

Reason for report:

**EARNINGS**

## MACROGENICS, INC.

### 1Q14 Recap – Pipeline Progressing with MAGENTA Study to Initiate in 2H14

• **Bottom Line:** MGNX reported 1Q14 financial results today and expects to be sufficiently capitalized to fund the company into 2017. The company's pipeline programs remain on track, and MGNX expects to have six clinical programs active by the end of 2015. MGNX also provided incremental details on MAGENTA, the Phase III margetuximab study to initiate in 2H14 in gastroesophageal cancer. We continue to view MGNX's diversified pipeline strategy positively since it generates several shots on goal, and it takes advantage of MGNX's innovative drug discovery and development capabilities. Reiterate Outperform rating and \$52 price target.

• **Company is well capitalized to drive its product pipeline forward.** MGNX reported total revenue of \$14.7M and net loss of \$3.1M for 1Q14 vs. our revenue estimate of \$20.3M and net loss of \$1.5M. Management expects that its current cash and equivalents should fund the company into 2017. MGNX ended 1Q14 with \$198.7M in cash and equivalents.

• **Pipeline continues to progress with six clinical programs projected by the end of 2015.** MGNX expects to initiate MAGENTA, 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 from Part A 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 monotherapy expansion cohorts is expected in 2H14. 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 colorectal cancer in 2H14 and two additional DARTs into the clinic for oncology in 2015. We believe first-in-man DART data should further derisk MGNX's platform.

• **Additional details on MAGENTA provided.** MAGENTA (Phase III margetuximab trial in gastroesophageal cancer) is 90% powered to detect an overall survival hazard ratio of 0.67. The trial will evaluate the 6mg/kg weekly dose of margetuximab in combination with chemotherapy vs. chemotherapy alone in 425 Her2-positive patients refractory to two lines of prior therapy.

#### Key Stats:

(OTC Un:MGNX)

<b>S&amp;P 600 Health Care Index:</b>	<b>1,212.60</b>
<b>Price:</b>	<b>\$19.64</b>
Price Target:	\$52.00
Methodology:	Sum-of-the-parts DCF analysis
52 Week High:	\$41.00
52 Week Low:	\$18.35
Shares Outstanding (mil):	26.3
Market Capitalization (mil):	\$516.5
Book Value/Share:	\$0.00
Cash Per Share:	\$7.47
Dividend (ann):	\$0.00
Dividend Yield:	0.0%



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	<b>\$14.7A</b>	<b>\$9.8</b>	<b>\$9.8</b>	<b>\$9.8</b>	<b>\$44.0</b>	<b>(\$0.12)A</b>	<b>(\$0.38)</b>	<b>(\$0.43)</b>	<b>(\$0.48)</b>	<b>(\$1.42)</b>	<b>NM</b>
2014E - Old	\$20.3	\$7.9	\$7.9	\$7.9	\$44.0	(\$0.05)	(\$0.50)	(\$0.50)	(\$0.50)	(\$1.57)	NM
2015E - New	--	--	--	--	<b>\$48.0</b>	--	--	--	--	<b>(\$1.96)</b>	<b>NM</b>
2015E - Old	--	--	--	--	\$48.0	--	--	--	--	(\$2.19)	NM

Source: Company Information and Leerink Partners LLC Research  
Revenues in \$MM.

GAAP EPS. Quarterly figures may not sum to annual total due to change in shares out.

## INVESTMENT THESIS

**We rate MGNX 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.

<b>1Q14 (\$M, except EPS)</b>	<b>Leerink 1Q14E</b>	<b>1Q14A</b>	<b><i>Difference (Leerink)</i></b>
Collaborative research revenue	20.0	14.4	(5.6)
Grant revenue	0.3	0.3	0.1
Royalties	-	-	-
Product sales	-	-	-
<b>Total Revenue</b>	<b>20.3</b>	<b>14.7</b>	<b>(5.5)</b>
COGS	-	-	-
R&D	16.8	14.6	(2.2)
SG&A	5.0	3.3	(1.7)
Operating expenses	21.8	17.8	(3.9)
Operating income (expense)	(1.5)	(3.1)	(1.6)
Interest income (expense)	-	-	-
Other income (expense)	-	0.0	0.0
Total Other income (expense)	-	0.0	0.0
EBT	(1.5)	(3.1)	(1.6)
Tax expense (income)	-	-	-
<b>Net income</b>	<b>(1.5)</b>	<b>(3.1)</b>	<b>(1.6)</b>
GAAP EPS	(0.05)	(0.12)	(0.06)
Common shares outstanding	27.5	26.3	(1.2)

<b>BS &amp; CFS</b>	<b>Leerink 1Q14E</b>	<b>1Q14A</b>	<b><i>Difference (Leerink)</i></b>
Cash & equivalents	193.2	198.7	5.6
Debt	-	-	-
Deferred revenue	-	-	-

Source: Leerink Partners Estimates and Company Filings

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
				3rd line Gastric cancer	Phase I	Initiate Phase IIb/III	2015
				Other cancers (bladder)	Phase I	Initiate Phase III (MAGENTA)	2H14
				HER2-expressing tumors	Phase I	Phase III data	2018
MGA271	B7-H3	Fc, CSLC	Servier (EU rights)	Solid tumors	Phase Ib	Initiate Phase II	2015
						Additional dosing data	2014/2015
						Phase Ib initiation of additional cohorts	2H14
						Phase Ib dose-expansion data monotherapy	4Q14/1H15
						Phase Ib dose-expansion data monotherapy (addl. cohorts)	2015
						Phase Ib dose-expansion data monotherapy (Servier cohorts)	2015
						Phase Ib initiation of combination studies	1Q15
MGD006	CD123 x CD3	DART	Servier (EU rights)	AML	IND	Phase Ib dose-expansion data combinations	2015
						Servier opt-in	2015
						Phase I DE data	2H15
						IND accepted	mid-14
MGD007	gpA33 x CD3	DART, CSLC	Servier (EU rights)	Colorectal cancer	Preclinical	Initiate Phase I	2H14
						Phase I data	2H15
						Servier opt-in	2014/15
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	IS Study	Partnership	n/a

Source: SEC Filings, Leerink Partners Estimates

<b>MGNX P&amp;L</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>1Q14A</b>	<b>2Q14E</b>	<b>3Q14E</b>	<b>4Q14E</b>	<b>2014E</b>	<b>2015E</b>
Collaborative research revenue	47.1	59.6	56.8	14.4	9.5	9.5	9.5	43.0	48.0
Grant revenue	10.2	4.2	1.3	0.3	0.2	0.2	0.2	1.0	-
Royalties	-	-	-	-	-	-	-	-	-
Product sales	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>57.2</b>	<b>63.8</b>	<b>58.0</b>	<b>14.7</b>	<b>9.8</b>	<b>9.8</b>	<b>9.8</b>	<b>44.0</b>	<b>48.0</b>
COGS	-	-	-	-	-	-	-	-	-
R&D	41.1	45.4	46.6	14.6	16.0	17.5	18.9	67.0	83.0
SG&A	10.9	10.2	11.1	3.3	4.0	4.0	4.0	15.3	20.0
Operating expenses	52.0	55.6	57.7	17.8	20.0	21.5	22.9	82.3	103.0
Operating income (expense)	5.2	8.2	0.37	(3.1)	(10.2)	(11.7)	(13.2)	(38.3)	(55.0)
Total Other income (expense)	1.5	0.2	(0.6)	0.0	-	-	-	0.0	-
EBT	6.7	8.4	(0.3)	(3.1)	(10.2)	(11.7)	(13.2)	(38.3)	(55.0)
Tax expense (income)	-	-	-	-	-	-	-	-	-
<b>Net income</b>	<b>6.7</b>	<b>8.4</b>	<b>(0.3)</b>	<b>(3.1)</b>	<b>(10.2)</b>	<b>(11.7)</b>	<b>(13.2)</b>	<b>(38.3)</b>	<b>(55.0)</b>
GAAP EPS	6.55	7.72	(0.04)	(0.12)	(0.38)	(0.43)	(0.48)	(1.42)	(1.96)
Common shares outstanding	1.0	1.1	6.8	26.3	26.7	27.1	27.5	26.9	28.0

<b>BS &amp; CFS</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>1Q14A</b>	<b>2Q14E</b>	<b>3Q14E</b>	<b>4Q14E</b>	<b>2014E</b>	<b>2015E</b>
Cash & equivalents	55.2	47.7	116.5	198.7	189.0	177.9	165.5	165.5	117.8
Debt	-	-	-	-	-	-	-	-	-

Change in Cash	18.3	(7.5)	68.7	73.2	(9.7)	(11.1)	(12.4)	40.9	(47.8)
<b>Cash from operations</b>	<b>6.8</b>	<b>(6.6)</b>	<b>(14.2)</b>	<b>(3.1)</b>	<b>(9.3)</b>	<b>(10.6)</b>	<b>(11.9)</b>	<b>(34.1)</b>	<b>(45.8)</b>
Net income (loss)	6.7	8.4	(0.3)	(3.1)	(10.2)	(11.7)	(13.2)	(38.3)	(55.0)
Share based comp	2.3	0.8	0.9	0.6	1.6	1.7	1.8	6.6	8.2
D&A	1.1	1.0	1.2	0.4	0.4	0.4	0.4	1.6	1.0
Other (Change in WC)	(3.5)	(16.7)	(16.0)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)	-
<b>Cash from investing</b>	<b>(0.5)</b>	<b>(0.9)</b>	<b>(3.0)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(1.8)</b>	<b>(2.0)</b>
CapEx	(0.5)	(0.9)	(3.0)	(0.4)	(0.4)	(0.4)	(0.4)	(1.8)	(2.0)
Acquisitions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
<b>Cash from financing</b>	<b>12.1</b>	<b>0.0</b>	<b>85.9</b>	<b>76.8</b>	-	-	-	<b>76.8</b>	-
Equity issue (buyback)	12.1	0.0	85.9	76.8	-	-	-	76.8	-
Debt issue (principal payment)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-

Source: Leerink Partners Estimates and Company Filings

## Disclosures Appendix

### Analyst Certification

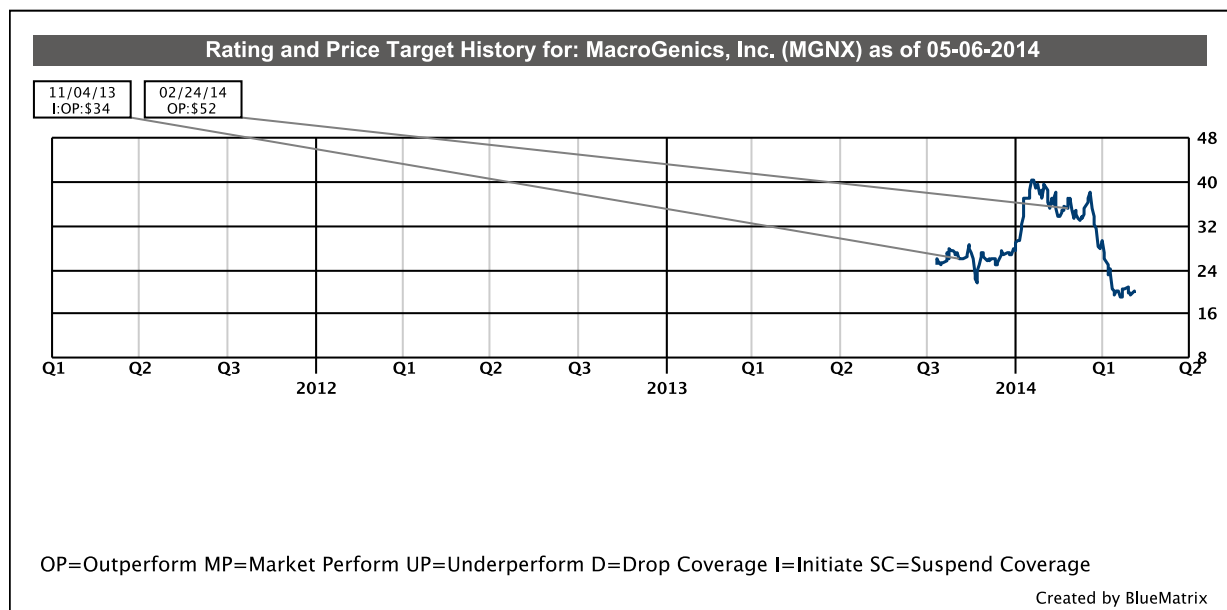
I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

### Valuation

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Distribution of Ratings/Investment Banking Services (IB) as of 03/31/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	131	68.23	46	35.11
HOLD [MP]	61	31.77	3	4.92
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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**In the past 12 months, the Firm has received compensation for providing investment banking services to MacroGenics, Inc. .**

**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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