

Reason for report:

FLASH NOTE

MACROGENICS, INC.

Another Large Platform Deal Confirms MGNX Leadership in Bispecific MAb Space

• **Bottom Line:** Last night, MGNX announced a new \$1.6Bn platform deal with Takeda. The deal represents the 6th collaboration involving MGNX' dual-affinity re-targeting (DART) platform and the second deal with Takeda, which previously licensed one of MGNX' preclinical autoimmune DARTs. We believe the deal terms are extremely favorable for MGNX and, in our view, reflect management's ability to capitalize on its platform asset and generate value for shareholders. Reiterate Outperform rating.

• **New Takeda collaboration includes up to four DARTs.** These four research programs are in addition to Takeda's license of MGD010 earlier this year ([LINK](#)). Takeda and MGNX will jointly select pairs of molecular targets and will likely be focused on autoimmune diseases and cancer. We believe MGNX' platform value goes far beyond just its intellectual property for DART molecules. MGNX can deliver the "whole package" which in our view makes it so attractive for its partners. Recall, MGNX' scalable platform includes a large discovery operation focused on novel oncology and auto-immune targets, as well as a fully integrated antibody development and manufacturing suite.

• **Deal terms very favorable for MGNX.** Takeda has an option to obtain an exclusive worldwide license for each of the 4 candidates and will fully fund all R&D activities related to the programs. In addition, MGNX is eligible to receive up to \$400M in milestone payments including initiation, preclinical, clinical, regulatory, and commercialization milestones for each of the 4 candidates. MGNX is also eligible to receive double-digit royalties on any global net sales and has the option to co-promote each product candidate with Takeda in the US. MGNX may elect to fund a portion of the Phase III clinical development of each candidate in exchange for a North American profit share.

• **Pipeline continues to advance.** Phase I trials for MGD007 (colorectal cancer) and MGD006 (acute myeloid leukemia) are enrolling. First Phase I data should be available in 2015. Two additional DARTs will enter the clinic in oncology indications in 2015. Margetuximab (anti-HER2) breast cancer data is expected in 1H15, and we expect first clinical data from dose-expansion cohorts for MGNX' immuno-oncology drug MGA271 in 2015 as well.

Key Stats:

(OTC Un:MGNX)

S&P 600 Health Care Index:	1,297.47
Price:	\$20.01
52 Week High:	\$41.00
52 Week Low:	\$17.96
Shares Outstanding (mil):	27.7
Market Capitalization (mil):	\$554.3

Disclosures Appendix

Analyst Certification

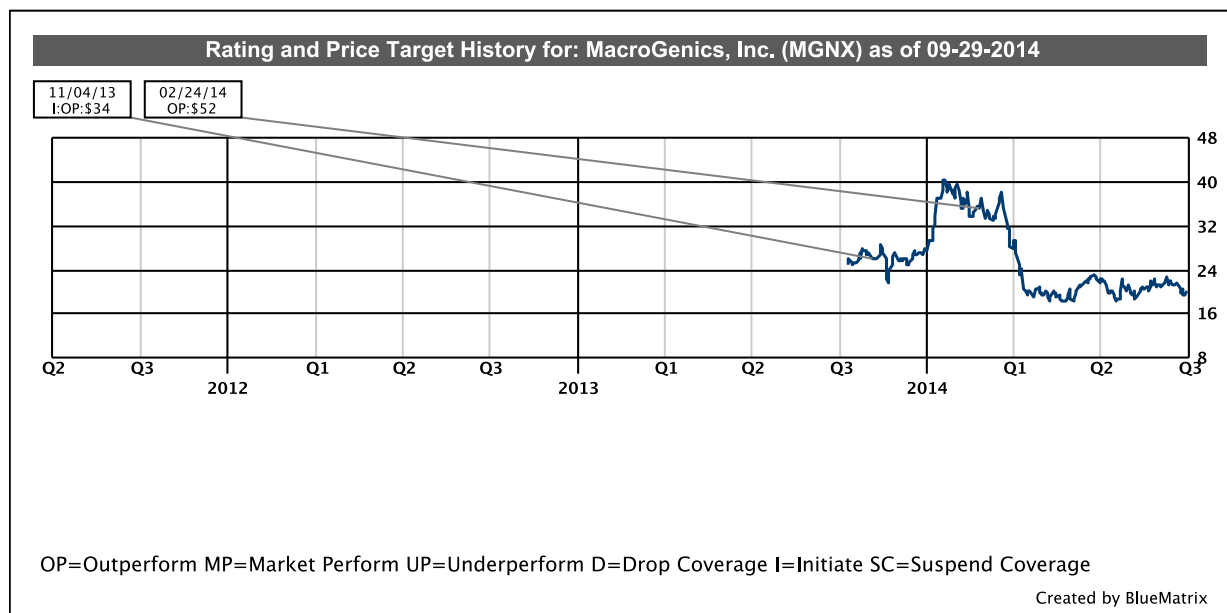
I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

Our \$52 price target for MGNX shares in 12 months is based on a discounted cash flow (DCF) sum-of-parts analysis. We use a 12% discount rate for probability of success-weighted margetuximab (25%), MGA271 (15%), and MGD006 (20%) sales. Based on our DCF analysis, we attribute \$8/share to margetuximab, \$11/share to MGA271, \$9/share to MGD006, and \$18/share to the preclinical pipeline and platform and the remainder to expected cash in one year.

Risks to Valuation

Developmental pipeline agents face clinical and regulatory development risk, as well as commercial risks. MGNX also faces execution risk and financial risk. We estimate that MGNX's current cash will be sufficient to fund operations into 2017, and the company may have additional financing needs before turning cash flow positive.



Distribution of Ratings/Investment Banking Services (IB) as of 06/30/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	138	69.00	50	36.20
HOLD [MP]	62	31.00	2	3.20
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

Important Disclosures

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In the past 12 months, the Firm has received compensation for providing investment banking services to MacroGenics, Inc. .

Leerink Partners LLC makes a market in MacroGenics, Inc.

Leerink Partners LLC has acted as a co-manager for a public offering of MacroGenics, Inc. in the past 12 months.

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