

## COMPANY NOTE

Estimate Change

USA | Healthcare | Biotechnology

March 18, 2014

# Jefferies

## OncoMed (OMED)

### OMED 4Q Earnings: Multiple Milestones in 2014

#### Key Takeaway

**OMED plans on making 9 presentations at the upcoming American Association of Cancer Research (AACR) meeting (April 5-9 in San Diego). We remain positive on OMED's prospects with the potential for data readouts from its 15 ongoing clinical trials, including multiple Phase 2 readouts by 2015/2016 for its cancer stem cell pipeline. We are encouraged that these can be funded through completion with current cash (\$316m) and anticipated milestones.**

**Encouraged by the Breadth of Pipeline Opportunities.** In 1H14, OMED expects to begin the randomized Phase 2 portion of the ALPINE and PINNACLE clinical trials of OMP-59R5 in pancreatic cancer and small cell lung cancer (SCLC), respectively. Further, the company will initiate randomized Phase 2 clinical studies of demcizumab in non-small cell lung cancer (NSCLC), pancreatic cancer and ovarian cancer with data by late 2014/early 2015 and will complete patient enrollment in the ongoing Phase 1a clinical studies of vantiactumab and OMP-54F28. In 2013, OMED initiated three Phase 1b trials of vantiactumab on top of chemotherapy in HER2- breast, NSCLC and pancreatic cancer and may present initial data in 2014. Separately, based on first-in-human Phase 1 trial for OMP-54F28 (FZD8-Fc), OMED recently initiated three Phase 1b trials in pancreatic cancer, hepatocellular cancer and ovarian cancer. OMED expects data from the Phase 1 studies of OMP-52M51 (anti-Notch1) in both hematologic and solid tumors later this year or early 2015. Lastly, the company plans to file an IND for OMP-305B83, an anti-DLL4/anti-VEGF bispecific antibody partnered with Celgene (CELG, Buy, \$153.69), later this year and will also file an IND for anti-RSPO-LGR (also partnered with Celgene) later this year or in early 2015. While still early, we remain encouraged by OMED's progress in developing a broad pipeline of clinical stage candidates based on cancer stem cell (CSC) targets, with five biologics in Phase 1/2 trials and initial efficacy signals in multiple programs.

**Financials and Guidance.** OMED reported a non-GAAP loss in 4Q13 of \$3.6m (excluding options expenses and other one-time charges). OMED ended the year with cash and cash equivalents of \$316m and expects 2014 operating expenses in the range of \$90-95m. OMED expects to end the year with cash >\$215m, which should last through at least 2016 (excluding future milestone payments).

#### Valuation/Risks

Our PT of \$50 is based on \$23 demcizumab + \$5 GSK + \$4 Bayer + \$7 CELG + \$10 cash. Risks: clinical, regulatory, commercial.

USD	Prev.	2012A	Prev.	2013A	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	24.7	39.9	37.8	124.0	98.7	--	183.0
<b>EPS</b>								
Mar	--	--	--	(0.39)	--	(0.12)	--	--
Jun	--	--	--	(0.43)	--	0.22	--	--
Sep	--	--	--	(0.15)	--	0.21	--	--
Dec	--	--	0.05	(0.15)	--	(0.10)	--	--
FY Dec	--	(21.25)	(0.84)	(1.12)	0.65	0.21	2.61	2.47

**BUY**

Price target \$50.00

Price \$34.92

#### Financial Summary

Net Debt (MM):	(\$316.2)
Cash/Share:	\$316.20

#### Market Data

52 Week Range:	\$42.34 - \$12.07
Total Entprs. Value (MM):	\$675.5
Market Cap. (MM):	\$991.7
Shares Out. (MM):	28.4
Float (MM):	7.7
Avg. Daily Vol.:	251,395

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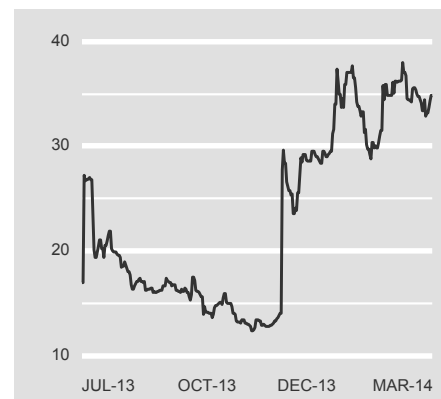
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#### Price Performance



**OMED: Historical and Projected Revenue and Earnings**

December 31 Fiscal Year (\$000s)	2012A	1Q13A	2Q13A	3Q13A	4Q13A	2013A	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Demcizumab Sales																			
U.S. Demcizumab Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	101,592	431,341	752,003	1,331,096	1,732,391
International Demcizumab Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	40,637	258,804	601,603	1,064,877
WW Demcizumab Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	101,592	471,977	1,010,808	1,932,699	2,797,268
Y/Y Change	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	365%	114%	91%	45%
U.S. Demcizumab Gross Profit Split to Oncomed																			
WW Demcizumab Revenue to Oncomed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	44,446	194,103	347,802	615,632	801,231
% Of Sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0	0	0	31,057	152,975
GSK/Bayer/CELG Royalties to Oncomed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	29,232	146,970	324,073	477,287	642,124
Demcizumab Upfront/Milestone Payments	0	0	0	0	0	0	3,163	13,163	13,163	3,163	32,653	77,959	87,959	107,959	130,000	90,000	90,000	75,000	45,000
GSK/Bayer/CELG Upfront/Milestone Payments	24,659	2,932	2,932	12,932	18,983	37,779	16,500	16,500	16,500	16,500	66,000	105,000	167,000	203,797	320,676	329,173	481,455	445,971	402,081
Other Revenues	22	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Revenue</b>	<b>24,681</b>	<b>2,932</b>	<b>2,932</b>	<b>12,932</b>	<b>18,983</b>	<b>37,779</b>	<b>19,663</b>	<b>29,663</b>	<b>29,663</b>	<b>19,663</b>	<b>98,653</b>	<b>182,959</b>	<b>254,959</b>	<b>311,756</b>	<b>524,354</b>	<b>765,123</b>	<b>1,274,386</b>	<b>1,690,146</b>	<b>2,043,411</b>
Y/Y Change	NM	17%	-61%	67%	174%	53%	571%	912%	129%	4%	161%	85%	39%	22%	68%	46%	67%	33%	21%
COGS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
% Product sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Research and Development	39,396	9,436	10,341	12,882	16,432	49,091	18,750	18,750	18,750	18,750	75,000	40,000	52,000	67,600	87,880	114,244	148,517	193,072	250,994
Y/Y Change	NM	-16%	9%	37%	75%	25%	99%	81%	40%	14%	53%	-47%	30%	30%	30%	20%	30%	30%	30%
% Total Revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Selling, General and Administrative	6,818	1,900	1,821	2,927	4,203	10,851	4,000	4,000	4,000	4,000	16,000	17,280	19,008	25,661	34,642	38,106	51,443	69,449	76,394
Y/Y Change	NM	13%	12%	60%	150%	59%	111%	120%	37%	-5%	47%	8%	10%	35%	35%	35%	35%	35%	10%
% Total Revenue	28%	65%	62%	23%	22%	29%	20%	13%	13%	20%	16%	9%	7%	8%	7%	5%	4%	4%	4%
<b>Total Operating Expenses</b>	<b>46,214</b>	<b>11,336</b>	<b>12,162</b>	<b>15,809</b>	<b>20,635</b>	<b>59,942</b>	<b>22,750</b>	<b>22,750</b>	<b>22,750</b>	<b>22,750</b>	<b>91,000</b>	<b>57,280</b>	<b>71,008</b>	<b>93,261</b>	<b>122,522</b>	<b>152,350</b>	<b>199,961</b>	<b>262,521</b>	<b>327,388</b>
<b>Income From Operations</b>	<b>(21,533)</b>	<b>(8,404)</b>	<b>(9,230)</b>	<b>(2,877)</b>	<b>(1,652)</b>	<b>(22,163)</b>	<b>(3,087)</b>	<b>6,913</b>	<b>6,913</b>	<b>(3,087)</b>	<b>7,653</b>	<b>125,679</b>	<b>183,951</b>	<b>218,496</b>	<b>401,832</b>	<b>612,773</b>	<b>1,074,425</b>	<b>1,427,625</b>	<b>1,716,024</b>
Operating margin	NM	NM	NM	NM	NM	NM	NM	23%	23%	NM	8%	69%	72%	70%	77%	80%	84%	84%	84%
Total Other Income (Expense), Net	134	31	(149)	(117)	7	(228)	197	198	202	204	801	1,473	1,727	2,119	2,902	4,335	6,714	10,325	15,043
Interest income	140	31	(149)	(117)	7	(228)	197	198	202	204	801	1,473	1,727	2,119	2,902	4,335	6,714	10,325	15,043
Interest expense	-6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pretax-Income	(21,399)	(8,373)	(9,379)	(2,994)	(1,645)	(22,391)	(2,890)	7,111	7,116	(2,883)	8,454	127,152	185,678	220,615	404,734	617,108	1,081,139	1,437,950	1,731,066
Income Tax Expense	0	0	0	0	1,944	1,944	0	0	0	0	0	47,046	68,701	81,627	149,752	228,330	400,021	532,042	640,495
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
<b>Non-GAAP Net Income</b>	<b>(21,399)</b>	<b>(8,373)</b>	<b>(9,379)</b>	<b>(2,994)</b>	<b>(3,589)</b>	<b>(24,335)</b>	<b>(2,890)</b>	<b>7,111</b>	<b>7,116</b>	<b>(2,883)</b>	<b>8,454</b>	<b>80,106</b>	<b>116,977</b>	<b>138,987</b>	<b>254,983</b>	<b>388,778</b>	<b>681,118</b>	<b>905,909</b>	<b>1,090,572</b>
Y/Y Change	NM	-19%	164%	-13%	-12%	14%	-65%	-176%	-338%	-20%	-135%	848%	19%	19%	83%	52%	75%	33%	20%
Shares Outstanding	1,044	22,265	22,272	23,179	28,361	24,019	29,361	30,361	31,361	32,361	30,861	31,859	32,231	32,308	32,865	32,968	33,661	33,795	34,580
<b>Non-GAAP EPS</b>	<b>(\$20.49)</b>	<b>(\$0.38)</b>	<b>(\$0.42)</b>	<b>(\$0.13)</b>	<b>(\$0.13)</b>	<b>(\$1.01)</b>	<b>(\$0.10)</b>	<b>\$0.23</b>	<b>\$0.23</b>	<b>(\$0.09)</b>	<b>\$0.27</b>	<b>\$2.51</b>	<b>\$3.63</b>	<b>\$4.30</b>	<b>\$7.76</b>	<b>\$11.79</b>	<b>\$20.23</b>	<b>\$26.81</b>	<b>\$31.54</b>
Y/Y Change	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	71%	114%	174%	161%	127%	56%
Options Expense	786	225	265	492	754	1,736	500	500	500	500	2,000	2,400	2,880	3,456	4,147	4,977	5,972	7,166	8,600
% Operating Income	NM	NM	NM	NM	NM	NM	NM	7.2%	7.2%	NM	26.1%	1.9%	1.6%	1.6%	1.0%	0.8%	0.6%	0.5%	0.5%
<b>GAAP EPS</b>	<b>(\$21.25)</b>	<b>(\$0.39)</b>	<b>(\$0.43)</b>	<b>(\$0.15)</b>	<b>(\$0.15)</b>	<b>(\$1.12)</b>	<b>(\$0.12)</b>	<b>\$0.22</b>	<b>\$0.21</b>	<b>(\$0.10)</b>	<b>\$0.21</b>	<b>\$2.47</b>	<b>\$3.57</b>	<b>\$4.23</b>	<b>\$7.68</b>	<b>\$11.70</b>	<b>\$20.12</b>	<b>\$26.67</b>	<b>\$31.38</b>

Source: Company data, Jefferies LLC estimates  
March 18, 2014

**OMED: Historical and Projected Changes in Financial Position**

December 31 Fiscal Year (\$000s)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Net income</b>	<b>(21,399)</b>	<b>(24,335)</b>	<b>8,454</b>	<b>80,106</b>	<b>116,977</b>	<b>138,987</b>	<b>254,983</b>	<b>388,778</b>	<b>681,118</b>	<b>905,909</b>	<b>1,090,572</b>
<b>Adjustments to reconcile net cash flows from operating activities:</b>											
Depreciation and amortization	1,295	1,378	1,578	1,678	1,978	2,178	2,478	2,678	2,978	3,178	3,478
Deferred rent and other long-term liabilities	(12)	247									
Utilization of NOL carryforwards	-	-	-	7,676	-	-	-	-	-	-	-
Upfront/milestone payments	-	-	(37,959)	(37,959)	(37,959)	(37,959)	-	-	-	-	-
<b>Total Adjustments</b>	<b>1,283</b>	<b>1,625</b>	<b>(36,381)</b>	<b>(28,605)</b>	<b>(35,981)</b>	<b>(35,781)</b>	<b>2,478</b>	<b>2,678</b>	<b>2,978</b>	<b>3,178</b>	<b>3,478</b>
<b>Changes in operating assets and liabilities:</b>											
Accounts receivable	(4,023)	4,000	(10,146)	(14,051)	(12,000)	(9,466)	(35,433)	(40,128)	(84,877)	(69,293)	(58,877)
Prepaid expenses and other current	(3,411)	(1,325)									
Accounts payable and accrued liabilities	(3,184)	12,809									
Deferred revenue	(2,165)	151,884									
Other	(446)	(114)									
<b>Net cash flows provided by operating activities</b>	<b>(33,345)</b>	<b>144,544</b>	<b>(38,073)</b>	<b>37,450</b>	<b>68,996</b>	<b>93,740</b>	<b>222,028</b>	<b>351,328</b>	<b>599,218</b>	<b>839,793</b>	<b>1,035,172</b>
<b>Cash flows from investing activities:</b>											
Acquisitions, net of cash acquired	-										
Capital Expenditure	(714)	(557)	(2,000)	(3,000)	(4,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
<b>Net cash flows used in investing activities</b>	<b>(714)</b>	<b>(557)</b>	<b>(2,000)</b>	<b>(3,000)</b>	<b>(4,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>
<b>Cash flows from financing activities:</b>											
Proceeds (repurchases) from common stock	156	105,918	894	788	1,265	1,958	5,543	4,366	6,363	9,164	13,075
Proceeds (repayments) from borrowings	(346)										
Other	-										
<b>Net cash flows used in financing activities</b>	<b>(190)</b>	<b>105,918</b>	<b>894</b>	<b>788</b>	<b>1,265</b>	<b>1,958</b>	<b>5,543</b>	<b>4,366</b>	<b>6,363</b>	<b>9,164</b>	<b>13,075</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(34,249)</b>	<b>249,905</b>	<b>(39,179)</b>	<b>35,238</b>	<b>66,261</b>	<b>90,698</b>	<b>222,570</b>	<b>350,694</b>	<b>600,581</b>	<b>843,958</b>	<b>1,043,247</b>
Exchange rate changes			-	-	-	-	-	-	-	-	-
<b>Cash and cash equivalents, beginning of the year</b>	<b>100,488</b>	<b>66,239</b>	<b>316,144</b>	<b>276,965</b>	<b>312,203</b>	<b>378,465</b>	<b>469,162</b>	<b>691,733</b>	<b>1,042,426</b>	<b>1,643,007</b>	<b>2,486,965</b>
<b>Cash and cash equivalents, end of the year</b>	<b>66,239</b>	<b>316,144</b>	<b>276,965</b>	<b>312,203</b>	<b>378,465</b>	<b>469,162</b>	<b>691,733</b>	<b>1,042,426</b>	<b>1,643,007</b>	<b>2,486,965</b>	<b>3,530,212</b>

Source: Company data, Jefferies LLC estimates  
March 18, 2014

**OMED: Historical Condensed Balance Sheets**

	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013
Current assets:					
Cash and cash equivalents	16,263	9,937	16,173	11,092	316,194
Short-term investments	49,976	50,282	40,291	117,554	NA
Receivables – related parties	4,023	23	23	23	NA
Prepaid and other current assets	1,123	1,222	1,224	11,929	17,491
Total current assets	71,385	61,464	57,711	140,598	NA
Property and equipment, net	5,462	5,190	4,884	4,569	NA
Other assets	2,921	3,170	3,639	43	NA
Total assets	79,768	69,824	66,234	145,210	333,685
Current liabilities:					
Accounts payable	849	809	812	2101	NA
Accrued liabilities	3,798	5,348	6,008	6,865	NA
Current portion of deferred revenue	14,726	14,726	22,726	22,726	NA
Current portion of deferred rent	560	579	596	610	NA
Liability for shares issued with repurchase rights	14	12	11	10	NA
Convertible preferred stock warrant liability	182	161	328	0	NA
Total current liabilities	20,129	21,635	30,481	32,312	NA
Deferred revenue, less current portion	17,320	14,388	11,457	8,525	183,930
Deferred rent, less current portion	3,750	3,598	3,460	3,303	NA
Liability for shares issued with repurchase rights, less current portion	23	21	18	16	NA
Total liabilities	41,222	39,642	45,416	44,156	215,563
Stockholder equity	-144,227	30,182	20,818	101,054	118,122
Total liabilities and stockholder equity	79,768	69,824	66,234	145,210	333,685

Source: Company data, Jefferies LLC estimates  
March 18, 2014

## Company Description

OncoMed Pharmaceuticals (OMED) is a Redwood City, CA-based biopharmaceutical company that is a leader in the science behind cancer stem cells (CSCs), which are thought to drive cancer progression, metastasis, and chemotherapy resistance. Using proprietary technology, OMED has generated five clinical stage candidates targeting CSC pathways. Four of these compounds are being developed under two pharmaceutical partnerships with GSK and Bayer. The lead wholly owned drug is demcizumab, an anti-DLL4 antibody currently in Phase 1b trials in pancreatic, lung and ovarian cancer. Close behind in development are OMP-59R5, an anti-Notch2/3 antibody, OMP-52M51, an anti-Notch1 antibody, vantiactumab, an anti-Fzd7 antibody, and OMP-54F28, a Fzd8-Fc fusion protein.

## Analyst Certification

I, Thomas Wei, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Rebecca Forest, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Shaunak Deepak, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Timothy Chou, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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## Company Specific Disclosures

Jefferies Group LLC makes a market in the securities or ADRs of OncoMed Pharmaceuticals.

Jefferies Group LLC makes a market in the securities or ADRs of Celgene Corporation.

Within the past 12 months, Jefferies Group LLC, its affiliates or subsidiaries has received compensation from investment banking services from OncoMed Pharmaceuticals.

Within the past twelve months, OncoMed Pharmaceuticals has been a client of Jefferies LLC and investment banking services are being or have been provided.

Jefferies Group LLC, its affiliates or subsidiaries has acted as a manager or co-manager in the underwriting or placement of securities for OncoMed Pharmaceuticals or one of its affiliates within the past twelve months.

## Meanings of Jefferies Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

## Valuation Methodology

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P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

### Jefferies Franchise Picks

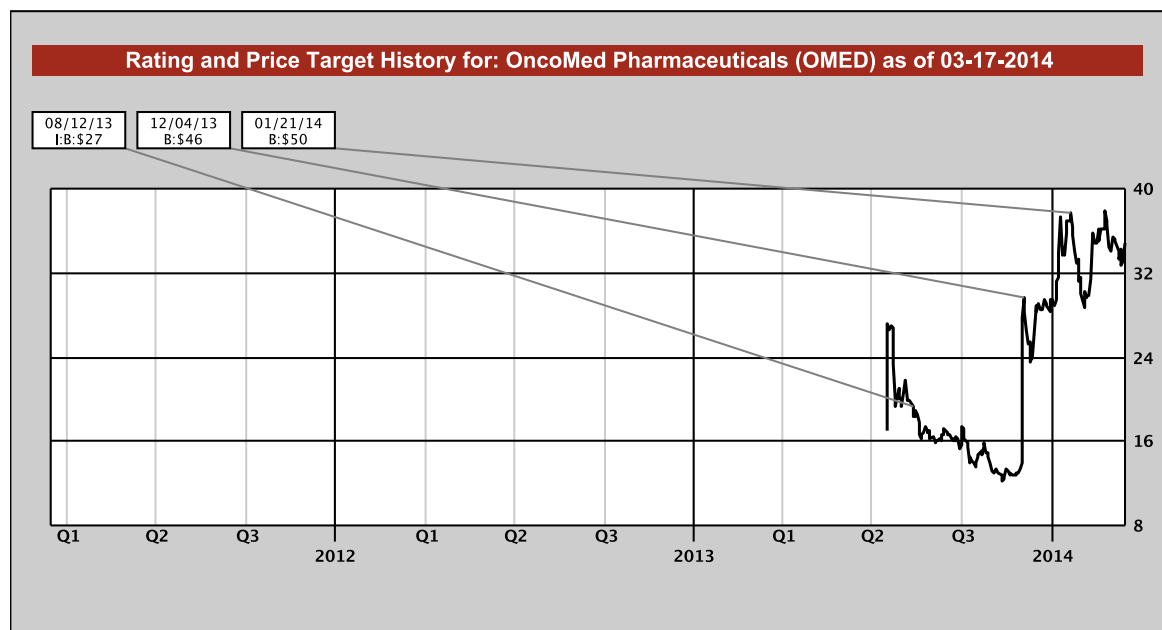
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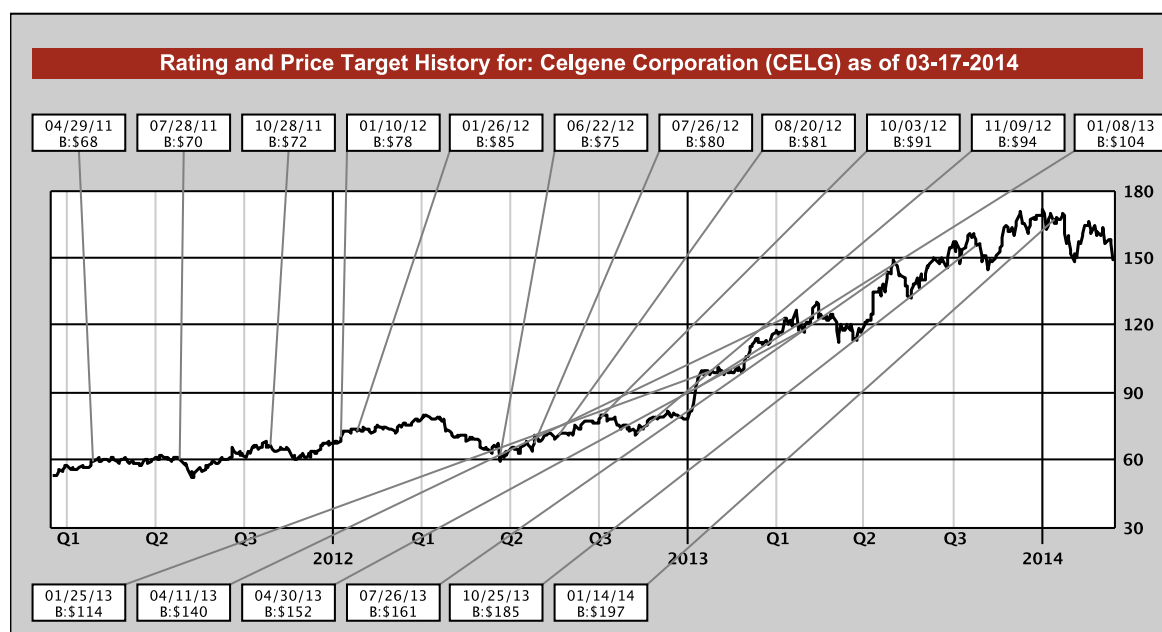
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## Other Companies Mentioned in This Report

- Celgene Corporation (CELG: \$153.69, BUY)





## Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	883	49.08%	224	25.37%
HOLD	763	42.41%	133	17.43%
UNDERPERFORM	153	8.50%	5	3.27%

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