

## COMPANY NOTE

Estimate Change

USA | Healthcare | Biotechnology

November 13, 2013

# Jefferies

## OncoMed (OMED)

### OMED 3Q Earnings: ASCO GI Demcizumab Data Up Next

#### Key Takeaway

**We see the next major catalyst for OMED as the update on truncated dosing of demcizumab in pancreatic cancer which will be presented at the ASCO GI meeting in 1Q14 to validate the safety and efficacy of this strategy. We remain positive on OMED's prospects with the potential for at least 11 Phase 2 readouts for its cancer pipeline by 2016 that could be funded with current cash (\$149m) and anticipated milestones.**

**Focus Remains on Demcizumab-Abraxane Combination in Pancreatic Cancer at ASCO GI in 1Q14.** At the AACR-NCI-EORTC meeting in October, OMED presented data from its ongoing Phase 1b trial of its anti-DLL4 demcizumab in combination with gemcitabine, including encouraging data from three patients receiving truncated dosing, two of whom achieved a partial response (PR) and one stable disease (SD) with no signs of cardiotoxicity. As a reminder, a key concern with demcizumab has been an association with cardiovascular toxicity, and following several interventions to try to lower the rate of heart failure and pulmonary hypertension, the Data Safety Monitoring Board (DSMB) most recently recommended that the protocol be revised to allow only up to 70 days of demcizumab with chemotherapy, followed by chemotherapy alone. Although we are encouraged by the lack of cardiac toxicity in the initial patients treated with truncated demcizumab dosing, a larger cohort of truncated demcizumab in combination with Abraxane and gemcitabine will be highlighted at the ASCO-GI meeting in January.

**We Remain Encouraged by the Breadth of Pipeline Opportunities.** In October, OMED initiated the first of three Phase 1b trials of vantiactumab on top of chemotherapy with a trial of vantiactumab and paclitaxel in breast cancer. The remaining two trials are expected to be initiated by year-end. Separately, based on first-in-human Phase 1 trial for FZD8-Fc, OMED intends to initiate three Phase 1b trials in late 2013/early 2014. 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.

#### Valuation/Risks

Our price target of \$27 is based on \$14 demcizumab + \$4 GSK + \$5 Bayer collaboration + \$4 cash. Risks: clinical, regulatory, commercial

USD	Prev.	2012A	Prev.	2013E	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	--	44.7	36.7	--	47.0	--	73.0
<b>EPS</b>								
Mar	--	--	--	(0.39)A	--	--	--	--
Jun	--	--	--	(0.43)A	--	--	--	--
Sep	--	--	0.26	(0.15)A	--	--	--	--
Dec	--	--	(0.26)	(0.08)	--	--	--	--
FY Dec	--	(21.58)	(0.82)	(1.04)	(1.40)	(1.48)	0.48	0.43
FY P/E		NM		NM		NM		28.6x

**BUY**

Price target \$27.00

Price \$12.31

#### Financial Summary

Net Debt (MM):	(\$140.0)
Cash/Share:	\$60.20

#### Market Data

52 Week Range:	\$31.00 - \$12.12
Total Entprs. Value (MM):	\$202.2
Market Cap. (MM):	\$342.2
Shares Out. (MM):	27.8
Float (MM):	5.4
Avg. Daily Vol.:	126,342

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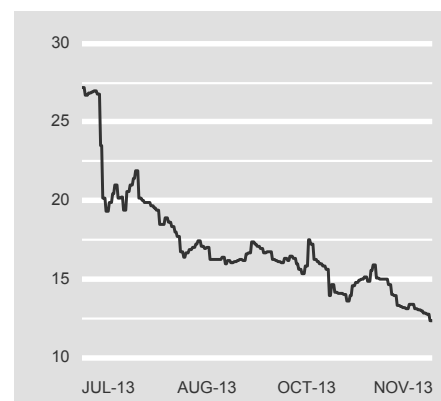
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#### Price Performance



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

December 31 Fiscal Year (\$000s)	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	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	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	40,637	258,804	601,603	1,064,877
WW Demcizumab Sales	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	365%	114%	91%	45%
Demcizumab Royalties to Oncomed	0	0	0	0	0	0	0	0	0	0	16,255	73,891	161,457	335,720	508,749
% Of Sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	16%	16%	16%	17%	18%
GSK/Bayer Royalties to Oncomed	0	0	0	0	0	0	0	0	0	0	29,232	98,250	152,203	195,561	268,508
Demcizumab Upfront/Milestone Payments	0	0	0	0	0	0	0	25,000	65,000	75,000	110,000	100,000	85,000	75,000	45,000
GSK/Bayer Upfront/Milestone Payments	24,659	2,932	2,932	12,900	17,932	36,696	47,000	48,000	50,000	92,797	158,676	223,173	164,026	132,542	199,367
Other Revenues	22	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>12,900</b>	<b>17,932</b>	<b>36,696</b>	<b>47,000</b>	<b>73,000</b>	<b>115,000</b>	<b>167,797</b>	<b>314,162</b>	<b>495,314</b>	<b>562,687</b>	<b>738,823</b>	<b>1,021,624</b>
Y/Y Change	NM	17%	-61%	158%	85%	49%	28%	55%	58%	46%	87%	58%	14%	31%	38%
COGS	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%
Research and Development	39,396	9,436	10,341	12,950	16,000	48,727	75,000	35,000	45,500	59,150	76,895	99,964	129,953	168,938	219,620
Y/Y Change	NM	-16%	9%	85%	36%	24%	54%	-53%	30%	30%	30%	30%	30%	30%	30%
% Total Revenue	NM	NM	NM	NM	NM	NM	160%	48%	40%	35%	24%	20%	23%	23%	21%
Selling, General and Administrative	6,818	1,900	1,821	3,050	3,500	10,271	15,400	16,632	18,295	20,125	22,137	24,351	26,786	29,465	32,411
Y/Y Change	NM	13%	12%	NM	0%	51%	50%	8%	10%	10%	10%	10%	10%	10%	10%
% Total Revenue	28%	65%	62%	24%	20%	28%	33%	23%	16%	12%	7%	5%	5%	4%	3%
<b>Total Operating Expenses</b>	<b>46,214</b>	<b>11,336</b>	<b>12,162</b>	<b>16,000</b>	<b>19,500</b>	<b>58,998</b>	<b>90,400</b>	<b>51,632</b>	<b>63,795</b>	<b>79,275</b>	<b>99,032</b>	<b>124,314</b>	<b>156,739</b>	<b>198,403</b>	<b>252,031</b>
<b>Income From Operations</b>	<b>(21,533)</b>	<b>(8,404)</b>	<b>(9,230)</b>	<b>(3,100)</b>	<b>(1,568)</b>	<b>(22,302)</b>	<b>(43,400)</b>	<b>21,368</b>	<b>51,205</b>	<b>88,523</b>	<b>215,130</b>	<b>371,000</b>	<b>405,948</b>	<b>540,420</b>	<b>769,593</b>
Operating margin	NM	NM	NM	NM	NM	NM	NM	29%	45%	53%	68%	75%	72%	73%	75%
Total Other Income (Expense), Net	134	31	(149)	161	158	201	678	884	1,109	1,305	1,754	2,587	3,758	5,225	7,210
Interest income	140	31	(149)	161	158	201	678	884	1,109	1,305	1,754	2,587	3,758	5,225	7,210
Interest expense	-6	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
Pretax-Income	(21,399)	(8,373)	(9,379)	(2,939)	(1,410)	(22,101)	(42,722)	22,252	52,313	89,828	216,884	373,586	409,706	545,644	776,803
Income Tax Expense	0	0	0	0	0	0	0	8,233	19,356	33,236	80,247	138,227	151,591	201,888	287,417
Tax Rate	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>(2,939)</b>	<b>(1,410)</b>	<b>(22,101)</b>	<b>(42,722)</b>	<b>14,019</b>	<b>32,957</b>	<b>56,592</b>	<b>136,637</b>	<b>235,359</b>	<b>258,115</b>	<b>343,756</b>	<b>489,386</b>
Y/Y Change	NM	-19%	164%	47%	-74%	3%	93%	-133%	135%	72%	141%	72%	10%	33%	42%
Shares Outstanding	1,035	22,265	22,272	22,322	22,372	22,308	29,783	30,302	33,689	30,752	34,202	31,302	34,815	31,952	35,515
<b>Non-GAAP EPS</b>	<b>(\$0.67)</b>	<b>(\$0.38)</b>	<b>(\$0.42)</b>	<b>(\$0.13)</b>	<b>(\$0.06)</b>	<b>(\$0.99)</b>	<b>(\$1.43)</b>	<b>\$0.46</b>	<b>\$0.98</b>	<b>\$1.84</b>	<b>\$3.99</b>	<b>\$7.52</b>	<b>\$7.41</b>	<b>\$10.76</b>	<b>\$13.78</b>
Y/Y Change	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	86%	43%	86%
Options Expense	786	225	265	300	350	1,140	1,368	1,642	1,970	2,364	2,837	3,404	4,085	4,902	5,882
% Operating Income	NM	NM	NM	NM	NM	NM	NM	7.7%	3.8%	2.7%	1.3%	0.9%	1.0%	0.9%	0.8%
<b>GAAP EPS</b>	<b>(\$21.43)</b>	<b>(\$0.39)</b>	<b>(\$0.43)</b>	<b>(\$0.15)</b>	<b>(\$0.08)</b>	<b>(\$1.04)</b>	<b>(\$1.48)</b>	<b>\$0.43</b>	<b>\$0.94</b>	<b>\$1.79</b>	<b>\$3.94</b>	<b>\$7.45</b>	<b>\$7.34</b>	<b>\$10.66</b>	<b>\$13.68</b>
Source: Company data, Jefferies LLC estimates November 13, 2013															

**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>				(21,399)	(22,101)	(42,722)	14,019	32,957	56,592	136,637	235,359	258,115	343,756	489,386
<b>Adjustments to reconcile net cash flows from operating activities:</b>														
Depreciation and amortization				1,295	1,395	1,595	1,695	1,995	2,195	2,495	2,695	2,995	3,195	3,495
Deferred rent and other long-term liabilities				(12)										
Utilization of NOL carryforwards				-	-	-	8,233	19,356	33,236	4,710	-	-	-	-
Upfront/milestone payments				-	-	-	50,000	(25,000)	(25,000)	-	-	-	-	-
<b>Total Adjustments</b>				<b>1,283</b>	<b>1,395</b>	<b>1,595</b>	<b>59,928</b>	<b>(3,649)</b>	<b>10,431</b>	<b>7,205</b>	<b>2,695</b>	<b>2,995</b>	<b>3,195</b>	<b>3,495</b>
<b>Changes in operating assets and liabilities:</b>														
Accounts receivable				(4,023)	(2,003)	(1,717)	(4,333)	(7,000)	(8,800)	(24,394)	(30,192)	(11,229)	(29,356)	(47,134)
Prepaid expenses and other current				(3,411)										
Accounts payable and accrued liabilities				(3,184)										
Deferred revenue				(2,165)										
Other				(446)	(7,000)									
<b>Net cash flows provided by operating activities</b>				<b>(33,345)</b>	<b>(29,709)</b>	<b>(42,844)</b>	<b>69,614</b>	<b>22,308</b>	<b>58,223</b>	<b>119,448</b>	<b>207,862</b>	<b>249,881</b>	<b>317,595</b>	<b>445,747</b>
<b>Cash flows from investing activities:</b>														
Acquisitions, net of cash acquired				-										
Capital Expenditure				(714)	(1,000)	(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>(1,000)</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	89,103	58,600	2,012	2,943	4,251	7,345	8,622	12,142	16,999	23,677
Proceeds (repayments) from borrowings				(346)										
Other				-										
<b>Net cash flows used in financing activities</b>				<b>(190)</b>	<b>89,103</b>	<b>58,600</b>	<b>2,012</b>	<b>2,943</b>	<b>4,251</b>	<b>7,345</b>	<b>8,622</b>	<b>12,142</b>	<b>16,999</b>	<b>23,677</b>
<b>Net increase (decrease) in cash and cash equivalents</b>				<b>(34,249)</b>	<b>58,394</b>	<b>13,756</b>	<b>68,626</b>	<b>21,252</b>	<b>57,475</b>	<b>121,793</b>	<b>211,484</b>	<b>257,023</b>	<b>329,594</b>	<b>464,424</b>
Exchange rate changes						-	-	-	-	-	-	-	-	-
<b>Cash and cash equivalents, beginning of the year</b>				<b>104,554</b>	<b>70,305</b>	<b>128,699</b>	<b>142,455</b>	<b>211,081</b>	<b>232,332</b>	<b>289,807</b>	<b>411,600</b>	<b>623,084</b>	<b>880,107</b>	<b>1,209,701</b>
<b>Cash and cash equivalents, end of the year</b>				<b>70,305</b>	<b>128,699</b>	<b>142,455</b>	<b>211,081</b>	<b>232,332</b>	<b>289,807</b>	<b>411,600</b>	<b>623,084</b>	<b>880,107</b>	<b>1,209,701</b>	<b>1,674,125</b>
Source: Company data, Jefferies LLC estimates														
November 13, 2013														

**OMED: Historical Condensed Balance Sheets**

	12/31/2012	3/31/2013	6/30/2013
Current assets:			
Cash and cash equivalents	16,263	9,937	16,173
Short-term investments	49,976	50,282	40,291
Receivables – related parties	4,023	23	23
Prepaid and other current assets	1,123	1,222	1,224
Total current assets	71,385	61,464	57,711
Property and equipment, net	5,462	5,190	4,884
Other assets	2,921	3,170	3,639
Total assets	79,768	69,824	66,234
Current liabilities:			
Accounts payable	849	809	812
Accrued liabilities	3,798	5,348	6,008
Current portion of deferred revenue	14,726	14,726	22,726
Current portion of deferred rent	560	579	596
Liability for shares issued with repurchase rights	14	12	11
Convertible preferred stock warrant liability	182	161	328
Total current liabilities	20,129	21,635	30,481
Deferred revenue, less current portion	17,320	14,388	11,457
Deferred rent, less current portion	3,750	3,598	3,460
Liability for shares issued with repurchase rights, less current portion	23	21	18
Total liabilities	41,222	39,642	45,416
Stockholder equity		30,182	20,818
Total liabilities and stockholder equity		69,824	66,234
Source: Company data, Jefferies LLC estimates			
November 13, 2013			

## 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.

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

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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.

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

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

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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.

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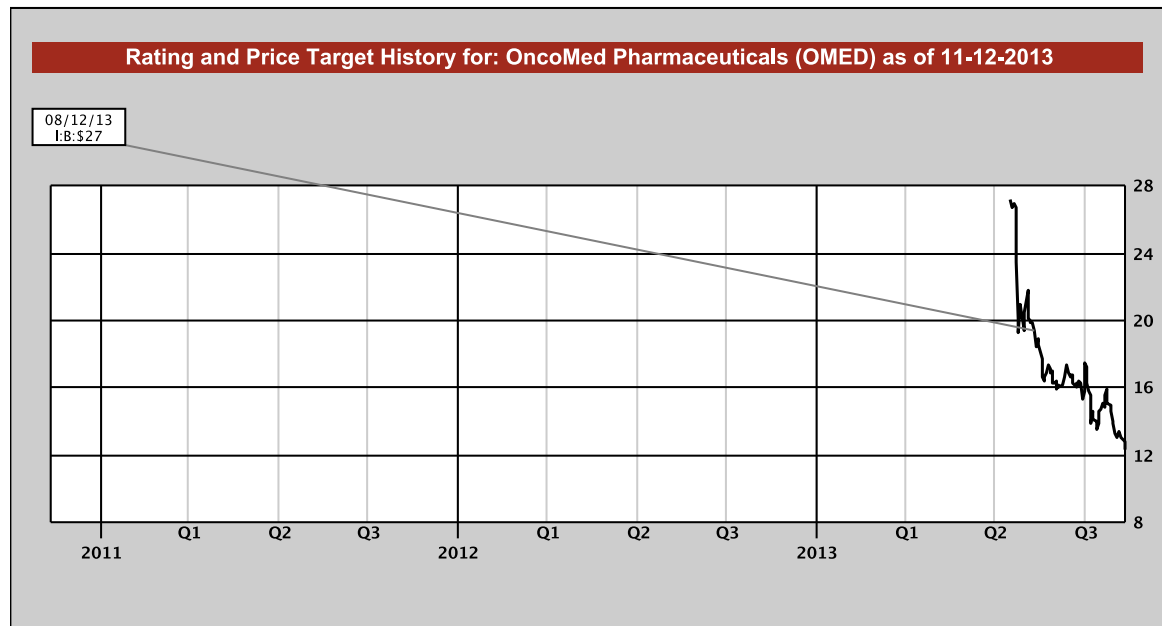
P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

### Conviction List Methodology

1. The aim of the conviction list is to publicise the best individual stock ideas from Jefferies Global Research
2. Only stocks with a Buy or Underperform rating are allowed to be included in the recommended list.
3. Stocks are screened for minimum market capitalisation and adequate daily turnover. Furthermore, a valuation, correlation and style screen is used to ensure a well-diversified portfolio.
4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.
5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative to the current stock price. These are then assessed against existing holdings to ensure consistency. Stocks that have either reached their target price, been downgraded over the course of the month or where a more suitable candidate has been found are removed.
6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US\$.
8. The conviction list is published once a month whilst global equity markets are closed.
9. Transaction fees are not included.
10. All corporate actions are taken into account.

### Risk which may impede the achievement of our Price Target

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### Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	825	47.61%	184	22.30%
HOLD	763	44.03%	121	15.86%
UNDERPERFORM	145	8.37%	1	0.69%

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