

## Company Update

December 15, 2014

TICKER NASDAQ: XNCR  
RATING BUY  
PRICE TARGET \$18.00  
Price (December 12, 2014) \$11.78

## Xencor, Inc.

### *Promising Phase 1/2 Partner Data for MOR208 and CSL362 and Emerging Bispecific Antibodies*

#### Market Data

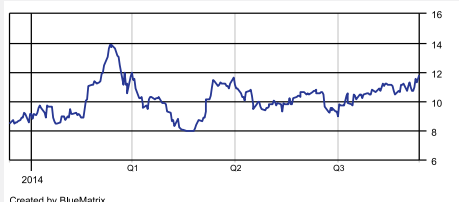
Market Cap (M): \$369.8  
Shares out (M): 31.4  
Float (M): 17.3  
Daily Vol, 3 Mo Avg (M): 0.0  
52-Week Range: \$14.41-\$7.77  
Cash & Cash Eq (M): \$60.9  
Debt (M): \$0.0  
NAV (M): NA

#### Financial Metrics

Short Interest (M): 0.4  
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

#### 1-Year Price History



At the annual American Society of Hematology (ASH) meeting last week, XNCR partners Morphosys and CSL presented results for Phase 1/2 MOR208/XmAb5574 in CLL and NHL and Phase 1 CSL362 in AML, respectively. We view MOR208 early signs of efficacy as encouraging and believe its most direct regulatory path may be in DLBCL. Also, XNCR's wholly owned bispecific programs show effect in monkeys and could enter the clinic in 2016. We reiterate our Buy rating and \$18 PT.

**Ph1/2 Anti-CD19 MOR208/XmAb5574 Efficacious in CLL/SLL and NHL.** In a Ph2a trial in 89 relapsed or refractory B-cell Non-Hodgkin Lymphoma patients with 2 median prior lines of treatment, single agent MOR208 elicited a 22% response rate (RR). In diffuse large B cell lymphoma (DLBCL), MOR208 had a 26% RR with 7.7 months median duration. Based on feedback from KOLs, this would represent a significant benefit. Indeed, FDA granted orphan designation for MOR208 in DLBCL, and EMA issued a positive opinion. In a Phase 1 trial in 27 relapsed or refractory Chronic Lymphocytic Leukemia (CLL) high risk patients and a median of 4 prior therapies (range 1-13), MOR208 elicited responses in 30%. MOR208 was well tolerated with only one patient discontinuing due to toxicity (neutropenia). The authors noted MOR208's single agent response compares favorably with rituximab (qwk), ofatumumab, and obinatumumab and durability of response was prolonged with maintenance therapy. We expect Ph2 CLL studies of MOR208 as a single-agent and in combinations with lenalidomide or PI3K inhibitors.

**Ph1 CSL362 (Anti-IL3Ra/Anti-CD123) Promising in High-risk AML Patients.** Hydrocortisone premedication resulted in dose escalation to 9mg/kg without incident following earlier Grade 3+ infusion toxicities. Though difficult to assess for efficacy, we are encouraged that 13/26 patients maintained CR to week 24 in such a high-risk population (8/26 relapsed within 3 months, and 3/26 at 3-6 months). 9mg/kg dose q14days is the recommended dose level for Ph2 as it ensures saturation of CD123 on leukemic cells.

**Three Wholly Owned Xencor Bispecific Antibody Programs Show Promise.** The bispecific antibodies bind to CD3 on T-Cells and tether them to a hematologic malignancy marker, thereby targeting cancer cells for destruction by activating linked T-cells. In cynomolgus monkeys, all three bispecific antibodies (CD123, CD20, CD20) cleared endogenous cell populations that express the respective cell markers, impressively resulting in clearance of recirculating cell populations as well as prolonged clearance of bone marrow and lymph node populations, which most monoclonal antibodies do not achieve. While all bispecifics look promising, Xencor plans to develop XmAb14045 (CD3/CD123 bispecific) in-house, as AML represents a patient population with high unmet need. We expect XmAb14045 to enter Phase 1 trials in 2016. Given CD20 is a well-established target in B-cell malignancies and CD38 is an emerging target in myeloma, we expect both programs to garner interest from large pharma and biotech.

**Upcoming Milestones:** For XmAb5871, we expect topline results from a Phase 1b/2a study in rheumatoid arthritis (RA) as proof-of-concept for B cell suppression in December and initiation of a Phase 2 trial in IgG4-RD in 2015. For anti-IgE antibody XmAb7195, we expect allergic asthma data in 1Q15 followed by Phase 1b multiple ascending dose 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 and 5871 are worth \$8 and \$5 per share, respectively. 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 comprises the remaining \$1 of our valuation of XNCR shares.

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## INVESTMENT RISK

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

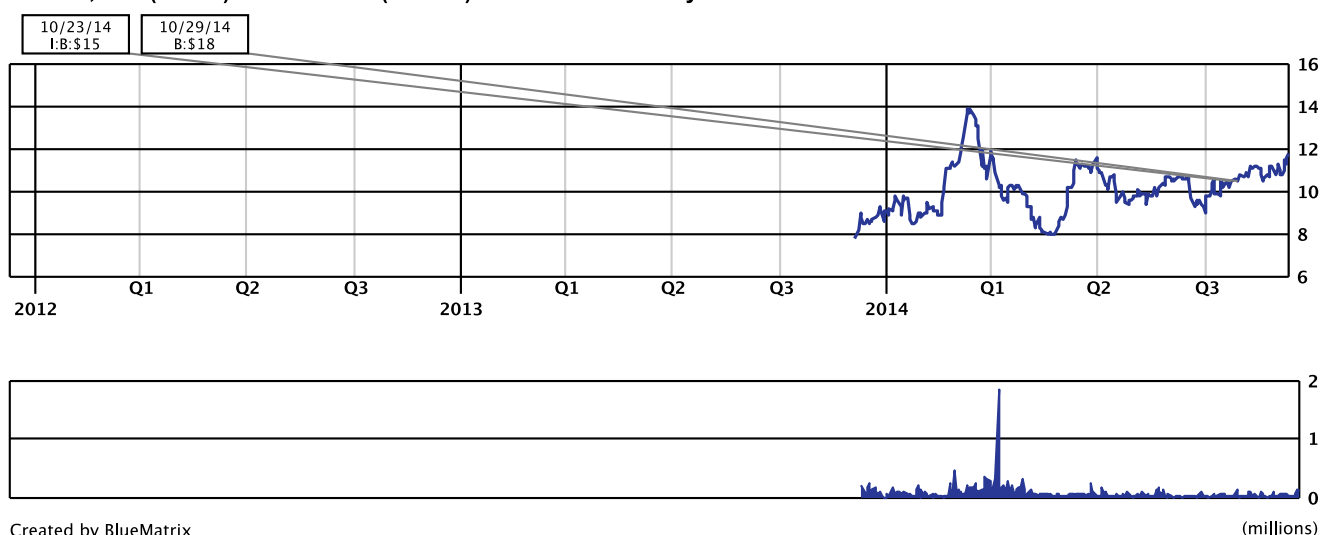
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All required current disclosures on subject companies covered in this report may be obtained by contacting Randy Billhardt at MLV at 212-542-5882 or [rbillhardt@mlvco.com](mailto:rbillhardt@mlvco.com).

**Xencor, Inc. (XNCR): Share Price (in USD) and Volume History as of 12-12-2014****MLV RATING ALLOCATION (as of December 14, 2014)**

**BUY:** MLV projects that the subject company's stock price will increase in value by 20% or more in the next 12 months.

**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.

**SELL:** MLV projects that the subject company's stock price will decrease in value by 20% or more in the next 12 months.

Rating	COMPANIES UNDER COVERAGE		INVESTMENT BANKING SERVICE WITHIN 12 MONTHS	
	Count	Percent	Count	Percent
BUY	116	66.67%	53	30.46%
HOLD	58	33.33%	21	12.07%
SELL	0	0.00%	0	0.00%

**Issuer Specific Disclosures**

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