

Xencor, Inc (XNCR)

SMALL & MID CAP RESEARCH



Rating	OUTPERFORM* [V]
Price (19 Mar 14, US\$)	13.13
Target price (US\$)	14.00 ¹
52-week price range	13.90 - 7.55
Market cap. (US\$ m)	411.39
Enterprise value (US\$ m)	363.71

*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).

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Q4 Earnings - All Programs On Track

- **Q4:13 earnings were in line with our expectations.** Revenue was \$1.7M as forecast, and expenses were slightly lower at \$5.5M vs. our forecast of \$6.2M.
- **Clinical programs remain on track.** XNCR expects first clinical data in its anti-IgE asthma program (XmAb7195) by year-end 2014. The results will be from healthy volunteers but could provide biologic proof of activity. XNCR also expects initial clinical data from a Phase IIa trial of its anti-CD19 arthritis program (XmAb5871) by year-end 2014. The timing for both programs is consistent with previous expectations.
- **Strong financial position.** XNCR ended 2013 with \$78M and expects to end 2014 with \$55M. The current cash position is projected to cover expenses through 2016. Importantly, the cash burn forecasts exclude substantial potential milestones and/or potential new collaboration revenue. We continue to view XNCR as a leader in antibody engineering and particularly Fc engineering.
- **No change to forward estimates.**

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-3.85	-0.65	-0.64	-0.61
Prev. EPS (US\$)	—	—	—	—
P/E (x)	-3.4	-20.3	-20.4	-21.5
P/E rel. (%)	-20.3	-130.5	-145.7	-171.3
Revenue (US\$ m)	10.2	4.6	7.0	11.0
EBITDA (US\$ m)	-10.1	-20.8	-22.7	-26.3
OCFPS (US\$)	-0.35	-0.65	-0.47	-0.78
P/OCF (x)	-26.2	-20.2	-27.7	-16.8
EV/EBITDA (current)	-34.1	-16.5	-15.1	-13.1
Net debt (US\$ m)	-68	-48	-123	-97
ROIC (%)	-201.46	-395.09	-430.38	-497.02
Number of shares (m)	31.33	IC (current, US\$ m)		5.22
BV/share (Next Qtr., US\$)	2.2	EV/IC (x)		66.2
Net debt (Next Qtr., US\$ m)	-63.5	Dividend (current, US\$)		—
Net debt/tot cap (Next Qtr., %)	-92.3	Dividend yield (%)		—

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Exhibit 1: XNCR News Flow

Product/Event	Indication	Catalyst	Expected Date	Price Sensitivity
TBD	N/A	Announce proprietary program to move forward	H1:14	Low
XmAb7195	asthma	Phase I initiation	Q2:14	Low
XmAb5871	RA	Phase IIa activity data	YE:14	High
XmAb7195	asthma	Phase Ia data in healthy volunteers (includes high IgE cohort)	Late Q4:14/ Early Q1:15	High
TBD	N/A	IND for proprietary program	2015	Low
XmAb5871	RA	Start Phase IIb (150-250 pts)	Q1:15	Low
XmAb7195	asthma	Phase Ib start	Q1:15	Low
XmAb7195	asthma	Start Phase II in poorly	late 15/ early 16	Low
XmAb5871	RA	Phase IIb data/ AMGN option	late 16/ early 17	High

Source: Company data, Credit Suisse estimates

Exhibit 2: XNCR Pipeline

Drug	Target	Technology	Indication	Stage	Partner
XmAb5574/MOR208	CD19	High ADCC	CLL, NHL, ALL	Phase II	Morphosys
XmAb5871	CD19	Immune inhibitory	Autoimmune	Phase I/II	AMGN has option
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
Xtend-TNF	TNF	Long half-life	Autoimmune	Preclinical	Proprietary
CD3 X CD38	CD38	Bispecific	Oncology	Preclinical	Proprietary
CD3 X CD123	CD123	Bispecific	Oncology	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
ND	ND	Stability	Autoimmune	Preclinical	Merck
ND	ND	Long half-life	Undisclosed	Discovery Lead	Alexion

Source: Company data, Credit Suisse estimates

Exhibit 3: XNCR Model

	2012A	2013A	Q1:14E	Q2:14E	Q3:14E	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	1.3	0.8	0.8	1.6	4.6	7.0	11.0	26.1	15.0	20.0	20.0
Total Revenues	9.5	10.2	1.3	0.8	0.8	1.6	4.6	7.0	11.0	26.1	15.0	20.0	20.0
Expenses													
Cost of goods													
Research and development	12.7	17.0	4.5	4.5	4.7	4.7	18.4	21.7	28.5	31.4	39.3	40.6	42.0
Sales, general, administrative	3.1	3.7	1.7	1.8	1.8	1.9	7.1	7.9	8.7	9.9	14.3	14.6	19.0
Total Operating Expenses	15.8	20.7	6.2	6.2	6.5	6.6	25.5	29.6	37.2	41.3	53.6	55.2	61.0
Operating income (loss)	(6.2)	(10.5)	(4.9)	(5.4)	(5.6)	(5.0)	(20.8)	(22.7)	(26.3)	(15.2)	(38.6)	(35.2)	(41.0)
Total Other Income (Expense)	(2.4)	(49.7)											
Pre Tax Income	(8.6)	(60.3)	(4.9)	(5.4)	(5.6)	(5.0)	(20.8)	(22.7)	(26.3)	(15.2)	(38.6)	(35.2)	(41.0)
Income tax													
Net Income	(8.6)	(60.3)	(4.9)	(5.4)	(5.6)	(5.0)	(20.8)	(22.7)	(26.3)	(15.2)	(38.6)	(35.2)	(41.0)
 EPS - diluted (proforma)	 (38.31)	 (3.85)	 (\$0.15)	 (\$0.17)	 (\$0.17)	 (\$0.15)	 (\$0.65)	 (\$0.64)	 (\$0.61)	 (\$0.33)	 (\$0.77)	 (\$0.58)	 (\$0.64)
Shares outstanding - basic (proforma)	0.22	15.65	31.65	31.96	32.28	32.60	32.12	35.18	43.02	46.56	50.35	60.87	63.91
Shares outstanding - diluted (proforma)	0.22	15.65	32.95	33.29	33.64	33.99	33.47	36.63	44.59	48.26	52.19	62.80	65.94

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 19-Mar-2014)

Xencor, Inc (XNCR.OQ, \$13.13, OUTPERFORM[V], TP \$14.0)

Disclosure Appendix

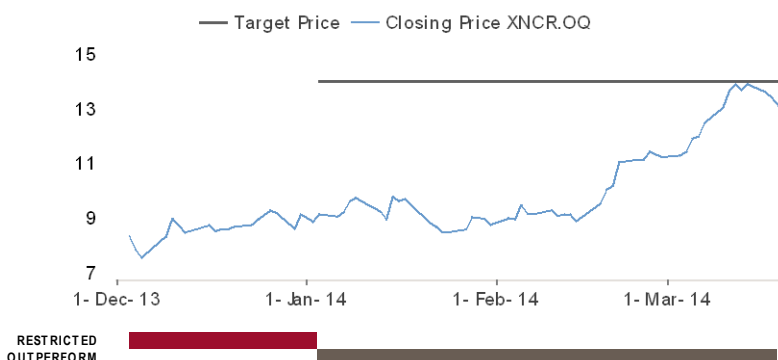
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3-Year Price and Rating History for Xencor, Inc (XNCR.OQ)

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, 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 TP 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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