March 20, 2014

OUTPERFORM

Reason for report:

EARNINGS

Michael Schmidt, Ph.D.
(617) 918-4588
Michael.Schmidt@Leerink.com

Jonathan Chang, Ph.D.
(617) 918-4015
Jonathan.Chang@Leerink.com

LEERINK

XENCOR, INC.

4Q13 Recap - Pipeline Progressing; Raising PT

• **Bottom Line:** XNCR reported 4Q13 financial results yesterday, and its pipeline programs remain on track. XmAb7195 Phase Ia data in healthy patients continues to be expected by the end of 2014, and XmAb5871 Phase IIa data in patients with moderate to severe rheumatoid arthritis (RA) is expected in 2H14. In addition, XNCR will move one bispecific antibody into the clinic in 2015. We are increasing our price target (PT) to $17 from $11 based on continued progression of XNCR's platform and increasing confidence in XmAb7195. Maintain OP rating.

• **Data for both XmAb7195 and XmAb5871 expected in 2014.** A Phase Ia trial of XmAb7195 is expected to initiate in 1H14 that will include both healthy patients and a parallel cohort of patients with high IgE levels. Preliminary data is expected by the end of 2014, which will include IgE reduction data, likely initially in healthy patients. Top-line data from the Phase IIa trial of XmAb5871 in moderate to severe RA patients is expected in 2H14. Data will include DAS (disease activity score) 28 and ACR scores, levels of serum biomarker C-reactive protein (CRP), safety, and pharmacokinetics. The safety and activity profile will then inform next steps, which could include development in RA and other autoimmune diseases, including lupus (SLE). Recall, AMGN (MP) has an exclusive option to license this molecule until March 2017.

• **We continue to believe that XmAb7195 will have a place in treating allergen-induced asthma symptoms and potentially other allergic diseases.** While the competitive landscape for asthma is evolving with the development of agents targeting IL-5, IL-4, and IL-13, mgmt believes IgE blockade remains a leading paradigm in asthma treatment. Recent feedback from MEDACorp KOLs confirms our belief that XmAb7195 will clearly have a place in treatment of allergen-induced asthma symptoms & other indications where IgE plays a role such as for example urticaria.

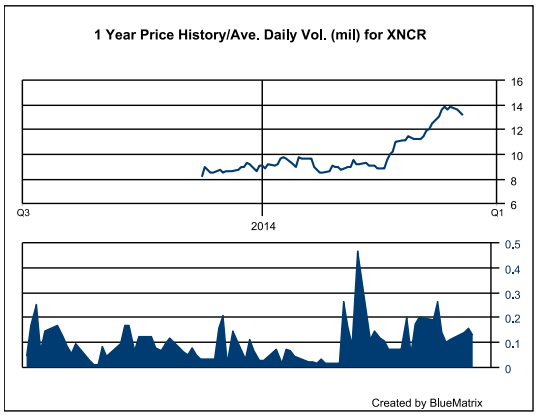
• **IND filing for one bispecific antibody expected in '15.** This bispecific antibody will be either a CD3 x CD38 agent that could be developed for multiple myeloma, or a CD3 x CD123 agent that could be developed for AML. XNCR expects to enter formal preclinical work in mid-2014.

• **XNCR guided to cash & equivalents of $54.5M by end-2014,** vs. our prior estimate of $54.3M. XNCR expects its cash balance to be sufficient to fund operations through 2016. This guidance does not include additional revenue that could come from new partnerships.

• **Increasing our PT to $17 from $11.** We are increasing XNCR's pipeline value and specifically assigning value to XNCR's bispecific antibody programs as their development moves forward. We are attributing a 20% probability-adjusted ~$2 per share value to CD3XCD38 and CD3XCD123, in addition to increasing our platform value to ~$5 per share from ~$3 previously. We are also increasing our value for XmAb7195 to ~$4 per share from ~$2 previously.

Key Stats:	**(NASDAQ:XNCR)**
S&P 600 Health Care Index:	**1,316.16**
Price:	**$13.13**
Price Target:	$17.00 from $11.00
Methodology:	Sum-of-the-parts discounted sales multiple
52 Week High:	$14.41
52 Week Low:	$5.75
Shares Outstanding (mil):	31.3
Market Capitalization (mil):	$411.0
Cash Per Share:	$2.49
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	
2013A	**--**	**--**	**$8.4**	**$1.7**	**$10.2**	**--**	**--**	**($4.10)**	**($0.12)**	**($3.85)**	**NM**
2014E - New	**$1.3**	**$1.3**	**$1.3**	**$1.3**	**$5.0**	**($0.18)**	**($0.20)**	**($0.23)**	**($0.24)**	**($0.85)**	**NM**
2014E - Old	--	--	--	--	$5.0	--	--	--	--	($0.78)	NM
2015E	--	--	--	--	$10.0	--	--	--	--	($0.85)	NM

Source: Company Information and Leerink Partners LLC Research
Revs. 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.

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 has 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 shows 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 increases 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.

2013 Results

XNCR posted 2013 revenues and EPS of $10.2M and ($3.85) vs. our estimates of $9.4M and ($5.54), respectively.

VALUATION

We estimate a $17 per share value in 12 months for XNCR based on a discounted sales multiple analysis. We apply a 12% discount rate to for probability of success-weighted 2025E XmAb7195 (20%), XmAb5871 (20%), MOR208 (30%), CD3XCD38 (20%), and CD3XCD123 (20%) 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 to 2017 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	1-3Q13Q	4Q13	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Collaboration and licensing revenue	6.8	9.5	8.4	1.7	10.2	1.3	1.3	1.3	1.3	5.0	10.0
Product sales	-	-	-	-	-	-	-	-	-	-	-
Royalty revenue	-	-	-	-	-	-	-	-	-	-	-
Total revenue	**6.8**	**9.5**	**8.4**	**1.7**	**10.2**	**1.3**	**1.3**	**1.3**	**1.3**	**5.0**	**10.0**
COGS	-	-	-	-	-	-	-	-	-	-	-
R&D	12.7	12.7	12.9	4.1	17.0	5.5	6.2	6.9	7.2	25.8	30.0
SG&A	3.6	3.1	2.4	1.3	3.7	1.3	1.4	1.5	1.6	5.8	6.5
Operating expenses	16.3	15.8	15.2	5.5	20.7	6.8	7.6	8.4	8.8	31.6	36.5
Operating income	(9.5)	(6.2)	(6.8)	(3.7)	(10.5)	(5.6)	(6.4)	(7.2)	(7.6)	(26.6)	(26.5)
Total other income (expense)	(1.8)	(2.5)	(49.7)	0.0	(49.7)	-	-	-	-	-	-
EBT	(11.2)	(8.7)	(56.6)	(3.7)	(60.3)	(5.6)	(6.4)	(7.2)	(7.6)	(26.6)	(26.5)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(11.2)	(8.7)	(56.6)	(3.7)	(60.3)	(5.6)	(6.4)	(7.2)	(7.6)	(26.6)	(26.5)
Diluted EPS	(154.95)	(120.05)	(4.10)	(0.12)	(3.85)	(0.18)	(0.20)	(0.23)	(0.24)	(0.85)	(0.85)
Diluted shares outstanding	0.1	0.1	13.8	31.3	15.6	31.3	31.3	31.3	31.3	31.3	31.3

Source: Leerink Partners Estimates and Company Filings

BS & CFS	2011	2012	1-3Q13Q	4Q13	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Cash and STI	14.5	2.3	9.6	78.0	78.0	73.1	67.5	61.2	54.5	54.5	31.7
Debt	18.5	20.9	-	-	-	-	-	-	-	-	-

Source: Leerink Partners Estimates and Company Filings

	Valuation ($MM)	Per Share
XmAb7195 (20% p/w)	113	$ 3.61
XmAb5871 (20% p/w)	80	$ 2.56
MOR208 (30% p/w)	53	$ 1.68
CD3XCD38 (20% p/w)	46	$ 1.48
CD3XCD123 (20% p/w)	23	$ 0.73
XmAb Platform	150	$ 4.79
Total EV	465	$ 14.84
Cash (2014E)	55	$ 1.74
Price Target	**520**	**$ 17**
Diluted shares outstanding (2014E)	31	

Source: Leerink Partners Estimates and Company Filings

Disclosures Appendix

Analyst Certification

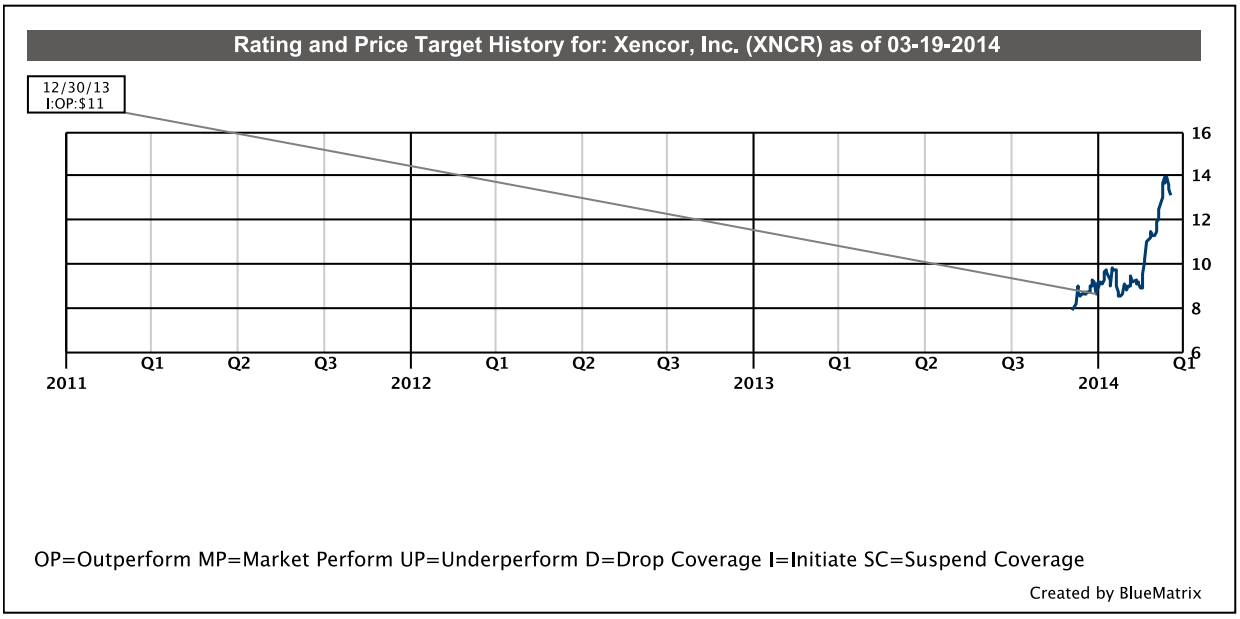
I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

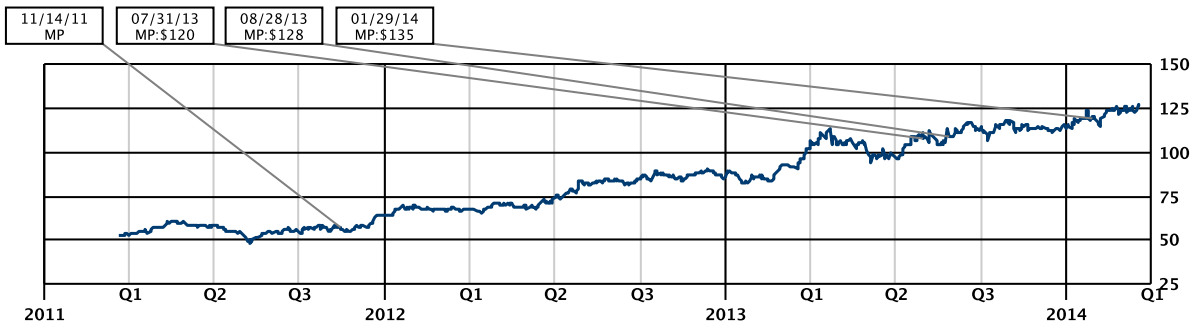
Valuation

We estimate a $17 per share value in 12 months for XNCR based on a discounted sales multiple analysis. We apply a 12% discount rate to for probability of success-weighted 2025E XmAb7195 (20%), XmAb5871 (20%), MOR208 (30%), CD3XCD38 (20%), and CD3XCD123 (20%) 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 to 2017 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 12/31/13				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	118	64.50	30	25.00
HOLD [MP]	65	35.50	2	3.00
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.

Leerink Consulting LLC, an affiliate of Leerink Partners, is a provider of evidence-based strategy and consulting to the healthcare industry.

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.

In the past 12 months, an affiliate of the Firm, Leerink Swann Consulting LLC, has received compensation for providing non-securities services to: Amgen, Inc.

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

Leerink Partners LLC Equity Research

Director of Equity Research	**John L. Sullivan, CFA**	(617) 918-4875	john.sullivan@leerink.com
Associate Director of Research	**Alice C. Avanian, CFA**	(617) 918-4544	alice.avanian@leerink.com
Healthcare Strategy	**John L. Sullivan, CFA**	(617) 918-4875	john.sullivan@leerink.com
	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink.com
Biotechnology	**Howard Liang, Ph.D.**	(617) 918-4857	howard.liang@leerink.com
	Joseph P. Schwartz	(617) 918-4575	joseph.schwartz@leerink.com
	Marko Kozul, M.D.	(415) 905-7221	marko.kozul@leerink.com
	Michael Schmidt, Ph.D.	(617) 918-4588	michael.schmidt@leerink.com
	Jonathan Chang, Ph.D.	(617) 918-4015	jonathan.chang@leerink.com
	Irene Lau	(415) 905-7256	irene.lau@leerink.com
	Paul Matteis	(617) 918-4585	paul.matteis@leerink.com
	Gena Wang, Ph.D., CFA	(212) 277-6073	gena.wang@leerink.com
	Richard Goss	(617) 918-4059	richard.goss@leerink.com
Life Science Tools and Diagnostics	**Dan Leonard**	(212) 277-6116	dan.leonard@leerink.com
	Justin Bowers, CFA	(212) 277-6066	justin.bowers@leerink.com
Pharmaceuticals/Major	**Seamus Fernandez**	(617) 918-4011	seamus.fernandez@leerink.com
	Ario Arabi	(617) 918-4568	ario.arabi@leerink.com
Specialty Pharmaceuticals, Generics	**Jason M. Gerberry, JD**	(617) 918-4549	jason.gerberry@leerink.com
	Christopher W. Kuehnle, JD	(617) 918-4851	chris.kuehnle@leerink.com
Medical Devices, Cardiology & Orthopedics	**Danielle Antalffy**	(212) 277-6044	danielle.antalffy@leerink.com
	Richard Newitter	(212) 277-6088	richard.newitter@leerink.com
	Robert Marcus, CFA	(212) 277-6084	robert.marcus@leerink.com
	Ravi Misra	(212) 277-6049	ravi.misra@leerink.com
Healthcare Services	**Ana Gupte, Ph.D.**	(212) 277-6040	ana.gupte@leerink.com
Healthcare Technology & Distribution	**David Larsen, CFA**	(617) 918-4502	david.larsen@leerink.com
	Christopher Abbott	(617) 918-4010	chris.abbott@leerink.com
Sr. Editor/Supervisory Analyst	**Mary Ellen Eagan, CFA**	(617) 918-4837	maryellen.eagan@leerink.com
Supervisory Analysts	Robert Egan		bob.egan@leerink.com
	Amy N. Sonne		amy.sonne@leerink.com

New York
299 Park Avenue, 21st floor
New York, NY 10171
(888) 778-1653

Boston
One Federal Street, 37th Floor
Boston, MA 02110
(800) 808-7525

San Francisco
201 Spear Street, 16th Floor
San Francisco, CA 94105
(800) 778-1164