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Royalty Aggregator Business Model Delivers its First Milestone Payment in 2020; Combined with More Than $28 Million in Milestones from Partner Advances and a Growing Portfolio of Assets, XOMA Corporation has Shown the Ability to Create Value for its Shareholders

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CEOCFO: *Mr. Neal, we have not spoken in a year and we are in the time of Thanksgiving. With COVID and all that has taken place this year and where we have come to with vaccines looming on the horizon, would you reflect on the past year and what you are thankful for?*
Mr. Neal: During this reflection time of Thanksgiving, I am so glad and happy to be a part of this biotech community and what it ultimately can do in responding to these types of emergencies. For example, the pandemic was not something that any of us would have predicted at this time a year ago. Sadly, it has had some devastating effects for families across the globe.

The pandemic has highlighted the importance of a thriving biotech industry. We have an infrastructure that can respond to this kind of existential threat and really motivate and put resources to work solving big problems. Whether it is clinical, scientific, discovery, regulatory, or financial, we are actually starting to see the benefit of having that infrastructure in place. There are times when you think, "Well ok, this is just another drug"; well, no it is not. Each drug and that supporting infrastructure have the potential to change peoples' lives.

The COVID pandemic, on a macro basis, is another example of how the industry can really benefit society, and I am happy to be part of that overall initiative. Even though we play a very small role, if we do it well, more patients will benefit from the innovation this overall ecosystem sponsors.

CEOCFO: *When we spoke in August of 2019, you mentioned XOMA's uniqueness in that you are monetizing royalties on pre-commercial drug candidates for which pharmaceutical partners fund the research and cover 100% of the costs. Why is that so unique and what are some of the advantages besides the obvious?*
Mr. Neal: We focus on pre-commercial milestone and royalty opportunities. That means we are not making the massive capital deployments or pursuing the royalty opportunities that are well established by companies like Royalty Pharma. We have carved out our niche by seeking out early stage assets where there are still clinical, regulatory, and commercial risks associated with the underlying drug asset, yet where that risk is offset by a strong development partner. That is XOMA's space. With our legacy as a traditional biotech company, we are very comfortable with the risk profile of the assets that we are adding to our royalty portfolio. That is really important.

Why this is important is two -dimensional. One, it is a way for an investor in XOMA to participate in the upside of biotech in a risk-mitigated fashion, and that is fundamental for many investors. Two, from a biotech company point of view, XOMA is very interesting, as it is a way for them to access capital to do whatever they need to bring that next innovative product to patients. If you are a biotech company that licensed a drug candidate to big pharma and are hoping that in ten years there is a royalty stream hitting your P&L or today you have a chance to put five, ten, fifteen million dollars of cash on your balance sheet to pay the scientists to make a break-through innovation or to get an internal asset to the next stage of clinical development, what we offer is a really great source of non-dilutive capital. XOMA provides the two pieces of a puzzle, and both are very important.

We have our shareholders' interest in mind to make sure that we engage in good transactions. If we are patient with these assets, many will make it all the way through that regulatory approval process and commercialization; our shareholders will benefit, and the biotech company's shareholders have benefited by the fact that their product opportunity gets to that next stage.

We believe the model makes common sense. We make a single binary decision regarding whether or not to exchange cash today for the potential of future milestones and royalties; we are not deploying additional capital to fund ongoing and future development. Any subsequent investment to advance the asset is being done by the pharma partner.

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CEOCFO: *XOMA has had quite a lot of exciting news in 2020. How did you amass more than 60 assets with such big milestones attached to them?*
Mr. Neal: It really is a testament to our history on the one hand, and to our team on the other. If you think about our model, there are two dimensions of growth and value creation for shareholders. One is the ongoing investment made by our partners. These were partners the legacy XOMA engaged through license agreements for our innovations in return for the promise of milestones and royalties if those assets advance. About two thirds of those 60+ portfolio assets came from that pool. That is the result of all that was done by the company prior to the strategic business pivot we executed in 2017.

While these are really important assets in the portfolio, the second source is the area that we have more time and more control over. Our team is growing the portfolio by engaging in transactions where we monetize a biotech company's contractual rights to future milestones and royalties. We have completed multiple monetization transactions over these three years. They now constitute about a third of the overall portfolio. It is very complimentary. The assets themselves, you put them all together in one portfolio as we do, are indistinguishable because you do not know from where they came. And they all benefit us if milestones are achieved, and ultimately, we begin receiving royalty revenues.

CEOCFO: *XOMA recently earned the first milestone payment from your 2018 royalty purchase agreement under the new royalty aggregator business model. Very exciting! How is the new royalty aggregator business model proving itself? What do you look for in a potential asset candidate?*
Mr. Neal: In terms of what we look for, our first screening criteria is the presence of a well-established, well-financed partner on the other side of the license. In the case of the Agenus Inc. (NASDAQ: AGEN) transaction, those partners were Merck & Co. (NYSE: MRK) and Incyte Corporation (NASDAQ: INCY). Then we think about the assets, "What is the royalty opportunity that goes with that asset, what is the revenue potential that goes with that asset, and what is the likelihood of this asset making it all the way through to an approval?" And if we are going to take on the clinical development, regulatory, and commercial risks, the asset must have an extended royalty payment period, so patent life or regulatory exclusivity is a criteria. These are the most important aspects of what we look for when we are assessing milestone and royalty assets.

In the case of the Agenus transaction, these criteria were all present. We were able to negotiate a meaningful amount of capital for Agenus to accomplish what they wanted to get done. For us, the transaction made sense based upon the economics and the IRR calculations and our comfort the transaction could deliver returns for our shareholders. The neat

thing about that transaction is that Merck has advanced the Agenus asset hitting a milestone payment in which we get to participate.

As our Senior VP, Finance and CFO, Tom Burns likes to say, "If you think about an ROI calculation, we are starting to see some 'R'" – some return for our 2018 investment in the Agenus transaction. We deployed capital – $15 million – for these seven assets, and one of those has produced a milestone return of capital to us. The great news is the asset advanced to Phase 2 development, so the patient benefit aspect here is not lost. The asset becomes more and more interesting as Merck continues to invest in it and they can prove concept in Phase 2 and hopefully take it to Phase 3. This is our business model at its finest, showing the benefit, not only with cash flows, which is nice from a financial point of view, but also the patient opportunity for this unique approach to treating oncology can be seen through this whole arrangement with Agenus and Merck.

CEOCFO: *And Merck knows what it is doing. XOMA also recently earned a $25 million payment from Novartis as a result of NIS793, an anti-TGF-β monoclonal antibody licensed from XOMA, advancing to the Phase 2 development stage in advanced pancreatic cancer. Can you talk about what's next for the TGF-β program?*
Mr. Neal: We talked a little bit about the derivation of the assets in the portfolio, and the TGF-β (Transforming Growth Factor Beta) antibody is from the legacy XOMA. I negotiated this license transaction with Novartis in 2015, so I am very familiar with the asset and the license agreement. In 2017 we benefitted from a $10 million milestone payment as Novartis initiated a Phase 1 study with this TGF-β antibody. Now, in 2020 we are to receive a $25 million milestone payment as Novartis started the next phase of development. In three years, Novartis has completed enough Phase 1 work to decide to launch its Phase 2 program starting in a very challenging indication – pancreatic cancer. If we can find a therapy for pancreatic cancer, that is a very important medical breakthrough.

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We are not privy to the specifics of what Novartis is anticipating with this program. However, I will say that they highlight this program on their pipeline as being one of those promising Phase 2 assets. That for me is an indication about the kind of focus and attention that Novartis is paying to this program. We are really happy this asset is in their hands and the prospect of us benefitting from their advancement of this antibody. The next thing in that program's life we hope will be another move forward from Phase 2 to Phase 3.

CEOCFO: And *XOMA also recently earned a $2 million milestone payment from Takeda Pharmaceuticals resulting from the first patient dosed in the Phase 2 study evaluating mezagitamab (TAK-079) in patients with myasthenia gravis (MG). This milestone payment stems from XOMA's collaboration agreement to identify therapeutics antibodies that Takeda would advance into clinical development. Can you tell us more about the collaboration?*
Mr. Neal: The collaboration with Takeda was an arrangement that was in place when I joined XOMA. Going back to this notion about how long does it take to do drug discovery and development? We are talking about ten years or more, and this program is entering into the clinical stages where Takeda may start to demonstrate proof of concept with this program.

We are excited about mezagitamab at Takeda because it brings all those same dimensions as the TGF-β program with Novartis. There is a milestone payment that comes our way, so we get financial benefit during the antibody's advancement. In both the TGF-β and mezagitamab, the real opportunities are when these programs move to the next phase of development. This is when we will see more partner investment and, I think, more excitement from the clinical community that these antibodies can have real patient impact.

CEOCFO: *With the addition of some enzyme replacement therapeutic candidates, XOMA further expanded its royalty interest portfolio beyond monoclonal antibodies and small molecules. Why the decision to take the company in this direction and what did you like about the technology? Also, what did you like about Bioasis and their strategic alliance with Chiesi Group*?

Mr. Neal: Bioasis is a small biotech company that we identified with an interesting platform technology. They have the technology with the potential to help molecules cross the blood/brain barrier, which would be a very important therapeutic development. When we saw what they were capable of doing, we entered into an arrangement with them that would be mutually beneficial. We provided them with capital today in order to monetize some of the relationships and licenses they secure in the future. For example, Bioasis recently constructed a license arrangement with Chiesi Group, the Italian pharma company, to advance several enzyme replacement therapies. That is a cool validation of the Bioasis platform.

From our perspective these enzyme replacement therapies have attractive features. They have the presence of Chiesi, a well-established pharmaceutical company on the other side of the arrangement. There is a patient benefit that comes from the orphan indications Chiesi is pursuing. What is also attractive is enzyme replacements historically have a higher probability of going from preclinical and early stage clinical data to fully approved commercial products. We like that as it raises the probably of a portfolio impact in the future, in that we can ultimately benefit in terms of milestones and royalties by helping Bioasis continue to develop its technology so that they can attract their next partnerships. There are multiple benefits all the way around.

CEOCFO: *Can you talk to me about what impact COVID has had on your business development activities. For example, have the price of assets been impacted?*
Mr. Neal: From an operating point of view, from the day we pivoted to our royalty aggregator business model, we were set up to be virtual and capable of working from anywhere in the world. We chose to not hold our small team to specific geographies or time zones. If you want to do your job from Boise, Idaho, or Austin, Texas, or Arlington, Virginia, we are happy to support that. That is how we have best talent globally, not by insisting somebody live in the Bay Area.

When COVID hit and we could not go to the Emeryville office, only the commute changed, as we had experience working virtually. Our team did not miss a beat.

It has been a long strong bull market in terms of equity access for biotech companies. COVID has reinforced and increased the flow of funds coming into biotech. We know this is an opportunity for XOMA, as drug development requires a lot of capital. At some point, many of the companies being funded today are going to need continued financial support. The rush of opportunity that we see in biotech is going to create more opportunities for us in the future.

CEOCFO: *What about conferences?*
Mr. Neal: The conferences are a little bit more difficult, where we kind of pick-up new opportunities. But beyond that, our assessment of new opportunities and our metrics of the right value we associate with a particular monetization transaction have not changed. We probably have been a more selective given the market dynamics and to have a balance sheet that is credible, to prevent a financing overhang of our own. With the payments that have come in this year and the milestone payment from Novartis particularly, we have a really strong balance sheet coupled with very low operating costs.

CEOCFO: *What can we look for from XOMA as we closeout 2020 and head into 2021? Why should investors and your partners be excited?*
Mr. Neal: This goes back to the fundamental premise of our overall business strategy. It is really about these two dimensions of value creation in our model – the ongoing investment made by the partners leads to assets advancing and delivering milestones as a result. That is non-dilutive capital coming into XOMA, but more importantly, it is the portfolio of assets moving to later and later stages of clinical development, with the goal of achieving commercialization.

Our partners are making development investments for their purposes, not for us, but we benefit. You should look for continued advances from Phase 1 to Phase 2, Phase 2 to Phase 3. You should look to see our team growing our portfolio through acquisition of additional assets. Each asset ultimately means that we have more revenue potential and more risk mitigation associated with the portfolio. That is backed by premise and promise, from the investor point of view, with over 65 assets in XOMA's portfolio.

CEOCFO: *Final thoughts. It takes a brilliant mind and great team to be able to assess all of different assets and strategies and then translate it for shareholders, potential investors and partners. How did you get there?*

Mr. Neal: We have a brilliant team, and this is a unique strategy. And it is mind blowing to think about a biotech company that does not do R&D, and we do not do R&D. Our business model is unique in that it provides the freedom and flexibility for us to do what we do well and create value for our shareholders. In every one of these monetization transactions, we have provided capital to a biotech company that has the possibility of changing a patient's life in the future by being able to advance an asset that would have not been advanced. We are in a business where the odds of success are still pretty small, so the more shots on goal this community gets, the more chances we have of providing great therapeutic options for patients in the future. That is that philosophical reason for XOMA's being.

EXPLANATORY NOTE: Any references to "portfolio" in this article refer strictly to milestone and/or royalty rights associated with a basket of drug products in development. Any references to "assets" in this article refer strictly to milestone and/or royalty rights associated with individual drug products in development. References to royalties or royalty rates strictly refer to future potential payment streams regardless of whether or not they are technically defined as royalties in the underlying contractual agreement; further, any rates referenced herein are subject to potential future contractual adjustments.

As of the date of this article, all assets in XOMA's milestone and royalty portfolio are investigational compounds. Efficacy and safety have not been established. There is no guarantee that any of these assets will become commercially available.