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OUTPERFORM

Reason for report:

FLASH NOTE

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XENCOR, INC.

Rich Newsflow Ahead for XNCR in Coming Months

• **Bottom Line:** We caught up with XNCR management on Friday (10/24), after hosting investor meetings for the company last week. Based on our discussion with mgmt, we believe the next three months will be important for XNCR, since all three of its key programs will have data presentations between ASH (Dec. 6-9, abstracts Nov. 6) and January 2015. At ASH, XNCR partner Morphosys (MOR) will present Phase II clinical data on MOR208 (anti-CD19) in non-Hodgkin's lymphoma (NHL). Before year-end, XNCR will release Phase IIa proof-of-concept data for XmAb5871 in Rheumatoid Arthritis (RA; partnered with AMGN); and in January 2015, XNCR will release Phase I data for XmAb7195, which is potentially superior to Xolair (RHHBY) in inhibiting IgE for treatment of allergic diseases. In addition, preclinical non-human primate (NHP) data will be presented at ASH from XNCR's bispecific antibody platform, which could form the basis of future partnerships. We believe XNCR shares are currently valued attractively, given the potential magnitude of opportunities addressed; upcoming data readouts could serve as early clinical validation for XNCR's pipeline. **Reiterate OP.**

Key Stats:	**(NASDAQ:XNCR)**
S&P 600 Health Care Index:	**1,336.04**
Price:	**$10.50**
52 Week High:	$14.41
52 Week Low:	$5.75
Shares Outstanding (mil):	31.4
Market Capitalization (mil):	$329.7

• **First MOR208 (anti-CD19) Phase II NHL data expected at ASH.** The Phase II trial is enrolling up to 120 patients with four different subtypes of NHL, including follicular lymphoma (FL), mantle cell lymphoma (MCL), diffuse large B-cell lymphoma (DLBCL) and other indolent NHL types. Several investigational CD19-targeting agents including bispecific antibodies (AMGN, AFMD), CAR-T cell therapy (KITE, NVS, ALCLS/PFE), and antibody-drug conjugates (IMGN/SNY, SGEN) are currently in development. We believe MOR208 holds the promise to potentially represent the safest and best-tolerated CD19-targeting option, if sufficiently high anti-cancer activity is being achieved. MOR208 may also be easily combineable with other drugs. Recall, MOR208 is a "naked" antibody targeting CD19, which contains XNCR's cytotoxic Fc-domain, which has been outlicensed to MorphoSys (MOR), which is currently conducting Phase II trials in ALL (data in 2015) and NHL. An investigator-sponsored study in CLL (Revlimid combination) is ongoing as well. XNCR has the right to receive an additional $299M in milestone payments plus high-single-digit to low-teen percentage tiered royalties on potential sales.

• **NHP data on XNCR's bispecific antibody program at ASH could position the company for a potential partnership in 2015, in our view.** Recall, XNCR currently has three preclinical bispecific antibodies in development, targeting CD38 x CD3 for multiple myeloma (1) CD123 x CD3 for acute myeloid leukemia (AML) (2), and CD20 x CD3 for B-cell cancers (3). Data at ASH will be primate pharmacology from a single dose for each molecule. XNCR will announce one lead program before year-end. Recall, XNCR's bispecific antibodies are based on its heterodimeric Fc domain, which hold the promise to maintain full-length antibody properties in a bispecific antibody. Other players in this space include AMGN (MP), MGNX (OP), AFMD (OP), and REGN (OP).

• **Top-line Phase IIa data in December for XmAb5871 in Rheumatoid Arthritis (RA; partnered with AMGN) could validate new autoimmune mechanism.** The Phase IIa study includes 30 patients with active

RA on methotrexate (MTX). Each patient will be administered 10mg/kg XmAb5871 or placebo every 14 days for a total of six doses. The trial will assess response as measured by changes in Disease Activity Score 28 using C-reactive protein (DAS28 CRP) at Week 13 and ACR scores. We would view evidence of anti-RA activity positively. Recall, XmAb5871 is a unique B-Cell inhibitor that simultaneously targets the B-cell proteins CD19 and FcgRIIb. XmAb5871 Phase Ia data showed immunosuppression with only transient B-cell reduction, and Phase IIa RA disease activity data should provide further proof-of-concept for XmAb5871 and its novel mechanism. We believe XmAb5871 could potentially be developed for a wide range of autoimmune diseases, including RA, lupus, or Sjögren syndrome among others. Positive Phase IIa data, in our view, also increases the likelihood of partner AMGN to license the product following a larger controlled Phase IIb trial. Recall, as part of the AMGN deal, XNCR has the right to receive a $50M option exercise fee and up to $439M milestones plus tiered royalties in the high-single-digit to high-teen percent range. MGNX has a similar molecule that is partnered with Takeda currently in preclinical studies.

• **XmAb7195 (anti-IgE) Phase I data expected in January.** The first look in healthy humans (part 1 of the trial) will include safety/tolerability, as well as free and total IgE level measurements. Recall, the Phase I study is being conducted in two parts, with part 1 being a single ascending dose study (multiple cohorts, robust subject numbers), and part 2 consisting of a multi-ascending dose study including subjects with high IgE levels, which will be completed in 2015. While the competitive landscape for asthma is evolving with the development of agents targeting IL-5, IL-4, and IL-13, we believe IgE blockade remains a valid treatment paradigm in asthma. Recent feedback from MEDACorp key opinion leaders confirms our belief that XmAb7195 will have a place in treatment of allergen-induced asthma symptoms and other indications where IgE plays a role such as for example urticaria or ectopic dermatitis. We believe XmAb7195 addresses a validated target, and preclinical data has been promising thus far. Similar to Xolair, XmAb7195 is an anti-IgE mAb, but in contrast to Xolair it uses XNCR's proprietary immune-inhibitor Fc domain, which makes it a more potent inhibitor of IgE.

Disclosures Appendix

Analyst Certification

I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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Rating	Count	Percent	Count	Percent
BUY [OP]	138	69.30	51	37.00
HOLD [MP]	61	30.70	2	3.30
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months.The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

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