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## **Xencor (XNCR - OUTPERFORM): Transitioning Coverage, Phase I Trial of XmAb7195 Begins, Reiterate OUTPERFORM**

**Price: \$8.44**

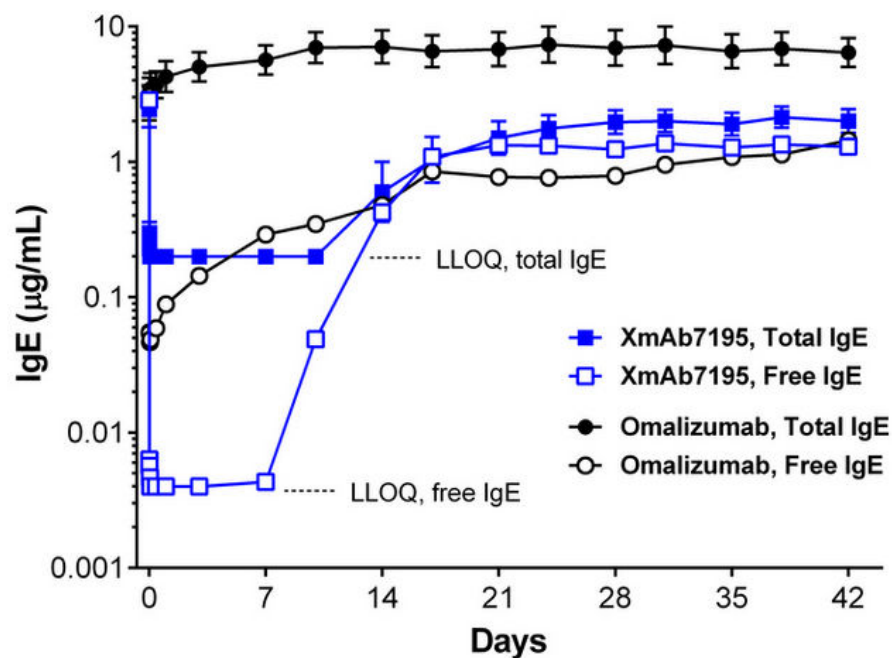
**12-Month Price Target: \$18**

- **XNCR reported that the first patient has been dosed in a Phase I trial of XmAb7195, the company's antibody with modified Fc domain targeting Immunoglobulin E (IgE) and FcγRIIb (CD32b) for the treatment of allergic asthma and other atopic diseases.** The trial will recruit 64 patients, including both healthy and allergic patients with elevated IgE levels, and evaluate the safety, PK and immunogenicity of a single-ascending dose of XmAb7195. Data is expected before YE:14 and will include the effect of '7195 on immune cell biomarkers and free and total IgE levels, a marker of activity and potential clinical benefit.
- **We believe XmAb7195 is likely to be safe and have anti-IgE activity given that the component Fc domain module is currently in Phase II trials with XmAb5871 and the CDR region of the FV domain has been validated in the case of Xolair (the only FDA-approved antibody for severe asthma).** The Fc modifications impart novel mechanisms of action to XmAb7195 resulting in superior clearance and reduction of IgE levels compared to Xolair and high-affinity anti-IgE candidates in the clinic.
- **Data from a chimpanzee study presented at the American Thoracic Society meeting last week confirmed the superior anti-IgE activity of XmAb7195, with animals administered '7195 having a more rapid and sustained reduction in IgE levels compared to animals administered Xolair.** Immediately after administration XmAb7195 reduced free IgE levels to below 4 ng/mL, the lower limit of quantification (LLOQ), until day 10. Total IgE was also reduced to LLOQ within one hour following treatment (see Fig. 1).
- **We believe XmAb7195 is likely to be a best-in-class drug for IgE-related diseases and may replace and expand the \$1.3B annual Xolair market in poorly controlled or ineligible patients.** We believe the Street has overestimated the risk in this candidate and we expect Phase I data in Q4:14 to represent a significant derisking event for this compound.
- **Transitioning coverage, reiterate OUTPERFORM rating 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 to YE:14.

Risks to the attainment of our price target include 1) failure to reach sales expectations for XmAb7195, XmAb5574, XmAb5871 2) failure in the clinic of either XmAb7195, XmAb5574, XmAb5871, 3) changes or discontinuation of Xencor's partnerships for XmAb5574, XmAb5871 or other partnered programs.

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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".

#### Upcoming Milestones

Mid-2014	Initiation of IND-enabling studies for a bispecific candidate
H2:14	Top-line data from the Phase II trial of XmAb5574/MOR208 (CD19, enhanced ADCC Fc) in ALL
H2:14	Top-line data from the Phase IIa trial of XmAb5871 (CD19, immune inhibitor Fc) in rheumatoid arthritis
Dec 6-9, 2014	Potential full data from a Phase II trial of MOR208 in ALL at ASH
Dec 6-9, 2014	Potential interim data from a Phase II trial of MOR208 in NHL at ASH
YE:14	Top-line data from the Phase Ia trial of XmAb7195 in healthy subjects including IgE reduction

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Company	Disclosure
Xencor	1,3,5,7

### Research Disclosure Legend

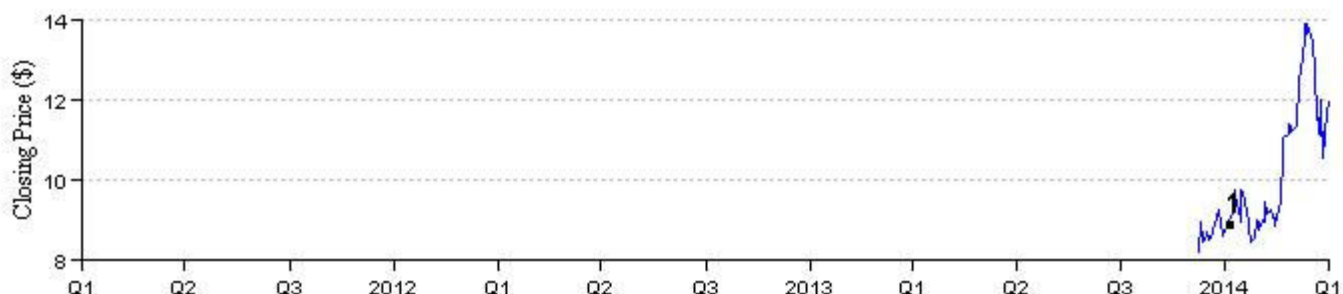
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XNCR

1) 12/31/13  
OUTPERFORM \$18



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