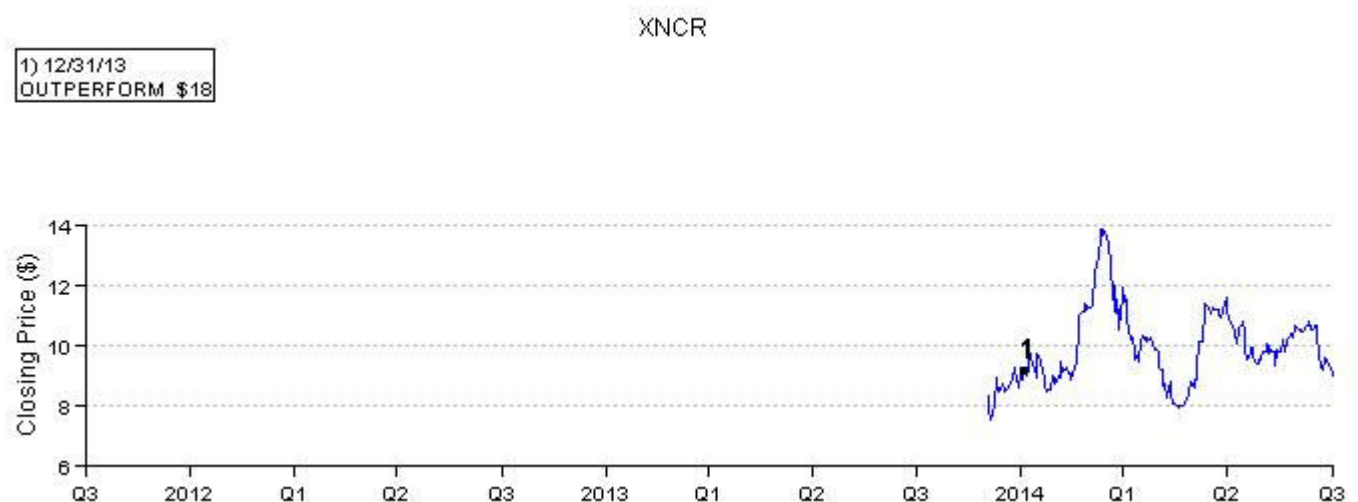
Research Disclosure Legend

1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
8. WS provided non-investment banking securities-related services within the past 12 months.
9. WS has received compensation for products and services other than investment banking services within the past 12 months.
10. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report has a long position in the common stocks.

11. WS or one of its affiliates beneficially own 1% or more of the common equity securities.
12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

Price Charts

Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmg/equities-division/research/equity-research> Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

OTHER DISCLOSURES

RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com

EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * **EQUITY SALES** Los Angeles (800) 444-8076

CORPORATE HEADQUARTERS (213) 688-8000

The information herein is based on sources that we consider reliable, but its accuracy is not guaranteed. The information contained herein is not a representation by this corporation, nor is any recommendation made herein based on any privileged information. This information is not intended to be nor should it be relied upon as a complete record or analysis; neither is it an offer nor a solicitation of an offer to sell or buy any security mentioned herein. This firm, Wedbush Securities, its officers, employees, and members of their families, or any one or more of them, and its discretionary and advisory accounts, may have a position in any security discussed herein or in related securities and may make, from time to time, purchases or sales thereof in the open market or otherwise. The information and expressions of opinion contained herein are subject to change without further notice. The herein mentioned securities may be sold to or bought from customers on a principal basis by this firm. Additional information with respect to the information contained herein may be obtained upon request.

WEDBUSH

EQUITY RESEARCH DEPARTMENT

(213) 688-4529

DIRECTOR OF RESEARCH

Mark D. Benson (213) 688-4435

MANAGER, RESEARCH OPERATIONS

Ellen Kang (213) 688-4529

RETAIL AND CONSUMER

Healthy Lifestyles

Kurt M. Frederick, CFA CPA (415) 274-6822
Alicia Reese (212) 938-9927

Restaurants

Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

Specialty Retail: Hardlines

Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Seth Basham, CFA (212) 938-9954

Specialty Retail: Softlines

Morry Brown (213) 688-4311
Taryn Kuida (213) 688-4505

RETAIL CHANNEL CHECKING GROUP

Lupine Skelly (505) 417-5427

INDUSTRIAL GROWTH TECHNOLOGY

Environmental Services / Building Products

Al Kaschalk (213) 688-4539

Water and Renewable Energy Solutions

David Rose, CFA (213) 688-4319
James Kim (213) 688-4380

TECHNOLOGY, INTERNET, MEDIA & SOCIAL MEDIA

Communications Equipment

Scott Thompson (212) 938-9933

Communications and Application Software

Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

Computer Services: Financial Technology

Gil B. Luria (213) 688-4501
Aaron Turner (213) 688-4429

Enterprise Software

Steve Koenig (415) 274-6801

Entertainment: Retail

Michael Pachter (213) 688-4474
Alicia Reese (212) 938-9927
Nick McKay (213) 688-4343

Entertainment: Software

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343

Internet: Media and Gaming

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Alicia Reese (212) 938-9927

Internet: Social Media, Advertising & Technology

Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

Media

James Dix, CFA (213) 688-4315

Movies and Entertainment

Michael Pachter (213) 688-4474
Alicia Reese (212) 938-9927
Nick McKay (213) 688-4343

Semiconductors

Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

LIFE SCIENCES AND HEALTH CARE

Biotechnology/Biopharmaceuticals/BioDefense

David M. Nierengarten, Ph.D. (415) 274-6862
Dilip Joseph (415) 273-7308

Heather Behanna, Ph.D. (415) 274-6874

Emerging Pharmaceuticals

Liana Moussatos, Ph.D. (415) 263-6626

Healthcare Services - Managed Care

Sarah James (213) 688-4503

Medical Devices

Tao Levy (212) 938-9948

Medical Diagnostics and Life Sciences Tools

Zarak Khurshid (415) 274-6823

EQUITY SALES

Los Angeles (213) 688-4470 / (800) 444-8076
San Francisco (415) 274-6800
New York (212) 938-9931
Boston (617) 832-3700
Minneapolis (213) 688-6671
Chicago (213) 688-4418

EQUITY TRADING

Los Angeles (213) 688-4470 / (800) 421-0178
San Francisco (415) 274-6811
New York (212) 344-2382
Boston (617) 832-3700
Milwaukee (213) 688-4475

CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465

Tel: (213) 688-8000 www.wedbush.com