

## MacroGenics (MGNX)

### Q2:14 Earnings, Pipeline is Advancing, Reiterate OUTPERFORM

- **MGNX reported \$9.2M in revenues and EPS of (\$0.44) in Q2, between our estimates \$4.0M/(\$0.51) and consensus \$11.7M/(\$0.29).** The company ended the quarter with \$194.0M in cash and equivalents, which it said would provide runway into 2017.
- **Development continues on the company's wholly owned lead candidate, margetuximab, in HER2 expressing tumors.** Enrollment has completed in a Phase I trial in refractory HER2+ cancer patients, with preliminary data indicating safety and evidence of single-agent activity. Margetuximab is also in a Phase IIa trial in metastatic breast cancer and the Phase III MAGENTA trial in r/r gastroesophageal cancer is expected to start this half.
- **Enrollment in the Phase IIa breast cancer study of margetuximab is ongoing, and has taken longer than initially expected due to an overestimation in the size of the IHC 2+/HER2 gene non-amplified patient population.** The study is selectively enrolling patients with low HER2 expression in order to validate the benefit of Fc optimization in expanding the population of breast cancer patients suitable for HER2 therapy. The company said it is adding additional clinical sites to assist in patient recruitment.
- **In late July the company reported that the IND for MGD007 was cleared by FDA, which triggered a \$5M milestone payment from partner Servier.** MGNX plans to begin a Phase I trial of MGD007 in colorectal cancer patients in H2:14. MGD007 will be the second DART to enter clinical testing, following the start of a Phase I trial of MGD006 in AML in June. Servier has rights to MGD006 in territories outside North America and select Asian nations, and an option to license exclusive rights to MGD007 in these regions. Servier also has an option to license rights to MGA271, an Fc-mAb targeting B7-H3 that is in the Phase I stage.
- **With a strong pipeline, multiple partnerships and a large cash balance, we view MGNX shares as attractive on a risk/reward basis.**
- **Reiterate OUTPERFORM and \$52 price target.** Our 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.

August 5, 2014

Price  
**\$20.19**

Rating  
**OUTPERFORM**

12-Month Price Target  
**\$52**

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#### Company Information

Shares Outst (M)	27.7
Market Cap (M)	\$558.3
52-Wk Range	\$17.96 - \$41.00
Book Value/sh	\$5.57
Cash/sh	\$5.13
Enterprise Value (M)	\$416.3
LT Debt/Cap %	0.0
Cash Burn (M)	\$44.9

#### 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

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$11.4A	\$14.7A		\$14.7A	\$5.0E		\$8.2E
Q2 Jun	11.4A	9.2A	4.0A	11.7A	\$5.0E		\$6.9E
Q3 Sep	20.2A	5.0E	4.0E	10.5E	\$5.0E		\$7.7E
Q4 Dec	14.9A	4.0E		12.7E	\$5.0E		\$6.8E
Year*	\$58.0A	\$32.9E	\$26.7E	\$49.5E	\$20.0E		\$47.9E
Change	-9%	-43%			--		
EPS	2013A	2014E			2015E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	(\$0.09)A	(\$0.12)A		(\$0.12)A	(\$0.54)E	(\$0.51)E	(\$0.47)E
Q2 Jun	(0.09)A	(0.44)A	(0.51)A	(0.29)A	(\$0.55)E	(\$0.52)E	(\$0.54)E
Q3 Sep	0.31A	(0.51)E	(0.52)E	(0.38)E	(\$0.57)E	(\$0.54)E	(\$0.52)E
Q4 Dec	(0.13)A	(0.56)E	(0.53)E	(0.37)E	(\$0.59)E	(\$0.55)E	(\$0.58)E
Year*	(\$0.02)A	(\$1.64)E	(\$1.69)E	(\$1.17)E	(\$2.25)E	(\$2.12)E	(\$1.77)E
P/E	--	--			--		
Change	-104%	-10579%			-37%		

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

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

- MGNX said it plans to have six candidates in clinical development by the end of 2015, including margetuximab, MGA271, MGD006, MGD007, MGD010 (licensed by Takeda), and teplizumab. We note that MGNX also has partnerships with Gilead, Pfizer and Boehringer Ingelheim for DARTs currently in the preclinical stage.

## Milestones

- H2:14 Begin Phase III MAGENTA trial of margetuximab in r/r gastroesophageal cancer
- H2:14 Begin additional monotherapy expansion cohorts and complete enrollment (YE:14) of the first three dose-expansion cohorts in Phase I trial of MGA271 in solid tumors
- H2:14 Begin Phase I trial of MGD007 in colorectal cancer
- 2015 Initiate Phase II trials of MGA271 in combination with other therapies
- 2015 Initiate clinical studies of MGD010 in autoimmune/inflammatory disease

## Financial Model

8/5/2014  
Ticker: (MGNX:Nasdaq)  
MacroGenics, Inc.

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

	2013A	Q1	Q2	Q3E	Q4E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenues:</b>												
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	9,220	5,000	4,000	32,939	20,000	20,000	0	0	0	0
<b>Total Revenues</b>	<b>58,035</b>	<b>14,719</b>	<b>9,220</b>	<b>5,000</b>	<b>4,000</b>	<b>32,939</b>	<b>20,000</b>	<b>20,000</b>	<b>323</b>	<b>28,337</b>	<b>253,582</b>	<b>766,457</b>
<b>Cost and Expenses:</b>												
Cost of Sales	0	0	0	0	0	0	0	0	45	2,551	38,042	126,822
R&D	46,582	14,569	17,335	14,750	15,000	61,654	63,061	68,259	73,886	79,976	86,569	127,458
SG&A	11,087	3,259	4,145	4,311	4,483	16,198	19,319	23,024	29,262	32,037	69,303	162,522
<b>Total Operating Expenses</b>	<b>57,669</b>	<b>17,827</b>	<b>21,480</b>	<b>19,061</b>	<b>19,483</b>	<b>77,851</b>	<b>82,379</b>	<b>91,283</b>	<b>103,193</b>	<b>114,564</b>	<b>193,914</b>	<b>416,801</b>
Operating Income (Loss)	366	(3,109)	(12,260)	(14,061)	(15,483)	(44,913)	(62,379)	(71,283)	(102,870)	(86,227)	59,668	349,656
Net Interest Income (Expense)/Other Income	(627)	0	1	1	1	2	2	4	3	2	1	3
<b>Income Before Income Taxes</b>	<b>(261)</b>	<b>(3,108)</b>	<b>(12,259)</b>	<b>(14,060)</b>	<b>(15,483)</b>	<b>(44,910)</b>	<b>(62,378)</b>	<b>(71,280)</b>	<b>(102,867)</b>	<b>(86,225)</b>	<b>59,669</b>	<b>349,659</b>
Provision for Income Taxes	0	0	0	0	0	0	0	0	0	0	3,507	18,532
<b>Net Income (Loss)</b>	<b>(261)</b>	<b>(3,108)</b>	<b>(12,259)</b>	<b>(14,060)</b>	<b>(15,483)</b>	<b>(44,910)</b>	<b>(62,378)</b>	<b>(71,280)</b>	<b>(102,867)</b>	<b>(86,225)</b>	<b>56,162</b>	<b>331,127</b>
<b>GAAP EPS</b>	<b>(0.02)</b>	<b>(0.12)</b>	<b>(0.44)</b>	<b>(0.51)</b>	<b>(0.56)</b>	<b>(1.64)</b>	<b>(2.25)</b>	<b>(2.24)</b>	<b>(3.22)</b>	<b>(2.69)</b>	<b>1.68</b>	<b>9.90</b>
Total Shares Outstanding	16,946	26,262	27,651	27,676	27,701	27,323	27,751	31,839	31,939	32,039	32,139	32,239
Cash Burn	(261)	0	0	0	0	(44,910)	(62,378)	(71,280)	(102,867)	(86,225)	56,162	331,127
Cash Balance	116,481	198,722	194,014	173,722	158,383	158,383	136,538	253,729	153,006	66,121	108,024	402,955

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

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Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).\*

Rating Distribution (as of July 30, 2014)	Investment Banking Relationships (as of June 30, 2014)
Outperform: 54%	Outperform: 25%
Neutral: 42%	Neutral: 1%
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Company	Disclosure
MacroGenics	1,3,4,5

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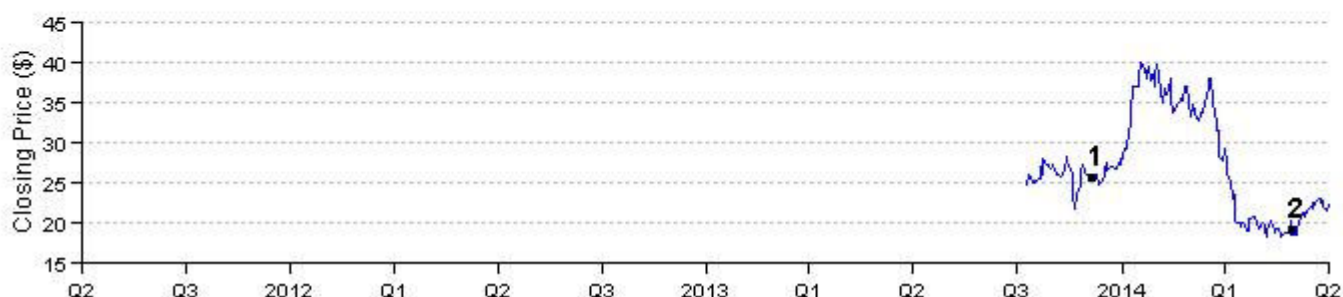
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MGNX

1) 12/03/13	2) 05/27/14
OUTPERFORM \$70	OUTPERFORM \$52



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