

MacroGenics (MGNX)

Transitioning Coverage; MGD010 DART Partnered with Takeda, Reiterate OUTPERFORM while Reducing PT to \$52

- Takeda (Not Covered) has entered into a development and commercialization agreement for MGNX's MGD010, a CD32b/CD79b DART currently in preclinical development for autoimmune diseases.** MGNX is responsible for development through a Phase Ia study, after which Takeda will have an option to exclusively license worldwide rights and be responsible for all future development. Based on comments made by MGNX management during their Q1 conference call, we expect the program to move into the clinic in 2015.
- MGNX will receive \$15M upfront and be eligible for an additional \$18M in milestone/option fees through the Phase Ia trial, and could receive an additional \$468.5M in clinical, regulatory and sales milestones plus double-digit royalties off of worldwide sales.** MGNX also has an option to co-promote MGD010 in the US and to fund a portion of Phase III development in exchange for a North American profit share.
- Preclinical data presented at the American Association of Immunologists (AAI) Annual Meeting in early May showed that MGD010 demonstrated favorable pharmacokinetics and safety while inhibiting the development of graft-versus host disease and B-cell activation (without B-cell depletion).** MGD010's differentiating characteristic is its ability to inhibit B-cell activation without killing B-cells through simultaneously targeting of CD32b, a negative regulator of B-cells that is expressed on B-cells and myeloid dendritic cells, and CD79b, a component of the B-cell antigen. Data presented at AAI showed that MGD010 inhibited human B-cell functions and proliferation and prevented graft versus host-like disease in a humanized mouse model. MGD010 also demonstrated a prolonged half-life and a mean residence time of 266 hours.
- As the fifth DART collaboration, the MGD010 agreement is further validation of MGNX's bi-specific targeting platform.** MGNX's most advanced DART program, MGD006 (CD123/CD3), is partnered with Servier and is expected to advance into the clinic for AML in the coming months.
- Transitioning coverage and maintaining our OUTPERFORM rating while reducing our PT to \$52 (from \$70) due to changes in discount rate and peak penetration expectations. Our \$52 PT is derived from the sum of multiples of sales and royalties from margetuximab and the Servier-partnered programs (MGA271, MGD006 and MGD007), each discounted back to YE:14.**

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$11.4A	\$14.7A		\$14.7A	\$5.0E		N/AE
Q2 Jun	11.4A	4.0E		15.8E	\$5.0E		N/AE
Q3 Sep	20.2A	4.0E		14.5E	\$5.0E		N/AE
Q4 Dec	14.9A	4.0E		18.1E	\$5.0E		N/AE
Year*	\$58.0A	\$26.7E		\$63.1E	\$20.0E		\$66.2E
Change	-9%	-54%			--		
	2013A	2014E			2015E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	(\$0.09)A	(\$0.12)A		(\$0.12)A	(\$0.51)E		N/AE
Q2 Jun	(0.09)A	(0.51)E		(0.17)E	(\$0.52)E		N/AE
Q3 Sep	0.31A	(0.52)E		(0.27)E	(\$0.54)E		N/AE
Q4 Dec	(0.13)A	(0.53)E		(0.26)E	(\$0.55)E		N/AE
Year*	(\$0.02)A	(\$1.69)E		(\$0.82)E	(\$2.12)E		(\$1.44)E
P/E	--	--			--		
Change	-104%	-10867%			-26%		

Consensus estimates are from Thomson First Call. * Numbers may not add up due to rounding.

May 27, 2014

Price
\$19.01

Rating
OUTPERFORM

12-Month Price Target
\$52 (from \$70)

David M. Nierengarten, Ph.D.
(415) 274-6862
david.nierengarten@wedbush.com

Dilip Joseph
(415) 273-7308
dilip.joseph@wedbush.com

Liana Moussatos, Ph.D.
(415) 263-6626
liana.moussatos@wedbush.com

Company Information

Shares Outst (M)	27.6
Market Cap (M)	\$525.1
52-Wk Range	\$17.96 - \$41.00
Book Value/sh	\$3.14
Cash/sh	\$5.04
Enterprise Value (M)	\$385.9
LT Debt/Cap %	0.0
Cash Burn (M)	\$46.1

Company Description

MacroGenics is developing advanced protein therapeutics for the treatment of cancer, autoimmune, and infectious diseases using their Dual Affinity Re-Targeting (DART), Fc Optimization, and Cancer Stem Cell platforms.



Source: Thomson Reuters

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Risks to achievement of our price target include clinical failures and product advancement and development success rates for MGNX's licensees below that for which we have modelled.

Valuation Table

Product	Indication	US Launch Date	Valuation Year/ Multiple/Discount Rate	Sales (\$K)	Royalties (\$K)	Valuation (\$K)	Value/Share (\$)	Total Value/Share (\$)
margetuximab	Breast cancer	6/6/2018	2022 / 6x / 30%	477,595	N/A	351,289	10.44	23.91
	Breast Cancer, Adjuvant	1/1/2022	2024 / 6x / 35%	337,334	N/A	100,664	2.99	
	Gastric Cancer	6/6/2017	2021 / 6x / 30%	279,383	N/A	267,145	7.94	
	Bladder Cancer	6/6/2019	2021 / 6x / 30%	45,481	N/A	43,489	1.29	
	Esophageal Cancer	6/6/2019	2022 / 6x / 30%	56,499	N/A	41,557	1.24	
MGA271	Melanoma	6/6/2020	2024 / 6x / 35%	577,090	N/A	172,210	5.12	12.56
	Melanoma (Servier)	6/6/2021	2024 / 15x / 35%	667,167	80,060	59,727	1.78	
	Renal Cell Carcinoma	6/6/2020	2024 / 6x / 35%	512,696	N/A	152,994	4.55	
	Renal Cell Carcinoma (Servier)	6/6/2021	2024 / 15x / 35%	417,474	50,097	37,374	1.11	
MGD006	Acute Myeloid Leukemia	1/1/2019	2022 / 6x / 35%	284,591	N/A	154,776	4.60	6.35
	Acute Myeloid Leukemia (Servier)	1/1/2020	2024 / 15x / 35%	314,676	37,761	28,171	0.84	
	Other IL-3R Rare Cancers	1/1/2019	2022 / 6x / 35%	56,008	N/A	30,460	0.91	
MGD007	Colorectal Cancer	1/1/2021	2025 / 6x / 35%	333,060	N/A	73,621	2.19	9.12
	Colorectal Cancer, Adjuvant	1/1/2024	2025 / 6x / 35%	366,319	N/A	80,973	2.41	
	Colorectal Cancer (Servier)	2/1/2022	2024 / 15x / 35%	1,020,135	122,416	91,326	2.72	
	Colorectal Cancer, Adjuvant (Servier)	2/1/2025	2026 / 15x / 35%	1,236,961	148,435	60,761	1.81	
								\$52/share

Financial Model

5/27/2014
Ticker: (MGNX:Nasdaq)
MacroGenics, Inc.

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Gregory R. Wade, Ph.D.
415-274-6863

MacroGenics, Inc (MGNX)
in thousands except per share data

	2013A	Q1A	Q2E	Q3E	Q4E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues:												
Product Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$226	\$12,753	\$190,212	\$634,110
Royalties	0	0	0	0	0	0	0	0	96	15,584	63,371	132,347
Milestones and collaboration revenues	58,035	14,719	4,000	4,000	4,000	26,719	20,000	20,000	0	0	0	0
Total Revenues	58,035	14,719	4,000	4,000	4,000	26,719	20,000	20,000	323	28,337	253,582	766,457
Cost and Expenses:												
Cost of Sales	0	0	0	0	0	0	0	0	45	2,551	38,042	126,822
R&D	46,582	14,569	14,650	14,750	15,000	58,969	63,061	68,259	73,886	79,976	86,569	127,458
SG&A	11,087	3,259	3,389	3,524	3,665	13,837	15,795	18,825	23,933	26,682	63,948	157,167
Total Operating Expenses	57,669	17,827	18,039	18,274	18,665	72,806	78,856	87,084	97,864	109,208	188,559	411,446
Operating Income (Loss)	366	(3,109)	(14,039)	(14,274)	(14,665)	(46,088)	(58,856)	(67,084)	(97,541)	(80,871)	65,023	355,011
Net Interest Income (Expense)/Other Income	(627)	0	1	1	1	2	2	4	3	2	1	3
Income Before Income Taxes	(261)	(3,108)	(14,038)	(14,274)	(14,665)	(46,085)	(58,854)	(67,080)	(97,538)	(80,870)	65,025	355,014
Provision for Income Taxes	0	0	0	0	0	0	0	0	0	0	3,720	18,816
Net Income (Loss)	(261)	(3,108)	(14,038)	(14,274)	(14,665)	(46,085)	(58,854)	(67,080)	(97,538)	(80,870)	61,304	336,198
GAAP EPS	(0.02)	(0.12)	(0.51)	(0.52)	(0.53)	(1.69)	(2.12)	(2.11)	(3.06)	(2.53)	1.84	10.05
Total Shares Outstanding	16,946	26,262	27,620	27,645	27,670	27,299	27,720	31,807	31,907	32,007	32,107	32,207
Cash Burn	(261)	0	0	0	0	(46,085)	(58,854)	(67,080)	(97,538)	(80,870)	61,304	336,198
Cash Balance	116,481	198,722	184,836	170,710	156,189	156,189	137,867	259,259	163,865	82,335	129,380	429,383

Source: Wedbush PacGrow Life Sciences

Analyst Biography

David Nierengarten, Ph.D.

David is an Analyst covering stocks in the Biotechnology / Biopharmaceuticals / BioDefense sector. His prior sell-side research experience at Robert W. Baird & Co. covered biotechnology companies of all market capitalizations, with a focus on oncology and rare diseases.

David received his B.S. (Biochemistry) from the University of Wisconsin-Madison and Ph.D. (Molecular and Cell Biology) from the University of California-Berkeley.

David's Edge: David's early stage venture capital investing experience gives him a balanced perspective on developmental-stage biotechnology companies and their ultimate risk/reward potential. His experience on the other side of that equation in a clinical-stage, venture backed biotechnology company provides him with insights into corporate operations. The combination of experiences creates a focus on value creation in this event-driven space.

Analyst Certification

I, David M. Nierengarten, Ph.D., Dilip Joseph, Liana Moussatos, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Company	Disclosure
MacroGenics	1,3,4,5,7

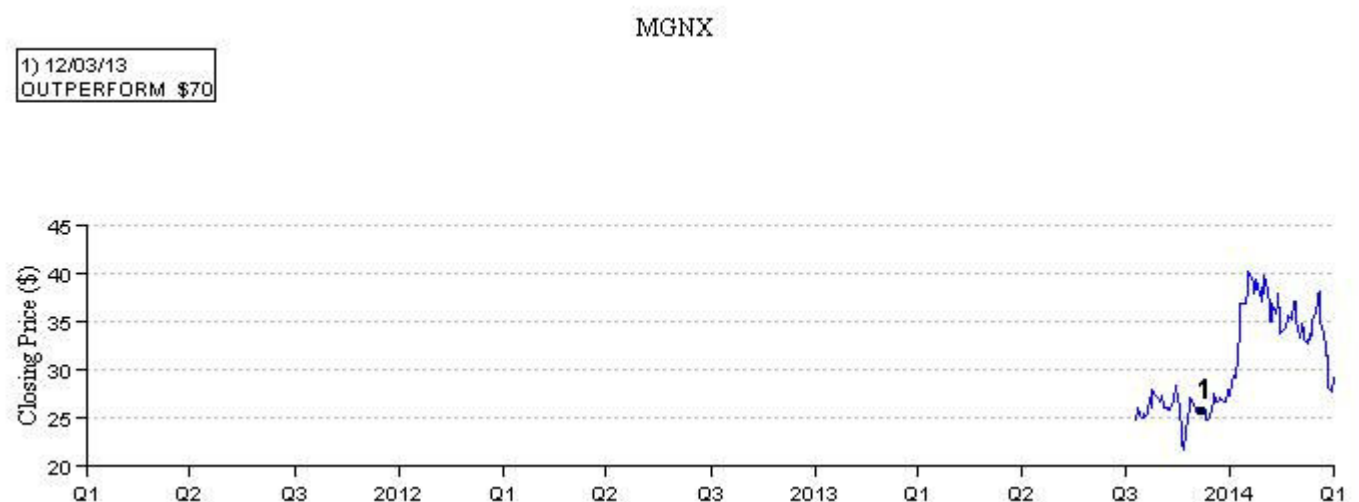
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RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com

EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * EQUITY SALES Los Angeles (800) 444-8076

CORPORATE HEADQUARTERS (213) 688-8000

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EQUITY RESEARCH DEPARTMENT

(213) 688-4529

DIRECTOR OF RESEARCH

Mark D. Benson (213) 688-4435

MANAGER, RESEARCH OPERATIONS

Ellen Kang (213) 688-4529

RETAIL AND CONSUMER

Consumer Products

Rommel T. Dionisio (212) 938-9934
Alicia Reese (212) 938-9927

Footwear, Apparel and Accessories

Corinna Freedman (212) 668-9876

Healthy Lifestyles

Kurt M. Frederick, CFA CPA (415) 274-6822
Alicia Reese (212) 938-9927

Restaurants

Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

Specialty Retail: Hardlines

Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Seth Basham, CFA (212) 938-9954

Specialty Retail: Softlines

Morry Brown (213) 688-4311
Taryn Kuida (213) 688-4505

RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

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Craig Irwin (212) 938-9926

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Al Kaschalk (213) 688-4539

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David Rose, CFA (213) 688-4319
James Kim (213) 688-4380

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Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

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Sanjit Singh (415) 273-7323

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Gil B. Luria (213) 688-4501
Aaron Turner (213) 688-4429

Enterprise Software

Steve Koenig (415) 274-6801
Kevin Ikeda (213) 688-4423

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Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Entertainment: Software

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

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Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

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Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

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Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

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Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

LIFE SCIENCES AND HEALTH CARE

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David M. Nierengarten, Ph.D. (415) 274-6862
Dilip Joseph (415) 273-7308

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CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465

Tel: (213) 688-8000 www.wedbush.com