

## Intrexon

### 1Q14 Model Update

We are updating our XON financial model following last week's press release of 1Q14 results and filing of the 10-Q. We continue to model modestly increasing ECC signings throughout the year across healthcare (particularly, in oncology and CNS) and are encouraged by the company's recent energy collaboration announcement. That said, the sequential ramp in revenue has been slower than our initial forecast. We continue to expect a quarterly operating expense run-rate of \$18-20M to be more than offset by cost recovery and upfront payment revenues by year-end.

As a result of updating our model and DCF, we decrease our December 2014 price target to \$28 to account for the slower ramp in revenue relative to our prior estimates. For more details on our XON investment thesis, please see our initiation [note](#).

## Overweight

**XON, XON US**

Price: \$15.74

▼ **Price Target: \$28.00**  
Previous: \$32.00

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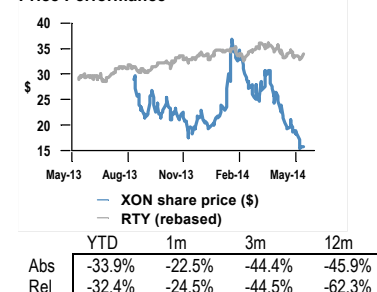
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### Price Performance



### Intrexon Corporation (XON;XON US)

FYE Dec	2012A	2013A	2014E (Prev)	2014E (Curr)	2015E (Prev)	2015E (Curr)
Revenue (\$ mn)						
Q1 (Mar)	2	4	14	8A	20	10
Q2 (Jun)	3	7	15	8	22	12
Q3 (Sep)	3	6	16	8	25	13
Q4 (Dec)	7	7	23	10	33	19
FY	14	24	67	34	100	54

Source: Company data, Bloomberg, J.P. Morgan estimates.

### Company Data

Price (\$)	15.74
Date Of Price	12 May 14
52-week Range (\$)	38.50-13.13
Market Cap (\$ mn)	1,563.59
Fiscal Year End	Dec
Shares O/S (mn)	99
Price Target (\$)	28.00
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 \$28 and is derived from a 10-year discounted cash flow analysis, with a CAPM-derived WACC discount rate of 13.5% and terminal growth of 1.5%.

### 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			1QA	2QA	3QA	4QA		1QA	2QE	3QE	4QE			CAGR
(in millions, except per share amounts)	2011A	2012A	Mar	Jun	Sep	Dec	2013A	Mar	Jun	Sep	Dec	2014E	2015E	13-18
Total Revenues (GAAP)	8	14	4	7	6	7	24	8	8	8	10	34	54	57%
R&D	70	64	11	14	11	13	48	12	12	12	12	47	49	
G&A	18	25	6	7	7	12	34	14	8	8	8	38	33	
Other operating expenses (incl. AquaBounty)	2	0	0	0	0	0	0	0	1	1	1	3	4	
Operating Profit (Loss) (EBIT) GAAP	(82)	(75)	(14)	(14)	(12)	(18)	(58)	(18)	(13)	(13)	(11)	(54)	(32)	N/A
Reported EBITDA	(82)	(74)	(34)	(5)	17	(10)	(32)	6	(10)	(10)	(8)	(22)	(20)	
Adjusted EBITDA		(60)	(7)	(5)	(5)	(7)	(24)	18	(4)	(3)	1	11	18	
Pretax income (loss) GAAP	(85)	(82)	(36)	(7)	15	(13)	(41)	4	(11)	(12)	(10)	(30)	(28)	N/A
Income tax	0	0	0	0	0	0	0	0	0	0	0	0	(11)	
Net Income (loss) GAAP	(85)	(82)	(36)	(7)	15	(13)	(41)	3	(11)	(12)	(10)	(30)	(17)	
Net income (loss) attributable to minority interest	0	0	(0)	(1)	(0)	(1)	(2)	(1)	0	0	0	(1)	(0)	
Accr. of dividends on redeemable conv.	(14)	(22)	(6)	(8)	(7)	0	(18)	0	0	0	0	0	0	
Net income (loss) attributable to common shareholders	(99)	(104)	(43)	(14)	8	(12)	(57)	4	(11)	(12)	(10)	(29)	(17)	
Diluted Shares Outstanding	9	6	6	6	56	97	41	99	99	100	100	99	100	
GAAP Diluted EPS	(\$10.81)	(\$18.79)	(\$7.54)	(\$2.46)	\$0.15	(\$0.13)	(\$1.40)	\$0.04	(\$0.11)	(\$0.12)	(\$0.10)	(\$0.29)	(\$0.17)	N/A
R&D Margin (as % of total revenue)	861%	461%	294%	201%	175%	176%	202%	154%	150%	145%	120%	141%	91%	
SG&A Margin	224%	179%	167%	110%	121%	172%	141%	174%	100%	100%	80%	111%	61%	
Operating (EBIT) Margin GAAP	-1009%	-540%	-361%	-210%	-196%	-248%	-244%	-228%	-163%	-157%	-110%	-161%	-59%	
Effective Tax Rate	0%	0%	0%	0%	0%	0%	0%	9%	0%	0%	0%	-1%	38%	
Net Margin GAAP	-1213%	-746%	-1100%	-206%	135%	-171%	-241%	52%	-149%	-144%	-99%	-86%	-31%	
Revenue growth y/y		70%	140%	149%	110%	7%	71%	102%	13%	31%	42%	42%	59%	
EPS growth y/y														

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

Figure 2: XON DCF Analysis

Projected FY Ending Dec	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Adj. EBIT (\$M)	(32)	1	5	96	162	270	369	469	550	650	726	800
Tax-affected adj. EBIT (\$M)	(32)	1	3	60	100	167	229	291	341	403	450	496
<b>Free Cash Flow</b>	<b>(30)</b>	<b>12</b>	<b>10</b>	<b>63</b>	<b>105</b>	<b>170</b>	<b>231</b>	<b>292</b>	<b>345</b>	<b>403</b>	<b>452</b>	<b>498</b>
growth y/y			-22%	557%	67%	61%	36%	26%	18%	17%	12%	10%

Discount Rate	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)				
	2015-2024	0.5%	1.0%	1.5%	2.0%	2.5%	0.5%	1.0%	1.5%	2.0%	2.5%	0.5%	1.0%	1.5%	2.0%	2.5%
12.5%	1,192	1,532	1,606	1,688	1,777	1,875	2,724	2,799	2,880	2,969	3,067	4.8x	4.9x	5.0x	5.2x	0.0x
13.0%	1,160	1,416	1,482	1,555	1,633	1,719	2,576	2,643	2,715	2,793	2,879	4.5x	4.6x	4.7x	4.9x	0.0x
<b>13.5%</b>	1,129	1,312	1,371	<b>1,435</b>	1,505	1,581	2,441	2,500	<b>2,564</b>	2,634	2,710	4.3x	4.4x	<b>4.5x</b>	4.6x	0.0x
14.0%	1,099	1,217	1,270	1,327	1,389	1,457	2,316	2,369	2,426	2,488	2,556	4.0x	4.1x	4.2x	4.3x	0.0x
14.5%	1,070	1,130	1,178	1,229	1,285	1,345	2,201	2,248	2,300	2,355	2,415	3.8x	3.9x	4.0x	4.1x	0.0x
	Net Debt (Cash) (\$M)	Equity Value (\$M)					Equity Value per Share					Terminal Value as a % of Enterprise Value				
		0.5%	1.0%	1.5%	2.0%	2.5%	0.5%	1.0%	1.5%	2.0%	2.5%	0.5%	1.0%	1.5%	2.0%	2.5%
	(204)	2,928	3,003	3,084	3,173	3,271	\$29.43	\$30.18	\$31.00	\$31.89	\$32.88	56%	57%	59%	60%	61%
	(204)	2,780	2,847	2,919	2,998	3,084	\$27.95	\$28.61	\$29.34	\$30.13	\$30.99	55%	56%	57%	58%	60%
<b>-</b>	<b>(204)</b>	<b>2,645</b>	<b>2,704</b>	<b>2,768</b>	<b>2,838</b>	<b>2,914</b>	<b>\$26.58</b>	<b>\$27.18</b>	<b>\$27.82</b>	<b>\$28.53</b>	<b>\$29.29</b>	<b>54%</b>	<b>55%</b>	<b>56%</b>	<b>57%</b>	<b>58%</b>
	(204)	2,520	2,573	2,630	2,692	2,760	\$25.33	\$25.86	\$26.44	\$27.06	\$27.74	53%	54%	55%	56%	57%
	(204)	2,405	2,453	2,504	2,559	2,619	\$24.17	\$24.65	\$25.17	\$25.72	\$26.33	51%	52%	53%	55%	56%

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

## Intrexon: Summary of Financials

Income Statement - Annual	FY13A	FY14E	FY15E	FY16E	Income Statement - Quarterly	1Q14A	2Q14E	3Q14E	4Q14E
Revenues	24	34	54	-	Revenues	8A	8	8	10
Cost of products sold	-	-	-	-	Cost of products sold	-	-	-	-
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(34)	(38)	(33)	-	SG&A	(14)A	(8)	(8)	(8)
R&D	(41)	(37)	(37)	-	R&D	(10)A	(9)	(9)	(9)
Operating income	(58)	(54)	(32)	-	Operating income	(18)A	(13)	(13)	(11)
EBITDA	(51)	(44)	(20)	-	EBITDA	(16)A	(10)	(10)	(8)
Net interest (income) / expense	-	-	-	-	Net interest (income) / expense	-	-	-	-
Other income / (expense)	18	25	4	-	Other income / (expense)	22A	1	1	1
Income taxes	0	(0)	11	-	Income taxes	(0)A	0	0	0
Net income	(39)	(7)	(17)	-	Net income	26A	(11)	(12)	(10)
Diluted shares outstanding	41	99	100	-	Diluted shares outstanding	99A	99	100	100
Diluted EPS	(1.40)	(0.29)	(0.17)	-	Diluted EPS	0.04A	(0.11)	(0.12)	(0.10)
Balance Sheet and Cash Flow Data	FY13A	FY14E	FY15E	FY16E	Ratio Analysis	FY13A	FY14E	FY15E	FY16E
Cash and cash equivalents	50	93	91	-	Sales growth	70.6%	42.1%	59.4%	-
Accounts receivable	7	4	8	-	EBIT growth	(22.9%)	(6.4%)	(41.3%)	-
Inventories	-	-	-	-	EPS growth	(95.3%)	(92.9%)	151.8%	-
Other current assets	3	3	3	-	Gross margin	-	-	-	-
Current assets	188	213	215	-	EBIT margin	(166.3%)	(94.6%)	(59.1%)	-
PP&E	17	21	24	-	EBITDA margin	(136.2%)	(63.9%)	(36.3%)	-
Total assets	469	520	517	-	Tax rate	0.0%	(1.0%)	(38.0%)	-
Total debt	2	2	2	-	Net margin	(163.5%)	(19.7%)	(31.3%)	-
Total liabilities	88	119	131	-	Net Debt / EBITDA	147.9%	424.1%	458.3%	-
Shareholders' equity	381	401	387	-	Net Debt / Capital (book)	(14.4%)	(29.6%)	(30.1%)	-
Net income (including charges)	(41)	(30)	(17)	-	Return on assets (ROA)	(12.5%)	(1.3%)	(3.2%)	-
D&A	7	10	12	-	Return on equity (ROE)	(16.7%)	(1.7%)	(4.3%)	-
Change in working capital	(8)	27	0	-	Enterprise value / sales	0.0	0.0	0.0	-
Other	(12)	(13)	5	-	Enterprise value / EBITDA	0.0	0.0	0.0	-
Cash flow from operations	(54)	(6)	(0)	-	Free cash flow yield	(8.6%)	(0.7%)	(0.1%)	-
Capex	(2)	(4)	(2)	-					
Free cash flow	(55)	(10)	(2)	-					
Cash flow from investing activities	(224)	24	(2)	-					
Cash flow from financing activities	316	25	0	-					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

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

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
01-Apr-14	OW	25.54	32.00

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

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