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Intrexon Corporation — Buy

Company Update : Biotechnology

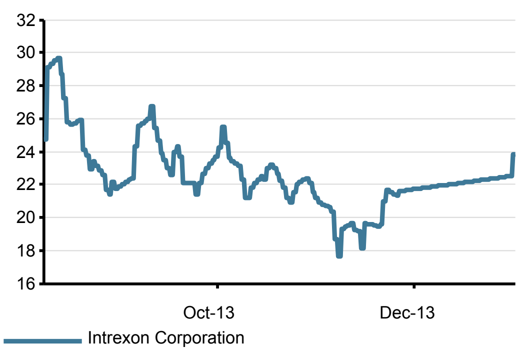
Stock Symbol	**NYSE: XON**
Current Price	$23.96
12 mos. Target Price	$36.00
Market Cap	$2,323.9 mln
Shares O/S	97.0 mln
Avg Daily Vol. (3 mos.)	355,772 shs.
52- Week Price Low/High	$16.00 - $31.44
P/B	6.2x

EPS

	FY 13E	FY 14E	FY 15E
Q1 (Mar)	$(0.47)A	$(0.10)E	—
Q2 (Jun)	(0.07)A	(0.09)E	—
Q3 (Sep)	0.16A	(0.09)E	—
Q4 (Dec)	(0.05)E	(0.02)E	—
	$(0.38)E	$(0.30)E	$(0.07)E

EBITDA

	FY 13E	FY 14E	FY 15E
	$(0.1)E	$0.8E	$1.2E
Price/ EBITDA	(217.8)x	30.7x	19.6x



Intrexon Gains a Blue Chip Partner

- Intrexon has entered into a research & development collaboration with a division of Johnson & Johnson, the Consumer & Personal Products Worldwide unit, to advance new skin and hair care products. The exact nature of the products and the work that Intrexon will perform have not been disclosed. We note, though, that the Consumer & Personal Products division is responsible for cosmetics and over- the- counter drugs and devices, which means that at least some of the new offerings may need to meet the less- demanding regulatory hurdles of cosmetics versus those required of prescription medicines.

- Several revenue streams may come from the collaboration, since the companies intend to advance multiple products for skin and hair care. The deal is also meaningful for it creates an opportunity for Intrexon to demonstrate that it is a good partner and that could lead to collaborations with other J&J business units. Then, too, the validation that comes from an alignment with a blue chip company opens the door for Intrexon to collaborate with other multinational corporations.

- Two other deals were completed recently and more are expected in the next 12 months. Intrexon entered into collaborations with OvaScience to assist in the preparation of new treatments for infertility and improving human and animal health. The second agreement is with a newly formed company, Agilis Biotherapeutics, that is developing therapies for rare genetic diseases. Friedreich's ataxia, which is a neurodegenerative condition caused by a mitochondrial anomaly, is the companies' initial target indication.

- Intrexon has offered to acquire a small stem cell company, Medistem, for stock and cash. The deal, which should close soon, will expand the Company's technology base in the emerging field of regenerative medicine.

- Overall, we consider these deals to be important in the furtherance of Intrexon's strategy to commercialize its expertise in synthetic biology as rapidly and broadly as possible. Since our financial projections have been based on an assumption that multiple collaborations would be formed, we have not changed our estimates.

2013 Closes with Several Noteworthy Agreements

Intrexon was busy at the close of the year, signing new R&D collaborations and making an offer to acquire Medistem, a small company with expertise in stem cell therapies. We believe one agreement is of special strategic significance – the deal with Johnson & Johnson.

A Blue Chip Collaboration Completed

The most important deal yet, in our opinion, is a research & development agreement with a Johnson & Johnson (NYSE: JNJ) division for advancing new skin and hair care treatments. The types of products involved have not been disclosed, but the J&J business unit is called Consumer & Personal Products Worldwide. That division is responsible for cosmetics and over-the-counter drugs and devices, with $3.6 billion of sales coming from skin care products alone in 2012 and hair care products contributing to the $2.3 billion of sales from J&J's baby care lines.

It seems likely that many, if not all, of the products involved in the collaboration will be regulated as cosmetics, which face considerably less onerous regulatory hurdles than those encountered by over-the-counter and prescription drugs. Indeed, products that fall into the cosmetics category (except color additives) do not require FDA approval prior to marketing, though the companies are legally responsible for ensuring these products are safe and that claims on the labels are consistent with their cosmetic nature.

Intrexon's contribution to the collaboration has not been disclosed publicly. However, there are probably several ways in which the Company's technology could be used. First, synthetic biology may offer a means of producing large quantities of a natural substance that is not readily available otherwise. The technology also offers an opportunity to create an analog that is patentable and offers an improved safety and/or efficacy profile. Then, too, Intrexon's technologies can be used to reduce manufacturing costs. Since these capabilities are not mutually exclusive, any combination of these capabilities may be the rationale for J&J's entering into the collaboration.

Terms of the agreement have not been disclosed, but management has indicated that they are similar to those of other deals, meaning that Intrexon will receive an upfront fee, milestone payments, and royalties. Given the worldwide nature of Johnson & Johnson's business, the financial rewards from the collaboration will probably be significant. However, the deal is also meaningful for other reasons. For one, it creates an opportunity for Intrexon to demonstrate that it is a good partner and that could lead to collaborations with other J&J business units, perhaps involving new biomaterials and/or prescription medicines. Then, too, the validation that comes from an alignment with a blue chip company opens the door for Intrexon to collaborate with other multinational corporations.

A New Joint Venture Forms for Infertility Treatments

Intrexon entered into a joint venture with OvaScience (NasdaqGM: OVAS) to accelerate the development of OvaScience's OvaTure℠, which is a technology platform for *in vitro* fertilization using the woman's own egg precursor cells that are found in the outer edge of the ovaries. OvaScience uses proprietary methods to identify, isolate, and mature the precursor cells into high quality eggs for *in vitro* fertilization without the need for hormone treatments. The first goal of the joint venture is to develop methodologies to enable the accelerated and scalable development of OvaTure. This phase of the collaboration will rely heavily on Intrexon's ability to optimize culture conditions for maturation of the egg precursor cells to improve the quality of eggs used for *in vitro* fertilization and thereby increase the fertilization rate and reduce the risk of subsequent difficulties, including spontaneous abortions. The results of this work will likely be applicable to animal husbandry as well. As such, we believe this program will begin to generate royalties for Intrexon within the next few years.

A second aspect of the collaboration is to develop therapeutics for the prevention of inherited diseases in humans such as mitochondrial and other genetic disorders. For this, Intrexon will employ its genome engineering technologies, including the UltraVector®, RheoSwitch®, Cell Systems Informatics, and Leap℠, while OvaScience will contribute its egg precursor cell platform. The development time for these therapies will probably be rather prolonged.

ECC with Agilis Biotherapeutics Targets Rare Genetic Disease

Intrexon recently entered into a collaboration with a newly formed company, Agilis Biotherapeutics, to develop a DNA-based therapy for Friedreich's ataxia. This progressive neurodegenerative disease is an autosomal recessive disorder characterized by suboptimal expression of a mitochondrial protein called frataxin. Patients are typically diagnosed between the ages of 5 and 15 with symptoms that can include difficulty walking, slurred speech, a loss of sensations in the extremities, scoliosis, and diabetes. Friedreich's ataxia often confines the individual to a wheelchair within 10 to 20 years of diagnosis and shortens the person's life expectancy due to heart disease. In the United States, the disease afflicts an estimated 5,000 to 10,000 patients. At this juncture, there is no treatment for the disease, but related conditions (e.g., scoliosis, diabetes, heart conditions) are treated as encountered.

Intrexon's UltraVector platform and RheoSwitch will play crucial roles in the development of the treatment, which may take the form of a gene therapy. An alternative intervention may be genetically modified cells, given the systemic nature of the disease. Indeed, the sensory nervous system appears to be affected initially, with secondary degeneration of a neural tract in the spine leading to the brainstem and cerebellum. Other tissues that consume large quantities of energy, including the heart and pancreas, are also often affected, since mitochondria normally serve as an essential energy source to cells throughout life. The progressive nature of the disease is probably related to a gradual loss of mitochondrial function caused by insufficient frataxin and damage from oxidative stress.[1]

Key to understanding Friedreich's ataxia and pursuing potential therapeutic interventions is identifying where the direct effect of low frataxin levels is altering tissue function. In the nervous system, that is not always a straightforward determination, since neurons can extend over great distances, connections for incoming and outgoing signals are essential to cell survival, and many neurons rely on support cells called glia for functional and nutritional support. The early descriptions of the disease discussed the presence of spindly sensory nerves, spinal tract degeneration, and neural atrophy in the cerebellum. Recent studies have determined that the numbers of axons (i.e., neural projections) in a major sensory nerve are similar in patients with Friedreich's ataxia and normal individuals. [2] But the disease is associated with significantly fewer myelinated axons, and disease progression is marked by the loss of these fibers, which probably translates directly into the sensory neuron dysfunction that is manifested clinically. The loss of glial support cells might also contribute to the heart conditions associated with the disease, since scientists have recently determined that glia-derived neurotrophic factor plays an important role in the establishment of functional contacts between nerves and heart muscle.[3]

An important advance was recently achieved with cell cultures that should facilitate Agilis and Intrexon's work. It is possible to create induced pluripotent stem cells from the fibroblasts of a Friedreich's ataxia patient that retain the genetic and phenotypic traits of the individual.[4] Moreover, those stem cells can be induced to differentiate into neurons and heart cells to study the disease and possible therapies at a cellular and molecular level under controlled conditions.[5] Further, stem cells from a healthy individual release a trophic factor(s) that protect cells from Friedreich's ataxia patients from oxidative stress under experimental conditions.[6] Sensory neurons cultured from an animal model of the disease are also protected by neurotrophic factors identified in the culture medium.[7] Thus, basic groundwork has been laid for Agilis and Intrexon to investigate potential therapies for Friedreich's ataxia.

Agilis has the option to advance a second undisclosed rare disease indication under its agreement with Intrexon. Success with Friedreich's ataxia might pave the way for programs dedicated to related ataxias or hereditary demyelinating diseases, such as leukodystrophies. We note that on December 31st, Agilis announced that it had raised $8 million to pursue the Friedreich's ataxia program.

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[1] Calabrese, V, et al. Oxidative stress, mitochondrial dysfunction and cellular stress response in Friedreich's ataxia. J Neurol Sci (2005); 233(1-2): 145.

[2] Morral, JA, et al. Pathology and pathogenesis of sensory neuropathy in Friedreich's ataxia. Acta Neuropathol (2010); 120(1): 97.

[3] Miwa, K, et al. Axon guidance of sympathetic neurons to cardiomyocytes by glial cell line-derived neurotrophic factor (GDNF). PLoS ONE (2013); 8(7): e65202.

[4] Ku, S, et al. Friedreich's ataxia induced pluripotent stem cells model intergenerational GAA•TTC triplet repeat instability. Cell Stem Cell (2010); 7(5): 631.

[5] Hick, A, et al. Neurons and cardiomyocytes derived from induced pluripotent stem cells as a model for mitochondrial defects in Friedreich's ataxia. Dis Model Mech (2013); 6(3): 608.

[6] Jones, J, et al. Human adipose stem cell-conditioned medium increases survival of Friedreich's ataxia cells submitted to oxidative stress. Stem Cells Dev (2012); 21(15): 2817.

[7] Jones, J, et al. Stem cells from wildtype and Friedreich's ataxia mice present similar neuroprotective properties in dorsal root ganglia cells. PLoS ONE (2013); 8(5): e62807.

Medistem Acquisition Nears

The Company has offered to acquire a small stem cell company, Medistem (OTCQB: MEDS), for approximately $26 million in cash ($0.27 per share) and stock ($1.08 value). The deal, which has the support of major investors, is expected to close within the next few weeks. Medistem would give Intrexon expertise in stem cells generally and a patented line of cells derived from endometrial tissue that could be used for a myriad of purposes. The acquisition will not have any effect on the relationship that Intrexon has with Ziopharm Oncology (NasdaqCM: ZIOP), which entered into a partnering agreement with the Australian stem cell specialist Mesoblast (ASX: MSB) last year. We will provide a more complete discussion of the Medistem technologies upon consummation of the deal.

Intrexon – Prepared for More Deals

Near the close of 2013, Intrexon bolstered its infrastructure with the hiring of an experienced executive, Dr. Peter Seufer-Wasserthal, to oversee business development in Europe and Asia. The other important addition to the team was Ms Dana Di Ferdinando who will head the development of the next-generation UltraVector platform that will include a software-based communication link between Intrexon and its partners. That link should strengthen ties to existing collaborators and appeal to potential clients, based on the efficiencies that should be realized. Thanks in part to these new additions, we believe Intrexon is better prepared to negotiate and collaborate globally in its targeted fields of food, energy & chemicals, healthcare, agriculture, and environment.

Investment Considerations

The investment community is anxiously awaiting news of collaborations, particularly with more blue chip corporations. The Johnson & Johnson agreement validates the Company's technologies and opens the door to more deals. We believe 2014 will be an important year for such agreements, as the momentum is building with the J&J signing, the addition of an executive to administer business development overseas, and the rollout of the new communication link in the new UltraVector software. New collaborations, plus the likelihood of royalty streams commencing by 2016, should pique the investment community's interest in Intrexon shares. Accordingly, we are maintaining our BUY recommendation and our $36.00 price target.

Financial Forecasts & Valuation

Since our last report, dated November 8, 2013, Intrexon has made significant progress with its collaborations, but our estimates already took into account the recent developments. Accordingly, we have not changed our financial forecasts or valuation. A complete discussion of our estimates is provided in our initiation report dated September 30, 2013 (available at www.griffinsecurities.com).

Quarterly Income Statements# (Fiscal year ends December 31st.)

Data are in thousands, except for per-share figures. *Estimates are in italics.*

	2013				2014			
	Q1A	Q2A	Q3A	Q4E	Q1E	Q2E	Q3E	Q4E
Revenues								
Collaboration revenues	$ 3,864	$ 6,674	$ 6,028	*$ 6,934*	*$ 8,400*	*$ 9,200*	*$ 10,400*	*$ 17,050*
Other	112	107	105	*111*	*100*	*100*	*100*	*100*
Total Revenues	$ 3,976	$ 6,781	$ 6,133	*$ 7,045*	*$ 8,500*	*$ 9,300*	*$ 10,500*	*$ 17,150*
Operating expenses								
Cost of products sold	$ -	$ -	$ -	*$ -*				
Research & development	11,502	13,602	10,763	*10,883*	*$ 11,000*	*$ 11,500*	*$ 12,500*	*$ 13,000*
General & administrative	6,480	7,433	7,407	*7,180*	*7,000*	*6,800*	*6,600*	*6,600*
Total operating costs	17,982	21,035	18,170	*18,063*	*18,000*	*18,300*	*19,100*	*19,600*
Operating profit/(loss)	$ (14,006)	$ (14,254)	$ (12,037)	*$ (11,018)*	*$ (9,500)*	*$ (9,000)*	*$ (8,600)*	*$ (2,450)*
Other Income (Expense)								
Unrealized increase (decrease) in fair value of equity securities	(29,369)	7,734	27,339	*5,382*	-	-	-	-
Realized gain on equity investments	7,415	-	-	*-*	-	-	-	-
Interest (expense)	(14)	(11)	(6)	*(1)*				
Other	2	12	(305)	*6*	*5*	*5*	*5*	*5*
Total other income (expense)	(21,966)	7,735	27,028	*5,387*	*5*	*5*	*5*	*5*
Equity in net loss of affiliate	(390)	-	-		-	-	-	-
Pretax profit/(loss)	$ (35,972)	$ (6,519)	$ 14,991	*$ (5,631)*	*$ (9,495)*	*$ (8,995)*	*$ (8,595)*	*$ (2,445)*
Income taxes	-	-	-	*-*	-	-	-	-
Net profit/(loss)	$ (35,972)	$ (6,519)	$ 14,991	*$ (5,631)*	*$ (9,495)*	*$ (8,995)*	*$ (8,595)*	*$ (2,445)*
Net loss attributable to non-controlling interst	158	507	449	501	*500*	*600*	*400*	*400*
Net profit/(loss) to common	$ (35,814)	$ (6,012)	$ 15,440	*$ (5,130)*	*$ (8,995)*	*$ (8,395)*	*$ (8,195)*	*$ (2,045)*
Earnings/(loss) per share	$ (0.47)	$ (0.07)	$ 0.16	*$ (0.05)*	*$ (0.10)*	*$ (0.09)*	*$ (0.09)*	*$ (0.02)*
Shares outstanding	75,879	83,141	*97,000*	*97,500*	*97,750*	*98,000*	*98,100*	*98,250*

Note that the numbers of shares presented in the first half of 2013 are *pro forma* as presented in Intrexon's Form S-1.

Annual Income Statements# (Fiscal year ends December 31st.)

Data are in thousands, except for per-share figures. *Estimates are in italics.*

Revenues	2012	2013	2014	2015	2016	2017	2018
Collaboration Revenues	$ 13,706	$ 23,500	$ 45,050	$ 75,723	$ 138,219	$ 237,225	$ 418,151
Other revenues	219	400	400	400	400	400	400
Total Revenues	$ 13,925	$ 23,900	$ 45,450	$ 76,123	$ 138,619	$ 237,625	$ 418,551
Operating expenses							
Cost of products sold	-	-	1,250	1,300	3,100	6,300	10,000
Research & development	$ 64,185	46,750	48,000	55,000	70,000	68,000	61,000
General & administrative	24,897	28,500	27,000	28,000	29,000	30,000	31,000
Total operating costs	89,082	75,250	75,000	83,000	99,000	98,000	92,000
Operating profit/(loss)	$ (75,157)	$ (51,350)	$ (29,550)	$ (6,877)	$ 39,619	$ 139,625	$ 326,551
Other Income (Expense)							
Unrealized increase (decrease) in fair value of equity securities	$ (6,290)	$ 11,086					
Realized gain on equity investments	-	7,415					
Interest expense	(57)	(32)					
Other	(96)	(285)					
Total other income (expense)	(6,443)	18,184	-	-	-	-	-
Equity in net loss of affiliate	$ (274)	$ (390)					
Pretax profit/(loss)	$ (81,874)	$ (33,556)	$ (29,550)	$ (6,877)	$ 39,619	$ 139,625	$ 326,551
Income taxes	-	-	-	-	15,055	53,057	124,089
Net profit/(loss)	$ (82,148)	$ (33,946)	$ (29,550)	$ (6,877)	$ 24,564	$ 86,567	$ 202,461
Net loss (profit) attributable to non-controlling interest	-	1,615	1,800	1,760	-	(2,000)	(4,875)
Net profit/(loss) to Common	$ (82,148)	$ (32,331)	$ (27,750)	$ (5,117)	$ 24,564	$ 84,567	$ 197,586
Earnings/(loss) per share	$ (1.17)	$ (0.38)	$ (0.30)	$ (0.07)	$ 0.25	$ 0.86	$ 1.99
Shares outstanding	70,266	88,380	98,000	99,000	100,000	101,000	101,500

Adjusted EBITDA

	2012	2013	2014	2015	2016	2017	2018
EBT	$ (81,874)	$ (33,556)	$ (29,550)	$ (6,877)	$ 39,619	$ 139,625	$ 326,551
Interest expense	-	32					
Depreciation	7,984	7,400	7,500	7,700	7,800	8,000	8,000
Stock-based compensation	3,008	2,500	2,500	2,750	2,750	3,000	3,000
Unrealized (increase) decrease in fair value of equity securities	-	(11,086)	-	-	-	-	-
Realized gain on equity securities	3,591	(7,415)	-	-	-	-	-
Other		1,550	1,550	1,550	1,550	1,550	1,550
Change in deferred revenue from upfront and milestones	(7,491)	30,914	94,375	116,950	84,850	76,700	47,600
Adjusted EBITDA	$ (74,782)	$ (9,661)	$ 76,375	$ 122,073	$ 136,569	$ 228,875	$ 386,701
Adjusted EBITDA/share	$ (1.06)	$ (0.11)	$ 0.78	$ 1.23	$ 1.37	$ 2.27	$ 3.81

Balance Sheet# (Fiscal year ends December 31st.)

Data are in thousands.

ASSETS	**9/30/2013**	**12/31/2012**
Current Assets		
Cash & equivalents	197,894	10,403
Accounts Receivable	5,349	707
Other	2,992	2,423
Total Current Assets	$ 206,235	$ 13,533
Long-term investments	$ 81,109	-
Equity securities	107,567	$ 83,116
Property & equipment	17,020	18,687
Intangible assets	42,263	29,506
Goodwill	13,846	-
Other	6,158	6,804
Total Assets	$ 474,198	$ 151,646

LIABILITIES		
Current Liabilities	**9/30/2013**	**12/31/2012**
Accounts payable	$ 949	$ 632
Debt due	244	49
Deferred revenue	7,398	9,963
Accruals	5,992	5,974
Related party payables	5,134	99
Total Current Liabilities	$ 19,717	$ 16,717
Long-term debt	$ 2,321	$ 42
Deferred revenue	59,994	48,673
Other	958	1,108
Total Long-Term Liabilities	$ 63,273	$ 49,823
Shareholders Equity		
Preferred Equity	$ -	$ 406,659
Common Stock, par value	-	-
Additional Paid-In Capital	741,315	-
Accumulated Deficit	(364,210)	(321,553)
Accum. Comprehensive Loss	28	-
Total Shareholders Equity	$ 377,133	$ (321,553)
Non-controlling interest	14,075	-
Total liabilities & equity	$ 474,198	$ 151,646

Disclosures

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BUY [BUY]	32	82.05	5	15.62
HOLD [HOLD]	7	17.95	0	0
SELL [SELL]	0	0.00	0	0

COMPANIES MENTIONED:

Ticker	Company Name	Rating
XON	Intrexon Corporation	Buy
ASX		
FCSC	Fibrocell Science, Inc.	Buy
JNJ		
MEDS		
OVAS		
ZIOP	Ziopharm	Buy

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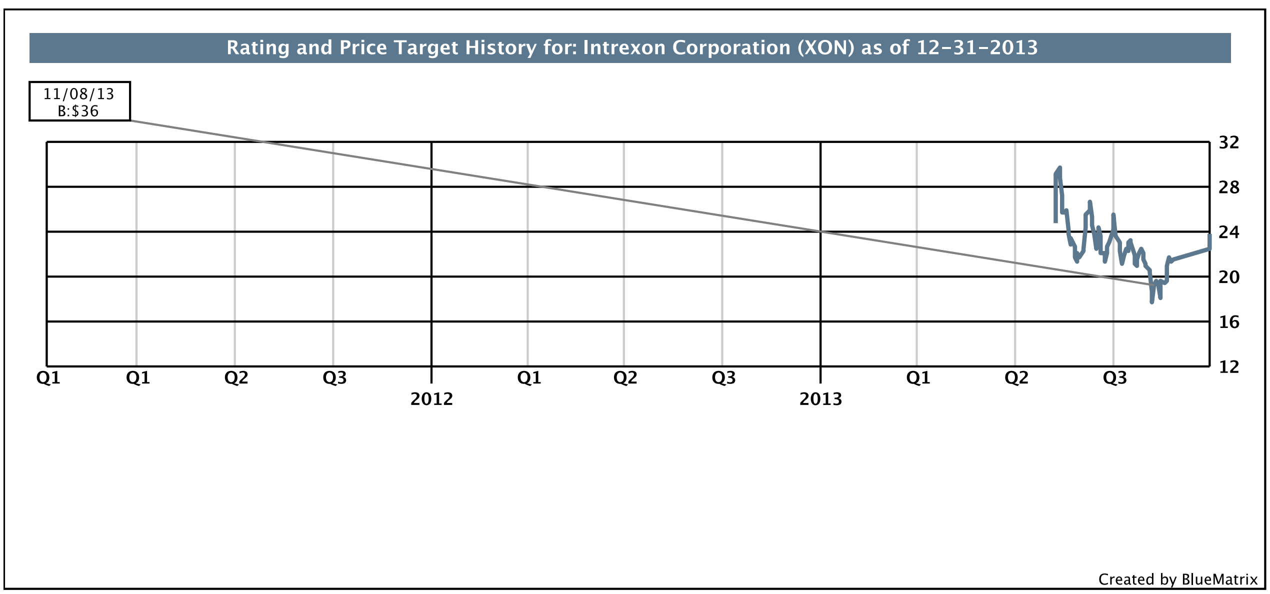

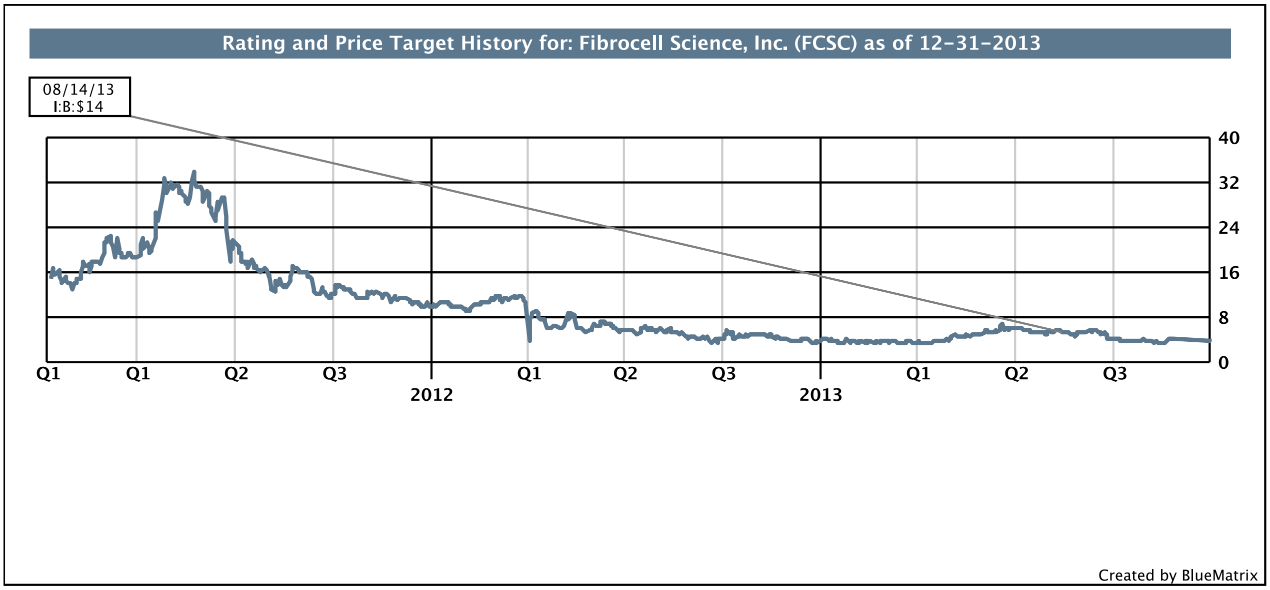

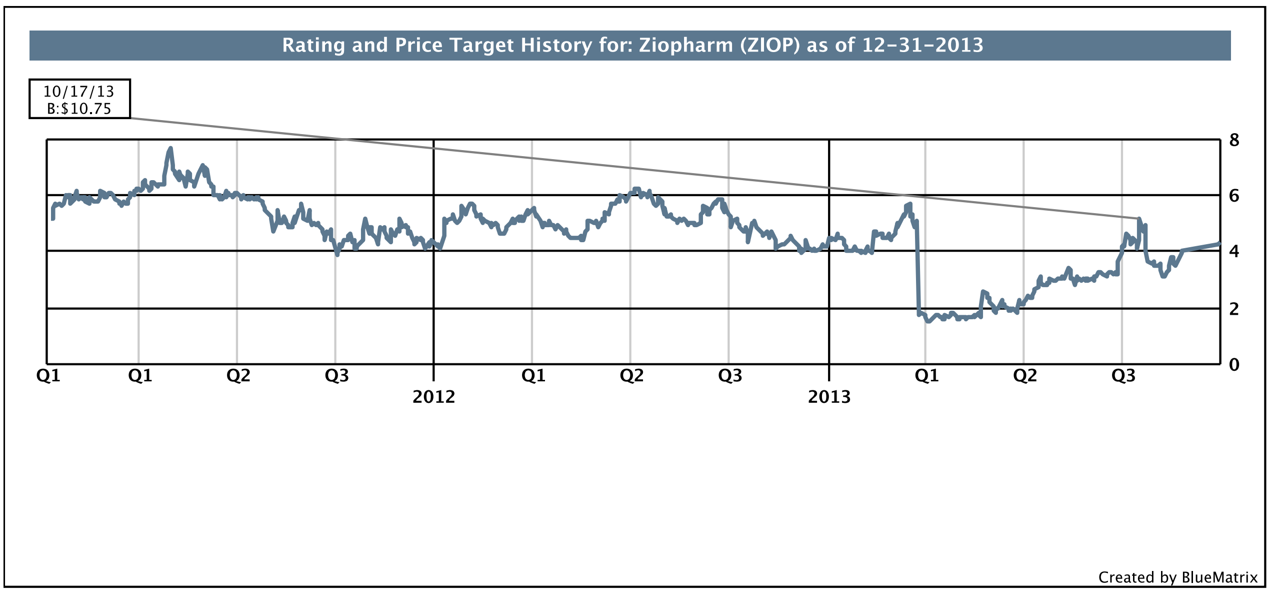

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