

August 5, 2014

HEALTHCARE/BIO TECHNOLOGY

**Stock Rating:**
**OUTPERFORM**

12-18 mo. Price Target \$48.00  
MGNX - NASDAQ \$20.19

3-5 Yr. EPS Gr. Rate NA  
52-Wk Range \$41.00-\$17.96  
Shares Outstanding 26.3M  
Float 18.3M  
Market Capitalization \$560.0M  
Avg. Daily Trading Volume 298,327  
Dividend/Div Yield \$0.00/0.00%  
Book Value \$5.83  
Fiscal Year Ends Dec  
2014E ROE NA  
LT Debt \$0.0M  
Preferred NA  
Common Equity \$153M  
Convertible Available No

EPS	Q1	Q2	Q3	Q4	Year	Mult.
2013A	(2.93)	(0.24)	0.01	(0.14)	(0.04)	NM
2014E	(0.12)A	(0.44)A	(0.66)	(0.67)	(1.91)	NM
Prior (E)	--	(0.56)	(0.63)	(0.64)	(1.97)	NM
2015E	(0.72)	(0.73)	(0.75)	(0.76)	(2.96)	NM
Prior (E)	(0.69)	(0.70)	(0.72)	(0.73)	(2.83)	NM
Revenue (\$/mil)	Q1	Q2	Q3	Q4	Year	Mult.
2013A	10.6	12.3	20.2	14.9	58.0	7.0x
2014E	14.7A	9.2A	5.3	5.3	34.6	11.7x
Prior (E)	--	5.3	--	--	30.7	NM
2015E	4.3	4.3	4.0	4.0	16.6	24.5x

## MacroGenics, Inc.

### 2Q14 Update—Bispecific T-Cell Redirecting DARTs Enter the Clinic

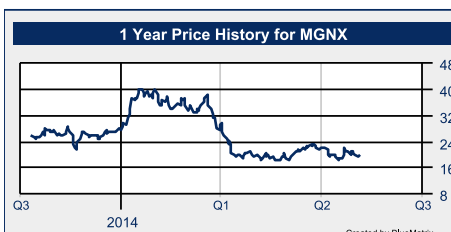
#### SUMMARY

MacroGenics reported 2Q14 results Tuesday, ending the quarter with \$194M in cash and equivalents. Mgmt estimates the company has cash runway into 2017, including expected payments from partners. We are updating our model and revising our estimates for the reported quarter. MacroGenics proprietary pipeline of monoclonal antibodies and DARTs is progressing through the clinic, with two Phase I initiations this year, and two more Fc-containing DARTs expected to enter the clinic in 2015.

#### KEY POINTS

- **The first three expansion cohorts of a trial with MGA-271, an anti-B7-H3 mAb, in melanoma, prostate and all B7-H3+ tumors are expected to complete enrollment by YE14.** MGNX plans to initiate additional monotherapy trials in 2014 and is evaluating combination therapy trials that may start in 2015.
- **MGD007 will be MGNX's second DART to enter the clinic by year-end, its first in a solid tumor indication and with its half-life extending Fc-domain.** MGD007 targets gpA33, a target expressed in 95% of metastatic human colorectal cancers, though a subset of patients with high TIL counts may respond more favorably to T-cell/bispecific approaches.
- **MGNX has not observed bone marrow toxicity in preclinical primate models with MGD006.** We note that although marrow toxicity has been flagged as a primary concern of a CD123 targeting T-cell therapy, the studies suggesting toxicity employed models that also had higher than typical levels of CD123 expression.
- **The margetuximab Phase IIa trial in HER2 low expressing MBC is enrolling patients more slowly than anticipated and data may be delayed from the previous 2014 time frame.** The Phase III trial timeline is not impacted. Three intermittent dosing cohorts from the Phase I trial have completed enrollment, exploring dosing up to 18 mg/kg Q3W.
- **We reiterate our Outperform rating and \$48 price target.** Our price target is derived from a sum-of-the-parts analysis.

#### Stock Price Performance



#### Company Description

MacroGenics is a clinical-stage biopharmaceutical company focused on discovering and developing engineered monoclonal antibody-based therapeutics for the treatment of cancer and autoimmune diseases.

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## Upcoming Milestones

2H14	Initiate a Phase III trial (MAGENTA) of margetuximab (anti-HER2) in HER2+ gastric cancer
2H14	Initiate additional dose expansion cohorts with MGA271 (anti-B7-H3) in undisclosed tumor types
YE:14	Complete first three dose expansion cohorts in a Phase I trial of MGA271 (anti-B7-H3) in melanoma, prostate and B7-H3+ tumors
1H15	Complete enrollment in the first stage of the simon two stage Phase IIa trial of margetuximab in MBC, announce decision to enlarge/cancel
2015	Potential expansion cohort data from the Phase I Trial of MGA271 at a scientific meeting
2015	File two additional DART INDs
2015	Potential initiation of Phase I/II trials of MGD010 in auto-immune diseases
2015	Potential initiation of Phase II trials of MGA271 in combination with other agents
2015/2016	Top-line data from Phase I trials of MGD006 (CD123xCD3) and MGD007 (GPA33xCD3) in advanced cancer patients
2017	Complete enrollment in a Phase III trial of margetuximab in gastric cancer, MAGENTA
2017/2018	Top-line data from a Phase III trial of margetuximab in gastric cancer, MAGENTA

Source: Company data; Oppenheimer & Co., Inc estimates

# Financial Model

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

Annual Financial Results and Projections  
 (\$ in thousands except per share data)

Income statement	FY:12A	FY:13A	Q1A	Q2A	Q3E	Q4E	FY:14E	FY:15E	FY:16E	FY:17E	FY:18E	FY:19E
<b>Revenues:</b>												
Margetuximab Sales	0	0	0	0	0	0	0	0	0	0	3,489	102,253
Collaboration Revenue	59,646	56,753	14,401	9,202	5,000	5,000	33,603	16,000	16,000	16,000	16,000	16,000
Grants	4,180	1,282	318	18	300	300	936	600	0	0	0	0
<b>Total Revenues</b>	<b>\$ 63,826</b>	<b>\$ 58,035</b>	<b>\$ 14,719</b>	<b>\$ 9,220</b>	<b>\$ 5,300</b>	<b>\$ 5,300</b>	<b>\$ 34,539</b>	<b>\$ 16,600</b>	<b>\$ 16,000</b>	<b>\$ 16,000</b>	<b>\$ 19,489</b>	<b>\$ 118,253</b>
<b>Cost and Expenses:</b>												
Costs of goods sold	0	0	0	0	0	0	0	0	0	0	0	0
Research and Development	45,433	46,582	14,569	17,335	20,000	20,200	72,104	82,840	86,204	89,704	93,347	97,137
Sales, General and Administrative	10,188	11,087	3,259	4,145	4,186	4,228	15,818	17,340	18,044	39,445	62,130	64,653
Other	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Costs and Expenses</b>	<b>\$ 55,621</b>	<b>\$ 57,669</b>	<b>\$ 17,827</b>	<b>\$ 21,480</b>	<b>\$ 24,186</b>	<b>\$ 24,428</b>	<b>\$ 87,922</b>	<b>\$ 100,181</b>	<b>\$ 104,248</b>	<b>\$ 129,149</b>	<b>\$ 155,477</b>	<b>\$ 161,790</b>
<b>Operating Income (loss)</b>	<b>8,205</b>	<b>366</b>	<b>(3,109)</b>	<b>(12,260)</b>	<b>(18,886)</b>	<b>(19,128)</b>	<b>(53,384)</b>	<b>(83,581)</b>	<b>(88,248)</b>	<b>(113,149)</b>	<b>(136,336)</b>	<b>(52,366)</b>
Net Interest Income (Expense)	0	0	0	1	582	529	1,112	1,530	1,828	1,176	2,006	652
Other income / (Expense)	156	(627)	0	0	0	0	2	2	2	2	2	2
Income Before Income Taxes	8,362	(261)	(3,108)	(12,259)	(18,304)	(18,599)	(52,270)	(82,049)	(86,418)	(111,971)	(134,329)	(51,712)
<b>Net Income</b>	<b>\$ 8,362</b>	<b>\$ (261)</b>	<b>\$ (3,108)</b>	<b>\$ (12,259)</b>	<b>\$ (18,304)</b>	<b>\$ (18,599)</b>	<b>\$ (52,270)</b>	<b>\$ (82,049)</b>	<b>\$ (86,418)</b>	<b>\$ (111,971)</b>	<b>\$ (134,329)</b>	<b>\$ (51,712)</b>
<b>GAAP Net Income</b>	<b>\$ 8,362</b>	<b>\$ (261)</b>	<b>\$ (3,108)</b>	<b>\$ (12,259)</b>	<b>\$ (18,304)</b>	<b>\$ (18,599)</b>	<b>\$ (52,270)</b>	<b>\$ (82,049)</b>	<b>\$ (86,418)</b>	<b>\$ (111,971)</b>	<b>\$ (134,329)</b>	<b>\$ (51,712)</b>
<b>GAAP Basic EPS with sFAS123</b>	<b>-</b>	<b>(0.04)</b>	<b>(0.12)</b>	<b>(0.44)</b>	<b>(0.66)</b>	<b>(0.67)</b>	<b>(1.91)</b>	<b>(2.96)</b>	<b>(2.80)</b>	<b>(3.53)</b>	<b>(3.95)</b>	<b>(1.52)</b>
<b>GAAP Diluted EPS with sFAS123</b>	<b>-</b>	<b>(0.04)</b>	<b>(0.12)</b>	<b>(0.44)</b>	<b>(0.66)</b>	<b>(0.67)</b>	<b>(1.91)</b>	<b>(2.96)</b>	<b>(2.80)</b>	<b>(3.53)</b>	<b>(3.95)</b>	<b>(1.52)</b>
Weighted shares outstanding	1,083	6,848	26,262	27,620	27,645	27,670	27,299	27,732	30,832	31,682	34,032	34,132
Fully diluted shares outstanding	1,083	6,848	26,262	27,620	27,645	27,670	27,299	27,732	30,832	31,682	34,032	34,132
Cash Burn	0	0	82,240	(4,708)	(17,780)	(18,489)	(52,270)	(82,049)	(86,418)	(111,971)	(134,329)	(51,712)
Cash Balance	0	116,481	198,722	194,014	176,234	157,745	157,745	75,729	134,391	217,719	81,658	26,042

Source: Company data; Oppenheimer & Co., Inc estimates

## Investment Thesis

MacroGenics is an advanced protein therapeutic platform technology company. The company combines its understanding of the immune system and advanced protein engineering techniques to produce antibodies and antibody-like proteins that bind better and/or to multiple antigens through their DART (Dual Affinity Re-Targeting) bispecifics, elicit a stronger immune response to kill cancer cells (Fc optimization) and avoid unfavorable immune reactions. The company's Cancer Stem Cell platform (CSC) provides a source of novel cancer antigens against which to discover Fc-optimized antibodies or DARTs. MGA271, targeting B7-H3, may have an immune modulatory role similar to other checkpoint inhibitors that are transforming cancer immunotherapy. Safety data expected year-end 2014 is likely to de-risk MGD006 MGNX's first clinical stage DART bispecific, in our opinion, as the therapeutic engages a clinically validated target. We believe that margetuximab, though not driving investors interest in MGNX's, provides investor a reasonable floor to the companies valuation should the more attractive (and novel but risky) assets fail to live up to expectations.

## Price Target Calculation

We arrive at our \$48 price target by a sum of the parts analysis. We ascribe \$19/share to margetuximab in HER2 low expressing MBC and HER2+ R/R gastric cancer based on a typical oncology multiple of 6x on estimated 2021 sales of \$600M discounted 30% (MBC) and 35% (gastric) annually. We ascribe \$17/share to MGA-271 in renal and melanoma markets based on a 6x multiple of estimated sales and a typical royalty multiple of 15x of estimated royalties discounted 40% annually. We ascribe \$6/share to MGD006 in AML patients unfit for intensive therapy and r/r AML based on a 6x multiple of estimated sales and an 18x multiple of estimated royalties, discounted 45% annually. We ascribe \$5/share to MGD007 in mCRC based on a 6x/15x multiple of sales/royalties discounted 50% annually. We ascribe \$1/share to MGD010 based on a 6x/15x multiple of sales/royalties discounted 45% annually.

## Key Risks to Price Target

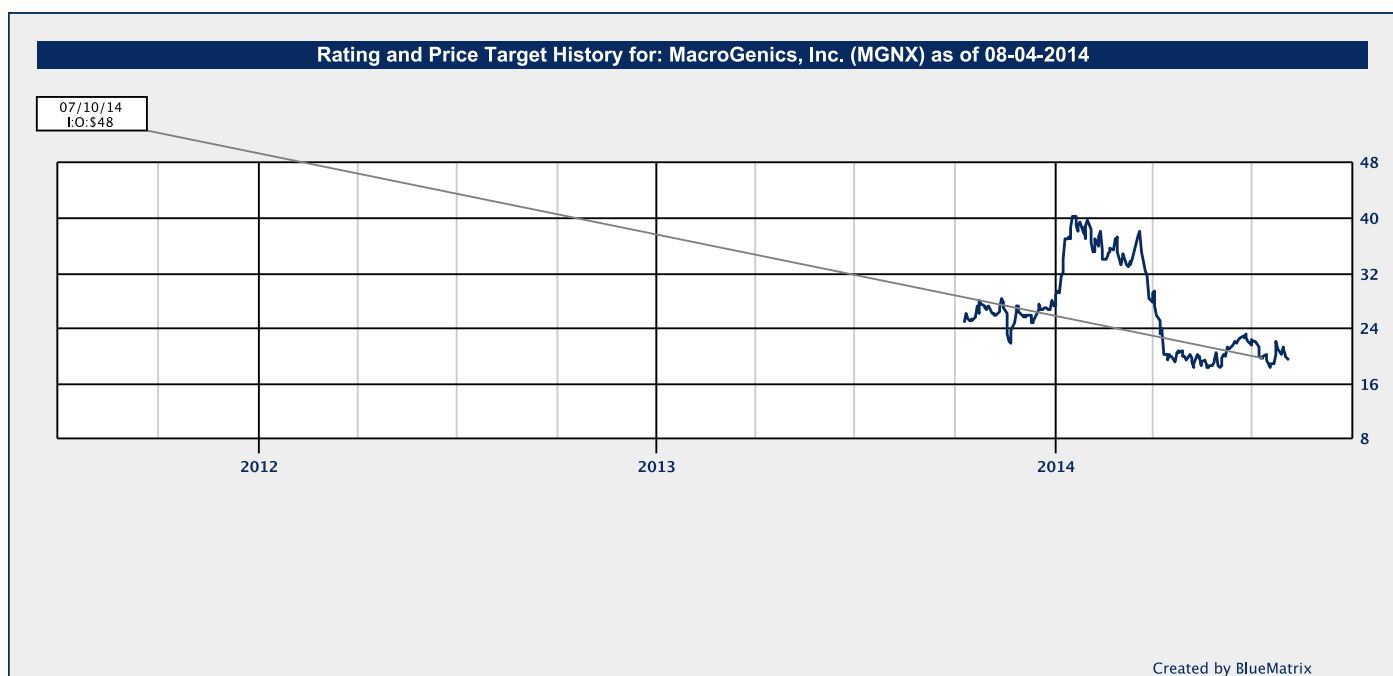
These risks include: 1) failure to reach sales expectations for margetuximab, MGA-271, MGD006, MGD007 or MGD010; 2) failure in the clinic of margetuximab, MGA-271, MGD006, MGD007 or MGD010; and 3) changes to or discontinuation of MacroGenics' partnerships for MGA-271, MGD006, MGD007 or MGD010; 4) intellectual property risk; 5) strategic risk; 6) competitive risk; 7) financing risk and 8) high insider stake potentially leading to conflicts with interests of public shareholders.

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## Distribution of Ratings/IB Services Firmwide

Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	312	51.74	140	44.87
PERFORM [P]	281	46.60	98	34.88
UNDERPERFORM [U]	10	1.66	3	30.00

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