

## Xencor (XNCR : US\$10.56)

### Xencor climbs 19% in 2014

Xencor Inc, NASDAQ's 26th largest medical company by market cap, has now climbed US\$1.68 (or 18.9%) year to date in 2014 to close at US\$10.56. The volume YTD has been 0.9 times average trading of 80,824 shares. Compared with the NASDAQ-100 Index which rose 295.6 points (or 7.6%) in the quarter, this represented a relative price change of 2.6%. In 2014 the market cap has jumped US\$52.7 million.

### Introduction

**We are currently bearish on this stock in the short-term based on technical indicators, but are neutral in the long-term based on fundamental metrics**

**What makes us bearish on the stock is the following:**

- The price to 200-day MAP ratio is 0.91, a bearish indicator.

**However, there are some reasons why we remain neutral on the stock for the long-term:**

- The Price to Book of 5.1 lower than average of 8.5 for the Medical sector and 6.8 for the Total NASDAQ Market.
- The Q Ratio, defined by James Tobin as MCap divided by Total Assets, is 3.8. Compared with the rest of the market the stock is overvalued and ranks in the bottom quartile of stocks by value of Q Ratio.
- "An earnings-to-price yield of at least twice the triple-A bond"; the stock's earning yield of 25.5% is 10.9 times the triple-A bond yield of 2.3%.

### Stock Summary

<b>Sector</b>	Medical
<b>Market Cap</b>	US\$331.2 million
<b>Shares Outstanding</b>	31,361,444
<b>ISIN</b>	US98401F1057
<b>Relative Strength (3 mo)</b>	75

### Financial Summary

Year ended	Dec 2013	Dec 2012	Dec 2011
Sales (USD)	10.202M	9.621M	6.85M
Pretax (USD)	-	-	(11.2M)
Net (USD)	84.506M	(8.594M)	(11.2M)
EPS (USD)	(3.85)	(118.86)	(0.41)

### MCap: A Historical Perspective

	Share Price (USD)	Market Cap (US\$)
Last	10.6	331.2 million

# Analysis

## Bearish Signals

- The price is at a premium of 3.2% to the 1-month volume weighted average price of US\$10.23. Given that this premium has been under 3.2% one hundred twenty-eight times and over 3.2% eighty times in the last year, the downside:upside probability is estimated at 128:80 or 1.6:1.
- The price to 200-day MAP ratio is 0.91, a bearish indicator. In the past 200 days this ratio has been under 0.91 21 times suggesting further downside.
- The Stochastic indicator of 85.8 has broken through the overbought line of 80.

## Overvaluation:

- Price/Sales of 32.46 versus sector average of 2.7 and market average of 2.3.
- The Q Ratio, defined by James Tobin as MCap divided by Total Assets, is 3.8. Compared with the rest of the market the stock is overvalued and ranks in the bottom quartile of stocks by value of Q Ratio.

## Other Bearish Signals:

The stock has a score of merely 2 out of 9 set by Joseph Piotroski [pass mark >=5 ]:

Positive net income; improvement in current ratio from 0.1 to 10.4.

## Bearish Indicators and Rank in Market:

Description	Value	Rank In Market
Price Change %	-2.1	In Bottom Quartile
Annual Revenue	US\$10.2 million	In Bottom 6%
Price/MAP50	0.54	In Bottom 6%

## Note

## Neutral Indicators and Rank in Market:

Description	Value	Rank In Market
MCap	US\$331.2 million	In 3rd Quartile
Turnover in Quarter	US\$24.2 million	In 3rd Quartile

## Bullish Signals:

- In the last 19 trading sessions there has been a net rise of 8.09%; the stock has advanced twelve times and the biggest one day rise was 5.6% on Oct 16.
- In the NASDAQ market of 2,401 stocks traded today, the stock has a 6-month relative strength of 74 indicating it has outperformed 74% of the market.

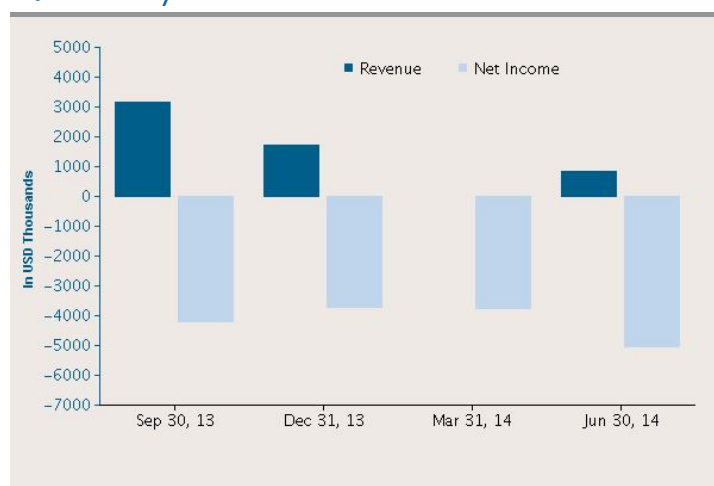
- Also, the relative strength percentile is improving at 74 for 6 months, 75 for 3 months and 86 for 1 month.
- The Moving Average Convergence Divergence (MACD) indicator of 12-day Exponential Moving Average (EMA) of 10.46 minus the 26-day EMA of 10.29 is positive suggesting a bullish signal. Both the 12-day EMA as well as the 26-day EMA are rising, another bullish signal.
- The Price/MAP of 0.91 for XNCR is higher than the Price/MAP for the NASDAQ-100 Index of 0.4.
- The current short volume is 1.0 times its own historical average of 0.2%.

## Undervaluation:

- The earnings yield of 25.5% is 10.9 times the 10-year bond yield of 2.34%.
- The Price to Book of 5.1 lower than average of 8.5 for the Medical sector and 6.8 for the Total NASDAQ Market.
- The P/E of 3.9 multiplied by the P/NTA of 5.1 is 20.1. Being less than the Benjamin Graham benchmark of 22.5 the stock appears undervalued.
- The company is cash rich with Cash to Market Capitalisation at 23.5%.

## Other Bullish Signals:

## Quarterly Revenue & Net Income



- Return on Assets has shown signs of recovery in recent years.

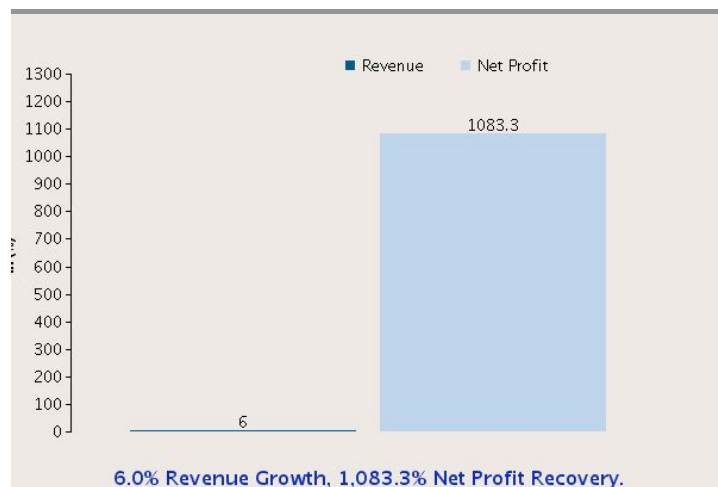
## Annual Trend:

[Year ended, all figures in %]:

Year	ROE	ROA
Dec 13	114.9	96.8
Dec 12	-	-73.7

## Analysis (continued)

### % Growth Y.O.Y, Revenue & Net Profit



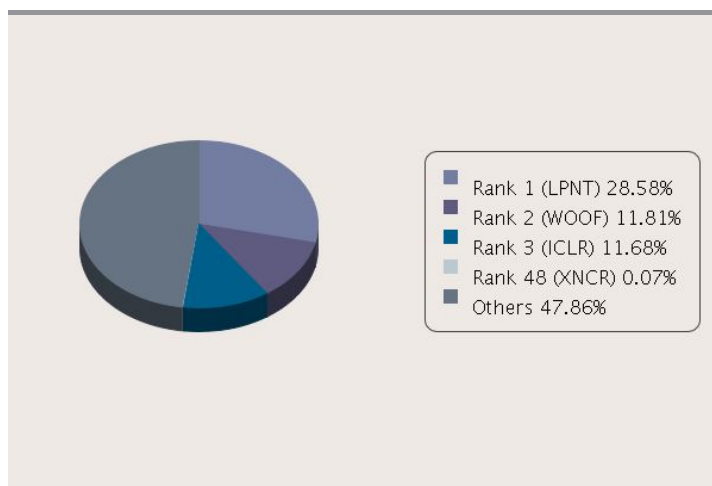
Also, the following criteria set by Benjamin Graham:

- "An earnings-to-price yield of at least twice the triple-A bond"; the stock's earning yield of 25.5% is 10.9 times the triple-A bond yield of 2.3%.
- "A stock price down to at least two-thirds of tangible book value per share"; the price is 0.4 times tangible book value per share of \$US26.17.
- "A stock price down to two-thirds of "net current asset value" or "net quick liquidation value"; the price is 0.3 times net current asset value of \$US31.6 per share.
- "Total debt less than tangible book value"; total debt of \$US10,000 is less than tangible book value of \$US64.7 Million.
- "Current ratio of two or more"; current assets are 10.4 times current liabilities.

### Bullish Indicators and Rank in Market:

Description	Value	Rank In Market
Net Profit Margin %	828.3	In Top 1%
Price Earnings	3.9	In Top 4%
Cash to MCap %	23.5	In Top Quartile

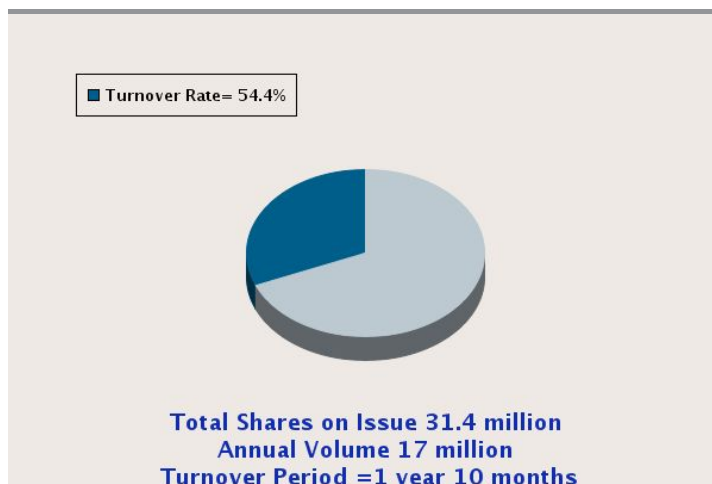
### Revenue Share Medical



### Insider Trades



### Turnover Rate & Turnover Period

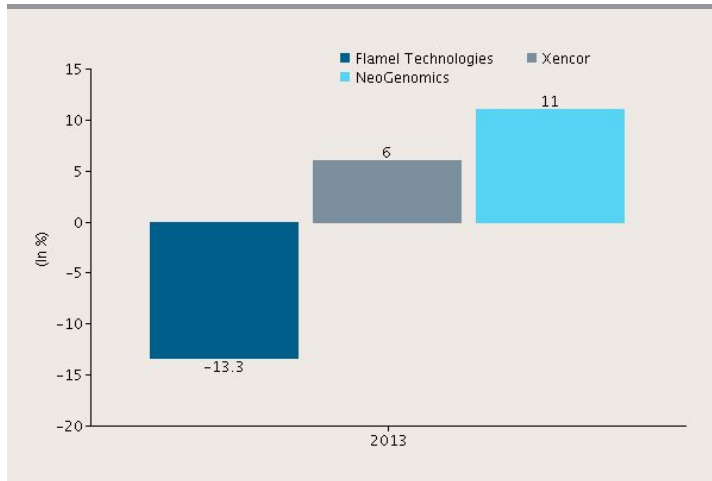


## Analysis (continued)

### Trailing 3 months

<b>Turnover</b>	US\$24.2 million
<b>Volume</b>	2,393,608
<b>Volume Index (1 is avg)</b>	0.5

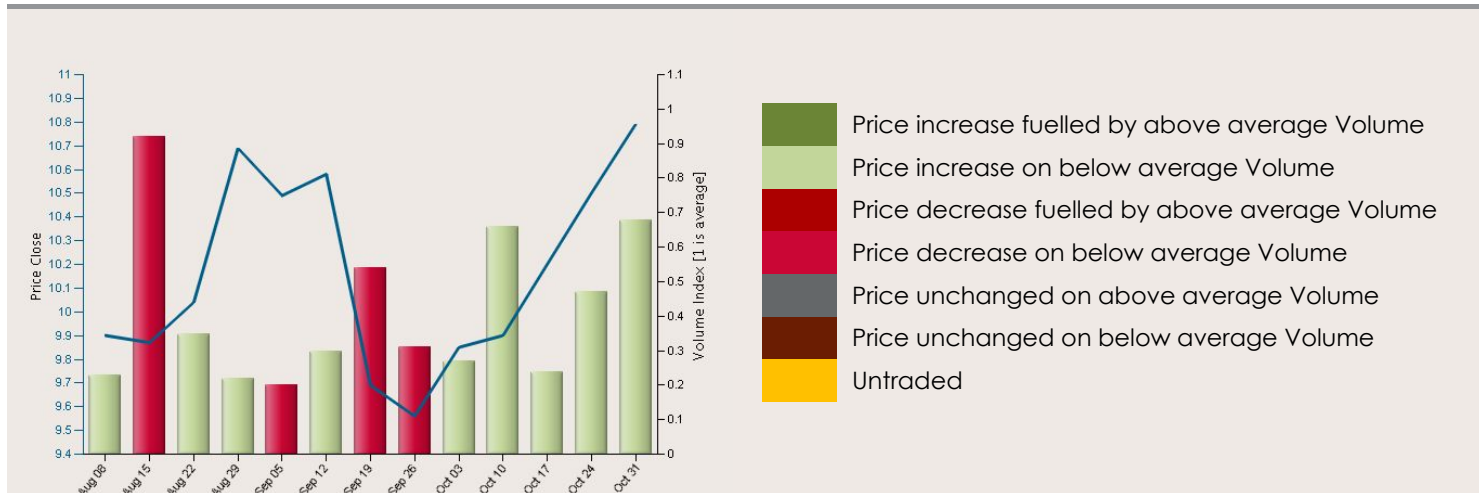
### Peer Comparison Revenue Growth (%)



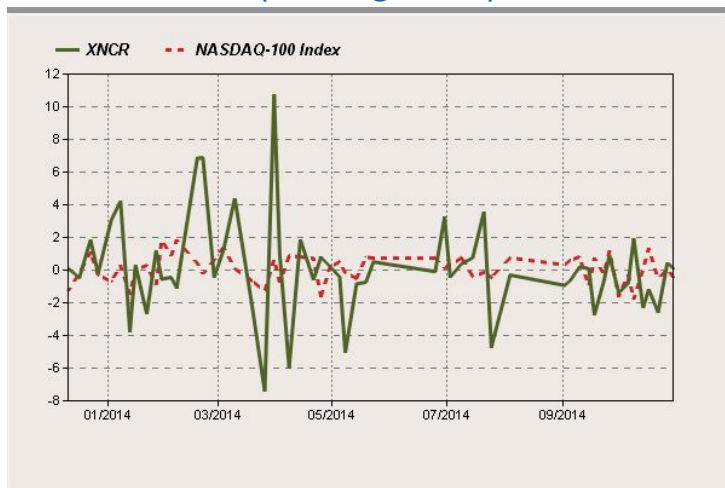
## Price Volume Trend: Trailing Quarter



## Weekly Price Volume Dynamics (Last 12 Weeks)



## Stock v Index (Trailing Year)



## Price/Moving Average Price [P/MAP]





## Recent Analyst Recommendations

Date	Brokerage	Action	Past Rating	Current Rating	Prev Target	Price Target
23-Oct-2014	MLV & Co	Initiated Coverage	-	Buy	-	-



## Company Overview

### Regulatory Announcements

To view Recent Company Headlines, [click here](#)

September 02: Xencor Appoints Debra Zack, M.D., Ph.D., Vice President, Clinical Development and Lloyd Rowland, Senior Vice President, Chief Compliance Officer and General Counsel

August 13: Xencor insider sells; shares at a seven-day low

August 05: Xencor to Present at Wedbush Securities 2014 Life Sciences Management Access Conference

July 24: Xencor to Host Second Quarter 2014 Financial Results Webcast and Conference Call

July 15: Xencor Appoints Kurt Gustafson to Board of Directors; Promotes John Desjarlais to Chief Scientific Officer

June 18: Xencor: Submission of Matters to a Vote of Security Holders

May 28: Xencor Initiates Phase 1 Study of XmAb7195 for Asthma

To view 8-K people news for Xencor, [click here](#)

July 15: Xencor appoints Kurt Gustafson as director 16 July 2014

June 18: Xencor Elects 4 Directors

March 20: Harold R. Werner - Xencor director resigns

January 17: Atul Saran - Xencor director resigns

To view 8-K other news for Xencor, [click here](#)

October 29: Xencor: Termination of a Material Definitive Agreement

July 31: Xencor: Results of Operations and Financial Condition

March 19: Xencor: Results of Operations and Financial Condition

### Annual Report

To view Annual Report [click here](#)

### Quarterly Report

To view Quarterly Report [click here](#)

### Issued Capital

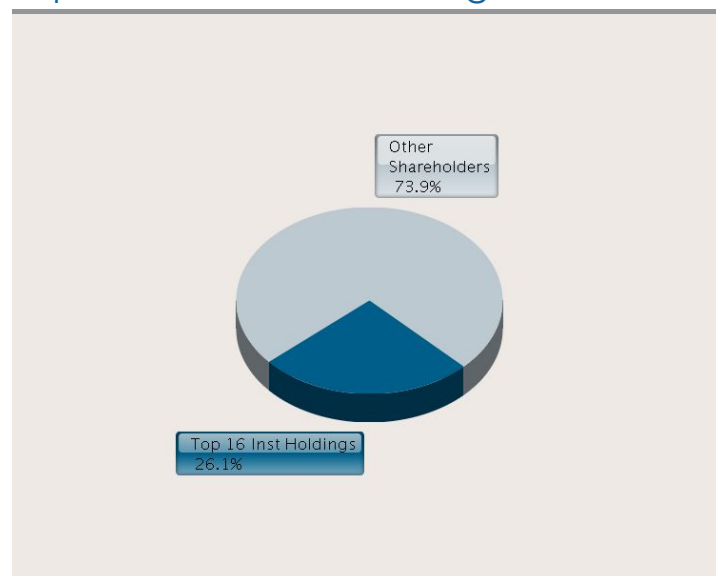
Based on 31,361,444 issued equity shares the market capitalisation is US\$331.2 million. It is NASDAQ's 48th largest Medical company by total revenue.

The top sixteen shareholders hold 26.1% of the issued capital leaving a float of 73.9%.

### Top 10 Shareholders

Name of Shareholder	No. of Shares	% Held
Ra Capital Management Llc	2,725,000	8.69
Primecap Management Co/Ca/	1,767,500	5.64
Adage Capital Partners Gp Llc	920,000	2.93
Orbimed Advisors Llc	801,700	2.56
Broadfin Capital Llc	774,881	2.47
Blackrock Fund Advisors	401,042	1.28
Jpmorgan Chase & Co	196,050	0.63
Barclays Global Investors Uk Holdings Ltd	132,103	0.42
State Street Corp	104,935	0.33
Vhcp Management Llc	88,400	0.28
<b>Total</b>	<b>7,911,611</b>	<b>25.23</b>

### Top 16 Institutional Holdings



## Board and Management

### **Bassil I. Dahiyat** CEO & President

Dr. Bassil I. Dahiyat, Ph.D., is the President, Chief Executive Officer, Founder, and Director of Xencor, Inc. Dr. Dahiyat co-founded Xencor in 1997 and, from 1997 to 2003, served as our Chief Executive Officer and, from 2003 to 2005, served as our Chief Scientific Officer. In 2005, Dr. Dahiyat was recognized as a technology pioneer by the World Economic Forum. Additionally, Dr. Dahiyat was named one of 2003's Top 100 Young Innovators by MIT's Technology Review magazine for his work on protein design and its development for therapeutic applications and has received awards from the American Chemical Society, the Controlled Release Society and the California Institute of Technology. Dr. Dahiyat holds a Ph.D. in Chemistry from the California Institute of Technology and B.S. and M.S.E. degrees in Biomedical Engineering from Johns Hopkins University.

### **Bruce L. A. Carter** Independent Chairman

Dr. Bruce L.A. Carter, Ph.D., is Independent Chairman of the Board of Xencor, Inc. Since June 2012, Dr. Carter has served as a director of Regulus Therapeutics Inc., a publicly-held biopharmaceutical company. Since November 2013, Dr. Carter has served as a director of Enanta Pharmaceuticals, Inc., a publicly-held biopharmaceutical company. From November 2009 until May 2011, Dr. Carter served as Executive Chairman of the Board of Directors of Immune Design Corp., a privately-held biotechnology company, and as Chairman of its Board of Directors until February 2012, and continues to serve as an independent director. Since June 2008, he has served as a director of Dr. Reddy's Laboratories Limited, a publicly-held pharmaceutical company. From April 1998 to January 2009, Dr. Carter served as Chief Executive Officer of ZymoGenetics, Inc., a publicly-held biotechnology company (acquired by Bristol-Myers Squibb in October 2010). Dr. Carter holds a Ph.D. in Microbiology from Queen Elizabeth College, University of London and a B.Sc. with Honors in Botany from the University of Nottingham, England.

### **John S. Stafford III** Director

Between 1996 and 2001, Mr. Stafford was a Managing Director of Stafford Trading, Inc., a business primarily involved in proprietary trading operations and venture capital investments. The company, headquartered in Chicago, operated a successful specialist and market making business and conducted proprietary trading in equities, futures and fixed income products. Mr. Stafford's venture capital activities consisted of investments in over 40 companies, and he is a Board Member on several of these companies, including Clinical Micro Sensors, Inc., Xencor and All Optical Networks, Inc. At the end of 2001, the Company was purchased by TD Options, LLC and Mr. Stafford became Chief Executive Officer of Ronin Capital, LLC, a registered broker dealer with proprietary trading operations encompassing equity, fixed income and derivative securities. The Company is a Member of The Chicago Board Options Exchange, The Chicago Board of Trade, The Chicago Mercantile Exchange and other U.S. principal exchanges. Mr. Stafford attended The University of Chicago.

### **Kurt Gustafson** Director

Mr. Gustafson has more than 20 years of industry-related experience. Currently, Mr. Gustafson serves as executive vice president, chief financial officer and principal accounting officer at Spectrum Pharmaceuticals, Inc. Prior to that, he served as chief financial officer at Halozyne Therapeutics, Inc., and before that he had a long career at Amgen in various financial and planning roles, most recently as vice president, finance. He earned a B.A. in accounting from North Park University in Chicago and an M.B.A. from University of California, Los Angeles.

#### **Creation of shareholder value in Xencor:**

Since appointment as Director: The present value of USD1,000 invested on the appointment date of July 14, 2014 at close price of US\$10.73 is US\$984, for a capital loss of US\$16.



## Board and Management (continued)

### Robert F. Baltera Independent Director

Mr. Robert F. Baltera, Jr., is Independent Director of Xencor, Inc, since November 2013. Most recently, Mr. Baltera was the Chief Executive Officer of Amira Pharmaceuticals, Inc., a private pharmaceutical development company, a position he held from July 2007 through September 2011. Amira was sold to Bristol-Myers Squibb in September 2011. Before becoming Amira's Chief Executive Officer, he held a number of senior management positions at Amgen Inc., a publicly-held biopharmaceutical company, the last being Vice President of Corporate and Contract Manufacturing. He served as Amgen's team leader responsible for the approval of Kineret(Registered) in rheumatoid arthritis. Mr. Baltera currently serves on the board of directors of Organovo Holdings, Inc., a publicly-held biotechnology development company, and the following private companies: Panmira Pharmaceuticals, LLC, FLAP, LLC, Synovex Corporation and Ruga Corporation, as well as an industry group, the San Diego Venture Group. Mr. Baltera holds an M.B.A. from the Anderson School at the University of California, Los Angeles and earned a B.S. in Microbiology and an M.S. in Genetics from The Pennsylvania State University. Mr. Baltera attended the Director Education and Certification program at the University of California, Los Angeles.

### Jonathan Fleming Independent Director

Mr. Jonathan Fleming is Independent Director of Xencor, Inc., since January 2013. Mr. Fleming is the Managing General Partner of Oxford Bioscience Partners, an international venture capital firm specializing in life science technology-based investments, a position which he has held since June 1999. He joined Oxford Bioscience Partners in August 1996 as a General Partner. Prior to joining Oxford Bioscience Partners, Mr. Fleming was a Founding General Partner of MVP Ventures in Boston from 1988 to 1996. He began his investment career with TVM Techno Venture Management in Munich, Germany in 1985. Mr. Fleming is also a co-founder of Medica Venture Partners, a venture capital investment firm specializing in early-stage healthcare and biotechnology companies in Israel. Mr. Fleming was on the board of directors of Asterand plc from September 2008 to September 2011, the board of directors of Memory Pharmaceuticals Corp. from January 1998 to May 2005 and from October 2006 to November 2008, the board of directors of IMCOR Pharmaceuticals Co. from June 2003 to March 2009, and is a director of several private companies including Leerink Swann LLC, an investment bank specializing in healthcare companies, since June 1998, Laboratory Partners, a clinical diagnostic testing company, since June 2006, and RailRunner, N.A., Inc., a rail products and services company, since June 1999. Mr. Fleming is a Trustee of the Museum of Science in Boston, a director of the New England Healthcare Institute, and a senior lecturer at the Massachusetts Institute of Technology Sloan School of Business. He holds an M.P.A from Princeton University and a B.A. from the University of California, Berkeley.

# Financial Results (Half Year)

30 June, 2014

## INCOME STATEMENT

Currency in Thousand of USD	2014-06-30	2013-06-30	Change %
Revenue			
Collaborations, licenses and milestones	3,008	5,266	Down 42.9
Operating expenses			
Research and development	8,511	8,694	Down 2.1
General and administrative	3,317	1,539	Up 115.5
Total operating expenses	11,828	10,233	Up 15.6
Loss from operations	-8,820	-4,967	Deterioration 77.6
Other income (expenses)			
Interest income	29	3	Up 866.7
Interest expense	5	1,213	Down 99.6
Other income	1	12	Down 91.7
Loss on settlement of notes		-48,556	
Total other income (expense), net	25	-49,754	Recovery
Net loss	-8,795	-54,721	Reduced 83.9
Deemed contribution on exchange of preferred stock		147,114	
Net income (loss) attributable to common stockholders	-8,795	92,393	Deterioration
Net income (loss) per share attributable to common stockholders:			
Basic	-28.0c	US\$1,277.88	Deterioration
Diluted	-28.0c	-435.0c	Reduced 93.6
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:			
Basic	31,366,781	72,302	Up 43,283.0
Diluted	31,366,781	12,580,042	Up 149.3

## BALANCE SHEET

Currency in Thousand of USD	2014-06-30	2013-12-31	Change %
Assets			
Current assets			
Cash	66,218	77,975	Down 15.1
Accounts receivable	60	59	Up 1.7
Prepaid expenses and other current assets	402	60	Up 570.0
Total current assets	66,680	78,094	Down 14.6
Property and equipment			
Computers, software and equipment	3,831	3,514	Up 9.0
Furniture and fixtures	97	89	Up 9.0
Leasehold improvements	3,081	3,081	Steady
Less accumulated depreciation and amortization	-6,438	-6,377	Deterioration 1.0
Property and equipment, net	571	307	Up 86.0

# Financial Results (Half Year) (continued)

30 June, 2014

Other assets			
Patents, licenses, and other intangible assets, net	9,058	8,814	Up 2.8
Other assets	58	100	Down 42.0
Total other assets	9,116	8,914	Up 2.3
Total assets	76,367	87,315	Down 12.5
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable	1,374	2,633	Down 47.8
Accrued expenses	1,331	1,393	Down 4.5
Current portion of deferred revenue	3,236	3,444	Down 6.0
Current portion of capital lease obligations	5	9	Down 44.4
Total current liabilities	5,946	7,479	Down 20.5
Deferred revenue, less current portion	4,905	6,302	Down 22.2
Capital lease obligations, less current portion		1	
Total liabilities	10,851	13,782	Down 21.3
Commitments and contingencies			
Stockholders' equity			
Common stock, 0.01 par value: 200,000,000 authorized shares at June 30, 2014 and December 31, 2013; 31,393,606 issued and outstanding at June 30, 2014 and 31,354,467 issued and outstanding at December 31, 2013	314	314	Steady
Additional paid-in capital	301,568	300,790	Up 0.3
Accumulated deficit	-236,366	-227,571	Deterioration 3.9
Total stockholders' equity	65,516	73,533	Down 10.9
Total liabilities and stockholders' equity	76,367	87,315	Down 12.5

## PERFORMANCE RATIOS

	2014-06-30
Return on Equity(%)	-13.42
Return on Assets(%)	-11.52

## PER SHARE FIGURES

	2014-06-30
EPS	-28.0c

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