

Reason for report:

FLASH NOTE

MACROGENICS, INC.

MGD010 Deal a Positive Surprise

• **Bottom Line:** MGNX announced today that it has entered into an option agreement for the development and commercialization of MGD010 with Takeda. The deal came earlier than we had expected, and we view the terms as favorable for MGNX. We continue to view MGNX's diversified pipeline strategy positively since it generates several shots on goal, and it takes advantage of MGNX's innovative drug discovery and development capabilities. Reiterate Outperform rating.

• **Good terms for MGNX, in our view, with \$33M in possible near-term payments.** MGD010 and the partnership were not included in our MGNX model. Under the terms of the agreement, MGNX will receive an upfront payment of \$15M and Takeda receives an option to obtain an exclusive worldwide license for MGD010 following the completion of a pre-defined Phase Ia study. MGNX will lead all product development activities until that time. If Takeda exercises its option, it will assume responsibility for future development and pay MGNX an option exercise fee which, when combined with the upfront payment and an early development milestone, will total \$33M. Assuming successful development and commercialization of MGD010, MGNX could receive up to an additional \$468.5M in clinical, regulatory and commercialization milestone payments. If commercialized, MGNX would receive double-digit royalties on any global net sales and has the option to co-promote MGD010 with Takeda in the United States. MGNX may elect to fund a portion of Phase III clinical development in exchange for a North American profit share.

• **MGD010 deal ahead of IND filing, which is expected in 2015.** MGNX is currently conducting preclinical research with MGD010 for the treatment of autoimmune diseases. Mgmt previously guided to an IND filing in 2015. The company recently presented pre-clinical data on MGD010 at IMMUNOLOGY 2014. The presentation included data showing inhibition of B-cell activation ex vivo in samples from patients with autoimmune disorders and a safety profile that included no cytokine release or broad B-cell depletion in non-human primates, and pharmacokinetics that should support convenient intermittent dosing in humans.

• **Takeda deal further validates bispecific approach, in our view.** MGD010 represents the second bispecific antibody product in development for autoimmune diseases, in addition to XNCR's XmAb5871, which is being developed under an option agreement with AMGN. MGD010 modulates the function of human B-cells by triggering an inhibitory "immune checkpoint" CD32B (FcγRIIb), a negative regulator of autoimmune response in addition to CD79B, a B-cell receptor component. XNCR's XmAb5871 simultaneously targets the B-cell proteins CD32B and CD19. XmAb5871 Phase IIa data in rheumatoid arthritis (RA) is expected in 2H14. We believe either product could potentially be developed for a range of autoimmune diseases, including RA, lupus, among others.

Key Stats:

(OTC Un:MGNX)

S&P 600 Health Care Index:	1,260.59
Price:	\$18.53
52 Week High:	\$41.00
52 Week Low:	\$17.96
Shares Outstanding (mil):	26.3
Market Capitalization (mil):	\$487.3

Disclosures Appendix

Analyst Certification

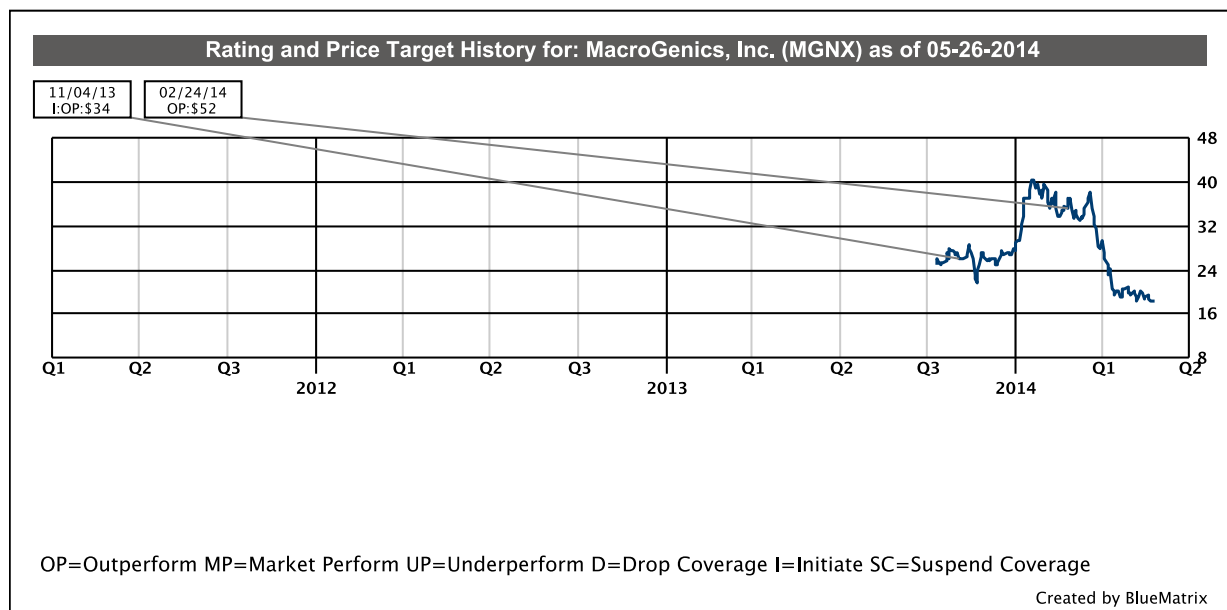
I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

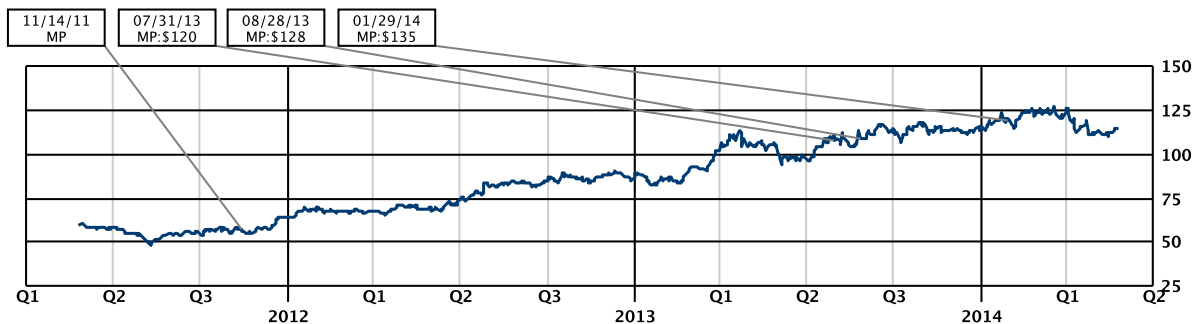
Our \$52 price target for MGNX shares in 12 months is based on a discounted cash flow (DCF) sum-of-parts analysis. We use a 12% discount rate for probability of success-weighted margetuximab (25%), MGA271 (15%), and MGD006 (20%) sales. Based on our DCF analysis, we attribute \$8/share to margetuximab, \$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.



Rating and Price Target History for: Amgen, Inc. (AMGN) as of 05-26-2014

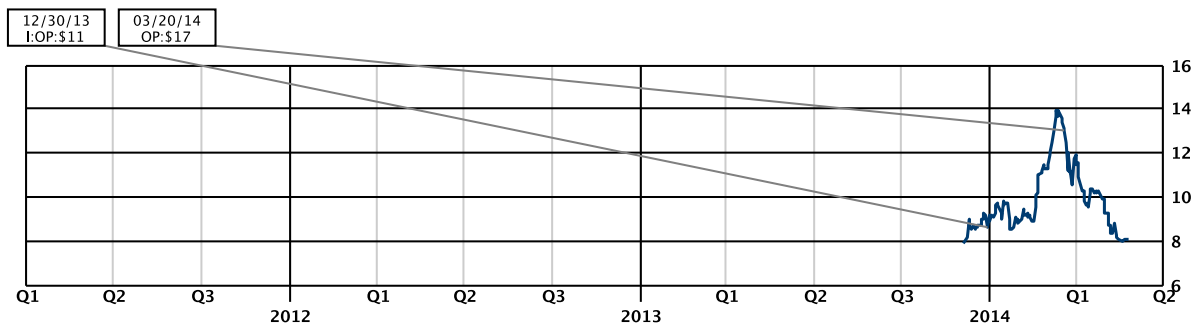


Leerink Swann placed an Outperform rating on AMGN on December 17, 2010. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

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

Created by BlueMatrix

Rating and Price Target History for: Xencor, Inc. (XNCR) as of 05-26-2014



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

Created by BlueMatrix

Distribution of Ratings/Investment Banking Services (IB) as of 03/31/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	131	68.23	46	35.11
HOLD [MP]	61	31.77	3	4.92
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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In the past 12 months, the Firm has received compensation for providing investment banking services to MacroGenics, Inc. and Xencor, Inc. .

Leerink Partners LLC makes a market in MacroGenics, Inc., Amgen, Inc. and Xencor, Inc.

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

Leerink Partners LLC has acted as the manager for a public offering of Xencor, Inc. in the past 12 months.

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Leerink Partners LLC Equity Research			
Director of Equity Research	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink
Associate Director of Research	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink
Healthcare Strategy	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink
	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink
Biotechnology	Howard Liang, Ph.D.	(617) 918-4857	howard.liang@leerink
	Joseph P. Schwartz	(617) 918-4575	joseph.schwartz@leerink
	Marko Kozul, M.D.	(415) 905-7221	marko.kozul@leerink
	Michael Schmidt, Ph.D.	(617) 918-4588	michael.schmidt@leerink
	Gena Wang, Ph.D., CFA	(212) 277-6073	gena.wang@leerink
	Jonathan Chang, Ph.D.	(617) 918-4015	jonathan.chang@leerink
	Paul Matteis	(617) 918-4585	paul.matteis@leerink
	Richard Goss	(617) 918-4059	richard.goss@leerink
Life Science Tools and Diagnostics	Dan Leonard	(212) 277-6116	dan.leonard@leerink
	Justin Bowers, CFA	(212) 277-6066	justin.bowers@leerink
Pharmaceuticals/Major	Seamus Fernandez	(617) 918-4011	seamus.fernandez@leerink
	Ario Arabi	(617) 918-4568	ario.arabi@leerink
	Aneesh Kapur	(617) 918-4576	aneesh.kapur@leerink
Specialty Pharmaceuticals, Generics	Jason M. Gerberry, JD	(617) 918-4549	jason.gerberry@leerink
Medical Devices, Cardiology & Orthopedics	Danielle Antalffy	(212) 277-6044	danielle.antalffy@leerink
	Richard Newitter	(212) 277-6088	richard.newitter@leerink
	Ravi Misra	(212) 277-6049	ravi.misra@leerink
Healthcare Services	Ana Gupte, Ph.D.	(212) 277-6040	ana.gupte@leerink
Healthcare Technology & Distribution	David Larsen, CFA	(617) 918-4502	david.larsen@leerink
	Christopher Abbott	(617) 918-4010	chris.abbott@leerink
Sr. Editor/Supervisory Analyst	Mary Ellen Eagan, CFA	(617) 918-4837	maryellen.eagan@leerink
Supervisory Analysts	Robert Egan		bob.egan@leerink
	Amy N. Sonne		amy.sonne@leerink
Editorial	Cristina Diaz-Dickson	(617) 918-4548	cristina.diaz-dickson@leerink

New York
299 Park Avenue, 21st floor
New York, NY 10171
(888) 778-1653

Boston
One Federal Street, 37th Floor
Boston, MA 02110
(800) 808-7525

San Francisco
201 Spear Street, 16th Floor
San Francisco, CA 94105
(800) 778-1164