

August 1, 2014

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$22.00
XNCR - NASDAQ \$9.66

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$14.41-\$5.75
Shares Outstanding 31.4M
Float 24.2M
Market Capitalization \$303.0M
Avg. Daily Trading Volume 60,592
Dividend/Div Yield \$0.00/0.00%
Book Value \$2.89
Fiscal Year Ends Dec
2014E ROE NA
LT Debt \$0.0M
Preferred NA
Common Equity \$70M
Convertible Available No

EPS	Q1	Q2	Q3	Q4	Year	Mult.
2013A	(63.78)	(3.88)	(57.87)	(0.37)	(3.85)	NM
2014E	(0.12)A	(0.16)A	(0.16)	(0.18)	(0.62)	NM
Prior (E)	--	(0.15)	--	--	(0.61)	NM
2015E	(0.17)	(0.17)	(0.16)	(0.16)	(0.66)	NM
Prior (E)	--	--	(0.02)	--	--	NM

Revenue (\$/mil)	Q1	Q2	Q3	Q4	Year	Mult.
2013A	1.3	3.9	3.2	1.7	10.2	25.4x
2014E	2.2A	0.8A	2.2	2.2	8.7	29.8x
Prior (E)	--	2.2	--	--	--	NM
2015E	2.2	2.2	2.2	2.2	8.7	29.8x

Xencor, Inc.

2Q Update - Xencor Drops P-P-Poker Face Announcing Progress on Bispecific's

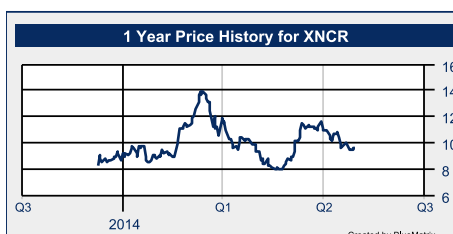
SUMMARY

Xencor reported quarterly results yesterday. It ended the quarter with \$66.2M in cash and equivalents, which management estimates is sufficient to fund operations through 2016. Xencor's partner Morphosys (MOR:XETRA - Not Covered) confirmed Monday that data from a Phase II trial in NHL of MOR208/XmAb5574, an anti-CD19 antibody, will be presented by year end, we anticipate at ASH (Dec. 6-9). Additionally, Morphosys also announced that data from the ongoing Phase II trial of MOR208 in B-ALL will not be available by year end due to slower than anticipated enrollment.

KEY POINTS

- **Management highlighted its enthusiasm for progress being made on its bispecific platform.** The first candidate will be selected by YE:2014, with an IND planned in 2015. We anticipate bispecifics will substantially drive the value of the stock as they enter the clinic.
- **Xencor's plug-and-play bispecific platform generates long half-life bispecifics that may overcome pharmacokinetic, manufacturing and immunogenicity problems with other bispecific approaches.** We believe this potentially best-in-class platform may compete favorably against other technologies directed to similar targets (i.e.:CD123).
- **Can't read my, Can't read my, No he can't read my IgE... because it's below the limit of detection with XmAb7195.** Phase I data for '7195 in healthy subjects will include safety, PK/PD and total/free IgE levels. We anticipate free IgE levels will drop below limits of detection, similar to previous anti-IgE antibodies.
- **XmAb7195 program is significantly de-risked ahead of YE:14 data.** We note that though just entering the clinic, '7195, XNCR's Xolair biosuperior is likely to be safe and have anti-IgE activity given that the component Fc domain is currently in Phase II trials with '5871 and the target has been validated by Xolair.
- **Data from partnered product MOR208's Phase II trial in NHL will be presented by year end.** Mor208 is a CD-19 targeted antibody incorporating Xencor's proprietary Fc modifications to enhance cytotoxicity.
- **Reiterate Outperform and \$22 Price Target.** Our price target is derived from a sum-of-the-parts analysis. We recently initiated coverage of XNCR, note [here](#).

Stock Price Performance



Company Description

Xencor is a clinical-stage biopharmaceutical company focused on discovering and developing engineered monoclonal antibodies to treat severe and life-threatening diseases with unmet medical need.

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Upcoming Milestones

Mid-2014	Announcement of selection and Initiation of IND-enabling studies for a bispecific candidate (either CD38xCD3, CD123xCD3 or CD20xCD3)
Aug. 2014	Estimated first cohort completed in Phase I trial of XmAb7195 (anti-IgE) in healthy volunteers
2H14	Top-line data from the Phase II trial of XmAb5574/MOR208 (CD19, enhanced ADCC Fc) in ALL
2H14	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 (CD19, enhanced ADCC Fc) in ALL at ASH
Dec 6-9, 2014	Potential interim data from a Phase II trial of MOR208 (CD19, enhanced ADCC Fc) in NHL at ASH
YE:14	Top-line data from a Phase Ia trial of XmAb7195 (anti-IgE) in up to 30 healthy subjects with IgE reduction data
1Q15	Initiation of a Phase Ib trial of XmAb7195 (anti-IgE) in mild to moderate asthma with IgE reduction and clinical benefit data
2H15	Complete recruitment in Phase II trial of MOR208 (CD19, enhanced ADCC Fc) in CLL
2015	Complete recruitment in Phase II trial of MOR208 (CD19, enhanced ADCC Fc) in NHL
2015	Initiation of a Phase IIb proof-of-concept trial of XmAb5871 (CD19, immune inhibitor Fc) in rheumatoid arthritis
2015	IND filing and first-in-human clinical trials for Xencor's first clinical bispecific candidates (either CD38xCD3 or CD123xCD3)
1Q16	Potential top-line data from the Phase Ib trial of XmAb7195 (anti-IgE) in mild to moderate asthma
2016	Initiation of a Phase IIb proof-of-concept trial of XmAb7195 (anti-IgE) in poorly controlled asthma
2017	Potential top-line data from the Phase IIb POC trial of XmAb7195 (anti-IgE) in patients with poorly controlled asthma
2017	Potential top-line data from the Phase IIb trial of XmAb5871 (CD19, immune inhibitor Fc) in patients with rheumatoid arthritis
2017	Potential exercise of Amgen's option to license XmAb5871 (CD19, immune inhibitor Fc)

Financial Model

Xencor, Inc Ticker: XNCR (NASDAQ)

7/31/2014

Annual Financial Results and Projections
(\$ in thousands except per share data)

Income Statement	FY:12A	FY:13A	Q1	Q2	Q3	Q4	FY:14E	FY:15E	FY:16E	FY:17E	FY:18E	FY:19E
Revenues:												
XmAB7195 Sales	0	0	0	0	0	0	0	0	0	0	0	0
Licensing and Milestones	0	0	0	0	0	0	0	0	0	0	0	15,000
Collaboration revenue	9,524	10,172	2,184	824	2,200	2,200	7,408	8,800	8,800	8,800	8,800	8,800
Total Revenues	\$ 9,524	\$ 10,172	\$ 2,184	\$ 824	\$ 2,200	\$ 2,200	\$ 7,408	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 23,800
Cost and Expenses:												
Costs of goods sold	0	0	0	0	0	0	0	0	0	0	0	0
Research and Development	0	17,001	4,228	4,283	5,500	6,000	20,011	22,000	23,000	27,000	29,000	28,000
Sales, General and Administrative	9,524	3,691	1,723	1,594	1,900	2,100	7,317	9,200	10,000	12,000	12,000	12,000
Other	0	0	0	0	0	0	0	0	0	0	0	0
Total Costs and Expenses	\$ 9,524	\$ 20,692	\$ 5,951	\$ 5,877	\$ 7,400	\$ 8,100	\$ 27,328	\$ 31,200	\$ 33,000	\$ 39,000	\$ 41,000	\$ 40,000
Operating Income (loss)	0	(10,520)	(3,767)	(5,053)	(5,200)	(5,900)	(19,920)	(22,400)	(24,200)	(30,200)	(32,200)	(16,200)
Net Interest Income (Expense)	(2,450)	(1,206)	16	8	199	180	403	665	816	994	1,125	809
Other income / (Expense)	86	(48,532)	0	1	1	1	3	4	4	4	4	4
Income Before Income Taxes	(2,364)	(60,258)	(3,751)	(5,044)	(5,000)	(5,719)	(19,514)	(21,731)	(23,380)	(29,202)	(31,071)	(15,387)
Net Income	\$ (2,364)	\$ (60,258)	\$ (3,751)	\$ (5,044)	\$ (5,000)	\$ (5,719)	\$ (19,514)	\$ (21,731)	\$ (23,380)	\$ (29,202)	\$ (31,071)	\$ (15,387)
GAAP Net Income	\$ (2,364)	\$ (60,258)	\$ (3,751)	\$ (5,044)	\$ (5,000)	\$ (5,719)	\$ (19,514)	\$ (21,731)	\$ (23,380)	\$ (29,202)	\$ (31,071)	\$ (15,387)
GAAP Basic EPS with sFAS123	(32.70)	(3.85)	(0.12)	(0.16)	(0.16)	(0.18)	(0.62)	(0.66)	(0.68)	(0.78)	(0.81)	(0.40)
GAAP Diluted EPS with sFAS123	(32.70)	(3.85)	(0.12)	(0.16)	(0.16)	(0.18)	(0.62)	(0.66)	(0.68)	(0.78)	(0.81)	(0.40)
Weighted shares outstanding	72	15,646	31,361	31,373	31,398	31,423	31,388	32,985	34,585	37,310	38,285	38,385
Fully diluted shares outstanding	72	15,646	31,361	31,373	31,398	31,423	31,388	32,985	34,585	37,310	38,285	38,385
Cash Burn	(2,364)	(60,258)	(5,439)	(6,318)	(6,247)	(6,719)	(19,514)	(21,731)	(23,380)	(29,202)	(31,071)	(15,387)
Cash Balance	2,312	77,975	72,536	66,218	59,971	53,252	53,252	76,340	52,960	105,133	73,787	56,123

Source: Company Data, Oppenheimer & Co. Estimates.

Investment Thesis

Xencor is a biopharmaceutical company focused on developing and commercializing engineered antibody therapies to treat severe diseases with unmet medical need. Xencor's engineered Fc domains enable high-yield production of IgG-like bispecific antibodies that may enable cost-effective immunotherapy for the treatment of cancer. This potentially best-in-class platform, which has two partnered products in Phase II studies, a wholly owned candidate in a Phase I trial, five further internal early-stage programs and a total of seven collaborations is, in our opinion, the core of Xencor's current value. Merck, Boehringer Ingelheim and CSL are validating of Xencor's approach. These partnerships also provide non-dilutive capital in upfront payments and up to \$1.31 billion in milestone payments as well as additional royalties (single to double-digit percentages).

Price Target Calculation

We arrive at our \$22 price target by a sum-of-the-parts analysis. We ascribe \$12/share by applying a typical oncology multiple of 6x on our estimated 2022 revenues of \$1.2 billion for XmAb7195 in moderate to severe asthma, discounted 45% annually. We ascribe \$3/share to each of Xencor's two partnered programs XmAb5871 and XmAb5574 based on a typical multiple of 15x royalties (estimated 10%) from US & EU sales in 2022 of \$900M and \$600 million discounted 40% and 30% annually, respectively. We ascribe \$3/share to XmAbCD123 as a surrogate for the bispecific candidate Xencor expects to advance into the clinic in 2015.

Key Risks to Price Target

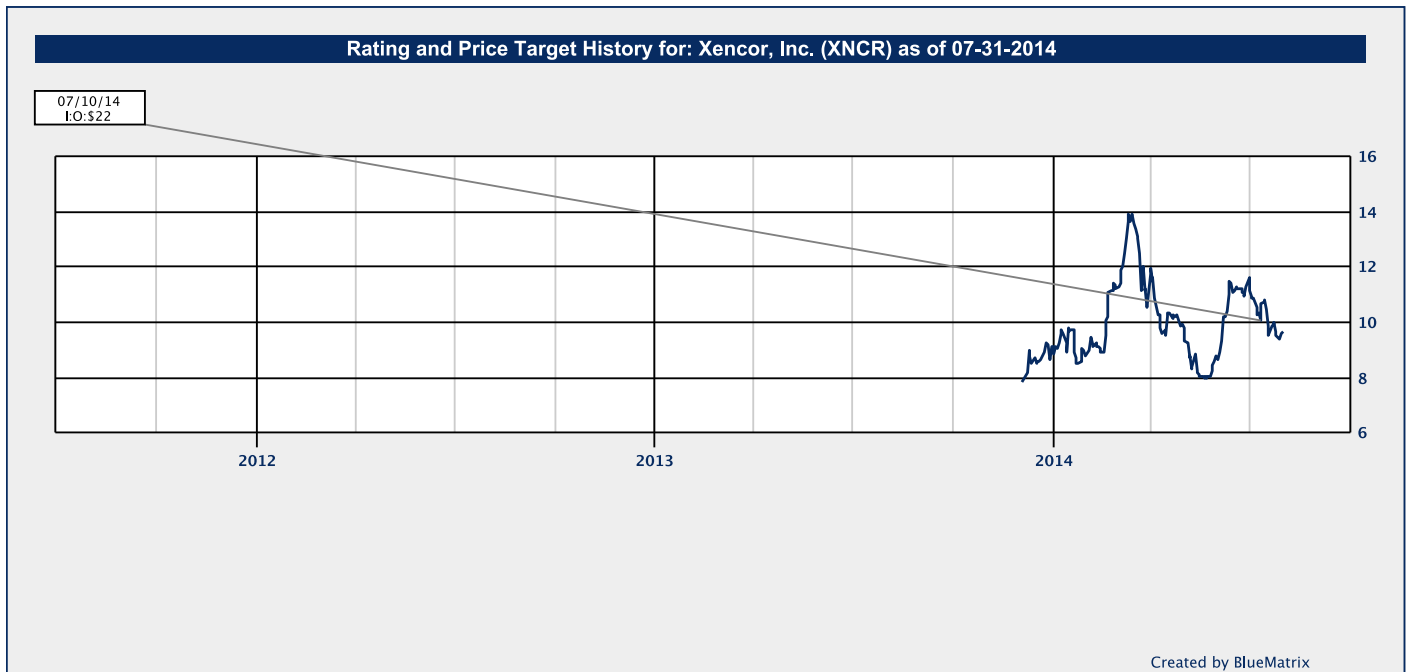
These risks include: 1) failure to reach sales expectations for XmAb7195, XmAb5574/MOR208, or XmAb5871; 2) failure in the clinic of XmAb7195, XmAb5574/MOR208, or XmAb5871; 3) changes to or discontinuation of Xencor's partnerships for XmAb5574/MOR208 or XmAb5871; 4) intellectual property risk; 5) manufacturing risk; 6) competitive risk from biotech companies with more resources; 6) strategic risk; 7) the risk of a dilutive financing; and 8) insider ownership risk as approximately 35% of the shares are closely held.

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Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	313	51.82	140	44.73
PERFORM [P]	281	46.52	98	34.88
UNDERPERFORM [U]	10	1.66	3	30.00

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