

December 18, 2014

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	\$22.00
XNCR - NASDAQ	\$15.55

3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	\$15.95-\$7.77
Shares Outstanding	31.4M
Float	24.2M
Market Capitalization	\$488.2M
Avg. Daily Trading Volume	52,787
Dividend/Div Yield	NA/NM
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	(0.20)A	(0.18)	(0.66)	NM
2015E	(0.17)	(0.17)	(0.16)	(0.16)	(0.66)	NM

Xencor, Inc.

Novo Nordisk Partnership First Validation of Bispecific Platform

SUMMARY

Xencor announced a collaboration with Novo Nordisk using their XmAb bispecific and immune inhibitory molecules for the development of an undisclosed target. The collaboration is potentially worth \$175M in milestone payments and additional royalties. We view this partnership as validating of the XNCR bispecific approach, half-life, stability and the manufacturability afforded by its bispecific technology. Importantly, we believe this collaboration highlights XNCR's bispecific applications outside of oncology. Fv-domain collaborations targets not disclosed; however, we note XNCR's immune-inhibitor domain FcγRIIb has already demonstrated activity in clinical trials (recall it is a component of '5871 and '7195). Novo's pipeline is skewed to diabetes, haemophilia; we note recent literature highlights several applications of bispecific technologies for these and other autoimmune disorders.

KEY POINTS

- **Recall, ASH at data for bispecifics provided pre-clinical validation, highlighting reproducible results across three separate molecules, CD20xCD3, CD123xCD3 and CD38xCD3.** Data highlighted 6-7 day half-lives in mice and dose-dependent T-cell mediated killing. XNCR retains rights to bispecifics in oncology.
- **XNCR will bring their CD123xCD3 ('14045) bispecific into the clinic in the next 18-mos.** We note CD123 is a well validated target (see our initiation report). We also anticipate '14045 to command a high pricing given Blincyto's recently announced pricing at \$178K/2-cycles not including a potential additional 3-cycles for consolidation treatment.
- **XmAb5871 for rare IgG4-related disease may be XNCR's lead in 2015. Data for '5871 in RA including ACR scores is expected YE14.** We caution ACR scores should only be interpreted as evidence of activity, not on an absolute basis/ across trials as the SOC for RA has changed and is dependent on pts enrolled.
- **XNCR is a top-idea we highlighted yesterday AM (Top Ideas, 12/17), and recommend owning shares ahead of a catalyst filled year on 11/28 (XNCR Our Black Friday Special).** Xencor's partnership-based potential milestone payments now exceed \$1B; ptps with Alexion, MorphoSys, Janssen, Merck and others may yield up to \$900M in milestone payments.

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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Stock prices of other companies mentioned in this report (as of 12/16/14):

Alexion (ALXN-NASDAQ, \$186.00, Not Covered)

Merck (MRK-NYSE, \$58.59, Not Covered)

CSL Ltd (CSL-ASX, A\$85.86, Not Covered)

MorphoSys (MOR-XETR, €86.93, Not Covered)

Johnson and Johnson (JNJ-NYSE, \$105.32, Not Covered)

Novo Nordisk (NVO-NYSE, \$43.95, Not Covered)

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 up-front payments and up to \$900 million 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 to 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 and EU sales in 2022 of \$900M and \$600M 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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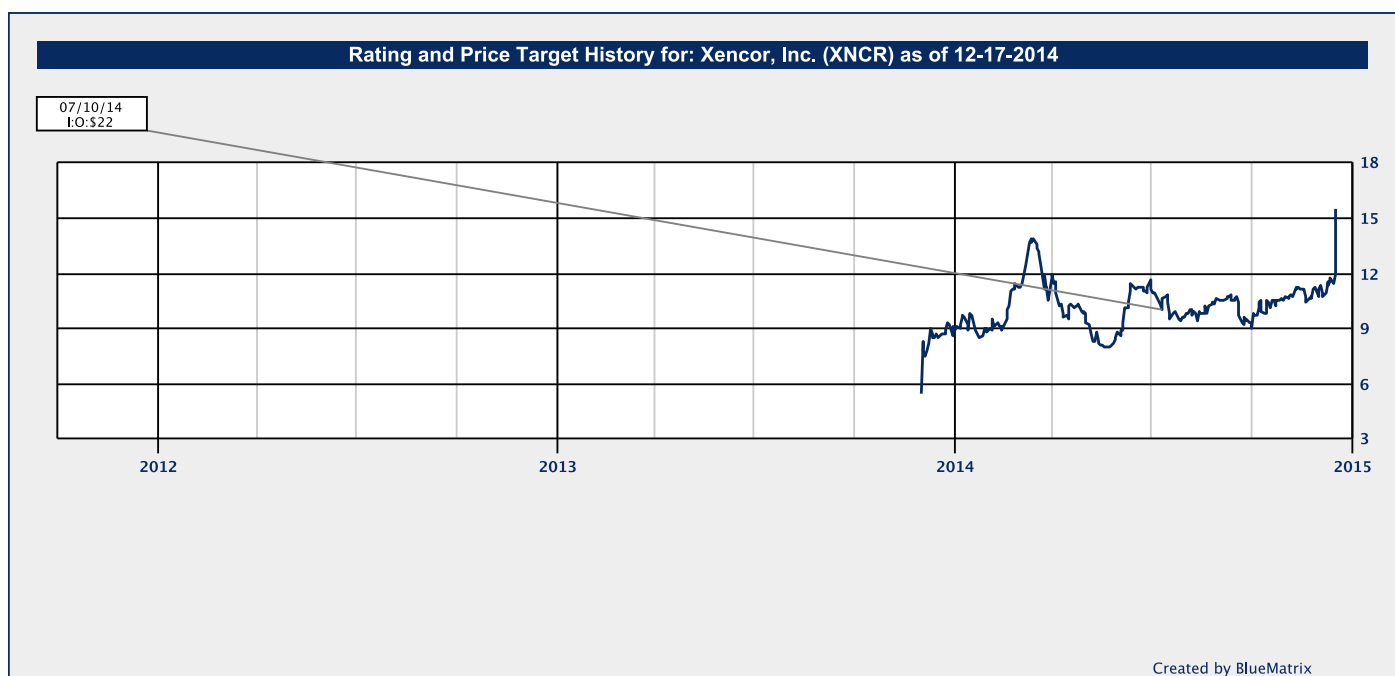
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Stock Prices as of December 18, 2014

Alexion Pharmaceuticals (ALXN - NASDAQ, \$182.08, OUTPERFORM)



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Distribution of Ratings/IB Services Firmwide				
Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	321	53.77	144	44.86
PERFORM [P]	269	45.06	102	37.92
UNDERPERFORM [U]	7	1.17	0	0.00

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