

Reason for report:

EARNINGS

## MACROGENICS, INC.

### 2Q14 Recap - Well Capitalized and Six Oncology Programs in Clinic by YE15

• **Bottom Line:** MGNX reported 2Q14 financial results yesterday and provided an update on its product pipeline. Although enrollment in the margetuximab (anti-Her2) Phase IIa study has been slightly slower than expected, we believe MGNX's clinical pipeline is otherwise progressing on track, with 6 oncology programs expected in the clinic by 2015, generating many shots on goal. We continue to view MGNX's pipeline strategy positively since it diversifies clinical risk and takes advantage of MGNX's innovative drug discovery and development capabilities, producing several first-in-class products. We are adjusting estimates to reflect 2Q results. Reiterate OP and \$52 price target.

• **MGNX continues to be extremely well capitalized.** MGNX ended 2Q14 with \$194M in cash including a \$15M payment from its new partnership with Takeda ([LINK](#)) in 2Q. Mgmt expects cash to be sufficient to fund the company into 2017. MGNX reported total revenues of \$9.2M (vs. our estimate of \$9.8M and consensus of \$11.6M), net loss of \$12.3M (vs. our estimate of \$10.2M and consensus of \$8.6M), and EPS of -\$0.44 (vs. our and consensus' estimate of -\$0.38).

• **Margetuximab Phase IIa enrollment in metastatic breast cancer trial slightly slower than expected.** We expect data from this study now in 1Q15 (vs. year-end '14 previously). The main reason for slow accrual has been a lower-than-expected rate of patients with "medium level" Her2 expression. MGNX has now screened over 100 patients for the study and seen more than expected patients at the low IHC 1+ Her2 level. We believe mgmt has addressed this issue by opening additional trial sites. MGNX is also identifying the highest level expressing IHC 1+ patients to include in the trial. Launch of the Phase III MAGENTA study evaluating margetuximab in 3rd line Her2-positive gastric cancer continues to be on track for 2H14.

• **MGA271 continues to be a key value driver for MGNX with additional monotherapy expansion cohorts expected to initiate in 2H14.** Completion of enrollment of the first 3 expansion cohorts continues to be expected by YE14. Initiation of MGA271 combination studies is expected in 2015.

• **MGNX is on track to have 6 oncology programs in clinical development by YE15.** In addition to margetuximab and MGA271, MGNX expects to have 4 dual-affinity retargeting agents in the clinic by YE15. The Phase I study of MGD006 for acute myeloid leukemia (AML) was initiated in 1Q14. We believe MGD006 could potentially be a best-in-class CD123 targeting agent. The Phase I study of MGD007 in colorectal cancer patients is expected to initiate in 2H14. Recall, the IND filing was accepted in 2Q14. Two additional DARTs will enter the clinic in oncology indications in 2015.

#### Key Stats:

(OTC Un:MGNX)

<b>S&amp;P 600 Health Care Index:</b>	<b>1,286.70</b>
<b>Price:</b>	<b>\$20.19</b>
Price Target:	\$52.00
Methodology:	Sum-of-the-parts DCF analysis
52 Week High:	\$41.00
52 Week Low:	\$17.96
Shares Outstanding (mil):	27.7
Market Capitalization (mil):	\$559.3
Book Value/Share:	\$0.00
Cash Per Share:	\$7.00
Dividend (ann):	\$0.00
Dividend Yield:	0.0%



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	PE
2013A	\$10.6	\$12.3	\$20.2	\$14.9	\$58.0	(\$2.80)	(\$0.29)	\$0.14	(\$0.13)	(\$0.04)	NM
2014E - New	<b>\$14.7A</b>	<b>\$9.2A</b>	<b>\$9.7</b>	<b>\$9.7</b>	<b>\$44.0</b>	<b>(\$0.12)A</b>	<b>(\$0.44)A</b>	<b>(\$0.42)</b>	<b>(\$0.42)</b>	<b>(\$1.39)</b>	<b>NM</b>
2014E - Old	\$14.7A	\$9.8	\$9.8	\$9.8	\$44.0	(\$0.12)A	(\$0.38)	(\$0.43)	(\$0.48)	(\$1.42)	NM
2015E	--	--	--	--	\$48.0	--	--	--	--	(\$1.96)	NM

Source: Company Information and Leerink Partners LLC Research

Revenues in \$MM. GAAP EPS. Quarterly figures may not sum to annual total due to change in shares out.

## INVESTMENT THESIS

**We rate MGNX Outperform.** MGNX is a leader in the area of immune-modulation and is a fully integrated R&D-driven biotechnology company. The company is focused on developing new antibody-based therapeutics for cancer and autoimmune diseases and is based on a suite of platform technologies that allow rapid generation of novel therapeutic antibodies with superior properties. MGNX has applied its antibody discovery and engineering platform to generate a proprietary product pipeline and to enter into strategic collaborations that provide the company with funding and leverage the additional expertise of partners. We believe MGNX shares will appreciate as the company advances its proprietary and partnered pipeline products. We also believe MGNX could close additional product development partnerships and existing partners could license further products.

## 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.

<b>MGNX P&amp;L</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>1Q14</b>	<b>2Q14</b>	<b>3Q14E</b>	<b>4Q14E</b>	<b>2014E</b>	<b>2015E</b>
Collaborative research revenue	47.1	59.6	56.8	14.4	9.2	9.7	9.7	43.0	48.0
Grant revenue	10.2	4.2	1.3	0.3	0.0	0.0	0.0	1.0	-
Royalties	-	-	-	-	-	-	-	-	-
Product sales	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>57.2</b>	<b>63.8</b>	<b>58.0</b>	<b>14.7</b>	<b>9.2</b>	<b>9.7</b>	<b>9.7</b>	<b>44.0</b>	<b>48.0</b>
COGS	-	-	-	-	-	-	-	-	-
R&D	41.1	45.4	46.6	14.6	17.3	17.5	17.6	67.0	83.0
SG&A	10.9	10.2	11.1	3.3	4.1	4.0	4.0	15.4	20.0
Operating expenses	52.0	55.6	57.7	17.8	21.5	21.5	21.6	82.4	103.0
Operating income (expense)	5.2	8.2	0.37	(3.1)	(12.3)	(11.8)	(11.9)	(38.4)	(55.0)
Total Other income (expense)	1.5	0.2	(0.6)	0.0	0.0	0.0	0.0	0.0	-
EBT	6.7	8.4	(0.3)	(3.1)	(12.3)	(11.8)	(11.9)	(38.4)	(55.0)
Tax expense (income)	-	-	-	-	-	-	-	-	-
<b>Net income</b>	<b>6.7</b>	<b>8.4</b>	<b>(0.3)</b>	<b>(3.1)</b>	<b>(12.3)</b>	<b>(11.8)</b>	<b>(11.9)</b>	<b>(38.4)</b>	<b>(55.0)</b>
Diluted EPS			(0.04)	(0.12)	(0.44)	(0.42)	(0.42)	(1.39)	(1.96)
Diluted common shares outstanding	1.0	1.1	17.1	26.3	27.7	28.0	28.3	27.5	28.0

<b>BS &amp; CFS</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>1Q14</b>	<b>2Q14</b>	<b>3Q14E</b>	<b>4Q14E</b>	<b>2014E</b>	<b>2015E</b>
Cash & equivalents	55.2	47.7	116.5	198.7	194.0	183.9	173.8	173.8	126.0
Debt	-	-	-	-	-	-	-	-	-

Change in Cash	18.3	(7.5)	68.7	82.2	(4.7)	(10.1)	(10.2)	59.7	(47.8)
<b>Cash from operations</b>	<b>6.8</b>	<b>(6.6)</b>	<b>(14.2)</b>	<b>5.9</b>	<b>(4.2)</b>	<b>(9.6)</b>	<b>(9.7)</b>	<b>(15.2)</b>	<b>(45.8)</b>
Net income (loss)	6.7	8.4	(0.3)	(3.1)	(12.3)	(11.8)	(11.9)	(38.4)	(55.0)
Share based comp	2.3	0.8	0.9	0.6	0.8	1.7	1.7	6.6	8.2
D&A	1.1	1.0	1.2	0.4	0.4	0.4	0.4	1.7	1.0
Other (Change in WC)	(3.5)	(16.7)	(16.0)	8.0	6.9	-	-	14.9	-
<b>Cash from investing</b>	<b>(0.5)</b>	<b>(0.9)</b>	<b>(3.0)</b>	<b>(0.4)</b>	<b>(0.8)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(2.1)</b>	<b>(2.0)</b>
CapEx	(0.5)	(0.9)	(3.0)	(0.4)	(0.8)	(0.4)	(0.4)	(2.1)	(2.0)
Acquisitions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
<b>Cash from financing</b>	<b>12.1</b>	<b>0.0</b>	<b>85.9</b>	<b>76.8</b>	<b>0.2</b>	-	-	<b>77.0</b>	-
Equity issue (buyback)	12.1	0.0	85.9	76.8	0.2	-	-	77.0	-
Debt issue (principal payment)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-

Source: Leerink Partners Estimates and Company Filings

Program	Target	Platform	Partner	Indication	Current Status	Next milestone	Timing
Margetuximab	Her2	Fc	proprietary	Breast cancer (Her2 IHC2+)	Phase IIa	Phase IIa data	1Q15
						Initiate Phase IIb/III	2015
				3rd line Gastric cancer	Phase I	Initiate Phase III (MAGENTA)	2H14
						Phase III data	2018
MGA271	B7-H3	Fc, CSLC	Servier (EU rights)	Other cancers (bladder)	Phase I	Initiate Phase II	2015
				HER2-expressing tumors	Phase I	Additional dosing data	2014/2015
				Solid tumors	Phase Ib	Phase Ib initiation of additional cohorts	2H14
						Phase Ib dose-expansion data monotherapy	4Q14/1H15
MGD006	CD123 x CD3	DART	Servier (EU rights)	AML	IND	Phase Ib dose-expansion data monotherapy (addl. cohorts)	2015
						Phase Ib dose-expansion data monotherapy (Servier cohorts)	2015
						Phase Ib initiation of combination studies	1Q15
						Phase Ib dose-expansion data combinations	2015
MGD007	gpA33 x CD3	DART, CSLC	Servier (EU rights)	Colorectal cancer	Preclinical	Servier opt-in	2015
						Phase I DE data	2H15
						Initiate Phase I	2H14
						Phase I data	2H15
MGD010	CD32B x CD79B	DART	Takeda (option-based)	Autoimmune (SLE, RA)	Preclinical	Servier opt-in	2014/15
						Initiate Phase I	2015
						Initiate Phase I	2015
						Initiate Phase I	2015
MGD011	undisclosed	DART	proprietary	Oncology	Preclinical	Initiate Phase I	2015
MGD012	undisclosed	DART	proprietary/Servier (EU)	Oncology	Preclinical	Initiate Phase I	2015
Teplizumab	CD3	Fc	proprietary	Type 1 Diabetes	IS Study	Partnership	n/a

Source: SEC Filings, Leerink Partners Estimates

	Valuation (\$MM)	Per share
Margetuximab (25% POS)	214	\$ 8
MGA271 (15% POS)	301	\$ 11
MGD006 (20% POS)	237	\$ 9
Platform and early pipeline	500	\$ 18
Enterprise value (\$MM)	1,252	45
Cash	194	\$ 7
<b>Total</b>	<b>1,446</b>	<b>\$ 52</b>
Common shares outstanding	27.7	

## Disclosures Appendix

### Analyst Certification

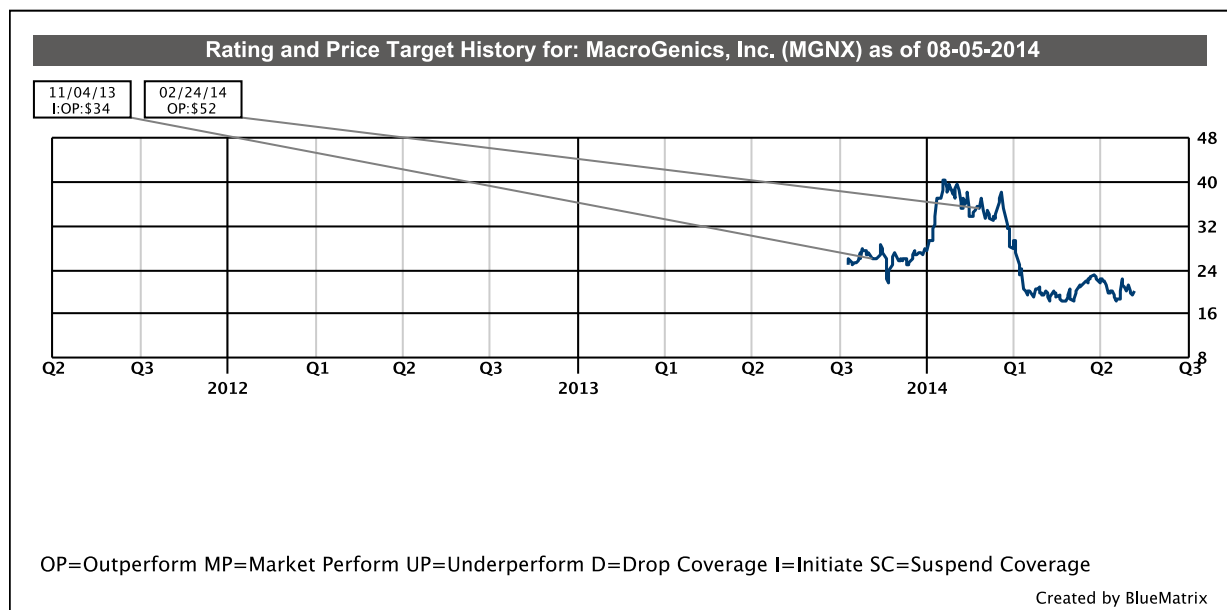
I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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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.

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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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