

Reason for report:
COMPANY UPDATE

MACROGENICS, INC.

Pipeline Updates Highlighted in Call With Management; Raising Price Target

• **Bottom Line:** Based on a recent update with management, we believe MGNX's product pipeline is expanding faster than we had initially expected. We are adjusting our model to reflect the recently completed capital raise and the earlier than we had expected Servier license of MGD006. We are increasing our PT to \$52 from \$34 previously. **Reiterate Outperform rating.**

• **Pipeline growing faster than we had expected.** Our new PT reflects more value for MGNX's early stage pipeline, and we specifically break out MGD006 (AML). With now three proprietary INDs expected in 2015, in addition to the two INDs in 2014, we note that MGNX's pipeline is broadening much faster than we initially expected. MGNX originally guided to one IND filing per year starting in 2015. We like mgmt's strategy since it diversifies the pipeline significantly, adds additional shots on goal, and takes advantage of MGNX's antibody discovery and development capabilities which give the company the ability and flexibility to rapidly generate and develop (or partner) antibody-based therapeutics against novel targets, which can then be optimized and manufactured in-house using the appropriate antibody technology.

• **Two additional new DART molecules are expected to enter the clinic for oncology in 2015.** These new DARTs are in addition to MGD006 ([reviewed here](#)), MGD007, and MGD010. MGNX will select these two new programs to advance from four ongoing late-preclinical programs. Only one of these four product candidates (Tx) is subject to a potential EU license by Servier, which recently exercised its licensing option for MGD006 one quarter earlier than we had expected. The targets for these two new molecules have not been disclosed yet due to competitive and IP reasons.

• **MGNX to broaden MGA271 monotherapy Phase Ib program in 2H14.** In addition to three currently enrolling expansion cohorts in prostate cancer, melanoma, and B7-H3+ all-comers, MGNX will pursue other tumor types in further cohorts 2H14. The specific indications have not been determined yet but will take into consideration the expression profile of B7-H3. B7-H3 is also highly expressed on cancers of the kidney, pancreas, breast, and ovaries. MGNX expects to complete the initial three cohorts in late '14 and the add't.. cohorts in '15. Servier will initiate two additional tumor types this week.

• **MGNX to test MGA271 combinations likely including but not limited to immuno-oncology (IO) combinations.** Potential combinations will take into consideration mechanistic synergies, e.g., with Tx that target the tumor vasculature where B7-H3 is expressed. Potential combos with...

Key Stats: (OTC Un:MGNX)

S&P 600 Health Care Index:	1,326.37
Price:	\$35.30
Price Target:	\$52.00 from \$34.00
Methodology:	Sum-of-the-parts DCF analysis
52 Week High:	\$41.00
52 Week Low:	\$21.50
Shares Outstanding (mil):	27.0
Market Capitalization (mil):	\$953.1
Book Value/Share:	\$0.00
Cash Per Share:	\$5.91
Dividend (ann):	\$0.00
Dividend Yield:	0.0%
<i>Shares Outstanding (mil): as of 1Q14E</i>	
<i>Cash Per Share: based on 1Q14E</i>	



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	
2012A	--	--	--	--	\$63.8	--	--	--	--	\$7.72	NM
2013E	\$10.6A	\$12.3A	\$20.2A	\$19.1	\$62.2	(\$2.80)A	(\$0.29)A	\$0.14A	\$0.00	\$0.43	NM
2014E - New	\$20.3	\$7.9	\$7.9	\$7.9	\$44.0	(\$0.06)	(\$0.51)	(\$0.51)	(\$0.51)	(\$1.59)	NM
2014E - Old	--	--	--	--	\$44.0	--	--	--	--	(\$1.52)	NM
2015E - New	--	--	--	--	\$48.0	--	--	--	--	(\$2.22)	NM
2015E - Old	--	--	--	--	\$48.0	--	--	--	--	(\$2.20)	NM

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

INVESTMENT THESIS

We rate MGNX with Outperform. MGNX 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 rapid generation of novel 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. We believe MGNX shares will appreciate as the company advances its proprietary and partnered pipeline products. We also believe MGNX could close additional product development partnerships and existing partners could license further products.

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... other checkpoint inhibitors are possibilities. Combination with natural killer (NK)-cell targeted agents such as IPH (OP)/BMY's (OP) anti-KIR (lirilumab) would also make sense in our view, given that it can enhance antibody-dependent cellular cytotoxicity (ADCC), which is part of MGA271's mechanism. Combos with Tx that are approved or those that are still in development are being considered by mgmt. We like MGNX's broad and rigorous approach in Phase Ib before settling on specific development plans.

- **MGNX plans to increase its manufacturing facility in 2H14.** Management is exploring opportunities to increase manufacturing capacity and potentially be capable of having two production streams running in parallel. Management believes there are significant advantages to having in-house manufacturing capabilities as this allows decisions to be made only weeks ahead vs. having to plan one year ahead for an outsourced contract manufacturer.

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 \$19/ 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 through the end of 2015, and the company may have additional financing needs before turning cash flow positive.

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
MGA271	B7-H3	Fc, CSLC	Servier (EU rights)	Other cancers (bladder)	Phase I	Initiate Phase II	2015
				Solid tumors	Phase Ib	Phase Ib initiation of additional cohorts	2H14
						Phase Ib dose-expansion data monotherapy	2015
						Phase Ib dose-expansion data combinations	2015
MGD006	CD123 x CD3	DART	Servier (EU rights)	AML	IND	Servier opt-in	2015
						Initiate Phase I	2Q14
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	Partnership	2014/15
						Initiate Phase I	2015
MGD011	undisclosed	DART	proprietary	Oncology	Preclinical	Initiate Phase I	2015
MGD012	undisclosed	DART	proprietary/Servier (EU)	Oncology	Preclinical	Initiate Phase I	2015
Teplizumab	CD3	Fc	proprietary	Type 1 Diabetes	Investigator-Sponsored Study	Partnership	n/a

Source: SEC Filings, Leerink Partners Estimates

MGNX P&L	2011A	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Collaborative research revenue	47.1	59.6	10.1	11.8	20.1	19.0	61.0	20.0	7.7	7.7	7.7	43.0	48.0
Grant revenue	10.2	4.2	0.5	0.5	0.1	0.1	1.2	0.3	0.3	0.3	0.3	1.0	-
Royalties	-	-	-	-	-	-	-	-	-	-	-	-	-
Product sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	57.2	63.8	10.6	12.3	20.2	19.1	62.2	20.3	7.9	7.9	7.9	44.0	48.0
COGS	-	-	-	-	-	-	-	-	-	-	-	-	-
R&D	41.1	45.4	10.1	11.1	11.1	13.0	45.2	16.8	16.8	16.8	16.8	67.0	83.0
SG&A	10.9	10.2	3.8	1.5	2.0	6.0	13.3	5.0	5.0	5.0	5.0	20.0	25.0
Operating expenses	52.0	55.6	13.9	12.6	13.1	19.0	58.6	21.8	21.8	21.8	21.8	87.0	108.0
Operating income (expense)	5.2	8.2	(3.3)	(0.3)	7.2	0.1	3.7	(1.5)	(13.8)	(13.8)	(13.8)	(43.0)	(60.0)
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	(1.5)	(13.8)	(13.8)	(13.8)	(43.0)	(60.0)
Tax expense (income)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	6.7	8.4	(3.3)	(0.3)	6.6	0.1	3.1	(1.5)	(13.8)	(13.8)	(13.8)	(43.0)	(60.0)
GAAP EPS	6.55	7.72	(2.80)	(0.29)	0.14	0.00	0.43	(0.06)	(0.51)	(0.51)	(0.51)	(1.59)	(2.22)
Common shares outstanding	1.0	1.1	1.2	1.2	1.2	25.0	7.1	27.0	27.0	27.0	27.0	27.0	27.0

BS & CFS	2011A	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Cash & equivalents	55.2	47.7	43.5	33.8	33.6	97.7	97.7	159.4	147.1	134.8	122.4	122.4	70.1
Debt	-	-	-	-	-	-	-	-	-	-	-	-	-

Change in Cash	18.3	(7.5)	(4.2)	(9.7)	(0.2)	63.9	49.7	61.7	(12.3)	(12.3)	(12.3)	24.7	(52.4)
Cash from operations	6.8	(6.6)	(3.8)	(9.9)	0.8	(18.1)	(31.1)	0.5	(11.8)	(11.8)	(11.8)	(35.0)	(50.4)
Net income (loss)	6.7	8.4	(3.3)	(0.3)	6.6	0.1	3.1	(1.5)	(13.8)	(13.8)	(13.8)	(43.0)	(60.0)
Share based comp	2.3	0.8	0.1	0.1	0.1	0.5	0.9	1.7	1.7	1.7	1.7	7.0	8.6
D&A	1.1	1.0	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.3	0.3	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)	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)	(2.0)
CapEx	(0.5)	(0.9)	(0.4)	(0.5)	(1.2)	(0.5)	(2.5)	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)	(2.0)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash from financing	12.1	0.0	0.1	0.7	0.1	82.5	83.4	61.8	-	-	-	61.8	-
Equity issue (buyback)	12.1	0.0	0.1	0.7	0.1	82.5	83.4	61.8	-	-	-	61.8	-
Debt issue (principal payment)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Leerink Partners Estimates and Company Filings

	Valuation (\$MM)	Per share
Margetuximab (25% POS)	214	\$ 8
MGA271 (15% POS)	309	\$ 11
MGD006 (20% POS)	249	\$ 9
Platform and early pipeline	500	\$ 19
Enterprise value (\$MM)	1,273	47
Cash (2014E)	122	\$ 5
Total	1,395	\$ 52
Common shares outstanding 2014E	27.0	

Source: Leerink Partners estimates

Disclosures Appendix

Analyst Certification

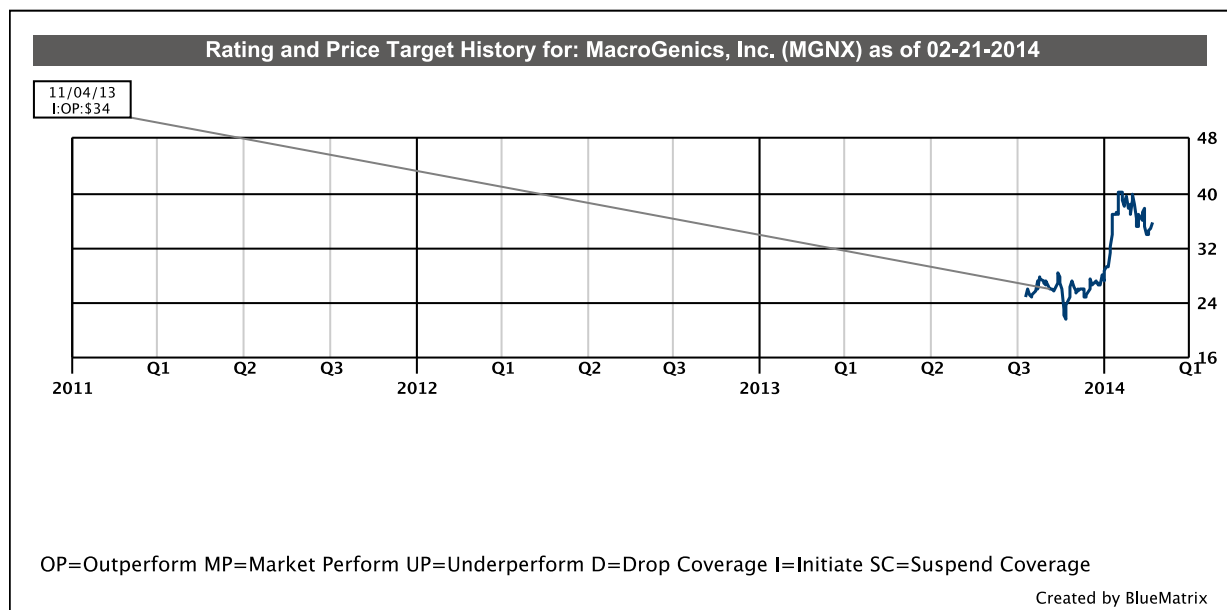
I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

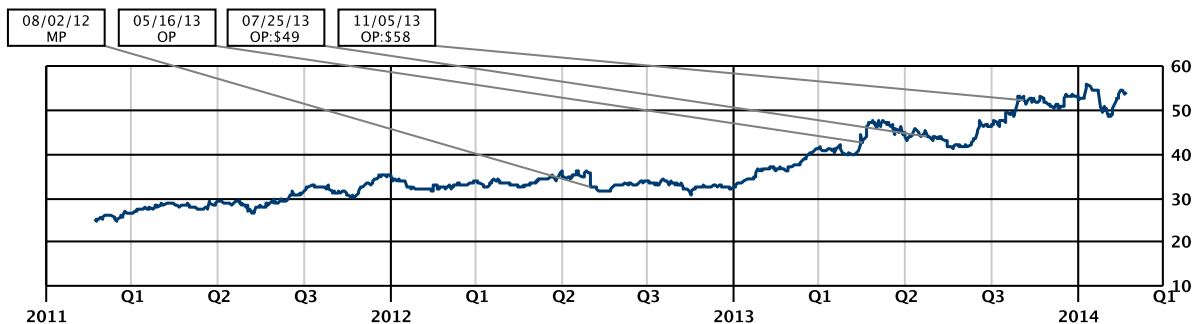
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Rating and Price Target History for: Bristol-Myers Squibb (BMY) as of 02-21-2014

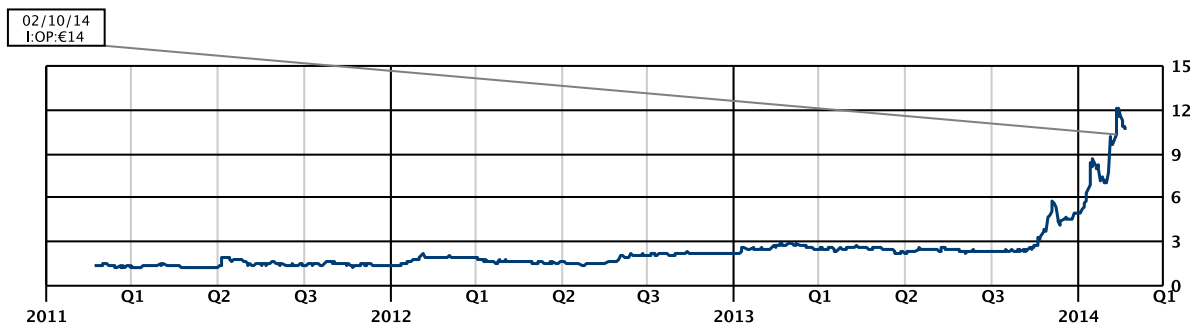


Leerink Swann placed an Outperform rating on BMY on June 11, 2010. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

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

Created by BlueMatrix

Rating and Price Target History for: Innate Pharma S.A. (IPH FP) as of 02-21-2014



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 12/31/13				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	118	64.50	30	25.00
HOLD [MP]	65	35.50	2	3.00
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.

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In the past 12 months, the Firm has received compensation for providing investment banking services to MacroGenics, Inc. and Innate Pharma S.A. .

Leerink Partners LLC makes a market in MacroGenics, Inc.

Leerink Partners LLC is willing to sell to, or buy from, clients the common stock of Bristol-Myers Squibb 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: Bristol-Myers Squibb.

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

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