

## MacroGenics (MGNX)

### Q1:14 Financial Results - Reiterate OUTPERFORM

- **MGNX finished the quarter with \$198.7M in cash versus our \$171.9M estimate due to the receipt of milestones in the quarter.** R&D and G&A expenses were \$14.6M and \$3.3M versus our \$13.5M and \$3.9M, respectively. We are adjusting our Q2-Q4 R&D numbers (FY:14 now \$59M from \$54M) to reflect the increased spending that is anticipated as margetuximab begins the Phase III MAGENTA study, and MGD-006 and MGD-007 advance to enter the clinic. The company anticipates that the combination of existing cash and anticipated milestones are sufficient to fund operations into 2017.
- **MGNX anticipates initiation of the randomized controlled 425 patient Phase III MAGENTA study in the advanced gastroesophageal cancer setting in H2:14.** The study is estimated to take approximately 3 years to complete and is 90% powered to detect a 0.67 HR. Patients will receive chemotherapy or chemotherapy plus margetuximab (Q wklly, 6 mg/kg).
- **Manufacturing of MGA271 (Fc-optimized B7-H3 Mab) is back on track with the completion of the first 3 dose expansion cohorts expected by YE:14, additional monotherapy expansion cohorts expected to be under way in H2:14, and chemotherapy combination studies starting in 2015.**
- **Treatment of the first patient in the Phase I/II study of MGD006 (CD3/IL-3R DART) in the advanced AML setting is expected soon.** Due to the requirement to enroll and treat patients in a sequential manner, MGNX does not anticipate providing guidance on the potential forum for data until late FY:14. We would expect no news to be good news with respect to the safety results of the first DART clinical study.
- **The Phase I/II study of MGD007 (gpA33/CD3 DART) in the relapsed refractory metastatic colorectal cancer setting is expected to start in H2:15.** MGNX expects two other immune-oncology DARTs to enter the clinic in 2015.
- **Discussions with FDA on a potential clinical plan for MGNX's wholly-owned MGD010 (CD32b/CD79b) DART are ongoing, and MGD010 could potentially enter the clinic in an autoimmune/inflammatory setting in 2015.**
- **We reiterate our OUTPERFORM rating and \$70 price target.** Our \$70 price target is derived from the sum of multiples of sales and royalties from the company's proprietary and partnered products, each discounted back to YE:14.

May 6, 2014

Price  
**\$19.64**

Rating  
**OUTPERFORM**

12-Month Price Target  
**\$70**

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#### Company Information

Shares Outst (M)	27.6
Market Cap (M)	\$542.5
52-Wk Range	\$18.35 - \$41.00
Book Value/sh	\$3.14
Cash/sh	\$5.04
Enterprise Value (M)	\$403.3
LT Debt/Cap %	0.0
Cash Burn (M)	\$46.1

#### 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	\$4.0A	\$16.8A	\$5.0E		N/AE
Q2 Jun	11.4A	4.0E		12.4E	\$5.0E		N/AE
Q3 Sep	20.2A	4.0E		11.4E	\$5.0E		N/AE
Q4 Dec	14.9A	4.0E		14.5E	\$5.0E		N/AE
Year*	<b>\$58.0A</b>	<b>\$26.7E</b>	<b>\$16.0E</b>	<b>\$55.1E</b>	<b>\$20.0E</b>		<b>\$54.5E</b>
Change	-9%	-54%			--		
EPS	2013A	2014E			2015E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	(\$0.09)A	(\$0.12)A	(\$0.53)A	(\$0.08)A	(\$0.51)E		N/AE
Q2 Jun	(0.09)A	(0.51)E	(0.52)E	(0.28)E	(\$0.52)E	(\$0.53)E	N/AE
Q3 Sep	0.31A	(0.52)E	(0.53)E	(0.36)E	(\$0.54)E		N/AE
Q4 Dec	(0.13)A	(0.53)E		(0.32)E	(\$0.55)E		N/AE
Year*	<b>(\$0.02)A</b>	<b>(\$1.69)E</b>	<b>(\$2.11)E</b>	<b>(\$1.06)E</b>	<b>(\$2.12)E</b>	<b>(\$2.13)E</b>	<b>(\$1.66)E</b>
P/E	--	--			--		
Change	-104%	-10867%			-26%		

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 MGNX's licensees below that for which we have modelled.

### Upcoming Milestones

- H1:14 IND filing for margetuximab in the advanced gastroesophageal cancer setting (our estimate)
- H1:14 Initiate a Phase 1 clinical trial of MGD006 (IL-3R•CD3) target in the AML setting
- H2:14 Initiate a Phase 3 study of margetuximab with or without paclitaxel or irinotecan in the third line advanced gastroesophageal cancer setting (primary endpoint is overall survival)
- H2:14 Initiate a Phase 1 clinical trial of MGD007 (gpa33•CD3) (second DART candidate) in the colorectal cancer setting
- H2:14 Initiate additional monotherapy expansion cohorts of MGA271 (B7-H3)
- 2014 Complete enrollment of the Phase 2a clinical trial of margetuximab (HER2) in the metastatic breast cancer setting
- 2014 Complete enrollment (n=45) of the dose-expansion portion of the Phase 1 clinical trial of MGA271 (B7-H3) target as a single-agent in patients with advanced solid tumors
- 2014 Top-line results from the Phase IIa study of margetuximab (HER2) in the metastatic breast cancer setting
- 2015 Initiate Phase 2 studies of MGA271 (B7-H3) combination with chemotherapy
- 2015 Initiate Phase I/II studies of two immune-oncology DARTs.
- 2015 Potentially initiate a Phase I/II study of the CD32b/CD79b (MGD010) DART in the autoimmune/inflammatory disease setting.
- 2017 Potential top-line data from the Phase III study of margetuximab in the second line advanced gastroesophageal cancer setting (our estimate)

5/6/2014

Ticker: (MGNX:Nasdaq)  
MacroGenics, Inc.

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

	2013A	Q1A	Q2E	Q3E	Q4E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenues:</b>												
Product Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$268	\$16,541	\$256,575	\$889,203
Royalties	0	0	0	0	0	0	0	0	96	15,584	63,371	132,347
Milestones and collaboration revenues	58,035	14,719	4,000	4,000	4,000	26,719	20,000	20,000	0	0	0	0
<b>Total Revenues</b>	<b>58,035</b>	<b>14,719</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>	<b>26,719</b>	<b>20,000</b>	<b>20,000</b>	<b>364</b>	<b>32,124</b>	<b>319,946</b>	<b>1,021,551</b>
<b>Cost and Expenses:</b>												
Cost of Sales	0	0	0	0	0	0	0	0	54	3,308	51,315	177,841
R&D	46,582	14,569	14,650	14,750	15,000	58,969	63,061	68,259	73,886	79,976	86,569	177,841
SG&A	11,087	3,259	3,389	3,524	3,665	13,837	15,795	18,825	23,942	27,477	77,884	210,736
<b>Total Operating Expenses</b>	<b>57,669</b>	<b>17,827</b>	<b>18,039</b>	<b>18,274</b>	<b>18,665</b>	<b>72,806</b>	<b>78,856</b>	<b>87,084</b>	<b>97,881</b>	<b>110,761</b>	<b>215,768</b>	<b>566,418</b>
Operating Income (Loss)	366	(3,109)	(14,039)	(14,274)	(14,665)	(46,088)	(58,856)	(67,084)	(97,517)	(78,637)	104,178	455,133
Net Interest Income (Expense)/Other Income	(627)	0	1	1	1	2	2	3	2	1	0	3
<b>Income Before Income Taxes</b>	<b>(261)</b>	<b>(3,108)</b>	<b>(14,038)</b>	<b>(14,274)</b>	<b>(14,665)</b>	<b>(46,085)</b>	<b>(58,854)</b>	<b>(67,081)</b>	<b>(97,515)</b>	<b>(78,636)</b>	<b>104,178</b>	<b>455,136</b>
Provision for Income Taxes	0	0	0	0	0	0	0	0	0	0	5,594	74,839
<b>Net Income (Loss)</b>	<b>(261)</b>	<b>(3,108)</b>	<b>(14,038)</b>	<b>(14,274)</b>	<b>(14,665)</b>	<b>(46,085)</b>	<b>(58,854)</b>	<b>(67,081)</b>	<b>(97,515)</b>	<b>(78,636)</b>	<b>98,584</b>	<b>380,297</b>
<b>GAAP EPS</b>	<b>(0.02)</b>	<b>(0.12)</b>	<b>(0.51)</b>	<b>(0.52)</b>	<b>(0.53)</b>	<b>(1.69)</b>	<b>(2.12)</b>	<b>(2.11)</b>	<b>(3.06)</b>	<b>(2.46)</b>	<b>2.96</b>	<b>11.37</b>
Total Shares Outstanding	16,946	26,262	27,620	27,645	27,670	27,299	27,720	31,807	31,907	32,007	32,107	32,207
Cash Burn	(261)	0	0	0	0	(46,085)	(58,854)	(67,081)	(97,515)	(78,636)	98,584	380,297
Cash Balance	116,481	198,722	184,836	170,710	156,189	156,189	137,867	186,458	91,084	11,480	90,661	419,251

Source: Wedbush PacGrow Life Sciences

## Analyst Biography

Gregory Wade, Ph.D.

Greg is a Managing Director and joined Wedbush in March 2009 from Pacific Growth Equities where he was a Senior Research Analyst covering emerging Pharmaceutical and Biotechnology companies. He started at Pacific Growth in February 2000 as a Research Associate and became an Analyst in 2004. Prior to Pacific Growth Equities, Greg was a Director in the business development group at ISIS Pharmaceuticals and prior to that was with Procyon BioPharma in London, Canada. While completing his Ph.D. in Physiology at the University of Western Ontario Greg worked as an Associate at the venture capital company Helix Investments Canada where he focused on early stage investments in life science companies.

Greg's team includes Drs. David Nierengarten (Analyst) and Chris Marai (Analyst) and together they cover 40+ companies focused on antibiotics, rare diseases, prostate cancer, hematology/oncology, gastrointestinal disorders, vaccines, biodefense and drug/device combinations.

Greg's Edge: Greg's edge comes from the breadth and duration of his tenure on the sell-side. Coverage of nearly 60 different companies over 14 years provides him with a measured perspective and industry and key opinion leader contacts help to inform his view.

## Analyst Certification

I, Gregory R. Wade, Ph.D., David M. Nierengarten, Ph.D., Christopher N. Marai, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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 March 31, 2014)	Investment Banking Relationships (as of March 31, 2014)
Outperform: 54%	Outperform: 22%
Neutral: 43%	Neutral: 2%
Underperform: 3%	Underperform: 0%

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## Wedbush Equity Research Disclosures as of May 6, 2014

Company	Disclosure
MacroGenics	1,3,4,5,7

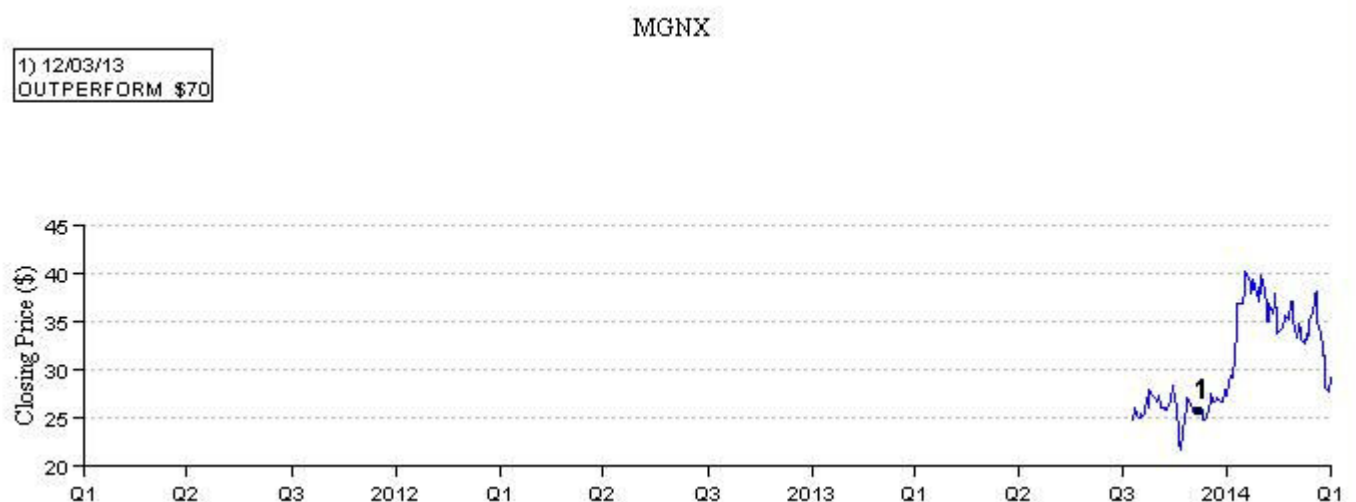
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\* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009. Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmg/equities-division/research/equity-research> Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to [ellen.kang@wedbush.com](mailto:ellen.kang@wedbush.com), or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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