

Company Update

November 11, 2014

TICKER NASDAQ: XNCR
RATING BUY
PRICE TARGET \$18.00
Price (November 10, 2014) \$11.22

Xencor, Inc.

3Q Earnings In-Line; Multiple Data Points for Multiple Programs over Near Term

Market Data

Market Cap (M): \$352.3
Shares out (M): 31.4
Float (M): 17.3
Daily Vol, 3 Mo Avg (M): 0.0
52-Week Range: \$14.41-\$5.75
Cash & Cash Eq (M): \$66.2
Debt (M): \$0.0
NAV (M): NA

Financial Metrics

Short Interest (M): 0.5
Instit. Holdings (%): NA
Cash Burn (M): NA
Short Interest (% of Float): NA

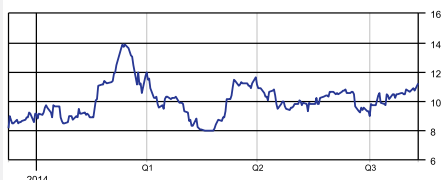
EPS	1Q	2Q	3Q	4Q	FY
2014	-0.12A	-0.16A	-0.20A	-0.06E	-0.54E
2015	-0.18E	-0.18E	-0.20E	-0.18E	-0.74E
2016	—	—	—	—	-0.72E

Revenue (\$M)

	1Q	2Q	3Q	4Q	FY
2014	2.2A	0.8A	0.8A	5.5E	9.3E
2015	0.4E	0.4E	0.4E	0.4E	1.6E
2016	—	—	—	—	1.5E

Note:

1-Year Price History



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ARLINDA LEE, PH. D.
alee@mlvco.com
BENEDICT SHIM
bshim@mlvco.com

Senior Analyst
646-412-7701
Senior Associate
646-412-7703

Yesterday after the close, XNCR announced 3Q earnings and provided a pipeline update. Partner Alexion initiated Phase 1 studies using XNCR's first Xtend Fc domain technology to enter the clinic. XNCR is on track to release data from multiple programs in 4Q14 through 2015. We reiterate our Buy and \$18 PT.

Regains Full Rights to XmAb5871. In October 2014, XNCR and AMGN (NR) terminated the XmAb5871 collaboration, leaving AMGN with only a right of first negotiation on any future partnership for XmAb5871. While XNCR is now responsible for costs of further clinical trials, we think this was a good move for XNCR since AMGN essentially subsidized the early development costs of XmAb5871 for which XNCR now stands to gain full economics. As a result of the termination, \$5.2M in AMGN deferred revenue will be recognized in 4Q14.

XmAb5871 Proof of Concept Data in Rheumatoid Arthritis (RA) this December. These results will provide guidance regarding the safety profile of XmAb5871 as well as the dose at which it inhibits B-cell activity. However, XNCR has communicated that they will avoid the crowded RA market and instead pursue orphan B-cell mediated diseases like IgG4-related disease (IgG4-RD). Other rare B-cell mediated diseases include Sjogren's, pemphigus, and subtypes of thrombocytopenic purpura. We expect XNCR to initiate a Phase 2 trial in IgG4-RD in 2015.

ASH: Strong XmAb5574/MOR208 CLL and NHL Data; Wholly Owned Bispecifics Promising. Last week the American Society of Hematology (ASH) released abstracts for the upcoming annual meeting. XNCR partner Morphosys has final data from a Phase 1 / 2a clinical trial with XmAb5574 in relapsed and refractory (r/r) chronic lymphocytic leukemia (CLL) as well as interim results from a Phase 2 trial in patients with r/r Non-Hodkin's Lymphoma (NHL). Phase 1 data demonstrated a clear effect in a heavily pretreated (median prior 4 treatments) high-risk patients. Of 16 patients treated at the maximum dose, 6 (37.5%) had a PR that compares favorably to a 15% ORR rate which has been observed in similar populations treated with rituximab monotherapy. Of note, 2/6 responders achieved a response during the maintenance phase of the trial. In the Phase 2 trial, the investigator assessed overall response rate was 24% (12/51). The responders included patients with diffuse large B-cell lymphoma, follicular lymphoma and indolent NHL. As treatment was ongoing, 13 of the 51 had no assessment yet available. We look forward to updated response and duration data at ASH. XNCR abstracts also included 5 preclinical bi-specific antibodies that showed activity in primate models. XNCR has selected bi-specific antibody XmAb14045 targeting CD3/CD123 for IND-enabling studies, and we anticipate XmAb14045 can enter Phase 1 trials in acute myelogenous leukemia (AML) by 2016.

Upcoming Milestones. In December, we expect topline results from a Phase 1b/2a study in rheumatoid arthritis (RA) as proof-of-concept for B cell suppression. At ASH, interim Phase 2 XmAb5574/MOR208 data NHL data and full Phase 1 data in CLL as well as preclinical data from XNCR's proprietary bispecific antibody pipeline will be presented. For anti-IgE antibody, XmAb7195, we anticipate Phase 1a allergic asthma data in 1Q15 to be followed by Phase 1b multiple ascending dose trial results.

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VALUATION

We derive a value of \$18 per XNCR common share based on a probability-adjusted sum-of-the-parts analysis. We estimate wholly owned lead product candidates 7195 is worth \$8 per share and 5871 is worth \$5 per share. We also value all partnered programs at \$4 based on our estimates of peak sales potential, launch timing, and stage of development. Lastly, cash on hand comprise the remaining \$1 of our valuation of XNCR shares.

INVESTMENT RISK

Risks include clinical and regulatory uncertainties, commercial and partnership risks, access to financing, and post-regulatory approval drug safety warnings.

Xencor, Inc. (XNCR) Probability Based Valuation Summary

Drug		Peak Sales (\$ MM)	Stage	(Estimated) Launch	Probability of Reaching Market	XNCR Share	Probability Adjusted NPV	Per Share Value
Wholly Owned Programs in Clinic		\$2,288	Phase				\$489	\$13
XmAb7195 (anti-IgE)		\$2,288	1a	2022	33%	20%	\$312	\$8
XmAb5871 Autoimmune (anti-CD19)		\$362	1	2019	26%	100%	\$177	\$5
Partnered Programs	Drug	\$5,625	Phase				\$141	\$4
MOR Oncology (anti-CD19)	XmAb5574	\$2,100	2	2019	26%	11%	\$94	\$2
BI Oncology (anti-CD33)	BI 836858	\$500	1	2021	21%	3%	\$5	\$0.13
BI Oncology (anti-CD37)	BI 836826	\$525	1	2021	21%	3%	\$5	\$0.13
JNJ/CSL Oncology (anti-CD123)	CSL362	\$500	1	2021	21%	3%	\$12	\$0.31
MRK Autoimmune	MRK Autoimmune	\$400	1	2021	21%	3%	\$3	\$0.06
ALXN Undisclosed	ALXN Undisclosed	\$800	PC	2023	10%	3%	\$20	\$0.50
JNJ Autoimmune	JNJ Autoimmune	\$400	PC	2025	10%	3%	\$1	\$0.02
CSL Hematology	CSL Hematology	\$400	PC	2025	10%	3%	\$2	\$0.05
TOTAL		\$7,913					\$631	\$16

Cash

Cash (12/31/14)	\$54	\$1.39
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Total firm value \$685

Debt**Face (\$MM)**

Total Debt	\$0
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Equity value	\$685
Shares Outstanding YE 2030 (MM)	39.1
Equity value per share	\$18

Discount Rate	10.0%
Time of Valuation	11/10/14

Note: numbers may not add due to rounding.

Sources: Company reports and MLV & Co. estimates.

Xencor, Inc. (XNCR) Income Statement (\$MM, YE 12/31)	2014E					2015E					2016E
	1QA	2QA	3QA	4QE	Year	1QE	2QE	3QE	4QE	Year	
XmAb7195 royalty revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
XmAb7195 milestone revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
XmAb5871 revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	<u>2.2</u>	<u>0.8</u>	<u>0.8</u>	<u>5.5</u>	<u>9.3</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>1.6</u>	<u>1.5</u>
Total revenue	2.2	0.8	0.8	5.5	9.3	0.4	0.4	0.4	0.4	1.6	1.5
Cost of goods sold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross profit	2.2	0.8	0.8	5.5	9.3	0.4	0.4	0.4	0.4	1.6	1.5
R&D	4.2	4.3	5.0	5.5	19.0	4.3	4.3	4.3	4.3	17.3	16.5
G&A	<u>1.7</u>	<u>1.6</u>	<u>2.2</u>	<u>1.7</u>	<u>7.2</u>	<u>1.8</u>	<u>1.6</u>	<u>2.2</u>	<u>1.8</u>	<u>7.4</u>	<u>7.6</u>
Total operating expense	6.0	5.9	7.1	7.2	26.2	6.1	6.0	6.6	6.1	24.7	24.1
Operating profit (loss)	(3.8)	(5.1)	(6.3)	(1.8)	(16.9)	(5.7)	(5.6)	(6.2)	(5.7)	(23.1)	(22.6)
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income (expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	(3.8)	(5.0)	(6.3)	(1.8)	(16.8)	(5.7)	(5.6)	(6.2)	(5.7)	(23.1)	(22.6)
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (loss)	(3.8)	(5.0)	(6.3)	(1.8)	(16.8)	(5.7)	(5.6)	(6.2)	(5.7)	(23.1)	(22.6)
EPS	\$ (0.12)	\$ (0.16)	\$ (0.20)	\$ (0.06)	\$ (0.54)	\$ (0.18)	\$ (0.18)	\$ (0.20)	\$ (0.18)	\$ (0.74)	\$ (0.72)
Weighted average diluted shares (MM)	31.4	31.4	31.4	31.4	31.4	31.4	31.4	31.4	31.4	31.4	31.4
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company reports and MLV & Co. estimates.

Xencor, Inc. (XNCR) Cash Flow (\$MM, YE 12/31)	2014E					2015E					2016E
	1QA	2QA	3QA	4QE	Year	1QE	2QE	3QE	4QE	Year	
Operating profit	(3.8)	(5.1)	(6.3)	(1.8)	(16.9)	(5.7)	(5.6)	(6.2)	(5.7)	(23.1)	(22.6)
D&A	0.3	0.2	0.1	0.2	0.8	0.2	0.2	0.2	0.2	0.8	0.8
Stock based compensation	<u>0.3</u>	<u>0.4</u>	<u>0.5</u>	<u>0.4</u>	<u>1.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>2.0</u>	<u>2.0</u>
EBITDA	(3.2)	(4.5)	(5.7)	(1.2)	(14.5)	(5.0)	(4.9)	(5.5)	(5.0)	(20.3)	(19.8)
Cash interest expense	(0.0)	(0.0)	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0
Cash tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	(0.5)	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	(0.9)	(0.7)	(0.8)	(5.2)	(7.7)	0.0	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	(0.5)	(0.7)	0.7	0.1	(0.5)	0.1	0.1	0.1	0.1	0.3	0.1
Accrued expense & other				<u>(10.0)</u>	<u>(10.0)</u>	<u>5.7</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>7.2</u>	<u>2.0</u>
Working capital	(1.9)	(1.0)	(0.1)	(5.1)	(18.1)	0.1	0.1	0.1	0.1	7.5	0.1
Other	0.1	(0.3)	1.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Cash from operations	(5.0)	(5.8)	(4.7)	(6.3)	(21.8)	(4.9)	(4.8)	(5.4)	(4.9)	(20.0)	(19.7)
Acquisition of IP	(0.4)	(0.4)	(0.3)	0.0	(1.1)	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditures	(0.1)	(0.3)	(0.2)	(0.3)	(0.9)	(0.4)	(0.4)	(0.4)	(0.4)	(1.6)	(1.7)
Divestitures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	(5.4)	(6.4)	(5.3)	(6.6)	(23.8)	(5.3)	(5.2)	(5.8)	(5.3)	(21.6)	(21.4)
Cash from operations	(5.0)	(5.8)	(4.7)	(6.3)	(21.8)	(4.9)	(4.8)	(5.4)	(4.9)	(20.0)	(19.7)
Cash from investing	(0.4)	(0.7)	(0.6)	(0.3)	(2.0)	(0.4)	(0.4)	(0.4)	(0.4)	(1.6)	(1.7)
Cash from financing	<u>0.0</u>	<u>0.1</u>	<u>(0.0)</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Change in cash	(5.4)	(6.3)	(5.3)	(6.6)	(23.6)	(5.3)	(5.2)	(5.8)	(5.3)	(21.6)	(21.4)
Cash, beginning	78.0	72.5	66.2	60.9	78.0	54.3	49.0	43.8	38.0	54.3	32.7
Cash, ending	72.5	66.2	60.9	54.3	54.3	49.0	43.8	38.0	32.7	32.7	11.3

Source: Company reports and MLV & Co. estimates.

Xencor, Inc. (XNCR) Balance Sheet Projected (\$MM, YE 12/31)	2014E					2015E					2016E
	1QA	2QA	3QA	4QE	Year	1QE	2QE	3QE	4QE	Year	
Cash	72.5	66.2	60.9	54.3	54.3	49.0	43.8	38.0	32.7	32.7	11.3
Other current assets	0.7	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
PP&E	0.3	0.6	0.7	0.8	0.8	1.0	1.2	1.4	1.6	1.6	2.5
Patents, etc.	8.9	9.1	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Other assets	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Total assets	82.5	76.4	70.9	64.4	64.4	59.2	54.2	48.6	43.5	43.5	23.0
Accounts payable	2.1	1.4	2.1	2.2	2.2	2.2	2.3	2.4	2.4	2.4	2.5
Accrued expense	1.5	1.3	1.8	1.4	1.4	1.5	1.4	1.9	1.5	1.5	1.7
Other	<u>8.9</u>	<u>8.1</u>	<u>7.3</u>	<u>(2.4)</u>	<u>(2.4)</u>	<u>3.3</u>	<u>3.9</u>	<u>3.8</u>	<u>4.8</u>	<u>4.8</u>	<u>6.6</u>
Total liabilities	12.4	10.9	11.2	1.2	1.2	7.0	7.6	8.1	8.7	8.7	10.8
Shareholders' equity	70.1	65.5	59.7	58.0	58.0	52.3	46.7	40.5	34.8	34.8	12.3
Total liabilities & S/E	82.5	76.4	70.9	59.2	59.2	59.2	54.2	48.6	43.5	43.5	23.0

Source: Company reports and MLV & Co. estimates.

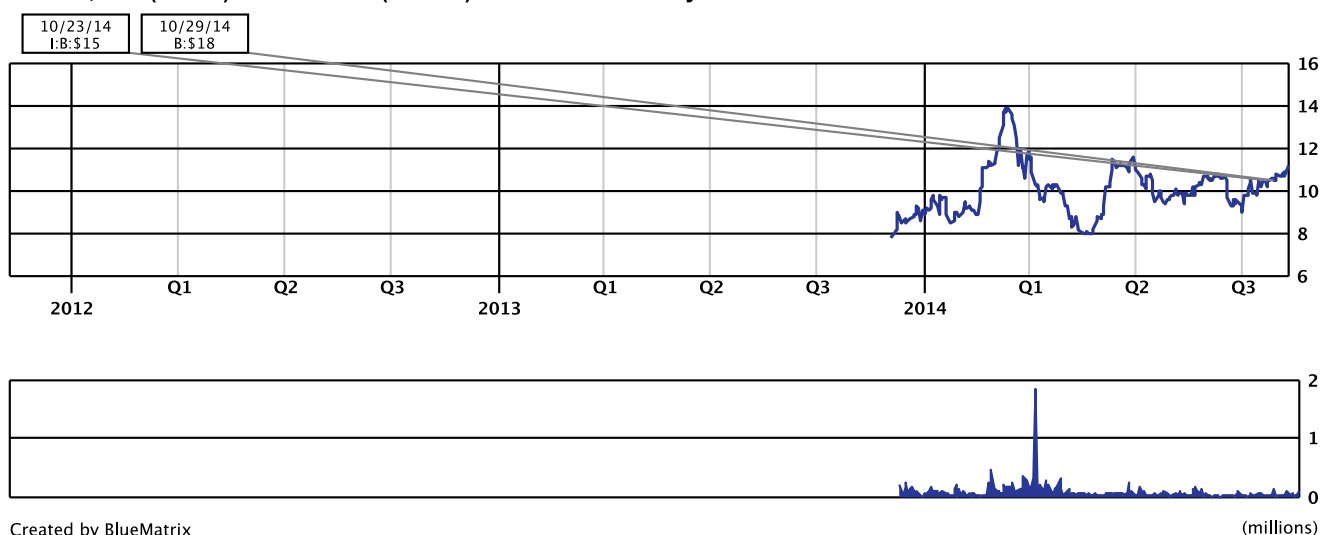
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All required current disclosures on subject companies covered in this report may be obtained by contacting Randy Billhardt at MLV at 212-542-5882 or rbillhardt@mlvco.com.

Xencor, Inc. (XNCR): Share Price (in USD) and Volume History as of 11-10-2014**MLV RATING ALLOCATION (as of November 10, 2014)**

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HOLD: MLV projects that the subject company's stock price will trade in a range not more than 20% above or below its current price.

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Rating	COMPANIES UNDER COVERAGE		INVESTMENT BANKING SERVICE WITHIN 12 MONTHS	
	Count	Percent	Count	Percent
BUY	107	65.24%	48	29.27%
HOLD	57	34.76%	21	12.80%
SELL	0	0.00%	0	0.00%

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LOCATIONS**New York**

1251 Avenue of the Americas
41st Floor
New York, NY 10020
212-542-5880

Houston

520 Post Oak Blvd
Suite 850
Houston, TX 77027
832-208-2030

San Francisco

505 Sansome Street
Suite 375
San Francisco, CA 94111
212-542-5880

CONTACT INFORMATION**Research | Healthcare**

Arlinda Lee, Ph.D.
alee@mlvco.com
646-412-7701

Vernon T. Bernardino
vbernardino@mlvco.com
646-412-7675

George B. Zavoico, Ph.D.
gzavoico@mlvco.com
212-542-5877

Ben Shim
bshim@mlvco.com
646-412-7703

Thomas Yip
tyip@mlvco.com
212-542-5876

Sales and Trading

Scott Ammaturo
sammatur@mlvco.com
646-556-9218

Roger Weiss
rweiss@mlvco.com
212-542-5867

Brian M. Dorst
bdorst@mlvco.com
212-542-5879

Brad Deason
bdeason@mlvco.com
832-319-2029

Brandi Gatlin
bgatlin@mlvco.com
646-412-7709