

Reason for report:

EARNINGS

MACROGENICS, INC.

4Q13 Recap - Pipeline Progressing With Six Clinical Programs by End of 2015

• **Bottom Line:** MGNX reported 2013 financial results today and expects to be sufficiently capitalized to fund the company into 2017. The company's pipeline programs remain on track, in line with prior guidance, and MGNX expects to have six clinical programs active by the end of 2015. MGNX expects that its current cash and equivalents should fund the company into 2017. **Reiterate Outperform rating and \$52 price target.**

• **Company is well capitalized to drive its product pipeline forward.** MGNX reported total revenue of \$58M and net loss of \$0.3M for 2013 vs. our revenue estimate of \$62.2M and net income of \$3.1M. Management guided to increased R&D spending in 2014 vs. \$46.6M in 2013. We estimate \$67M R&D expenses in 2014 to account for the company's continued investment in its advancing pipeline. Management expects that its current cash and equivalents should fund the company into 2017. MGNX ended 2013 with \$116.5M in cash and equivalents not accounting for \$76.7M raised in a follow-on offering in 1Q14.

• **Pipeline continues to progress with six clinical programs projected by the end of 2015.** MGNX expects to initiate a Phase III study of margetuximab in advanced gastroesophageal cancer in 2H14. A Phase IIa study of margetuximab in metastatic breast cancer continues to enroll patients with data expected in late 2014. Timelines for MGA271 are on track with completion of the first three dose expansion cohorts expected by YE14, and the initiation of additional expansion cohorts is expected in 2014. MGD006 will be MGNX's first dual-affinity retargeting (DART)-based molecule to enter the clinic in 2Q14 in patients with acute myeloid leukemia. MGNX also plans to advance MGD007 into the clinic for oncology in 2H14 and two additional DARTs into the clinic for oncology in 2015.

• **Maintaining Outperform rating.** We continue to like mgmt's R&D 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.

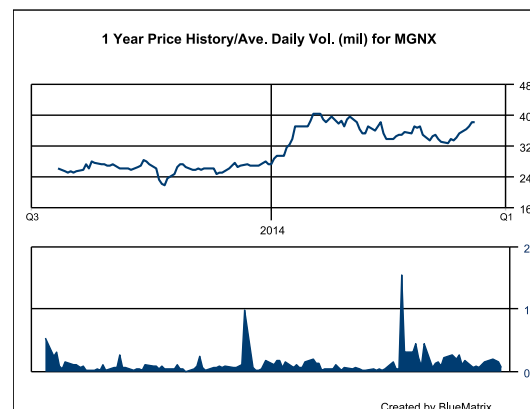
Key Stats:

(OTC Un:MGNX)

S&P 600 Health Care Index:	1,312.16
Price:	\$38.21
Price Target:	\$52.00
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):	\$1,031.7
Book Value/Share:	\$0.00
Cash Per Share:	\$5.91
Dividend (ann):	\$0.00
Dividend Yield:	0.0%

Shares Outstanding (mil): as of 1Q14E

Cash Per Share: based on 1Q14E



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	
2013A	\$10.6	\$12.3	\$20.2	\$14.9	\$58.0	(\$2.80)	(\$0.29)	\$0.14	(\$0.13)	(\$0.04)	NM
2014E - New	\$20.3	\$7.9	\$7.9	\$7.9	\$44.0	(\$0.05)	(\$0.50)	(\$0.50)	(\$0.50)	(\$1.57)	NM
2014E - Old	\$20.3	\$7.9	\$7.9	\$7.9	\$44.0	(\$0.06)	(\$0.51)	(\$0.51)	(\$0.51)	(\$1.59)	NM
2015E - New	--	--	--	--	\$48.0	--	--	--	--	(\$2.19)	NM
2015E - Old	--	--	--	--	\$48.0	--	--	--	--	(\$2.22)	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.

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 \$18/ 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 into 2017, 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	4Q13A	2013A	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Collaborative research revenue	47.1	59.6	10.1	11.8	20.1	14.7	56.8	20.0	7.7	7.7	7.7	43.0	48.0
Grant revenue	10.2	4.2	0.5	0.5	0.1	0.2	1.3	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	14.9	58.0	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	14.3	46.6	16.8	16.8	16.8	16.8	67.0	83.0
SG&A	10.9	10.2	3.8	1.5	2.0	3.8	11.1	5.0	5.0	5.0	5.0	20.0	25.0
Operating expenses	52.0	55.6	13.9	12.6	13.1	18.1	57.7	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	(3.2)	0.37	(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)	0.0	(0.6)	-	-	-	-	-	-
EBT	6.7	8.4	(3.3)	(0.3)	6.6	(3.2)	(0.3)	(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	(3.2)	(0.3)	(1.5)	(13.8)	(13.8)	(13.8)	(43.0)	(60.0)
GAAP EPS	6.55	7.72	(2.80)	(0.29)	0.14	(0.13)	(0.04)	(0.05)	(0.50)	(0.50)	(0.50)	(1.57)	(2.19)
Common shares outstanding	1.0	1.1	1.2	1.2	1.2	25.2	6.8	27.5	27.5	27.5	27.5	27.5	27.5

BS & CFS	2011A	2012A	1Q13A	2Q13A	3Q13A	4Q13A	2013A	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E
Cash & equivalents	55.2	47.7	43.5	33.8	33.6	116.5	116.5	193.2	180.8	168.5	156.1	156.1	103.8
Debt	-	-	-	-	-	-	-	-	-	-	-	-	-

Change in Cash	18.3	(7.5)	(4.2)	(9.7)	(0.2)	82.9	68.7	76.7	(12.3)	(12.3)	(12.3)	39.7	(52.4)
Cash from operations	6.8	(6.6)	(3.8)	(9.9)	0.8	(1.2)	(14.2)	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	(3.2)	(0.3)	(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	0.4	1.2	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)	1.2	(16.0)	-	-	-	-	-	-
Cash from investing	(0.5)	(0.9)	(0.4)	(0.5)	(1.2)	(0.9)	(3.0)	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)	(2.0)
CapEx	(0.5)	(0.9)	(0.4)	(0.5)	(1.2)	(0.9)	(3.0)	(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	85.0	85.9	76.7	-	-	-	76.7	-
Equity issue (buyback)	12.1	0.0	0.1	0.7	0.1	85.0	85.9	76.7	-	-	-	76.7	-
Debt issue (principal payment)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Leerink Partners Estimates and Company Filings

Disclosures Appendix

Analyst Certification

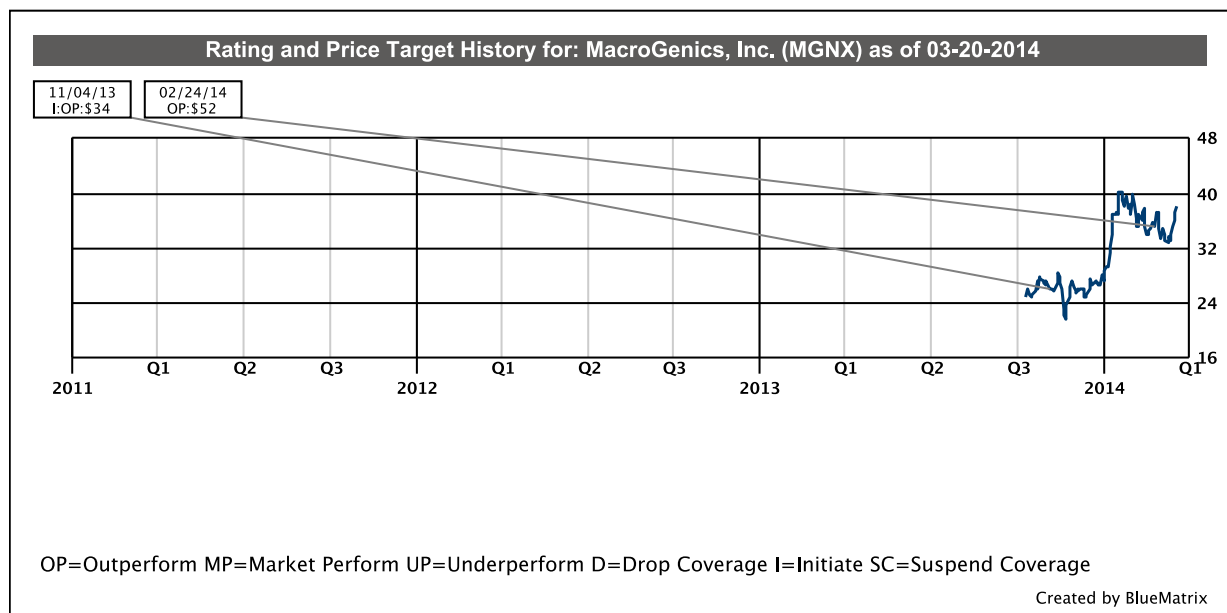
I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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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.

Important Disclosures

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Leerink Partners LLC makes a market in MacroGenics, Inc.

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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