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Stock Symbol	NYSE: XON
Current Price	\$15.30
12 mos. Target Price	\$40.00
Market Cap	\$1,512.1 mln
Shares O/S	99.3 mln
Avg Daily Vol. (3 mos.)	818,988 shs.
52- Week Price Low/High	\$15.06 - \$38.50
P/B	3.9x
Dividend / Yield	/ 0.0%

	EPS		
	FY 13A	FY 14E	FY 15E
Q1 (Mar)	(0.47)A	0.04A	—
Q2 (Jun)	(0.07)A	(0.28)E	—
Q3 (Sep)	0.16A	(0.09)E	—
Q4 (Dec)	(0.13)A	(0.07)E	—
	(0.46)A	(0.41)E	(0.15)E



May 9, 2014

Intrexon Corporation

BUY

Company Update : Biotechnology

Financials Underscore Partnering Progress

Intrexon shares have taken a drubbing of late along with others in the biotech and pharmaceutical sector. But the reasons that have been cited for the recent price decline here don't make sense. One factor may have been two articles about the challenges faced by a small affiliate in obtaining FDA approval of a genetically modified salmon. Yet, that product is not very meaningful to Intrexon's performance. Another issue is a desire for more collaborations. We believe the Company is making significant progress, but it takes time for new deals to be completed. But then, Intrexon has made substantial progress already.

The first quarter closed with \$101 million of deferred revenue on the balance sheet. We think this is a good measure of partnering progress, since it reflects both the number of deals signed and the resources being invested in synthetic biology projects with Intrexon. As of March 31, 2013, deferred revenue totaled \$61 million. Since then, the Company booked revenue of \$27.9 million, which means it secured \$68 million of incremental business in the latest four quarters.

Intrexon's goals are in sync with trends in global industries. The Company has been taking measures to operate as efficiently as possible, while creating new molecules, biosynthetic processes, and organisms with an optimized value/price proposition. This is an important consideration in competitive marketplaces and for industries with pricing limitations.

The Company is on track to achieve an important operational goal in 2015. Management is targeting that year to have clients' cost recovery payments cover half of operating expenses. In the recent quarter, Intrexon incurred extra expenses for an expansion of its infrastructure through new hires, the addition of a European laboratory, and the Medistem acquisition. But R&D costs remained steady, near \$12 million. Unrealized appreciation of equity securities more than offset the charges, resulting in a small profit. This is unlikely to be repeated, even though some first-quarter costs will not recur.

We are maintaining our BUY recommendation and our \$40 price target. New collaborations and signs of success should rekindle interest in the stock. Clinical trials of novel immunotherapies by Ziopharm, genetically modified fibroblasts for a severe skin condition by Fibrocell, and a new treatment for pertussis by Synthetic Biologics may well provide broad validation of Intrexon's expertise and the value of synthetic biology.

QUARTERLY INCOME STATEMENTS[‡] (Fiscal years end December 31st.)[‡] Data are in thousands, except for per-share figures. *Estimates are in italics.*

	2013				2014			
	Q1A	Q2A	Q3A	Q4A	Q1A	Q2E	Q3E	Q4E
Revenues								
Collaboration revenues	\$ 3,864	\$ 6,674	\$ 6,028	\$ 6,959	\$ 7,837	\$ 8,163	\$ 10,400	\$ 17,050
Other	112	107	105	184	17	20	15	18
Total Revenues	\$ 3,976	\$ 6,781	\$ 6,133	\$ 7,143	\$ 7,854	\$ 8,183	\$ 10,415	\$ 17,068
Operating expenses								
Cost of products sold	\$ -	\$ -	\$ -	\$ -				
Research & development	11,502	13,602	10,763	12,571	\$ 12,091	\$ 12,409	\$ 12,500	\$ 13,000
General & administrative	6,480	7,433	7,407	12,298	13,635	7,435	7,500	6,600
Total operating costs	17,982	21,035	18,170	24,869	25,726	19,844	20,000	19,600
Operating profit/(loss)	\$ (14,006)	\$ (14,254)	\$ (12,037)	\$ (17,726)	\$ (17,872)	\$ (11,661)	\$ (9,585)	\$ (2,532)
Other Income (Expense)								
Unrealized increase (decrease) in fair value of equity securities	(29,369)	7,734	27,339	4,739	21,922	(17,000)	-	-
Realized gain on equity investments	7,415	-	-	-	-	-	-	-
Interest (expense)	(14)	(11)	(6)	(110)	(39)			
Other	2	12	(305)	295	80	5	5	5
Total other income (expense)	(21,966)	7,735	27,028	4,924	21,963	(16,995)	5	5
Equity in net loss of affiliate	(390)	-	-	(216)	(536)	-	-	-
Pretax profit/(loss)	\$ (36,362)	\$ (6,519)	\$ 14,991	\$ (13,018)	\$ 3,555	\$ (28,656)	\$ (9,580)	\$ (2,527)
Income taxes	-	-	-	-	(306)	-	-	-
Net profit/(loss)	\$ (36,362)	\$ (6,519)	\$ 14,991	\$ (13,018)	\$ 3,249	\$ (28,656)	\$ (9,580)	\$ (2,527)
Net loss attributable to non-controlling interest	158	507	449	814	866	875	875	875
Net profit/(loss) to common	\$ (36,204)	\$ (6,012)	\$ 15,440	\$ (12,204)	\$ 4,115	\$ (27,781)	\$ (8,705)	\$ (1,652)
Earnings/(loss) per share	\$ (0.48)	\$ (0.07)	\$ 0.16	\$ (0.13)	\$ 0.04	\$ (0.28)	\$ (0.09)	\$ (0.02)
Shares outstanding	75,879	83,141	97,000	97,022	99,338	100,350	100,400	100,500

Our estimates for the remainder of 2014 are based on an assumption that revenue increases as work proceeds on existing collaborations and a small number of new agreements are signed. This probably won't turn operations profitable, but we think progress will become evident in higher revenues to offset a larger proportion of expenses. We typically do not provide for most of the non-operating line items, but we have included a partial offset in the June quarter for the unrealized gain booked on equity securities held by Intrexon. This merely takes into consideration the weakness that most stocks in the biotech and pharmaceutical sector have suffered so far this quarter. Overall, we are estimating a loss of \$0.41 per share for the year.

ANNUAL INCOME STATEMENTS[‡] (Fiscal years end December 31st.)[‡] Data are in thousands, except for per-share figures. *Estimates are in italics.*

	2012	2013	2014	2015	2016	2017	2018
Revenues							
Collaboration Revenues	\$ 13,706	\$ 23,525	\$ 38,450	\$ 75,723	\$ 138,219	\$ 237,225	\$ 418,151
Other revenues	219	508	70	400	400	400	400
Total Revenues	\$ 13,925	\$ 24,033	\$ 38,520	\$ 76,123	\$ 138,619	\$ 237,625	\$ 418,551
Operating expenses							
Cost of products sold	-	-	-	1,300	3,100	6,300	10,000
Research & development	\$ 64,185	48,438	50,000	55,000	70,000	68,000	61,000
General & administrative	24,897	33,618	35,170	36,000	37,000	38,000	40,000
Total operating costs	89,082	82,056	85,170	91,000	107,000	106,000	101,000
Operating profit/(loss)	\$ (75,157)	\$ (58,023)	\$ (46,650)	\$ (14,877)	\$ 31,619	\$ 131,625	\$ 317,551
Other Income (Expense)							
Unrealized increase (decrease) in fair value of equity securities	\$ (6,290)	\$ 10,443	\$ 4,922				
Realized gain on equity investments	-	7,415	-				
Interest expense	(57)	(141)	(39)				
Other	(96)	4	95				
Total other income (expense)	(6,443)	17,721	4,978	-	-	-	-
Equity in net loss of affiliate	\$ (274)	\$ (606)					
Pretax profit/(loss)	\$ (81,874)	\$ (40,908)	\$ (41,672)	\$ (14,877)	\$ 31,619	\$ 131,625	\$ 317,551
Income taxes	-	-	(306)	-	4,743	50,017	120,669
Net profit/(loss)	\$ (82,148)	\$ (40,908)	\$ (41,366)	\$ (14,877)	\$ 26,876	\$ 81,607	\$ 196,881
Net loss (profit) attributable to non-controlling interest	-	1,928	3,491	1,760	-	(2,000)	(4,875)
Net profit/(loss) to Common	\$ (82,148)	\$ (38,980)	\$ (37,875)	\$ (13,117)	\$ 26,876	\$ 79,607	\$ 192,006
Earnings/(loss) per share	\$ (1.17)	\$ (0.46)	\$ (0.41)	\$ (0.15)	\$ 0.26	\$ 0.79	\$ 1.89
Shares outstanding	70,266	88,261	100,147	101,000	102,000	103,000	104,000

We have made only modest changes to our long-range projections since our January report, even though Intrexon has expanded its capabilities with acquisitions of a stem cell company, Medistem, and a laboratory in Europe. Both should help to attract new clients through a broader array of services, but we feel our projections already reflected a reasonable number of new collaborations.

ADJUSTED EBITDA

	2012	2013	2014	2015	2016	2017	2018
EBT	\$ (81,874)	\$ (38,980)	\$ (41,672)	\$ (14,877)	\$ 31,619	\$ 131,625	\$ 317,551
Interest expense	-	91					
Depreciation	7,984	7,134	7,500	7,700	7,800	8,000	8,000
Stock-based compensation	3,008	2,871	3,000	3,100	3,200	3,400	3,600
Unrealized (increase) decrease in fair value of equity securities	-	(10,443)	(4,922)	-	-	-	-
Realized gain on equity securities	3,591	(7,415)	-	-	-	-	-
Other		2,156	1,550	1,550	1,550	1,550	1,550
Change in deferred revenue from upfront and milestones	(7,491)	20,848	33,000	40,000	50,000	55,000	45,000
Adjusted EBITDA	\$ (74,782)	\$ (23,738)	\$ (1,544)	\$ 37,473	\$ 94,169	\$ 199,575	\$ 375,701
Adjusted EBITDA/share	\$ (1.06)	\$ (0.27)	\$ (0.02)	\$ 0.37	\$ 0.92	\$ 1.94	\$ 3.61

The largest change that we've made to our projections is in the adjusted EBITDA calculation. We've lowered our estimates of deferred revenue from upfront and milestone payments. Still, the trend is quite favorable, indicating that adjusted EBITDA should come close to breakeven this year and move into positive territory in 2015.

VALUATION

Our price target of \$40.00 is based on a discounted future value of the share price. We applied a P/E ratio of 45 to the 2018 projected share earnings of \$1.89 and arrived at a future price of \$85. That was discounted back three years at an annual rate of 29%, which yielded a price of \$39.60 that we rounded to \$40.

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			Count	Percent
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HOLD [HOLD]	8	19.05	0	0
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Ticker	Company Name	Rating
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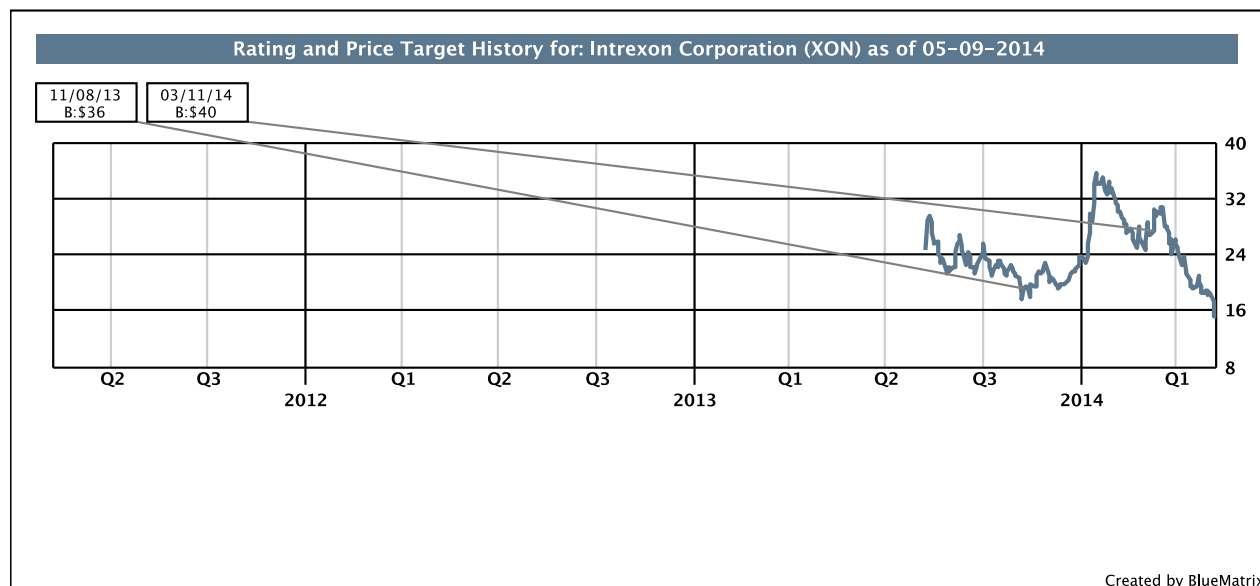
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