

October 5, 2014

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

OUTPERFORM

12-18 mo. Price Target \$48.00
MGNX - NASDAQ \$21.11

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$41.00-\$17.96
Shares Outstanding 26.3M
Float 18.3M
Market Capitalization \$585.6M
Avg. Daily Trading Volume 194,238
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
2015E	(0.72)	(0.73)	(0.75)	(0.76)	(2.96)	NM

MacroGenics, Inc.

Bispecifics in Focus—Takeda Expands DART Collaboration

SUMMARY

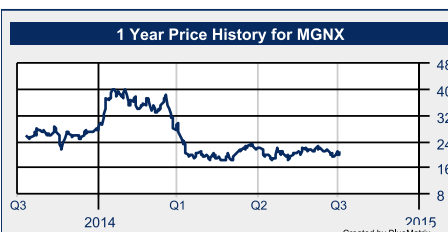
MacroGenics reported last week entering into a second collaboration with Takeda covering four additional DART candidates. This is in addition to its ongoing MGD010 a pre-clinical stage DART targeting CD32b and CD79b for autoimmune disease. Under the latest agreement MacroGenics is eligible for double-digit royalties and up to an aggregate \$1.6 billion milestone payments for 4 targets as well as retaining opt-in rights to North America.

We view the partnering of bispecific candidates as indicative of their attractiveness to industry and broad potential across indications. We also see T-cell redirecting bispecifics in oncology potentially offering more drug-like characteristics, better specificity and potentially better combinability with immuno-modulating agents (such as B7-H3, PD-1, CTLA4, etc.).

KEY POINTS

- **We believe that Takeda's expansion of the collaboration is indicative of Takeda's confidence in the bispecific DART platform and manufacturability of these constructs.** Recall, MGNX has partnerships for DARTs with Boehringer Ingelheim (up to 10 combos of targets), Gilead (4 targets), Pfizer (2 oncology targets), Servier (3 targets).
- **Bispecifics may have utility as immuno-oncology agents beyond T-cell redirecting.** Researchers we speak to are working to develop bispecific antibodies capable of delivering immuno-modulating agents (i.e. anti-PD1) to targeted tumor sites (i.e. anti-PD1xtumor-antigen). In this way potent immuno-modulating therapies are directed to where needed potentially offering reduced systemic toxicities and enhanced efficacy.
- **MGA-271 remains a focus of the Street--enrollment in the first 3 expansion cohorts for the Phase 1 trial of '271, an anti-B7-H3 mAb, in melanoma, prostate and B7-H3+ tumors is expected to be complete YE14.** Initiation of additional monotherapy trials is expected in '14 w/ potential combo studies in '15.
- **Other upcoming updates include presentation of further preclinical data on DARTs at the Annual European Antibody Congress, Geneva (Nov. 10-11)** and complete enrollment and interim look at an ongoing Phase IIa trial of margetuximab in MBC and initiation of MAGENTA a Phase III trial in gastric cancer.

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.

Oppenheimer & Co. Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. See "Important Disclosures and Certifications" section at the end of this report for important disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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 based on a typical oncology multiple of 6x on 2021 sales discounted 30% (MBC) and 35% (gastric) annually. We ascribe \$17/share to MGA-271 based on a 6x multiple of sales and a typical royalty multiple of 15x discounted 40% annually; \$6/share to MGD006 in AML based on a 6x/18x multiple of sales/royalties, discounted 45% annually; \$5/share to MGD007 based on a 6x/15x multiple of sales/royalties discounted 50% annually; \$1/share to MGD010 based on a 6x/15x multiple of sales/royalties discounted 45% annually.

Key Risks to Price Target

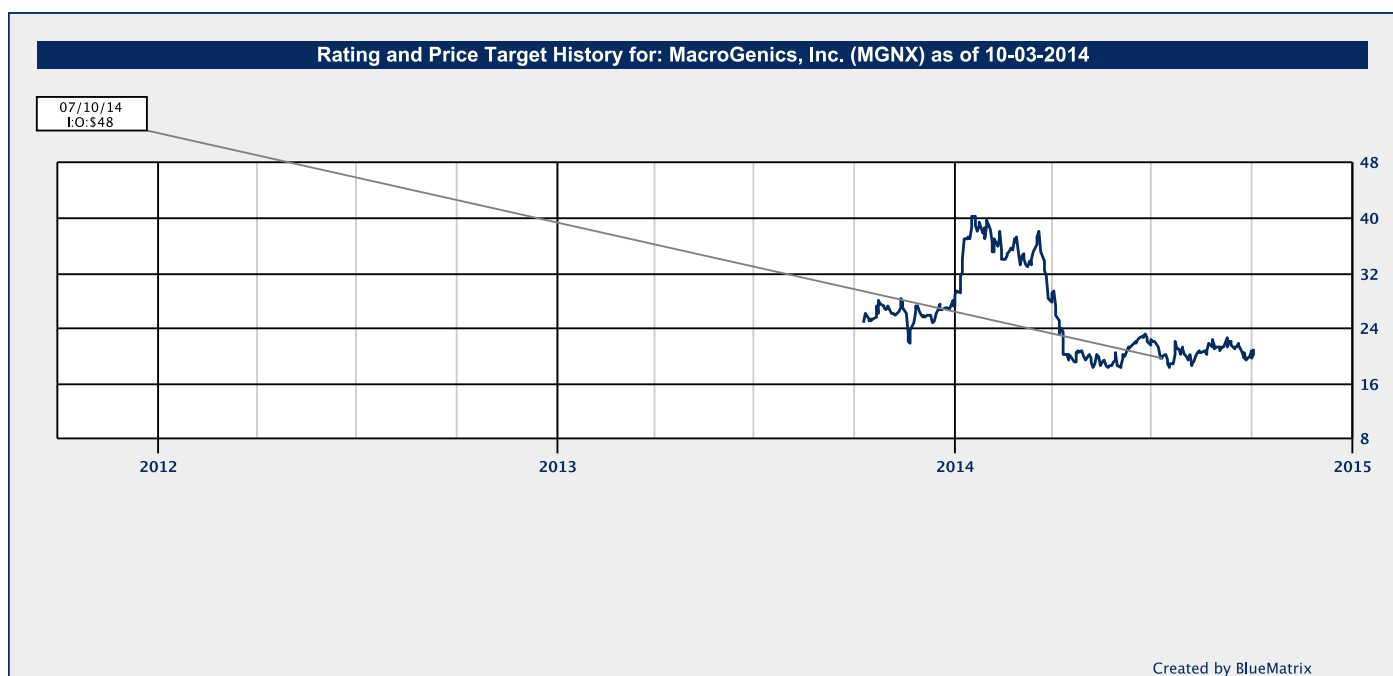
These risks include: 1) failure to reach sales expectations for margetuximab, MGA-271, MGD006, MGD007 or MGD010; 2) failure in the clinic of margetuximab, MGA-271, MGD006, MGD007 or MGD010; and 3) changes to or discontinuation of partnerships for MGA-271, MGD006, MGD007 or MGD010; 4) intellectual property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

Important Disclosures and Certifications

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Potential Conflicts of Interest:

Equity research analysts employed by Oppenheimer & Co. Inc. are compensated from revenues generated by the firm including the Oppenheimer & Co. Inc. Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. Oppenheimer & Co. Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Oppenheimer & Co. Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers. In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, Oppenheimer & Co. Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.



All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

Outperform(O) - Stock expected to outperform the S&P 500 within the next 12-18 months.

Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:

Buy - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide

Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent
OUTPERFORM [O]	317	52.48	144	45.43
PERFORM [P]	278	46.03	98	35.25
UNDERPERFORM [U]	9	1.49	2	22.22

Although the investment recommendations within the three-tiered, relative stock rating system utilized by Oppenheimer & Co. Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with FINRA rules, Oppenheimer & Co. Inc. has assigned buy ratings to securities rated Outperform, hold ratings to securities rated Perform, and sell ratings to securities rated Underperform.

Company Specific Disclosures

Oppenheimer & Co. Inc. makes a market in the securities of MGNX.

Additional Information Available

Please log on to <http://www.opco.com> or write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

Other Disclosures

This report is issued and approved for distribution by Oppenheimer & Co. Inc. Oppenheimer & Co. Inc. transacts business on all principal exchanges and is a member of SIPC. This report is provided, for informational purposes only, to institutional and retail investor clients of Oppenheimer & Co. Inc. and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Oppenheimer & Co. Inc. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. We recommend that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor. Oppenheimer & Co. Inc. will not treat non-client recipients as its clients solely by virtue of their receiving this report. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Oppenheimer & Co. Inc. accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to Oppenheimer & Co. Inc. All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Oppenheimer & Co. Inc. does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by Oppenheimer & Co. Inc. or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. Oppenheimer & Co. Inc. has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

This research is distributed in the UK and elsewhere throughout Europe, as third party research by Oppenheimer Europe Ltd, which is authorized and regulated by the Financial Conduct Authority (FCA). This research is for information purposes only and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research is for distribution only to persons who are eligible counterparties or professional clients and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the UK only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) High Net Worth companies, unincorporated associations etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. In particular, this material is not for distribution to, and should not be relied upon by, retail clients, as defined under the rules of the FCA. Neither the FCA's protection rules nor compensation scheme may be applied.

Distribution in Hong Kong: This report is prepared for professional investors and is being distributed in Hong Kong by Oppenheimer Investments Asia Limited (OIAL) to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent. OIAL, an affiliate of Oppenheimer & Co. Inc., is regulated by the Securities and Futures Commission for the conduct of dealing in securities, advising on securities, and advising on Corporate Finance. For professional investors in Hong Kong, please contact researchasia@opco.com for all matters and queries relating to this report. This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Oppenheimer & Co. Inc. Copyright © Oppenheimer & Co. Inc. 2014.

This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Oppenheimer & Co. Inc. Copyright © Oppenheimer & Co. Inc. 2014.