

## Intrexon

### 4Q13 Model Update

We are updating our XON financial model following yesterday's press release of 4Q13 results and filing of the 10-K. We note a sequential increase in G&A expenses, due to new hires and bonus pay-outs, but expect a quarterly operating expense run-rate of \$18-20M to be more than offset by cost recovery and upfront payment revenues by year-end. We continue to model increasing ECC signings throughout the year across healthcare (particularly, in oncology and CNS), as well as energy, food and environmental verticals and are encouraged by the company's recent energy collaboration announcement. By way of background, under this agreement, XON has received \$50M in cash proceeds (via a \$25M technology access fee and ~\$25M stock sale to external investors in IEP) and the company expects to receive a further \$25M in cost recovery revenues over time, but is initially liable for half of the \$50M in program development cost investments. As a reminder, IEP plans to enhance XON's gas-to-liquid (GTL) bioconversion platform for fuels and lubricant production and will first target isobutanol for gasoline blending, followed by additional high-value fuels and lubricants.

We are updating our model for the quarter and modestly increasing our price target to \$32. For more details on our XON investment thesis, please see our recent initiation [note](#).

## Overweight

XON, XON US

Price: \$25.26 (intraday - 02:52 PM)

▲ **Price Target: \$32.00**  
Previous: \$30.00

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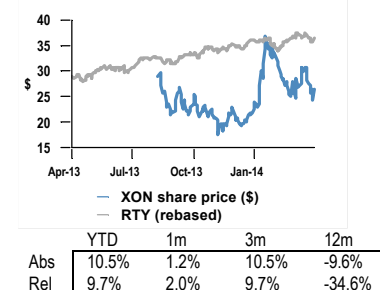
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### Price Performance



### Intrexon Corporation (XON;XON US)

| FYE Dec         | 2012A | 2013A | 2014E<br>(Prev) | 2014E<br>(Curr) | 2015E<br>(Prev) | 2015E<br>(Curr) |
|-----------------|-------|-------|-----------------|-----------------|-----------------|-----------------|
| Revenue (\$ mn) |       |       |                 |                 |                 |                 |
| Q1 (Mar)        | 2     | 4     | 11              | 14              | 19              | 20              |
| Q2 (Jun)        | 3     | 7     | 14              | 15              | 21              | 22              |
| Q3 (Sep)        | 3     | 6     | 15              | 16              | 24              | 25              |
| Q4 (Dec)        | 7     | 7     | 22              | 23              | 33              | 33              |
| FY              | 14    | 24    | 62              | 67              | 97              | 100             |

Source: Company data, Bloomberg, J.P. Morgan estimates.

### Company Data

|                       |             |
|-----------------------|-------------|
| Price (\$)            | 25.26       |
| Date Of Price         | 01-Apr-14   |
| 52-week Range (\$)    | 38.50-16.00 |
| Market Cap (\$ mn)    | 2,450.79    |
| Fiscal Year End       | Dec         |
| Shares O/S (mn)       | 97          |
| Price Target (\$)     | 32.00       |
| Price Target End Date | 31-Dec-14   |

### See page 6 for analyst certification and important disclosures.

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## Investments Thesis, Valuation, and Risks

### Investment Thesis

Intrexon is a first mover and leader in the rapidly emerging field of synthetic biology, leveraging its expertise to target high-potential verticals within a diverse set of end-markets, including healthcare, food, energy and environmental science. The company has a unique and highly scalable ECC (exclusive channel collaboration) business model that should generate significant operating leverage over time. Moreover, we believe XON is led by a best-in-class management team with a proven track record of building and commercializing R&D-driven companies, including New River Pharmaceuticals (sold to Shire for \$2.6B) and Clinical Data (sold to Forest Labs for \$1.2B).

### Valuation

Our December 2014 price target of \$32 is derived from a 10-year discounted cash flow analysis, with a CAPM-derived WACC discount rate of 12.7% and terminal growth of 1.5%.

### Risks to Rating and Price Target

Downside risks to our rating, estimates, and price target include: (1) limited near-term revenue visibility due to partnership-driven business model; (2) equity stakes in lieu of cash payments from ECC partners provide future optionality but also the risk of impairment; (3) regulatory risk associated with current and future collaborations given exposure to healthcare, food and environmental science end markets.

Figure 1: XON – Model

| <b>Income Statement</b><br>(in millions, except per share amounts) |  | 2011A            | 2012A            | 1QA<br>Mar      | 2QA<br>Jun      | 3QA<br>Sep    | 4QA<br>Dec      | 2013A           | 1QE<br>Mar      | 2QE<br>Jun      | 3QE<br>Sep      | 4QE<br>Dec    | 2014E           | 2015E         | CAGR<br>13-18 |
|--|--|------------------|------------------|-----------------|-----------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|---------------|---------------|
| <b>Total Revenues (GAAP)</b>                                       |  | <b>8</b>         | <b>14</b>        | <b>4</b>        | <b>7</b>        | <b>6</b>      | <b>7</b>        | <b>24</b>       | <b>14</b>       | <b>15</b>       | <b>16</b>       | <b>23</b>     | <b>67</b>       | <b>100</b>    | <b>62%</b>    |
| R&D  |  | 70               | 64               | 12              | 14              | 11            | 13              | 48              | 12              | 12              | 12              | 11            | 47              | 51            |               |
| G&A  |  | 18               | 25               | 6               | 7               | 7             | 12              | 34              | 8               | 7               | 7               | 9             | 32              | 34            |               |
| Other operating expenses (incl. AquaBounty)                        |  | 2                | 0                | 0               | 0               | 0             | 0               | 0               | 1               | 1               | 2               | 2             | 6               | 9             |               |
| <b>Operating Profit (Loss) (EBIT) GAAP</b>                         |  | <b>(82)</b>      | <b>(75)</b>      | <b>(14)</b>     | <b>(14)</b>     | <b>(12)</b>   | <b>(18)</b>     | <b>(58)</b>     | <b>(8)</b>      | <b>(5)</b>      | <b>(5)</b>      | <b>0</b>      | <b>(18)</b>     | <b>6</b>      | <b>N/A</b>    |
| <b>Reported EBITDA</b>   |  | <b>(82)</b>      | <b>(74)</b>      | <b>(34)</b>     | <b>(5)</b>      | <b>17</b>     | <b>(10)</b>     | <b>(32)</b>     | <b>(5)</b>      | <b>(3)</b>      | <b>(3)</b>      | <b>3</b>      | <b>(9)</b>      | <b>16</b>     |               |
| <b>Adjusted EBITDA</b>   |  |                  | <b>(60)</b>      | <b>(6)</b>      | <b>(5)</b>      | <b>(5)</b>    | <b>(7)</b>      | <b>(24)</b>     | <b>4</b>        | <b>9</b>        | <b>10</b>       | <b>22</b>     | <b>45</b>       | <b>82</b>     |               |
| <b>Pretax income (loss) GAAP</b>                                   |  | <b>(85)</b>      | <b>(82)</b>      | <b>(36)</b>     | <b>(7)</b>      | <b>15</b>     | <b>(13)</b>     | <b>(41)</b>     | <b>(7)</b>      | <b>(5)</b>      | <b>(4)</b>      | <b>1</b>      | <b>(15)</b>     | <b>10</b>     | <b>N/A</b>    |
| Income tax   |  | 0                | 0                | 0               | 0               | 0             | 0               | 0               | 0               | 0               | 0               | 0             | 0               | 4             |               |
| Net Income (loss) GAAP   |  | (85)             | (82)             | (36)            | (7)             | 15            | (13)            | (41)            | (7)             | (5)             | (4)             | 1             | (15)            | 6             |               |
| Net income (loss) attributable to minority interest                |  | 0                | 0                | (0)             | (1)             | (0)           | (1)             | (2)             | 0               | 0               | (0)             | (0)           | (1)             | (2)           |               |
| Accr. of dividends on redeemable conv.                             |  | (14)             | (22)             | (6)             | (8)             | (7)           | 0               | (18)            | 0               | 0               | 0               | 0             | 0               | 0             |               |
| <b>Net income (loss) attributable to common shareholders</b>       |  | <b>(99)</b>      | <b>(104)</b>     | <b>(43)</b>     | <b>(14)</b>     | <b>8</b>      | <b>(12)</b>     | <b>(57)</b>     | <b>(7)</b>      | <b>(5)</b>      | <b>(4)</b>      | <b>2</b>      | <b>(14)</b>     | <b>8</b>      |               |
| Diluted Shares Outstanding   |  | 9                | 6                | 6               | 6               | 56            | 97              | 41              | 97              | 97              | 97              | 97            | 97              | 98            |               |
| <b>GAAP Diluted EPS</b>  |  | <b>(\$10.81)</b> | <b>(\$18.79)</b> | <b>(\$7.54)</b> | <b>(\$2.46)</b> | <b>\$0.15</b> | <b>(\$0.13)</b> | <b>(\$1.40)</b> | <b>(\$0.07)</b> | <b>(\$0.05)</b> | <b>(\$0.04)</b> | <b>\$0.02</b> | <b>(\$0.14)</b> | <b>\$0.08</b> | <b>N/A</b>    |
| R&D Margin (as % of total revenue)                                 |  | 861%             | 461%             | 289%            | 201%            | 175%          | 176%            | 203%            | 90%             | 80%             | 75%             | 50%           | 71%             | 51%           |               |
| SG&A Margin  |  | 224%             | 179%             | 163%            | 110%            | 121%          | 172%            | 141%            | 60%             | 50%             | 45%             | 40%           | 47%             | 34%           |               |
| Operating (EBIT) Margin GAAP                                       |  | -1009%           | -540%            | -352%           | -210%           | -196%         | -248%           | -244%           | -57%            | -37%            | -33%            | 1%            | -27%            | 6%            |               |
| Effective Tax Rate   |  | 0%               | 0%               | 0%              | 0%              | 0%            | 0%              | 0%              | 0%              | 0%              | 0%              | 0%            | 0%              | 38%           |               |
| Net Margin GAAP  |  | -1213%           | -746%            | -1074%          | -206%           | 135%          | -171%           | -241%           | -51%            | -31%            | -25%            | 7%            | -21%            | 8%            |               |
| Revenue growth y/y   |  |                  | 70%              | 146%            | 149%            | 110%          | 7%              | 71%             | 242%            | 119%            | 160%            | 220%          | 183%            | 49%           |               |
| EPS growth y/y   |  |                  |                  |                 |                 |               |                 |                 |                 |                 |                 |               |                 |               |               |

Source: J.P. Morgan estimates, Company data.

Figure 2: XON – DCF Analysis

Target Period: **Dec 2014**

| Projected FY Ending Dec      | 2013        | 2014      | 2015      | 2016      | 2017       | 2018       | 2019       | 2020       | 2021       | 2022       | 2023       | 2024       |
|------------------------------|-------------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|
| Adj. EBIT (\$M)              | (31)        | 35        | 73        | 116       | 185        | 274        | 382        | 486        | 572        | 673        | 749        | 824        |
| Tax-affected adj. EBIT (\$M) | (31)        | 35        | 45        | 72        | 115        | 170        | 237        | 301        | 355        | 417        | 464        | 511        |
| <b>Free Cash Flow</b>        | <b>(29)</b> | <b>42</b> | <b>48</b> | <b>76</b> | <b>117</b> | <b>170</b> | <b>236</b> | <b>300</b> | <b>357</b> | <b>415</b> | <b>466</b> | <b>512</b> |
| growth y/y                   |             |           | 16%       | 57%       | 54%        | 46%        | 38%        | 27%        | 19%        | 16%        | 12%        | 10%        |

| Discount Rate | Discounted Cash Flows (\$M) | PV of Terminal Value (\$M) at a Perpetual Growth Rate of |       |              |       |       | Enterprise Value (\$M) |                |                |         |         | Equivalent Terminal EBITDA Multiple (forward 12 mos) |      |             |      |      |
|---------------|-----------------------------|--|-------|--------------|-------|-------|------------------------|----------------|----------------|---------|---------|--|------|-------------|------|------|
|               | 2015-2024                   | 0.5%   | 1.0%  | 1.5%         | 2.0%  | 2.5%  | 0.5%                   | 1.0%           | 1.5%           | 2.0%    | 2.5%    | 0.5%   | 1.0% | 1.5%        | 2.0% | 2.5% |
| 11.7%         | 1,314                       | 1,793  | 1,886 | 1,988        | 2,101 | 2,226 | 3,107                  | 3,200          | 3,302          | 3,415   | 3,540   | 5.3x   | 5.4x | 5.6x        | 5.8x | 0.0x |
| 12.2%         | 1,279                       | 1,652  | 1,734 | 1,824        | 1,923 | 2,032 | 2,931                  | 3,014          | 3,104          | 3,202   | 3,311   | 5.0x   | 5.1x | 5.3x        | 5.4x | 0.0x |
| <b>12.7%</b>  | 1,245                       | 1,526  | 1,599 | <b>1,678</b> | 1,765 | 1,861 | 2,771                  | 2,844          | <b>2,924</b>   | 3,011   | 3,106   | 4.7x   | 4.8x | <b>4.9x</b> | 5.1x | 0.0x |
| 13.2%         | 1,212                       | 1,411  | 1,477 | 1,547        | 1,624 | 1,709 | 2,624                  | 2,689          | 2,760          | 2,837   | 2,921   | 4.4x   | 4.5x | 4.7x        | 4.8x | 0.0x |
| 13.7%         | 1,181                       | 1,308  | 1,366 | 1,429        | 1,498 | 1,572 | 2,489                  | 2,547          | 2,610          | 2,679   | 2,753   | 4.2x   | 4.3x | 4.4x        | 4.5x | 0.0x |
|               | Net Debt (Cash) (\$M)       | Equity Value (\$M)                                       |       |              |       |       | Equity Value per Share |                |                |         |         | Terminal Value as a % of Enterprise Value            |      |             |      |      |
|               |                             | 0.5%   | 1.0%  | 1.5%         | 2.0%  | 2.5%  | 0.5%                   | 1.0%           | 1.5%           | 2.0%    | 2.5%    | 0.5%   | 1.0% | 1.5%        | 2.0% | 2.5% |
|               | (167)                       | 3,274  | 3,367 | 3,469        | 3,582 | 3,707 | \$33.66                | \$34.62        | \$35.67        | \$36.83 | \$38.11 | 58%  | 59%  | 60%         | 62%  | 63%  |
|               | (167)                       | 3,098  | 3,181 | 3,271        | 3,370 | 3,479 | \$31.85                | \$32.70        | \$33.63        | \$34.64 | \$35.76 | 56%  | 58%  | 59%         | 60%  | 61%  |
| <b>-</b>      | (167)                       | 2,938  | 3,011 | <b>3,091</b> | 3,178 | 3,274 | <b>\$30.20</b>         | <b>\$30.96</b> | <b>\$31.78</b> | \$32.67 | \$33.65 | 55%  | 56%  | <b>57%</b>  | 59%  | 60%  |
|               | (167)                       | 2,791  | 2,856 | 2,927        | 3,004 | 3,088 | \$28.69                | \$29.36        | \$30.09        | \$30.88 | \$31.75 | 54%  | 55%  | 56%         | 57%  | 58%  |
|               | (167)                       | 2,656  | 2,715 | 2,778        | 2,846 | 2,920 | \$27.31                | \$27.91        | \$28.55        | \$29.26 | \$30.02 | 53%  | 54%  | 55%         | 56%  | 57%  |

Source: J.P. Morgan estimates, Company data.

## Intrexon: Summary of Financials

| Income Statement - Annual           | FY13A  | FY14E  | FY15E | FY16E | Income Statement - Quarterly    | 1Q14E    | 2Q14E   | 3Q14E    | 4Q14E |
|-------------------------------------|--------|--------|-------|-------|---------------------------------|----------|---------|----------|-------|
| Revenues                            | 24     | 67     | 100   | -     | Revenues                        | 14       | 15      | 16       | 23    |
| Cost of products sold               | -      | -      | -     | -     | Cost of products sold           | -        | -       | -        | -     |
| Gross profit                        | -      | -      | -     | -     | Gross profit                    | -        | -       | -        | -     |
| SG&A                                | (34)   | (32)   | (34)  | -     | SG&A                            | (8)      | (7)     | (7)      | (9)   |
| R&D                                 | (41)   | (38)   | (41)  | -     | R&D                             | (10)     | (10)    | (10)     | (9)   |
| Operating income                    | (58)   | (18)   | 6     | -     | Operating income                | (8)      | (5)     | (5)      | 0     |
| EBITDA                              | (51)   | (9)    | 16    | -     | EBITDA                          | (5)      | (3)     | (3)      | 3     |
| Net interest (income) / expense     | -      | -      | -     | -     | Net interest (income) / expense | -        | -       | -        | -     |
| Other income / (expense)            | 18     | 3      | 3     | -     | Other income / (expense)        | 1        | 1       | 1        | 1     |
| Income taxes                        | 0      | 0      | (4)   | -     | Income taxes                    | 0        | 0       | 0        | 0     |
| Net income                          | (38)   | (14)   | 8     | -     | Net income                      | (7)      | (5)     | (4)      | 2     |
| Diluted shares outstanding          | 41     | 97     | 98    | -     | Diluted shares outstanding      | 97       | 97      | 97       | 97    |
| Diluted EPS                         | (1.40) | (0.14) | 0.08  | -     | Diluted EPS                     | (0.07)   | (0.05)  | (0.04)   | 0.02  |
| Balance Sheet and Cash Flow Data    | FY13A  | FY14E  | FY15E | FY16E | Ratio Analysis                  | FY13A    | FY14E   | FY15E    | FY16E |
| Cash and cash equivalents           | 50     | 41     | 51    | -     | Sales growth                    | 70.6%    | 183.0%  | 48.6%    | -     |
| Accounts receivable                 | 7      | 10     | 15    | -     | EBIT growth                     | (22.8%)  | (68.7%) | (135.4%) | -     |
| Inventories                         | -      | -      | -     | -     | EPS growth                      | (95.3%)  | (84.7%) | (154.8%) | -     |
| Other current assets                | 3      | 3      | 3     | -     | Gross margin                    | -        | -       | -        | -     |
| Current assets                      | 188    | 182    | 196   | -     | EBIT margin                     | (163.7%) | (27.0%) | 6.4%     | -     |
| PP&E                                | 17     | 21     | 24    | -     | EBITDA margin                   | (133.6%) | (12.8%) | 16.2%    | -     |
| Total assets                        | 469    | 456    | 468   | -     | Tax rate                        | 0.0%     | 0.0%    | 38.0%    | -     |
| Total debt                          | 2      | 2      | 2     | -     | Net margin                      | (160.9%) | (20.7%) | 7.7%     | -     |
| Total liabilities                   | 88     | 86     | 88    | -     | Net Debt / EBITDA               | 150.7%   | 454.8%  | (303.6%) | -     |
| Shareholders' equity                | 381    | 370    | 380   | -     | Net Debt / Capital (book)       | (14.4%)  | (11.9%) | (14.8%)  | -     |
| Net income (including charges)      | (41)   | (15)   | 6     | -     | Return on assets (ROA)          | (12.3%)  | (3.0%)  | 1.7%     | -     |
| D&A                                 | 7      | 10     | 10    | -     | Return on equity (ROE)          | (16.4%)  | (3.7%)  | 2.0%     | -     |
| Change in working capital           | (8)    | 0      | (3)   | -     | Enterprise value / sales        | 0.0      | 0.0     | 0.0      | -     |
| Other                               | (12)   | (2)    | (1)   | -     | Enterprise value / EBITDA       | 0.0      | 0.0     | 0.0      | -     |
| Cash flow from operations           | (54)   | (7)    | 12    | -     | Free cash flow yield            | (5.3%)   | (0.3%)  | 0.4%     | -     |
| Capex                               | (2)    | (2)    | (2)   | -     |                                 |          |         |          |       |
| Free cash flow                      | (55)   | (9)    | 10    | -     |                                 |          |         |          |       |
| Cash flow from investing activities | (224)  | (2)    | (2)   | -     |                                 |          |         |          |       |
| Cash flow from financing activities | 316    | 0      | 0     | -     |                                 |          |         |          |       |
| Dividends                           | -      | -      | -     | -     |                                 |          |         |          |       |
| Dividend yield                      | -      | -      | -     | -     |                                 |          |         |          |       |

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

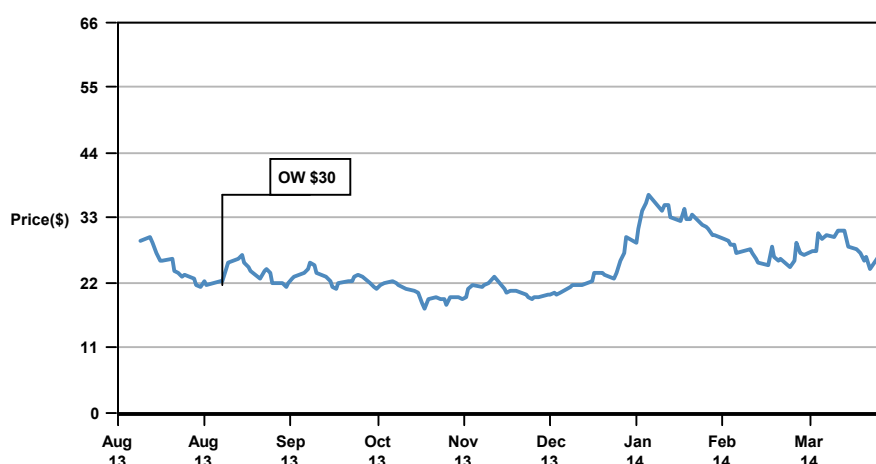
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Intrexon (XON, XON US) Price Chart



| Date      | Rating | Share Price (\$) | Price Target (\$) |
|-----------|--------|------------------|-------------------|
| 03-Sep-13 | OW     | 21.73            | 30.00             |

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Sep 03, 2013.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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