

Intrexon

Updating Model for GAAP Revenues

We are updating our XON financial model to include GAAP revenues. We note that under GAAP, XON is required to defer recognition of a portion of upfront and milestone payment revenues, even in cases where payments are neither contingent on the results of future performance, nor refundable in the event of non-performance. As a result, our GAAP revenue forecast is significantly lower, as compared to our non-GAAP (adjusted) revenue estimates. We maintain our Overweight rating and price target of \$30.

For more details on our XON investment thesis, please see our initiation [note](#).

Overweight

XON, XON US

Price: \$20.27

Price Target: \$30.00

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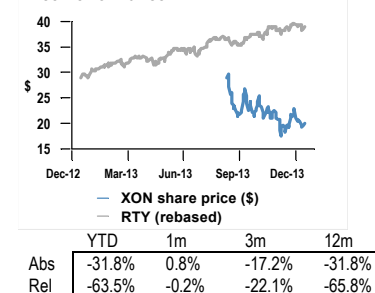
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Price Performance



Intrexon Corporation (XON;XON US)

FYE Dec	2012A	2013E (Prev)	2013E (Curr)	2014E (Prev)	2014E (Curr)	2015E (Prev)	2015E (Curr)
Revenue (\$ mn)							
Q1 (Mar)	2	4A	4A	21	11	34	19
Q2 (Jun)	3	7A	7A	25	14	37	21
Q3 (Sep)	3	6A	6A	26	15	41	24
Q4 (Dec)	7	23	10	43	22	59	33
FY	14	39	27	115	62	171	97

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Current estimates are GAAP; previous estimates are non-GAAP.

Company Data

Price (\$)	20.27
Date Of Price	18-Dec-13
52-week Range (\$)	31.44-16.00
Market Cap (\$ mn)	1,824.30
Fiscal Year End	Dec
Shares O/S (mn)	90
Price Target (\$)	30.00
Price Target End Date	31-Dec-14

See page 6 for analyst certification and important disclosures.

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Investments Thesis, Valuation, and Risks

Investment Thesis

Intrexon is a first mover and leader in the rapidly emerging field of synthetic biology, leveraging its expertise to target high-potential verticals within a diverse set of end markets, including healthcare, food, energy and environmental science. The company has a unique and highly scalable ECC (exclusive channel collaboration) business model that should generate significant operating leverage over time. Moreover, we believe XON is led by a best-in-class management team with a proven track record of building and commercializing R&D-driven companies, including New River Pharmaceuticals (sold to Shire for \$2.6B) and Clinical Data (sold to Forest Labs for \$1.2B).

Valuation

Our December 2014 price target of \$30 is derived from a 10-year discounted cash flow analysis, with a CAPM-derived WACC discount rate of 19.2% and terminal growth of 1%.

Risks to Rating and Price Target

Downside risks to our rating, estimates, and price target include: (1) limited near-term revenue visibility due to partnership driven business model; (2) equity stakes in lieu of cash payments from ECC partners provide future optionality but also the risk of impairment; (3) regulatory risk associated with current and future collaborations given exposure to healthcare, food and environmental science end markets.

Figure 1: XON Model

Income Statement (in millions, except per share amounts)		2011A	2012A	1QA Mar	2QA Jun	3QA Sep	4QE Dec	2013E	1QE Mar	2QE Jun	3QE Sep	4QE Dec	2014E	CAGR 13-18
Total Revenues (GAAP)		8	14	4	7	6	10	27	11	14	15	22	62	58%
R&D		70	64	12	14	11	10	46	11	14	13	13	51	
G&A		18	25	6	7	7	5	26	7	7	7	7	28	
Other operating expenses (incl. AquaBounty)		2	0	0	0	0	2	2	2	2	2	2	6	
Operating Profit (Loss) (EBIT) GAAP		(82)	(75)	(14)	(14)	(12)	(7)	(47)	(8)	(8)	(7)	1	(23)	N/A
GAAP EBITDA		(82)	(74)	(34)	(5)	17	(5)	(27)	(6)	(6)	(5)	3	(14)	
Adjusted EBITDA			(60)	(7)	(5)	(5)	6	(12)	3	5	7	22	36	
Pretax income (loss) GAAP		(85)	(82)	(36)	(7)	15	(6)	(34)	(7)	(7)	(7)	2	(20)	N/A
Income tax		0	0	0	0	0	0	0	0	0	0	0	0	
Net Income (loss) GAAP		(85)	(82)	(36)	(7)	15	(6)	(34)	(7)	(7)	(7)	2	(20)	
Net income (loss) attributable to minority interest		0	0	(0)	(1)	(0)	0	(1)	0	0	(0)	(0)	(1)	
Accr. of dividends on redeemable conv.		(14)	(22)	(6)	(8)	(7)	0	(21)	0	0	0	0	0	
Net income (loss) attributable to common shareholders		(99)	(104)	(43)	(14)	8	(6)	(54)	(7)	(7)	(6)	2	(19)	
Diluted Shares Outstanding		9	6	6	6	56	56	31	56	56	57	57	57	
GAAP Diluted EPS		(\$10.81)	(\$18.79)	(\$7.54)	(\$2.46)	\$0.15	(\$0.11)	(\$1.76)	(\$0.13)	(\$0.13)	(\$0.11)	\$0.04	(\$0.33)	N/A
R&D Margin (as % of total revenue)		861%	461%	289%	201%	175%	100%	170%	100%	100%	90%	60%	83%	
SG&A Margin		224%	179%	163%	110%	121%	50%	98%	60%	50%	50%	30%	45%	
Operating (EBIT) Margin GAAP		-1009%	-540%	-352%	-210%	-196%	-70%	-175%	-74%	-61%	-50%	3%	-38%	
Effective Tax Rate		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Net Margin GAAP		-1213%	-746%	-1074%	-206%	135%	-60%	-202%	-65%	-54%	-41%	9%	-30%	
Revenue growth y/y			70%	146%	149%	110%	52%	94%	178%	104%	143%	117%	129%	
EPS growth y/y														

Source: Company data and J.P. Morgan estimates.

Figure 2: XON DCF Analysis

Target Period: **Dec 2014**

Projected FY Ending Dec	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Adj. EBIT (\$M)	(19)	26	70	114	182	270	377	481	567	667	743	818
Tax-affected adj. EBIT (\$M)	(19)	26	44	70	113	168	234	298	351	414	461	507
Free Cash Flow	(14)	29	47	74	115	168	233	297	353	412	462	508
growth y/y			60%	58%	55%	46%	39%	27%	19%	17%	12%	10%

	Discounted Cash Flows (\$M)		PV of Terminal Value (\$M) at a Perpetual Growth Rate of						Enterprise Value (\$M)						Equivalent Terminal EBITDA Multiple (forward 12 mos)				
Discount Rate	2015-2024		0.0%	0.5%	1.0%	1.5%	2.0%		0.0%	0.5%	1.0%	1.5%	2.0%		0.0%	0.5%	1.0%	1.5%	2.0%
18.2%	932		678	700	724	750	777		1,610	1,633	1,657	1,682	1,709		2.7x	2.8x	2.8x	2.9x	0.0x
18.7%	910		636	657	679	702	727		1,546	1,567	1,589	1,612	1,637		2.6x	2.7x	2.7x	2.7x	0.0x
19.2%	888	+	598	617	637	658	681	=	1,486	1,505	1,526	1,547	1,569		2.5x	2.6x	2.6x	2.6x	0.0x
19.7%	868		562	580	598	618	638		1,430	1,447	1,466	1,485	1,506		2.4x	2.5x	2.5x	2.5x	0.0x
20.2%	847		529	545	562	580	599		1,377	1,393	1,410	1,428	1,447		2.3x	2.4x	2.4x	2.4x	0.0x
	Net Debt (Cash) (\$M)		Equity Value (\$M)						Equity Value per Share						Terminal Value as a % of Enterprise Value				
			0.0%	0.5%	1.0%	1.5%	2.0%		0.0%	0.5%	1.0%	1.5%	2.0%		0.0%	0.5%	1.0%	1.5%	2.0%
	(183)		1,793	1,816	1,840	1,865	1,892		\$31.74	\$32.14	\$32.57	\$33.02	\$33.49		42%	43%	44%	45%	45%
	(183)		1,730	1,750	1,772	1,796	1,820		\$30.61	\$30.98	\$31.37	\$31.78	\$32.22		41%	42%	43%	44%	44%
-	(183)	=	1,670	1,689	1,709	1,730	1,753	=	\$29.55	\$29.89	\$30.25	\$30.62	\$31.02		40%	41%	42%	43%	43%
	(183)		1,613	1,631	1,649	1,669	1,690		\$28.55	\$28.86	\$29.19	\$29.54	\$29.90		39%	40%	41%	42%	42%
	(183)		1,560	1,576	1,593	1,611	1,630		\$27.61	\$27.90	\$28.20	\$28.52	\$28.85		38%	39%	40%	41%	41%

Source: Company data and J.P. Morgan estimates.

Intrexon: Summary of Financials

Income Statement - Annual	FY12A	FY13E	FY14E	FY15E	Income Statement - Quarterly	1Q13A	2Q13A	3Q13A	4Q13E
Revenues	14	27	62	97	Revenues	4A	7A	6A	10
Cost of products sold	-	-	-	-	Cost of products sold	-	-	-	-
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(25)	(26)	(28)	(33)	SG&A	(6)A	(7)A	(7)A	(5)
R&D	(56)	(38)	(42)	(40)	R&D	(10)A	(12)A	(9)A	(8)
Operating income	(75)	(47)	(23)	6	Operating income	(14)A	(14)A	(12)A	(7)
EBITDA	(67)	(40)	(14)	16	EBITDA	(12)A	(12)A	(10)A	(5)
Net interest (income) / expense	-	-	-	-	Net interest (income) / expense	-	-	-	-
Other income / (expense)	(6)	14	4	4	Other income / (expense)	(22)A	8A	27A	1
Income taxes	0	0	0	(4)	Income taxes	0A	0A	0A	0
Net income	(111)	(42)	(19)	8	Net income	(65)A	(6)A	36A	(6)
Diluted shares outstanding	6	31	57	57	Diluted shares outstanding	6A	6A	56A	56
Diluted EPS	(18.79)	(1.76)	(0.33)	0.14	Diluted EPS	(7.54)A	(2.46)A	0.15A	(0.11)
Balance Sheet and Cash Flow Data	FY12A	FY13E	FY14E	FY15E	Ratio Analysis	FY12A	FY13E	FY14E	FY15E
Cash and cash equivalents	10	60	49	65	Sales growth	70.4%	93.9%	128.7%	57.5%
Accounts receivable	1	4	10	14	EBIT growth	(8.8%)	(37.0%)	(50.8%)	(126.2%)
Inventories	-	-	-	-	EPS growth	80.1%	(93.3%)	(75.3%)	(140.8%)
Other current assets	2	3	3	3	Gross margin	-	-	-	-
Current assets	14	204	199	219	EBIT margin	(587.6%)	(127.6%)	(37.8%)	6.3%
PP&E	19	18	22	25	EBITDA margin	(530.2%)	(98.7%)	(22.1%)	16.4%
Total assets	152	467	459	478	Tax rate	0.0%	0.0%	0.0%	38.0%
Total debt	0	3	3	3	Net margin	(793.7%)	(153.9%)	(30.4%)	7.9%
Total liabilities	67	81	90	98	Net Debt / EBITDA	14.1%	216.3%	343.6%	(391.8%)
Shareholders' equity	85	386	369	380	Net Debt / Capital (book)	(13.9%)	(17.6%)	(14.5%)	(19.7%)
Net income (including charges)	(82)	(34)	(20)	6	Return on assets (ROA)	(83.0%)	(13.4%)	(4.1%)	1.6%
D&A	8	8	10	10	Return on equity (ROE)	(133.5%)	(17.7%)	(5.0%)	2.1%
Change in working capital	6	(10)	(3)	(3)	Enterprise value / sales	0.0	0.0	0.0	0.0
Other	6	(8)	4	4	Enterprise value / EBITDA	0.0	0.0	0.0	0.0
Cash flow from operations	(62)	(44)	(9)	18	Free cash flow yield	(61.6%)	(7.3%)	(0.9%)	1.4%
Capex	(7)	(2)	(2)	(2)					
Free cash flow	(69)	(46)	(11)	16					
Cash flow from investing activities	(24)	(222)	(2)	(2)					
Cash flow from financing activities	76	316	0	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates. Note: GAAP.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

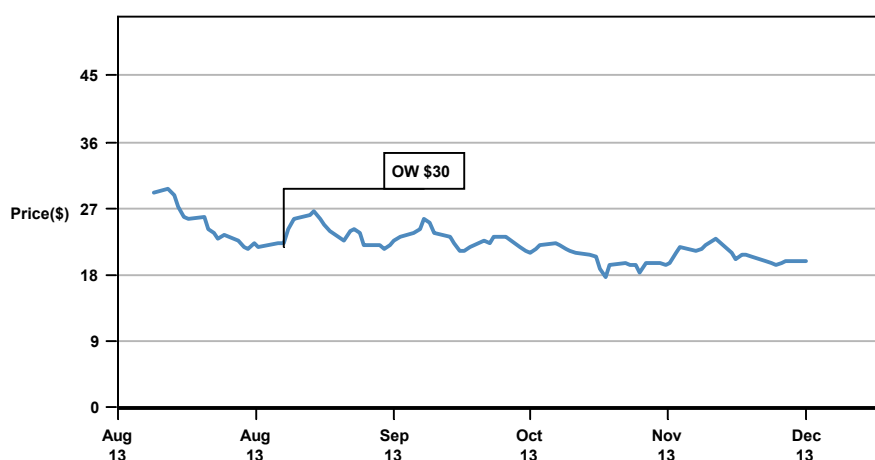
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Intrexon (XON, XON US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
03-Sep-13	OW	21.73	30.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 03, 2013.

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