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OUTPERFORM

Reason for report:

FLASH NOTE

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LEERINK

XENCOR, INC.

XNCR Regains Full Rights to XmAb5871 to Focus Dev't on Rare Autoimmune Diseases

• **Bottom Line:** XNCR announced that it has regained all rights to XmAb5871 by seeking and obtaining a termination of the prior option and collaboration agreement with AMGN (MP). Recall, XmAb5871 is currently in a Phase IIa trial for rheumatoid arthritis (RA), and XNCR was obligated to conduct another larger Phase IIb RA trial under its prior collaboration with AMGN which would have then had the option to license the product. We view this new development as positive since XNCR can now pursue rarer autoimmune diseases instead of RA and potentially drive development further along in-house or even commercialize the product, which may allow for potential better tail economics vis-à-vis the AMGN agreement. Cash burn guidance is unchanged with cash expected to be sufficient to fund operations through 2016. **Reiterate OP rating.**

• **XNCR regains XmAb5871 rights and plans development in IgG4-related disease, a rare autoimmune disorder driven by B-cells.** XNCR approached AMGN and renegotiated the XmAb5871 agreement in order to be able to pursue indications other than RA. XNCR regains all development and commercial rights to XmAb5871, and AMGN retains the right of first negotiation for a license to XmAb5871. Importantly, there is no change in control provision, should XNCR be acquired.

• **The ongoing proof-of-concept Phase Ib/IIa clinical trial of XmAb5871 in RA is still on track to report top-line results by end of 2014.** 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 as positive proof-of-concept for the drug's autoimmune inhibiting activity. XNCR is no longer planning to start a Phase IIb rheumatoid arthritis trial in 2015, but instead plans to start clinical testing of XmAb5871 in IgG4-related disease in 2015. Neither XNCR nor AMGN has seen the Phase IIa data in RA given the trial is still blinded.

• **We view the termination of the AMGN option agreement positively,** given: (1) IgG4-related disease is an orphan indication (10-20k patients) with little competition and a potentially faster path to market vs. the crowded RA space. IgG4-related disease is a newly recognized B-cell driven fibroinflammatory condition for which there are no approved therapies, and corticosteroids are the current standard of care. (2) Regaining rights to XmAb5871 now permits XNCR to take this asset further into development before potentially entering a new licensing agreement which could result in better tail economics or potentially commercialize in-house. Recall, the prior AMGN agreement only provided the opportunity for high single-digit to high-teen percentage royalties on sales. (3) The new arrangement also allows XNCR to evaluate and pursue additional rare autoimmune diseases in-house.

Key Stats:	**(NASDAQ:XNCR)**
S&P 600 Health Care Index:	**1,368.00**
Price:	**$10.60**
52 Week High:	$14.41
52 Week Low:	$5.75
Shares Outstanding (mil):	31.4
Market Capitalization (mil):	$332.8

Please refer to pages 3 - 6 for Important Disclosures, Price Charts and Analyst Certification.

• **Cash guidance is unchanged.** XNCR maintained YE14 cash guidance of ~$54M and believes it will have sufficient cash to fund operations through 2016.

Disclosures Appendix

Analyst Certification

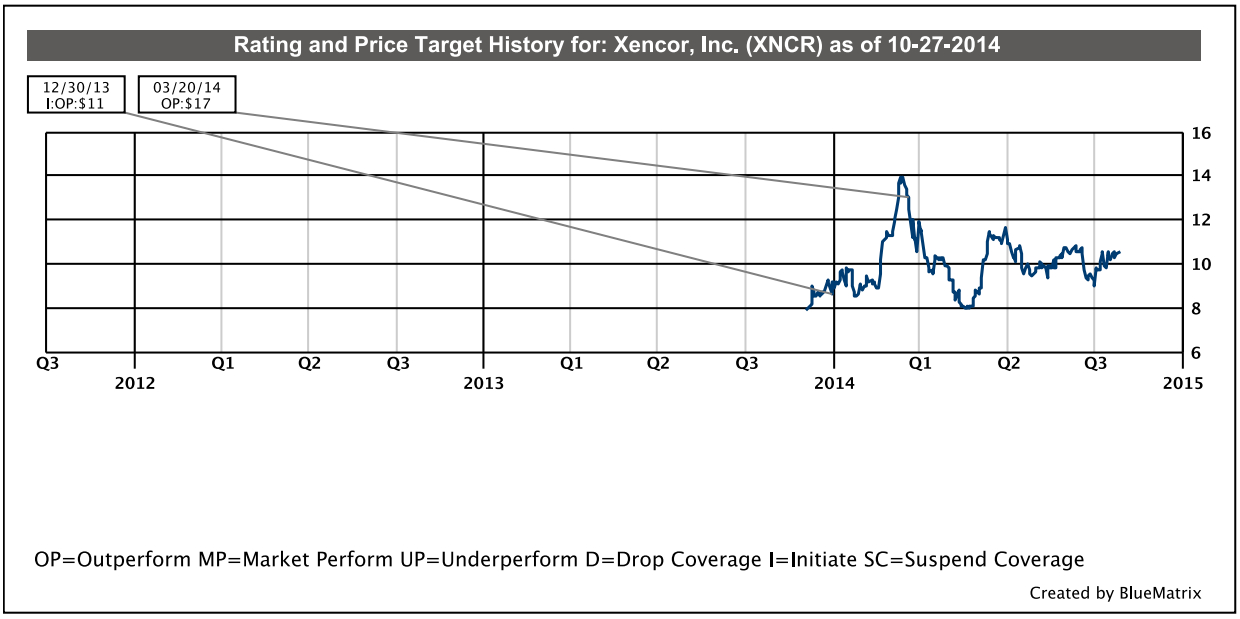
I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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.



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 09/30/14			IB Serv./Past 12 Mos.	
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.

Important Disclosures

This information (including, but not limited to, prices, quotes and statistics) has been obtained from sources that we believe reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All information is subject to change without notice. This is provided for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy any product to which this information relates. The Firm, its officers, directors, employees, proprietary accounts and affiliates may have a position, long or short, in the securities referred to in this report, and/or other related securities, and from time to time may increase or decrease the position or express a view that is contrary to that contained in this report. The Firm's salespeople, traders and other professionals may provide oral or written market commentary or trading strategies that are contrary to opinions expressed in this report. The Firm's proprietary accounts may make investment decisions that are inconsistent with the opinions expressed in this report. The past performance of securities does not guarantee or predict future performance. Transaction strategies described herein may not be suitable for all investors. Additional information is available upon request by contacting the Editorial Department at One Federal Street, 37th Floor, Boston, MA 02110.

Like all Firm employees, analysts receive compensation that is impacted by, among other factors, overall firm profitability, which includes revenues from, among other business units, Institutional Equities, and Investment Banking. Analysts, however, are not compensated for a specific investment banking services transaction.

MEDACorp is a network of healthcare professionals, attorneys, physicians, key opinion leaders and other specialists accessed by Leerink and it provides information used by its analysts in preparing research.

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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