November 13, 2013

OUTPERFORM

Reason for report:

EARNINGS

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LEERINK SWANN

HEALTHCARE EQUITY RESEARCH

MACROGENICS, INC.

3Q Recap – Updating Model; Pipeline on Track

• **Bottom Line**: **We are updating our estimates to reflect 3Q:13 financial results.** MGNX's pipeline remains on track with major updates expected in 2014. The company reported $20.2MM revenue in 3Q, driven by collaborations. Our one-year price target remains $34/share. Reiterate Outperform rating.

• **MGNX reported $20.2MM revenue in 3Q, driven by collaborations.** Revenue recognized in 3Q included a $10MM payment received from Servier for initiating the dose expansion phase for MGA271. In addition, Boehringer Ingelheim nominated a DART-based therapeutic for development in November triggering a $5MM milestone payment plus a $4MM maintenance payment in 4Q:13. We believe MGNX's platform has the potential to generate significant cash flows in the form of early stage milestone payments to the company, and potential additional partnerships could be a source of upside.

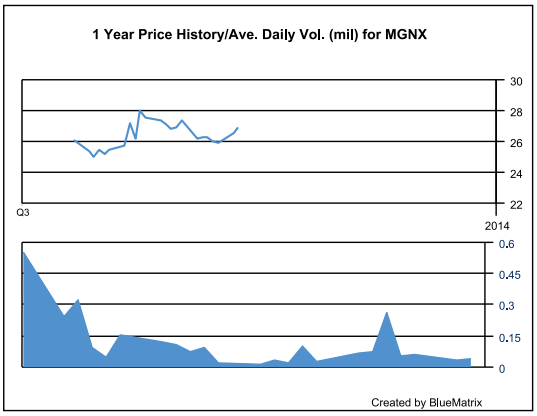
• **Margetuximab Phase II breast cancer data expected in late 2014**. MGNX continues to enroll its Phase IIa metastatic breast cancer study. Recall, this trial is enrolling patients with only moderate Her2 expression who are not eligible for Herceptin or Kadcyla therapy. We believe positive Phase IIa data in late 2014 would significantly derisk this program, and preclinical and Phase I data support activity of the therapeutic antibody, which could expand the addressable market of Herceptin (Roche).

• **MGA271 Phase I dose-expansion data and potential Servier opt-in expected in 2014**. MGNX continues to enroll patients in the Phase I study with prostate cancer, melanoma, and other B7-H3 positive tumors. We believe MGA271 addresses a promising new target in immuno-oncology that could be active in a wide array of solid tumor indications, based on preclinical data. Positive Phase I expansion data in 2014 will be a key catalyst for this program; Servier has an option to license European rights which would trigger a $15MM milestone payment to MGNX.

• **MGD006 preclinical data to be presented at ASH ahead of Phase I initiation in 1H:14**. MGD006 will likely be the first DART molecule to enter the clinic in 1H:14. We believe preclinical data so far look promising, in particular MGD006's ability to differentiate normal human hematopoietic progenitors from acute myeloid leukemia (AML) blasts. Recall, Servier has the option to license ex-U.S. rights for MGD006. MGNX qualifies fro a $5MM payment when the IND is accepted, likely in 1Q:14, and a $15MM payment when Servier exercises its license option, possibly before the IND.

Key Stats:	**(OTC Un:MGNX)**
S&P 600 Health Care Index:	**1,240.86**
Price:	**$26.93**
Price Target:	$34.00
Methodology:	DCF analysis
52 Week High:	$29.30
52 Week Low:	$23.10
Shares Outstanding (mil):	25.0
Market Capitalization (mil):	$673.3
Book Value/Share:	$0.00
Cash Per Share:	$2.61
Dividend (ann):	$0.00
Dividend Yield:	0.0%

Cash Per Share: based on '14E



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	
2012A	--	--	--	--	$63.8	--	--	--	--	$7.72	NM
2013E - New	**$10.6A**	**$12.3A**	**$20.2A**	**$19.1**	**$62.2**	**($2.80)A**	**($0.29)A**	**$0.14A**	**$0.00**	**$0.43**	**NM**
2013E - Old	$10.6A	$12.3A	$20.5	$10.5	$53.8	($2.80)A	($0.29)A	$2.79	($0.34)	($1.06)	NM
2014E - New	**--**	**--**	**--**	**--**	**$44.0**	**--**	**--**	**--**	**--**	**($1.52)**	**NM**
2014E - Old	--	--	--	--	$44.0	--	--	--	--	($1.53)	NM
2015E - New	**--**	**--**	**--**	**--**	**$48.0**	**--**	**--**	**--**	**--**	**($2.20)**	**NM**
2015E - Old	--	--	--	--	$48.0	--	--	--	--	($2.22)	NM

Source: Company Information and Leerink Swann LLC Research
Revenues in $MM; GAAP EPS

Please refer to pages 6 - 10 for Important Disclosures, Price Charts and Analyst Certification.

INVESTMENT THESIS

We rate MGNX with an Outperform and $34 price target. MacroGenics 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 generation of 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.

Lead product candidate Margetuximab is an Fc-enhanced anti-Her2 antibody in Phase IIa trials for treatment of metastatic breast cancer patients with moderate Her2 over expression and who are not eligible for Herceptin or Kadcyla therapy. We believe positive Phase IIa data in late 2014 would significantly derisk this program and preclinical and Phase I data support activity of the therapeutic antibody, which could significantly expand the addressable market of Herceptin (Roche). We model an addressable market opportunity of $590MM in the U.S. in metastatic breast and gastric cancer.

The second clinical stage pipeline product, MGA271, is a first-in-class, Fc-enhanced monoclonal antibody that targets B7-H3, currently in Phase Ib trials for a wide range of solid tumors. B7-H3 is a tumor-specific antigen and a novel member of the B7 family of immune regulators. We believe MGA271 addresses a promising new target in immuno-oncology that could be active in a wide array of solid tumor indications, based on preclinical data. Positive Phase I expansion phase data in 2014 will be a key catalyst for this program for which partner Servier has an option to license European rights. Based on our due-diligence we believe MGA271 has potentially two mechanisms by which it could exert its anti-cancer activity: (1) tumor cell-killing via antibody-dependent cellular cytotoxicity (ADCC), and (2) enhancement of anti-tumor immunity by blockade of T-cell inhibition.

Partnerships with Gilead, Boehringer Ingelheim, Pfizer, and Servier validate MGNX's leading bi-specific antibody ("DART") platform, in our view. We believe MGNX's technology has potential advantages over other bi-specific mAb technologies including BiTEs (AMGN [MP]), since it can generate highly stable DARTs that are more active. Existing partnerships validate the DART (Dual Affinity Re-Targeting) platform, in our view, and additional partnerships could be sources of upside. The company currently theoretically qualifies for an impressive $5Bn in total potential milestone payments from existing partners. MGNX received over $100MM in milestone payments over the last three years, and we believe there is a high likelihood that it will receive at least $100MM until 2015 as preclinical programs advance.

VALUATION

We estimate a $34 fair value for MGNX shares in 12 months, based on a discounted cash flow (DCF) sum-of-parts analysis. We use a 12% discount rate for probability of success-weighted margetuximab (25%) and MGA271 (12%) sales. Based on our DCF analysis, we attribute $8/share to margetuximab, $9/share to MGA271, and $14/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 current cash will be sufficient to fund operations through the end of 2015, and the company may have additional financing needs before turning cash flow positive.

MGNX P&L	2011A	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	2014E	2015E
Collaborative research revenue	47.1	59.6	10.1	11.8	20.1	19.0	61.0	43.0	48.0
Grant revenue	10.2	4.2	0.5	0.5	0.1	0.1	1.2	1.0	-
Royalties	-	-	-	-	-	-	-	-	-
Product sales	-	-	-	-	-	-	-	-	-
Total Revenue	**57.2**	**63.8**	**10.6**	**12.3**	**20.2**	**19.1**	**62.2**	**44.0**	**48.0**
COGS	-	-	-	-	-	-	-	-	-
R&D	41.1	45.4	10.1	11.1	11.1	13.0	45.2	62.0	78.0
SG&A	10.9	10.2	3.8	1.5	2.0	6.0	13.3	20.0	25.0
Operating expenses	52.0	55.6	13.9	12.6	13.1	19.0	58.6	82.0	103.0
Operating income (expense)	5.2	8.2	(3.3)	(0.3)	7.2	0.1	3.7	(38.0)	(55.0)
Total Other income (expense)	1.5	0.2	(0.0)	(0.0)	(0.6)	-	(0.6)	-	-
EBT	6.7	8.4	(3.3)	(0.3)	6.6	0.1	3.1	(38.0)	(55.0)
Tax expense (income)	-	-	-	-	-	-	-	-	-
Net income	**6.7**	**8.4**	**(3.3)**	**(0.3)**	**6.6**	**0.1**	**3.1**	**(38.0)**	**(55.0)**
GAAP EPS	6.55	7.72	(2.80)	(0.29)	0.14	0.00	0.43	(1.52)	(2.20)
Common shares outstanding	1.0	1.1	1.2	1.2	1.2	25.0	7.1	25.0	25.0

BS & CFS	2011A	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	2014E	2015E
Cash & equivalents	55.2	47.7	43.5	33.8	33.6	97.7	97.7	65.3	17.5
Debt	-	-	-	-	-	-	-	-	-

Change in Cash	18.3	(7.5)	(4.2)	(9.7)	(0.2)	63.9	49.7	(32.4)	(47.8)
Cash from operations	**6.8**	**(6.6)**	**(3.8)**	**(9.9)**	**0.8**	**(18.1)**	**(31.1)**	**(30.4)**	**(45.8)**
Net income (loss)	6.7	8.4	(3.3)	(0.3)	6.6	0.1	3.1	(38.0)	(55.0)
Share based comp	2.3	0.8	0.1	0.1	0.1	0.5	0.9	6.6	8.2
D&A	1.1	1.0	0.3	0.3	0.3	0.3	1.1	1.0	1.0
Other (Change in WC)	(3.5)	(16.7)	(0.9)	(10.0)	(6.3)	(19.0)	(36.2)	-	-
Cash from investing	**(0.5)**	**(0.9)**	**(0.4)**	**(0.5)**	**(1.2)**	**(0.5)**	**(2.5)**	**(2.0)**	**(2.0)**
CapEx	(0.5)	(0.9)	(0.4)	(0.5)	(1.2)	(0.5)	(2.5)	(2.0)	(2.0)
Acquisitions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Cash from financing	**12.1**	**0.0**	**0.1**	**0.7**	**0.1**	**82.5**	**83.4**	**-**	**-**
Equity issue (buyback)	12.1	0.0	0.1	0.7	0.1	82.5	83.4	-	-
Debt issue (principal payment)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-

Source: Leerink Swann Estimates and Company Filings

	Valuation ($MM)	Per share
Margetuximab (25% POS)	209	$ 8
MGA271 (12% POS)	229	$ 9
Platform and early pipeline	350	$ 14
Enterprise value ($MM)	788	$ 32
Cash (2014E)	65	$ 3
Total	**854**	**$ 34**
Common shares outstanding 2014E	25.0	

Program	Target	Platform	Partner	Indication	Current Status	Next milestone	Timing
Margetuximab	Her2	Fc	proprietary	Breast cancer (Her2 IHC2+)	Phase IIa	Phase IIa data	late 2014
						Initiate Phase IIb/III	2015
				3rd line Gastric cancer	Phase I	Initiate Phase III	2H14
						Phase III data	2018
				Other cancers (bladder)	Phase I	Initiate Phase II	2015
MGA271	B7-H3	Fc, CSLC	Servier (EU rights)	Solid tumors	Phase Ib	Phase Ia DE data	mid-2014
						Servier opt-in	1H14
						Phase Ib expansion data	2H14
						Initiation, Phase II	1Q15
MGD006	CD123 x CD3	DART	Servier (EU rights)	AML	Preclinical	Preclinical data at ASH	4Q13
						IND accepted	1Q14
						Servier opt-in	2014
						Initiate Phase I	1H14
MGD007	gpA33 x CD3	DART, CSLC	Servier (EU rights)	Colorectal cancer	Preclinical	IND accepted	mid-14
						Initiate Phase I	2H14
						Servier opt-in	2015
MGD010	CD32B x CD79B	DART	proprietary	Autoimmune (SLE, RA)	Preclinical	IND prep	2014
						IND accepted	2015
Teplizumab	CD3	Fc	proprietary	Type 1 Diabetes	Investigator-Sponsored Study	Partnership	n/a

Source: SEC Filings, Leerink Swann Estimates

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

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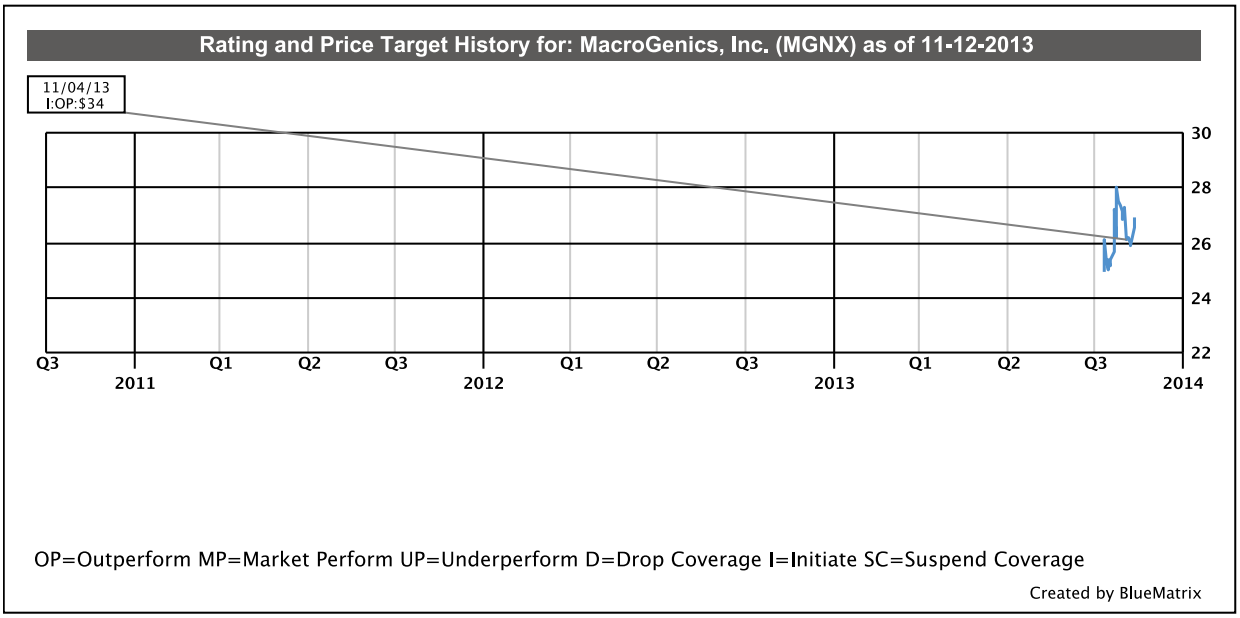
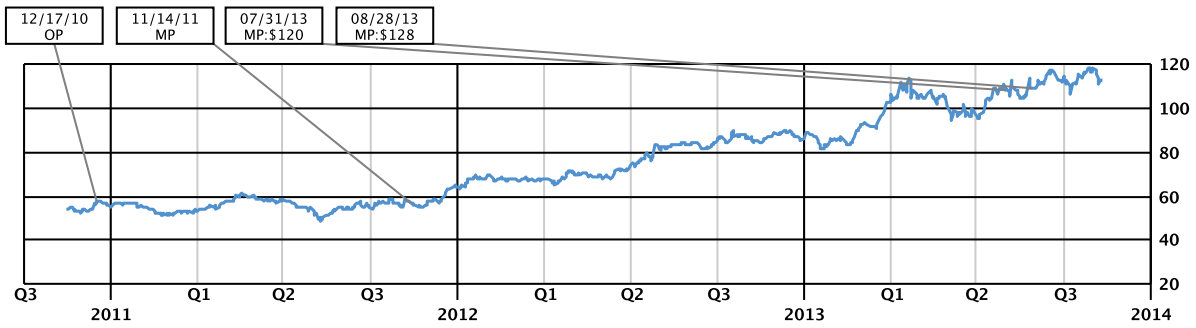


LEERINK SWANN

Rating and Price Target History for: Amgen, Inc. (AMGN) as of 11-12-2013

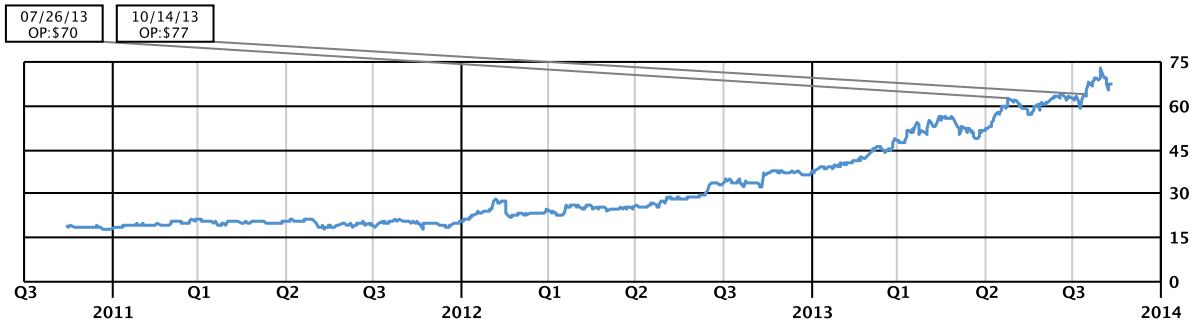


Leerink Swann placed a Market Perform rating on AMGN on November 4. 2010. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Rating and Price Target History for: Gilead Sciences, Inc. (GILD) as of 11-12-2013



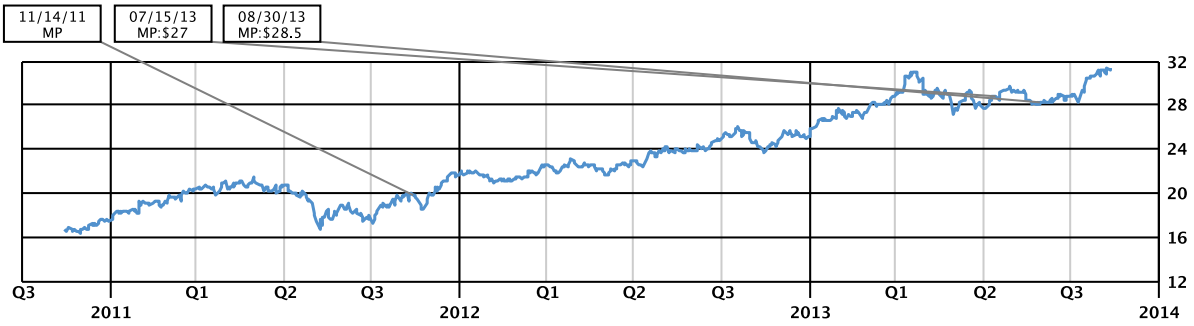
Leerink Swann placed an Outperform rating on GILD on July 13, 2009. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

LEERINK SWANN

Rating and Price Target History for: Pfizer Inc. (PFE) as of 11-12-2013



Leerink Swann placed an Outperform rating on PFE on Feb. 12, 2009. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

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Distribution of Ratings/Investment Banking Services (IB) as of 09/30/13				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	111	64.90	27	24.00
HOLD [MP]	60	35.10	0	0.00
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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Leerink Swann Consulting LLC, an affiliate of Leerink Swann LLC, is a provider of evidence-based strategy and consulting to the healthcare industry.

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

Leerink Swann LLC makes a market in MacroGenics, Inc., Amgen, Inc. and Gilead Sciences, Inc.

Leerink Swann LLC is willing to sell to, or buy from, clients the common stock of Pfizer Inc. on a principal basis.

In the past 12 months, an affiliate of the Firm, Leerink Swann Consulting LLC, has received compensation for providing non-securities services to: Amgen, Inc. and Pfizer Inc.

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

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