

Xencor, Inc (XNCR)

SMALL & MID CAP RESEARCH

Progress Across All Programs

Clinical updates for XmAb7195 and XmAb5871 are on track for data in YE14/early 2015. XNCR's also announced its lead bispecific program for AML. Q3 earnings were relatively in line with expectations. Our 2014 EPS estimate modestly increases after our model updates following the Q3:14 earnings.

- **Focus shifts for XmAb5871:** The Phase IIa trial in moderate/ severe RA is still expected to read out by YE14. Since recently regaining full development rights to XmAb5871 from AMGN, XNCR is now focusing on the new indication of IgG4-RD, a rare autoimmune disease with no approved therapy.
- **XmAb14045 selected as lead bispecific:** XNCR selected anti-CD123XCD3 for AML as the lead bispecific and plans to bring it to the clinic within the next 18 months (mid-2016). Preclinical data at ASH indicates ability to activate T-cells, nearly complete depletion of CD123+ cells, and a half-life of ~1 week. Current investor interest in bispecifics and immuno-oncology, along with high unmet need in AML, could drive greater appreciation of XNCR's technology and near-term value.
- **Xtend technology enters clinic.** XNCR indicated that partner Alexion advanced an undisclosed Xtend (Fc domain that increases antibody half-life) molecule into the clinic. This is the third Fc platform to enter the clinic.
- **Upcoming catalysts:** We are expecting several early stage proof of concept readouts over the next year including (1) Phase IIa proof of concept data for XmAb5871 in RA by year-end 2014, (2) updated Phase II data for MOR208 in NHL and Phase 1/2a in r/r CLL at ASH in December, (3) XmAb7195 Phase I data in healthy volunteers in January 2015, and (4) start of first clinical study of XmAb5871 in IgG4-related disease in 2015.



Rating	OUTPERFORM* [V]
Price (10 Nov 14, US\$)	11.22
Target price (US\$)	14.00 ¹
52-week price range	13.90 - 7.55
Market cap. (US\$ m)	352.26
Enterprise value (US\$ m)	296.02

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts

Jason Kantor, PhD

415 249 7942

jason.kantor@credit-suisse.com

Jeremiah Shepard, PhD

415 249 7933

jeremiah.shepard@credit-suisse.com

Ravi Mehrotra PhD

212 325 3487

ravi.mehrotra@credit-suisse.com

Anuj Shah

212 325 6931

anuj.shah@credit-suisse.com

Koon Ching PhD

212 325 6286

koon.ching@credit-suisse.com

Anuj Shah

212 325 6931

anuj.shah@credit-suisse.com

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-3.85	-0.68	-0.68	-0.62
Prev. EPS (US\$)	—	-0.69	-0.65	—
P/E (x)	-2.9	-16.5	-16.6	-18.2
P/E rel. (%)	-17.0	-103.6	-116.0	-142.1
Revenue (US\$ m)	10.2	5.5	7.0	11.0
EBITDA (US\$ m)	-9.8	-21.2	-23.5	-26.3
OCFPS (US\$)	-0.24	-0.65	-0.45	-0.72
P/OCF (x)	-37.6	-17.2	-25.0	-15.5
EV/EBITDA (current)	-29.2	-13.5	-12.1	-10.9
Net debt (US\$ m)	-78	-56	-138	-107
ROIC (%)	236.83	872.33	290.05	10,395.64
Number of shares (m)	31.40	IC (current, US\$ m)		-4.44
BV/share (Next Qtr., US\$)	1.9	EV/IC (x)		-138.3
Net debt (Next Qtr., US\$ m)	-61.9	Dividend (current, US\$)		—
Net debt/tot cap (Next Qtr., %)	-103.5	Dividend yield (%)		—

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MOR208 – ASH abstracts

MOR208 is an anti-CD19 that kills cells through ADCC. Phase II data in NHL and CLL patients will be presented at ASH, and initial data was recently released in abstracts.

NHL

The abstract data presented responses for NHL patients (who had completed 1 prior Rituxan-based therapy and were not candidates for stem cell transplant). Stage 1 included 51 patients (presented in abstract). Stage II will be presented later.

Exhibit 1: Responses in NHL patients

Response	DLBCL	FL	MCL	fNHL
CR	2	0	0	0
PR	2	4	0	4
SD	1	3	6	3
PD	3	3	4	3
Unk	6	4	2	1
ORR (w/Unk)	29%	29%	0%	36%
ORR	50%	40%	0%	40%

Source: Company data, Credit Suisse estimates

CLL

Responses for 27 r/r CLL patients were presented in the ASH abstracts. The number of PRs varied from 8 to 18 depending on the methodology for determining response.

Exhibit 2: Responses in r/r CLL patients

# of pts	27
11Q22.3	8
del17p	10
Median prior Tx	4

Response by physical exam/ lab studies		
PR	18	67%
SD	9	33%

Response by IWCC		
PR	8	30%
SD	16	59%
PD	2	7%

At maximum dose		
PR (phys exam)	12	75%
PR (IWCC)	6	38%

Source: Company data, Credit Suisse estimates

Exhibit 3: Q3 Variance Table

Income Statement	3Q:14 Act.	CS 3Q:14	
		Est	Delta
Revenues	\$ -	\$ -	\$ -
Royalties on XmAb5871	\$ -	\$ -	
Partnering, grants, milestones	\$ 0.8	\$ 0.8	\$ 0.0
Total Revenues	\$ 0.8	\$ 0.8	\$ 0.0
Expenses	\$ -	\$ -	\$ -
Research and development	\$ 5.0	\$ 5.6	\$ (0.7)
Sales, general, administrative	\$ 2.2	\$ 1.8	\$ 0.4
Total Operating Expenses	\$ 7.1	\$ 7.4	\$ (0.3)
Operating income (loss)	\$ (6.3)	\$ (6.6)	\$ 0.3
Total Other Income (Expense)	\$ 0.0	\$ -	\$ 0.0
Pre Tax Income	\$ (6.3)	\$ (6.6)	\$ 0.3
Income tax	\$ -	\$ -	\$ -
Net Income	\$ (6.3)	\$ (6.6)	\$ 0.3
EPS - basic (proforma)	(\$0.20)	(\$0.21)	\$0.01
EPS - diluted (proforma)	(\$0.20)	(\$0.21)	\$0.01
Shares outstanding - basic (proforma)	31.40	31.99	-0.60
Shares outstanding - diluted (proforma)	31.40	33.25	-1.86

Source: Company data, Credit Suisse estimates

Exhibit 4: XNCR Newsflow

Product/Event	Indication	Catalyst	Expected Date
XmAb5871	RA	Phase IIa results	YE:14
MOR208	ALL	Complete enrollment in ALL cohort	Q4:14
MOR208	NHL, r/r CLL	Phase II data at ASH	Dec. 2014
Bispecifics	Multiple	Presentation of preclinical data at ASH	Dec. 2014
XmAb7195	Asthma	Phase Ia data in patients with asthma and allergic disease (includes high IgE cohort)	Jan. 2015
XmAb7195	Asthma	Phase Ib start	Q1:15
XmAb5871	IgG4- related disease	Start first clinical study	2015
XmAb7195	Asthma	Start Phase II in poorly controlled	late 15/ early 16
MOR208	CLL	IST to complete enrollment of CLL study	H2:15
XmAb14045	AML	Phase I start	mid-2016

Source: Company data, Credit Suisse estimates

Exhibit 5: XNCR Pipeline

Drug	Target	Technology	Indication	Stage	Partner
XmAb5574/MOR208	CD19	High ADCC	CLL, NHL, ALL	Phase II	Morphosys
XmAb5871	CD19	Immune inhibitory	Autoimmune/ IgG4RD	Phase I/II	Proprietary
XmAb7195	IgE	Immune inhibitory	Asthma/Allergy	Phase I	Proprietary
BI 836826	CD37	High ADCC	CLL, NHL	Phase I	Boehringer Ingelheim
BI 836858	CD33	High ADCC	AML	Phase I	Boehringer Ingelheim
CSL362	CD123 (IL3R)	High ADCC	AML	Phase I	CSL/Janssen
ND	ND	Stability	Autoimmune	Phase I	Merck
ND	ND	Long half-life	Undisclosed	Phase I	Alexion
Xtend-TNF	TNF	Long half-life	Autoimmune	Preclinical	Proprietary
XmAb14045	CD123	Bispecific	AML	Preclinical	Proprietary
CD3 X CD38	CD38	Bispecific	Oncology	Preclinical	Proprietary
CD3 X CD20	CD20	Bispecific	Lymphoma	Preclinical	Proprietary
Xtend-CTLA4	CTLA4	Long half-life	Autoimmune	Preclinical	Proprietary
Anti-X/ CD32b	ND	Immune inhibitory	TBD	Discovery Lead	Proprietary
ND	ND	Long half-life	Hematology	Preclinical	CSL
ND	ND	Long half-life	Autoimmune	Preclinical	Janssen

Source: Company data, Credit Suisse estimates

Exhibit 6: XNCR Model

	2012A	2013A	Q1:14A	Q2:14A	Q3:14A	Q4:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues													
US sales of XmAb7195													
Ex-US royalties on XmAb7195													
Royalties on XmAb5871													
Partnering, grants, milestones	9.5	10.2	2.2	0.8	0.8	1.6	5.5	7.0	11.0	26.1	15.0	20.0	20.0
Total Revenues	9.5	10.2	2.2	0.8	0.8	1.6	5.5	7.0	11.0	26.1	15.0	20.0	20.0
Expenses													
Cost of goods													
Research and development	12.7	17.0	4.2	4.3	5.0	6.3	19.8	22.6	28.5	31.4	39.3	40.6	42.0
Sales, general, administrative	3.1	3.7	1.7	1.6	2.2	1.9	7.3	7.9	8.7	9.9	14.3	14.6	19.0
Total Operating Expenses	15.8	20.7	6.0	5.9	7.1	8.2	27.1	30.5	37.2	41.3	53.6	55.2	61.0
Operating income (loss)	(6.2)	(10.5)	(3.8)	(5.1)	(6.3)	(6.6)	(21.7)	(23.5)	(26.3)	(15.2)	(38.6)	(35.2)	(41.0)
Total Other Income (Expense)	(2.4)	(49.7)	0.0	0.0	0.0		0.0						
Pre Tax Income	(8.6)	(60.3)	(3.8)	(5.0)	(6.3)	(6.6)	(21.6)	(23.5)	(26.3)	(15.2)	(38.6)	(35.2)	(41.0)
Income tax													
Net Income	(8.6)	(60.3)	(3.8)	(5.0)	(6.3)	(6.6)	(21.6)	(23.5)	(26.3)	(15.2)	(38.6)	(35.2)	(41.0)
EPS - diluted (proforma)	(\$38.31)	(\$3.85)	(\$0.12)	(\$0.16)	(\$0.20)	(\$0.20)	(\$0.68)	(\$0.68)	(\$0.62)	(\$0.33)	(\$0.77)	(\$0.58)	(\$0.65)
Shares outstanding - basic (proforma)	0.22	15.65	31.36	31.37	31.40	32.31	31.83	34.88	42.70	46.21	49.98	60.48	63.50
Shares outstanding - diluted (proforma)	0.22	15.65	31.36	31.37	31.40	33.60	33.08	36.23	44.16	47.80	51.69	62.27	65.39

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 10-Nov-2014)

Xencor, Inc (XNCR.OQ, \$11.22, OUTPERFORM[V], TP \$14.0)

Disclosure Appendix

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3-Year Price and Rating History for Xencor, Inc (XNCR.OQ)

XNCR.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
03-Dec-13	8.34		R
03-Jan-14	9.15	14.00	O *

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Xencor, Inc (XNCR.OQ)

Method: Our \$14 target for XNCR is derived using a probability-adjusted DCF (discounted cash flow), including \$9 for XmaB7195 (40% POS), \$3 for XmaB5871 (25% POS), and \$1 each for MOR208 and the technology licensees. We use a 12% discount rate and model through the products' entire lifecycle.

Risk: Risks to our \$14 target price for Xencor, Inc include: 1) unexpected negative result for proprietary or partnered clinical programs, 2) financing risk from expected future equity raises, 3) competition in the CD19 and asthma programs, and 4) significant delay in one or more clinical programs that pushes potential approval timeline(s) out.

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