July 31, 2014

OUTPERFORM

Reason for report:

EARNINGS

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LEERINK

XENCOR, INC.

2Q14 Recap - Development Programs on Track

• **Bottom Line:** XmAb5871 (anti-CD19, autoimmune disease) and XmAb7195 (anti-IgE, allergic asthma) clinical programs on track with data expected from both later this year. XNCR is also on track to select one lead bispecific antibody for IND-enabling development. MOR208 clinical data presentation in Non-Hodgkin's Lymphoma (NHL) is now expected later this year at the American Society of Hematology (ASH,12/6-9) which is earlier than previously anticipated. XNCR maintained YE14 cash guidance of ~$54M and reported a loss per share of $0.16 vs. our estimate of $0.22 loss per share and consensus loss estimate of $0.19. Adjusting estimates to reflect 2Q results. **Reiterate OP and $17 PT**.

• **Pipeline programs on track for data in 2H14.** XNCR continues to expect preliminary XmAb7195 Phase Ia data by YE14. Management stated that data on pharmacokinetic (PK) and LgE lowering effects should be available from the healthy volunteer group at least, which should translate into more than 30 patients. XmAb5871 remains on track to report top-line data from the Phase II trial of XmAb5871 in patients with moderate to severe rheumatoid arthritis (RA) in 2H14.

• **XNCR is on track to select one lead bispecific antibody for IND-enabling development.** XNCR is currently evaluating 3 bispecific antibody candidates: 1) CD3xCD38 for multiple myeloma 2) CD3xCD123 for acute myeloid leukemia (AML) 3) CD3xCD20 for B-cell cancers. The decision on which candidate to pursue will depend on multiple factors, including the competitive landscape and whether the candidate can differentiate itself on manufacturing simplicity, dosing, and duration of action.

• **Revised MOR208 timeline a positive for XNCR.** MorphoSys indicated in its 2Q14 earnings commentary that it will be presenting the first clinical data on MOR208 from the NHL trial later this year (likely at ASH), which is earlier than we had previously anticipated (4Q15).

• **XNCR maintained YE14 cash guidance of ~$54M. XNCR expects to have sufficient cash to fund the company through 2016.** XNCR reported a loss per share of $0.16 (vs. our estimate of $0.22 loss and consensus estimate of $0.19 loss). XNCR reported revenue of $0.8M (vs. our estimate of $1.3M and consensus of $1.4M). XNCR reported lower-than-estimated expenses with R&D expenses of $4.3M (vs. our estimate of $6.2M and consensus of $5.6M) and SG&A expenses of $1.6M (vs. our estimate of $1.8M and consensus of $1.8M). Increased spending in the bispecific program offsets a reduction in spending in the XmAb5871 program. XNCR reported a net loss of $5M (vs. $6.8M our estimate and $5.8M consensus).

Key Stats:	**(NASDAQ:XNCR)**
S&P 600 Health Care Index:	**1,276.14**
Price:	**$9.66**
Price Target:	$17.00
Methodology:	Sum-of-the-parts discounted sales multiple
52 Week High:	$14.41
52 Week Low:	$5.75
Shares Outstanding (mil):	31.4
Market Capitalization (mil):	$303.3
Cash Per Share:	$2.31
Dividend (ann):	$0.00
Dividend Yield:	0.0%

Shares Outstanding (mil): Total accounts for IPO, which closed 12.06.13.

Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	PE
2013A	--	--	$8.4	$1.7	$10.2	--	--	($4.10)	($0.12)	($3.85)	NM
2014E - New	**$2.2A**	**$0.8A**	**$1.3**	**$1.3**	**$5.5**	**($0.12)A**	**($0.16)A**	**($0.24)**	**($0.25)**	**($0.77)**	**NM**
2014E - Old	$2.2A	$1.3	$1.3	$1.3	$5.9	($0.12)A	($0.22)	($0.24)	($0.25)	($0.83)	NM
2015E	--	--	--	--	$10.0	--	--	--	--	($0.89)	NM

Source: Company Information and Leerink Partners LLC Research
Revenues in MM.
Diluted GAAP EPS; 3Q13 represents 1Q-3Q13, pre-IPO; quarterly EPS may not sum to annual total due to change in shares out.

Please refer to pages 7 - 10 for Important Disclosures, Price Charts and Analyst Certification.

INVESTMENT THESIS

We rate XNCR Outperform. XNCR has used its proprietary “XmAb” platform to develop an antibody pipeline focused on asthma, autoimmune diseases and cancer and also to generate incremental near-term revenue and long-term upside in form of technology licenses and partnerships. We believe XNCR’s key value drivers are its two proprietary lead product candidates XmAb7195 and XmAb5871, both addressing large market opportunities in allergic asthma and autoimmune diseases, respectively. Both programs have clinical catalysts approaching in 2H14 that could serve as early clinical validation for those agents, thus driving XNCR shares higher. In addition to that, we believe advances by XNCR’s partners and licensees could provide additional incremental cash flows while new licenses could further validate XNCR’s Fc-platform as a value driver.

Phase I IgE data in 2H14 could provide early validation for XmAb7195 as potential “biosuperior” of Xolair (Roche) for allergic asthma. We believe XmAb7195 addresses a validated target, and preclinical data have 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. We believe XmAb7195 could potentially be more efficacious in patients eligible for Xolair and potentially efficacious in 20% of patients who are currently ineligible for Xolair therapy due to body weight/IgE level limitations. We believe XmAb7195 could potentially address a patient population that is 20% larger than that of Xolair, which generated $1.3Bn in global sales in 2012.

XmAb5871 is a unique B-Cell inhibitor with first Phase IIa rheumatoid arthritis (RA) data in 2H14. XmAb5871 simultaneously targets the B-cell proteins CD19 and FcgRIIb -- which could have potential advantages over rituximab (anti-CD20), which has only limited utility in treating autoimmune diseases. XmAb5871 Phase Ia data show immunosuppression with only transient B-cell reduction and Phase IIa disease activity data in RA in 2H14 should provide further proof-of-concept for XmAb5871. 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 2H14, in our view, also increase the likelihood of partner AMGN to license the product following a larger controlled Phase IIb trial.

MOR208 is an antibody targeting CD19 -- which contains XNCR’s high antibody-dependent cell cytotoxicity (ADCC) Fc domain -- outlicensed to MorphoSys (MOR), which is currently conducting two Phase II trials in acute lymphoblastic leukemia (ALL) and Non Hodgkin’s Lymphoma (NHL). An investigator-sponsored study in chronic lymphocytic leukemia (CLL) is ongoing, and data from all three studies potentially in 2015 could validate MOR208’s activity.

VALUATION

We estimate a $17 per share price target in 12 months for XNCR based on a discounted sales multiple analysis. We apply a 12% discount rate to probability of success-weighted 2025E XmAb7195 (20%), XmAb5871 (20%), MOR208 (30%), CD3XCD38 (15%), and CD3XCD123 (15%) derived revenues. Our probability of success rates are higher than the industry average of 9% for Phase I stage therapeutics, given our higher conviction of the respective programs’ success rates. We apply a 6X multiple to XmAb7195 sales, reflecting current trailing Midcap ($1-$10Bn) biotech industry average and a 10X multiple to royalty streams for XmAb 5871, MOR208, CD3XCD38, and CD3XCD123. We also value XNCR’s XmAb platform at $150MM. Based on our sum-of-parts analysis, we attribute ~$4/share to XmAb7195, ~$3/share to XmAb 5871, ~$2/share to MOR208, ~$2/share to the bispecific antibodies. We also attribute ~$5/share to the XmAb platform and ~$2/share to expected cash in 12 months.

RISKS TO VALUATION

Early stage developmental pipeline agents face high clinical and regulatory development risk, as well as commercial and competitive risks. As small-cap biotech company, XNCR also faces execution risk and financial risk. We estimate that XNCR's current cash will be sufficient to fund operations through 2016 assuming continued development of XmAb8195 and XmAb 5871, and the company may have additional financing needs before turning cash flow positive.

XNCR P&L (in $ MMs)	2011	2012	2013	1Q14	2Q14	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E
Collaboration and licensing revenue	6.8	9.5	10.2	2.2	0.8	1.3	1.3	5.5	10.0	10.0	20.0	25.0
Product sales	-	-	-	-	-	-	-	-	-	-	-	-
Royalty revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	**6.8**	**9.5**	**10.2**	**2.2**	**0.8**	**1.3**	**1.3**	**5.5**	**10.0**	**10.0**	**20.0**	**25.0**
COGS	-	-	-	-	-	-	-	-	-	-	-	-
R&D	12.7	12.7	17.0	4.2	4.3	6.9	7.2	22.6	30.0	36.0	39.6	43.6
SG&A	3.6	3.1	3.7	1.7	1.6	1.9	2.0	7.2	8.0	8.8	9.7	10.6
Operating expenses	16.3	15.8	20.7	6.0	5.9	8.8	9.2	29.8	38.0	44.8	49.3	54.2
Operating income	(9.5)	(6.2)	(10.5)	(3.8)	(5.1)	(7.6)	(8.0)	(24.3)	(28.0)	(34.8)	(29.3)	(29.2)
Total other income (expense)	(1.8)	(2.4)	(49.7)	0.0	0.0	-	-	0.0	-	-	-	-
EBT	(11.2)	(8.6)	(60.3)	(3.8)	(5.0)	(7.6)	(8.0)	(24.3)	(28.0)	(34.8)	(29.3)	(29.2)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(11.2)	(8.6)	(60.3)	(3.8)	(5.0)	(7.6)	(8.0)	(24.3)	(28.0)	(34.8)	(29.3)	(29.2)
Diluted EPS	(154.95)	(118.86)	(3.85)	(0.12)	(0.16)	(0.24)	(0.25)	(0.77)	(0.89)	(0.84)	(0.71)	(0.71)
Diluted shares outstanding	0.1	0.1	15.6	31.4	31.4	31.4	31.4	31.4	31.4	41.4	41.4	41.4

Source: Leerink Partners Estimates and Company Filings

BS & CFS	2011	2012	2013	1Q14	2Q14	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E
Cash and STI	14.5	2.3	78.0	72.5	66.2	59.4	52.2	53.8	29.6	99.3	74.9	51.1
Debt	18.5	20.9	-	-	-	-	-	-	-	-	-	-

2Q14 ($M except EPS)	Consensus 2Q14 (as of 07/30/14)	Leerink 2Q14E	2Q14A	Difference (consensus)	Difference (Leerink)
Revenue	**1.4**	**1.3**	**0.8**	**(0.6)**	**(0.4)**
SG&A	1.8	1.8	1.6	(0.2)	(0.2)
R&D	5.6	6.2	4.3	(1.3)	(1.9)
Operating income	(5.9)	(6.8)	(5.1)	0.9	1.7
Pretax income	(5.8)	(6.8)	(5.0)	0.8	1.7
Net income	(5.8)	(6.8)	(5.0)	0.8	1.7
EPS	**(0.19)**	**(0.22)**	**(0.16)**	**0.03**	**0.05**

BS & CFS ($M)	Consensus 2Q14 (as of 07/30/14)	Leerink 2Q14E	2Q14A	Difference (consensus)	Difference (Leerink)
Cash and STI		66	66		0
Debt		0	0		0

Source: Leerink Partners Estimates and Company Filings

	Valuation ($MM)	Per Share
XmAb7195 (20% p/w)	113	$ 3.61
XmAb5871 (20% p/w)	80	$ 2.55
MOR208 (30% p/w)	55	$ 1.75
CD3XCD38 (15% p/w)	46	$ 1.48
CD3XCD123 (15% p/w)	23	$ 0.73
XmAb Platform	150	$ 4.78
Total EV	467	$ 14.89
Cash (2014E)	54	$ 1.71
Price Target	**521**	**$ 17**
Diluted shares outstanding (2014E)	31	

Source: Leerink Partners Estimates and Company Filings

Agent	Target	Platform	Indication	Status	Event	Timing
XmAb5871	CD19	Immune-inhibitory FcγRIIb domain	Autoimmune	Phase Ib/IIa	Phase IIa RA data	2H14
					Initiate Phase IIb	1H15
					Phase IIb data	1H17
					AMGN option exercise	1H17
					Initiate Phase III, RA/SLE	2H17
XmAb7195	IgE	Immune-inhibitory FcγRIIb domain	Asthma	Phase I	Phase Ia data	4Q14
					Initiate Phase Ib	1Q15
					Phase Ib data	1H16
					Initiate Phase II POC	1H16
					Phase II POC data	1H18
MOR208/XmAb5574	CD19	ADCC enhancing FcγRIIIa domain	Hematological Cancers	Phase II	Phase II data NHL	2H14
					Phase II data ALL	4Q15

Source: Leerink Partners Estimates and Company Filings

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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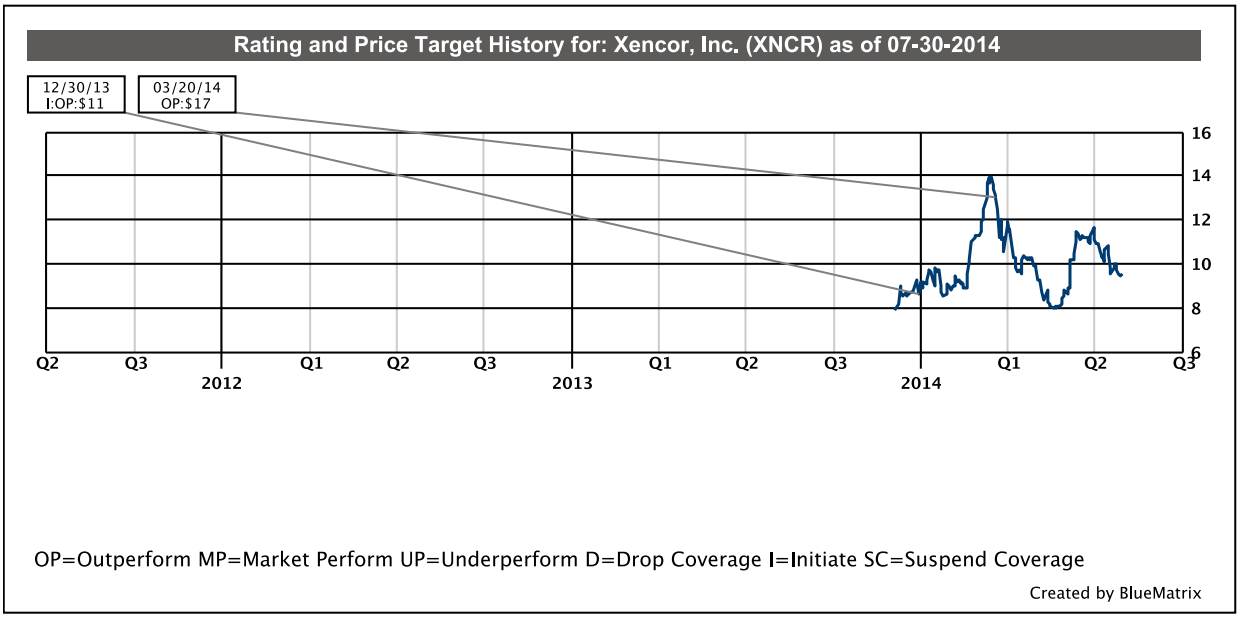

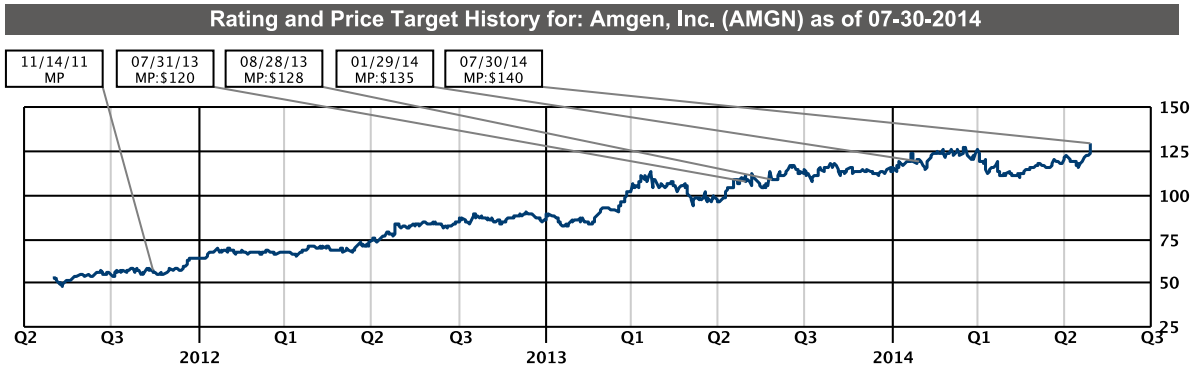

Leerink Swann placed an Outperform rating on AMGN on December 17. 2010. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Distribution of Ratings/Investment Banking Services (IB) as of 06/30/14				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	138	69.00	50	36.20
HOLD [MP]	62	31.00	2	3.20
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.

Important Disclosures

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In the past 12 months, the Firm has received compensation for providing investment banking services to Xencor, Inc. .

Leerink Partners LLC makes a market in Xencor, Inc. and Amgen, Inc.

Leerink Partners LLC has acted as the manager for a public offering of Xencor, Inc. in the past 12 months.

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