

Intrexon

3Q13 Model Update

We are updating our financial model following yesterday's press release of 3Q13 results. We note that under GAAP, XON is required to defer recognition of a portion of upfront and milestone payment revenues, even in cases where the payments are neither contingent on the results of future performance, nor refundable in the event of non-performance. Since earnings generated from such proceeds are available to the company for immediate use, we elect to give them credit in the period in which they were generated. Consequently, we are including an adjusted EBITDA estimate in our model that accounts for this deferment, in addition to netting out the impact of any change in the value of XON's equity investments. We also note that as a consequence of the deferred revenue accounting, our revenue forecast will not be directly comparable to XON's reported GAAP revenue for future periods.

For more details on our XON investment thesis, please see our recent initiation [note](#).

Overweight

XON, XON US

Price: \$19.33

Price Target: \$30.00

Life Science Tools & Diagnostics

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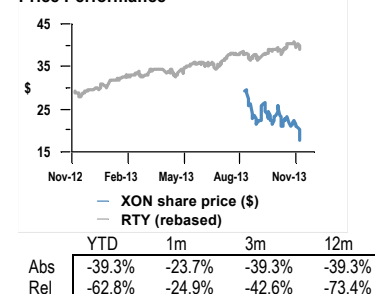
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Price Performance



Intrexon Corporation (XON;XON US)

FYE Dec	2012A	2013E (Prev)	2013E (Curr)	2014E (Prev)	2014E (Curr)	2015E
Revenue (\$ mn)						
Q1 (Mar)	2	4A	4A	20	21	34
Q2 (Jun)	3	7A	7A	25	25	37
Q3 (Sep)	3	13A	6A	26	26	41
Q4 (Dec)	7	23	23	40	43	59
FY	14	47	39	111	115	171

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

Company Data

Price (\$)	19.33
Date Of Price	08-Nov-13
52-week Range (\$)	31.44-16.00
Market Cap (\$ mn)	1,739.70
Fiscal Year End	Dec
Shares O/S (mn)	90
Price Target (\$)	30.00
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 \$30 is derived from a 10-year discounted cash flow analysis, with a CAPM-derived WACC discount rate of 19.5% and terminal growth of 1%.

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 (in millions, except per share amounts)	2011A	1QA Mar	2QA Jun	3QA Sep	4QA Dec	2012A	1QA Mar	2QA Jun	3QA Sep	4QE Dec	2013E	2014E	2015E	2016E	2017E	2018E	CAGR 13-18
ECC Operating Revenue	5	2	3	3	7	14	4	7	6	22	39	114	167	205	272	356	
AquaBounty	0	0	0	0	0	0	0	0	0	0	0	1	3	13	31	50	
Other Revenues	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Revenues	8	2	3	3	7	14	4	7	6	23	39	115	171	217	303	406	59%
R&D	70	19	18	14	13	64	12	14	11	11	47	51	48	51	61	41	
G&A	18	8	6	5	6	25	6	7	7	7	28	30	34	29	25	24	
Other operating expenses (incl. AquaBounty)	2	0	0	0	0	0	0	0	0	2	2	6	9	16	32	40	
Operating Profit (Loss) (EBIT)	(82)	(25)	(21)	(16)	(12)	(75)	(14)	(14)	(12)	3	(38)	28	79	122	184	301	N/A
GAAP EBITDA	(82)	(12)	(14)	(18)	(29)	(74)	(34)	(5)	17	2	(20)	20	56	86	129	213	
Adjusted EBITDA	0	(23)	(12)	(14)	0	0	(7)	(5)	(5)	5	(12)	37	89	132	194	311	
Pretax income (loss)	(85)	(14)	(17)	(20)	(31)	(82)	(36)	(7)	15	3	(24)	32	85	129	193	313	N/A
Income tax	0	0	0	0	0	0	0	0	0	0	0	0	32	49	73	119	
Net Income (loss)	(85)	(14)	(17)	(20)	(31)	(82)	(36)	(7)	15	3	(24)	32	52	80	120	194	
Net income (loss) attributable to minority interest	0	0	0	0	0	0	(0)	(1)	(0)	0	(1)	(1)	(2)	0	1	3	
Accr. of dividends on redeemable conv.	(14)	(5)	(5)	(5)	(6)	(22)	(6)	(8)	(7)	0	(21)	0	0	0	0	0	
Net income (loss) attributable to common shareholders	(99)	(19)	(22)	(26)	(36)	(104)	(43)	(14)	8	3	(45)	33	54	80	119	191	
Diluted Shares Outstanding	9	5	5	6	6	6	6	6	56	56	31	57	57	57	58	58	
GAAP Diluted EPS	(\$10.81)	(\$3.54)	(\$3.99)	(\$4.66)	(\$6.54)	(\$18.79)	(\$7.54)	(\$2.46)	\$0.15	\$0.06	(\$1.45)	\$0.58	\$0.95	\$1.39	\$2.06	\$3.29	N/A
R&D Margin (as % of total revenue)	861%	1173%	647%	491%	198%	461%	289%	201%	175%	50%	120%	44%	28%	23%	20%	10%	
SG&A Margin	224%	480%	232%	173%	87%	179%	163%	110%	121%	30%	71%	26%	20%	13%	8%	6%	
Operating (EBIT) Margin	-1009%	-1553%	-779%	-564%	-185%	-540%	-352%	-210%	-196%	11%	-96%	24%	46%	56%	61%	74%	
Effective Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	38%	38%	38%	38%	
Net Margin	-1213%	-1197%	-803%	-887%	-548%	-746%	-1074%	-206%	135%	16%	-114%	28%	32%	37%	39%	47%	
Revenue growth y/y		-2%	34%	-18%	611%	70%	146%	149%	110%	238%	183%	191%	49%	27%	39%	34%	
EPS growth y/y		381%	32%	13%	124%	74%	113%	-38%	-103%	-101%	-92%	-140%	64%	47%	48%	60%	

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
Revenue (\$M)	39	115	171	217	303	406	518	627	711	830	918	1,004
growth y/y		191%	49%	27%	39%	34%	27%	21%	13%	17%	11%	9%
EBIT (\$M)	(38)	28	79	122	184	301	393	479	560	660	733	806
EBIT margin	-96%	24%	46%	56%	61%	74%	76%	76%	79%	79%	80%	80%
Tax-affected EBIT (\$M)	(38)	28	49	76	114	187	243	297	347	409	455	500
Free Cash Flow	(38)	27	51	78	113	184	240	294	346	404	453	498
growth y/y			88%	53%	46%	62%	31%	23%	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	0.0%	0.5%	1.0%	1.5%	2.0%	0.0%	0.5%	1.0%	1.5%	2.0%	0.0%	0.5%	1.0%	1.5%	2.0%
18.5%	921	634	655	677	700	725	1,555	1,576	1,598	1,622	1,646	1.8x	1.8x	1.8x	1.8x	0.0x
19.0%	900	596	615	635	656	679	1,495	1,515	1,535	1,556	1,579	1.7x	1.7x	1.7x	1.8x	0.0x
19.5%	879	560	578	596	616	637	1,439	1,457	1,475	1,495	1,515	1.6x	1.6x	1.7x	1.7x	0.0x
20.0%	859	527	543	560	578	597	1,386	1,402	1,419	1,437	1,456	1.6x	1.6x	1.6x	1.6x	0.0x
20.5%	839	496	511	527	544	561	1,335	1,350	1,366	1,383	1,400	1.5x	1.5x	1.5x	1.6x	0.0x
	Net Debt (Cash) (\$M)	Equity Value (\$M)					Equity Value per Share					Terminal Value as a % of Enterprise Value				
		0.0%	0.5%	1.0%	1.5%	2.0%	0.0%	0.5%	1.0%	1.5%	2.0%	0.0%	0.5%	1.0%	1.5%	2.0%
	(236)	1,791	1,812	1,834	1,857	1,882	\$31.70	\$32.07	\$32.46	\$32.87	\$33.31	41%	42%	42%	43%	44%
	(236)	1,731	1,750	1,770	1,792	1,814	\$30.64	\$30.97	\$31.33	\$31.71	\$32.11	40%	41%	41%	42%	43%
-	(236)	1,674	1,692	1,711	1,730	1,751	\$29.64	\$29.95	\$30.28	\$30.62	\$30.99	39%	40%	40%	41%	42%
	(236)	1,621	1,637	1,654	1,672	1,691	\$28.69	\$28.98	\$29.28	\$29.60	\$29.94	38%	39%	39%	40%	41%
	(236)	1,571	1,586	1,602	1,618	1,635	\$27.80	\$28.07	\$28.34	\$28.64	\$28.95	37%	38%	39%	39%	40%

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

Intrexon: Summary of Financials

Income Statement - Annual	FY12A	FY13E	FY14E	FY15E	Income Statement - Quarterly	1Q13A	2Q13A	3Q13A	4Q13E
Revenues	14	39	115	171	Revenues	4A	7A	6A	23
Cost of products sold	-	-	-	-	Cost of products sold	-	-	-	-
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(25)	(28)	(30)	(34)	SG&A	(6)A	(7)A	(7)A	(7)
R&D	(56)	(39)	(41)	(38)	R&D	(10)A	(12)A	(9)A	(9)
Operating income	(75)	(38)	28	79	Operating income	(14)A	(14)A	(12)A	3
EBITDA	(67)	(30)	37	89	EBITDA	(12)A	(12)A	(10)A	5
Net interest (income) / expense	-	-	-	-	Net interest (income) / expense	-	-	-	-
Other income / (expense)	(6)	14	4	5	Other income / (expense)	(22)A	8A	27A	1
Income taxes	0	0	0	(32)	Income taxes	0A	0A	0A	0
Net income	(111)	(35)	16	20	Net income	(65)A	(6)A	36A	1
Diluted shares outstanding	6	31	57	57	Diluted shares outstanding	6A	6A	56A	56
Diluted EPS	(18.79)	(1.45)	0.58	0.95	Diluted EPS	(7.54)A	(2.46)A	0.15A	0.06
Balance Sheet and Cash Flow Data	FY12A	FY13E	FY14E	FY15E	Ratio Analysis	FY12A	FY13E	FY14E	FY15E
Cash and cash equivalents	10	65	101	161	Sales growth	70.4%	183.0%	190.8%	49.0%
Accounts receivable	1	10	19	26	EBIT growth	(8.8%)	(49.7%)	(173.2%)	186.9%
Inventories	-	-	-	-	EPS growth	80.1%	(94.4%)	(124.7%)	29.5%
Other current assets	2	3	3	3	Gross margin	-	-	-	-
Current assets	14	214	260	327	EBIT margin	(587.6%)	(69.7%)	9.2%	26.7%
PP&E	19	18	22	25	EBITDA margin	(530.2%)	(49.9%)	17.7%	32.5%
Total assets	152	477	521	586	Tax rate	0.0%	0.0%	0.0%	38.0%
Total debt	0	3	3	3	Net margin	(793.7%)	(87.7%)	13.6%	11.9%
Total liabilities	67	81	90	99	Net Debt / EBITDA	14.1%	316.1%	(486.9%)	(286.3%)
Shareholders' equity	85	395	430	487	Net Debt / Capital (book)	(13.9%)	(18.6%)	(29.8%)	(48.4%)
Net income (including charges)	(82)	(24)	32	52	Return on assets (ROA)	(83.0%)	(11.0%)	3.1%	3.7%
D&A	8	8	10	10	Return on equity (ROE)	(133.5%)	(14.4%)	3.8%	4.4%
Change in working capital	6	(15)	(7)	(5)	Enterprise value / sales	0.0	0.0	0.0	0.0
Other	6	(8)	4	4	Enterprise value / EBITDA	0.0	0.0	0.0	0.0
Cash flow from operations	(62)	(40)	39	62	Free cash flow yield	(64.6%)	(6.9%)	3.4%	5.5%
Capex	(7)	(2)	(2)	(2)					
Free cash flow	(69)	(41)	37	60					
Cash flow from investing activities	(24)	(222)	(2)	(2)					
Cash flow from financing activities	76	316	0	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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