

Xencor (XNCR)

XNCR Regains Full Rights to XmAb5871, Refocuses Development from RA to Rare Autoimmune Disorder; Reiterate OUTPERFORM

- **XNCR reported the renegotiation of the XmAb5871 agreement with Amgen to regain full rights.** XNCR has regained rights to '5871 and executed a new right-of-first negotiation with former partner Amgen. '5871 is currently in a Phase Ib/Ila trial for rheumatoid arthritis, with data expected by YE:14. XNCR stated it will not continue further development in rheumatoid arthritis.
- **XNCR will refocus clinical development of '5871 to target Immunoglobulin G4-related disease (IgG4-RD).** IgG4-RD is a newly recognized rare autoimmune disorder, and is believed to affect 10,000-20,000 patients in the US. The disorder affects multiple organ systems and is characterized by lymphoplasmacytic tissue infiltration with predominance of IgG4-positive plasma cells and CD4+ T lymphocytes, as well as fibrosis, obliterative phlebitis and elevated serum levels of IgG4. Patients' major presentations include Type 1 autoimmune pancreatitis, salivary gland disease, orbital disease and retroperitoneal fibrosis. There are no approved therapies for IgG4—current treatment is with corticosteroids.
- **We believe that re-targeting of '5871 to a rare disease is a positive development, although because IgG4-RD has a number of clinical manifestations, it will be important to define a clear regulatory pathway with the FDA.** This will likely occur after exploratory data is received from clinical trials for IgG4-RD initiated in 2015.
- **We are adjusting our model to account for the opportunity in IgG4-RD, and removing sales in RA for '5871.** Due to rarity and unmet need, we believe '5871 can achieve approval under an accelerated development pathway, and expect a single pivotal study will be sufficient for approval. We are modeling for an early 2019 approval and launch, and based on a pricing of \$100K per patient per year, we forecast '5871 sales of ~\$250M in 2022, our valuation year.
- **Reiterate OUTPERFORM 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.
- **Risks to the attainment of our price target include** 1) failure to reach sales expectations for XmAb7195, XmAb5574, XmAb5871 and 2) failure in the clinic of either XmAb7195, XmAb5574, XmAb5871

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	-A	\$2.2A		\$2.2A	1.0E		\$1.7E
Q2 Jun	-A	0.8A		\$0.8A	1.0E		\$1.7E
Q3 Sep	8.4A	1.0E		\$1.2E	1.0E		\$2.8E
Q4 Dec	1.7A	\$1.0E		\$1.6E	1.0E		\$1.8E
Year*	\$10.2A	\$5.0E		\$5.8E	\$4.0E		\$7.3E
Change	49%	--		--	--		--
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	-A	(\$0.12)A		(\$0.12)A	(\$0.17)E		(\$0.17)E
Q2 Jun	-A	(\$0.16)A		(\$0.16)A	(\$0.17)E		(\$0.17)E
Q3 Sep	(782.22)A	(\$0.16)E		(\$0.19)E	(\$0.16)E		(\$0.13)E
Q4 Dec	(0.17)A	(\$0.16)E		(\$0.18)E	(\$0.15)E		(\$0.16)E
Year*	(\$3.85)A	(\$0.60)E		(\$0.65)E	(\$0.64)E		(\$0.68)E
P/E	--	--		--	--		--
Change	98%	--		--	--		--

Consensus estimates are from Thomson First Call. * Numbers may not add up due to rounding.

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October 28, 2014

Price
\$9.66

Rating
OUTPERFORM

12-Month Price Target
\$18

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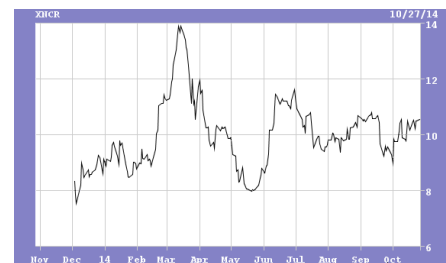
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Company Information

Shares Outst (M)	31.4
Market Cap (M)	\$303.1
52-Wk Range	\$5.75 - \$14.41
Book Value/sh	\$2.09
Cash/sh	\$2.11
Enterprise Value (M)	\$236.8
LT Debt/Cap %	0.0
Cash Burn (2014) (M)	\$18.9
Current Cash (M)	\$66.2

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 needs.



Source: Thomson Reuters

Sum-of-the-Parts Valuation Components

Product	Indication	Est. Addressable Market	Penetration	Annual Cost	Sales	Multiple	Royalty rate	Year	Discount rate	Value per share
XmAb7195	Severe asthma	350,000*	15%	\$22K	\$1.2B	6x	NA	2022	45%	\$12
XmAb5574	ALL	16,000	38%	\$100K	\$600M	15x	~10%	2022	35%	\$3
XmAb5871	IgG4-RD	15,000	50%	\$100K	\$250M	8x	NA	2022	50%	\$3
Total										\$18

*US market only



David M. Nierengarten, Ph.D.

10/28/2014

Xencor Inc.

Annual Financial Results & Projections

(\$ in thousands except per share data)

Ticker: XNCR (Nasdaq)

	FY:13A	Q1:14	Q2:14	Q3:14	Q4:14	FY:14E	FY:15E	FY:16E	FY:17E	FY:18E	FY:19E	FY:20E
Revenue:												
Product sales	0	0	0	0	0	0	0	0	0	0	49,440	106,003
Royalty Revenues	0	0	0	0	0	0	0	0	0	0	7,500	20,000
Collaboration revenue*	10,172	2,184	824	1,000	1,000	5,008	4,000	4,000	4,000	10,000	10,000	10,000
Total Revenues	\$10,172	\$2,184	\$824	\$1,000	\$1,000	\$5,008	\$4,000	\$4,000	\$4,000	\$10,000	\$66,940	\$128,503
Cost and Expenses:												
Costs of goods sold	0	0	0	0	0	0	0	0	0	0	7,416	15,901
Research and Development	17,001	4,228	4,283	4,497	4,722	17,730	19,365	21,265	23,695	26,403	29,420	32,781
Sales, General and Administrative	3,691	1,723	1,594	1,610	1,626	6,553	6,586	6,719	7,161	7,632	8,135	45,301
Other	0	0	0	0	0	0	0	0	0	0	0	0
Total Costs and Expenses	\$20,692	\$5,951	\$5,877	\$6,107	\$6,348	\$24,283	\$25,951	\$27,984	\$30,856	\$34,035	\$44,970	\$93,983
Operating Income (loss)	(10,520)	(3,767)	(5,053)	(5,107)	(5,348)	(19,275)	(21,951)	(23,984)	(26,856)	(24,035)	21,970	34,521
Net Interest Income (Expense)	(1,206)	16	8	199	181	403	680	836	1,033	1,225	1,072	1,401
Other income / (Expense)	(48,532)	0	1	0	0	1	0	0	44	80	66	0
Income Before Income Taxes	(60,258)	(3,751)	(5,044)	(4,908)	(5,167)	(18,871)	(21,270)	(23,148)	(25,778)	(22,730)	23,108	35,921
Net Income	(\$60,258)	(\$3,751)	(\$5,044)	(\$4,908)	(\$5,167)	(\$18,871)	(\$21,270)	(\$23,148)	(\$25,778)	(\$22,730)	\$21,233	\$33,227
GAAP Net Income	(\$60,258)	(\$3,751)	(\$5,044)	(\$4,908)	(\$5,167)	(\$18,871)	(\$21,270)	(\$23,148)	(\$25,778)	(\$22,730)	\$21,233	\$33,227
GAAP Basic EPS with sFAS123	(3.85)	(0.12)	(0.16)	(0.16)	(0.16)	(0.60)	(0.64)	(0.67)	(0.69)	(0.59)	0.55	0.86
GAAP Diluted EPS with sFAS123	(3.85)	(0.12)	(0.16)	(0.16)	(0.16)	(0.60)	(0.64)	(0.67)	(0.69)	(0.59)	0.55	0.86
Weighted shares outstanding	15,646	31,361	31,373	31,398	31,423	31,361	32,986	34,586	37,311	38,286	38,386	38,486
Fully diluted shares outstanding	15,646	31,361	31,373	31,398	31,423	31,389	32,986	34,586	37,311	38,286	38,386	38,486
Cash Burn	(60,258)	(3,751)	(5,044)	(4,908)	(5,167)	(18,871)	(21,270)	(23,148)	(25,778)	(22,730)	23,108	-
Cash Balance	77,975	72,536	66,218	60,200	54,032	54,032	78,185	55,037	110,611	87,612	106,469	137,973

*Milestone payments not modeled

Source: Wedbush Securities and PacGrow Life Sciences

Analyst Biography

David is an Analyst covering stocks in the Biotechnology/Biopharmaceuticals/BioDefense sector. His prior sell-side research experience at Robert W. Baird & Co. covered biotechnology companies of all market capitalizations, with a focus on oncology and rare diseases.

David received his B.S. (Biochemistry) from the University of Wisconsin-Madison and Ph.D. (Molecular and Cell Biology) from the University of California-Berkeley.

David's Edge: David's early stage venture capital investing experience gives him a balanced perspective on developmental-stage biotechnology companies and their ultimate risk/reward potential. His experience on the other side of that equation in a clinical-stage, venture backed biotechnology company provides him with insights into corporate operations. The combination of experiences creates a focus on value creation in this event-driven space.

Analyst Certification

I, David M. Nierengarten, Heather Behanna, Dilip Joseph, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Company	Disclosure
Xencor	1,3,4,5

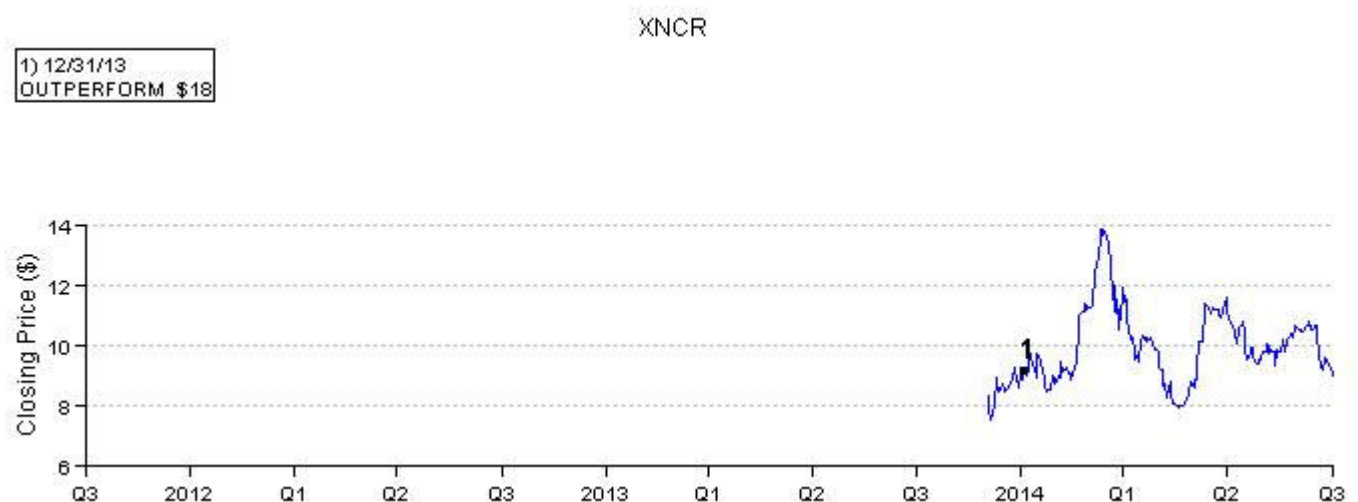
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