

# OncoMed (OMED)

## GSK/NVS Deal Unlikely To Impact Notch Programs

### Key Takeaway

**We do not expect any disruption in OMED and GSK's Notch programs following the announcement that GSK would sell its marketed oncology portfolio to Novartis for up to \$16b. GSK will retain its early-stage oncology pipeline, including the OMED programs. Further, GSK will continue to be the only player with the right to opt-in after Phase 2 trial completion. \$5 of our current price target of \$50 is derived from the Notch programs.**

**Background:** Earlier today, GSK (GSK.LN, Hold) and Novartis (NOVN.VX, Hold) announced that Novartis would acquire the GSK oncology franchise for \$14.5b (+\$1.5b contingent consideration). Specifically, NVS will acquire GSK's currently marketed portfolio and its Phase 2 AKT inhibitor. GSK retains the rights to the rest of its oncology pipeline, and specifically called out the immunotherapy, epigenetics and tumor microenvironment areas. NVS would be the preferred partner for commercialization of the pipeline products and would negotiate a fair value for them. NVS's opt-in rights extend for 12.5 years. On its conference call, GSK noted that its oncology R&D agenda remains unchanged and will continue to invest in all of its programs.

**Notch Data Must Pass GSK's Bar First.** OMED and GSK are collaborating on two anti-Notch antibodies, OMP-59R5 (Notch2/3) and OMP-52M51 (Notch1). For Notch2/3, GSK has opt-in rights at the end of certain Phase 2 trials, while for Notch1, GSK can opt-in as early as the end of certain Phase 1 trials or also after Phase 2. If GSK chooses not to opt-in, rights are returned to OMED. GSK's option is independent of the NVS option. If GSK chooses to opt-in, then it can present data on the program to NVS at any point up to the filing with the FDA and NVS would need to decide whether it would opt in or not. If NVS declines to opt-in, GSK retains the rights to the program and could find a different suitor. Thus, OMED will continue to develop the Notch programs through early-stage trials, with further advancement dependent upon solid results in these trials. The only difference with the new agreement would be the additional set of eyes reviewing the Notch drugs after they would already be out of OMED's hands.

**Business As Usual For OMED Development Team.** OMED pointed out that it does not expect its GSK discovery contacts to be transitioned over to NVS. GSK has also pointed out that it expects to keep the oncology discovery program intact. In particular, the deal would affect later-stage R&D, where NVS has an advantage with large hospital systems and researchers, and the commercialization process. It is within these areas that there would potentially be transitions between GSK and NVS. The GSK/NVS deal is not expected to close until the first half of 2015.

**Additional Notch Data Expected in 2H14.** OMED expects to present more mature Phase 1 data for both Notch programs at the oncology meetings in the fall. Notch2/3 is still in the dose-escalation portion of Phase 1b of the ALPINE study (first-line pancreatic cancer) and could advance to Phase 2 in 2014. The Phase 1b portion of the PINNACLE trial (late-stage small-cell lung cancer) is ongoing. The Phase 2 portion of these trials could have results by the end of 2016. The Notch1 Phase 1a trials in hematologic and solid cancer trials are ongoing.

**BUY**

Price target \$50.00

Price \$28.13

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## 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.

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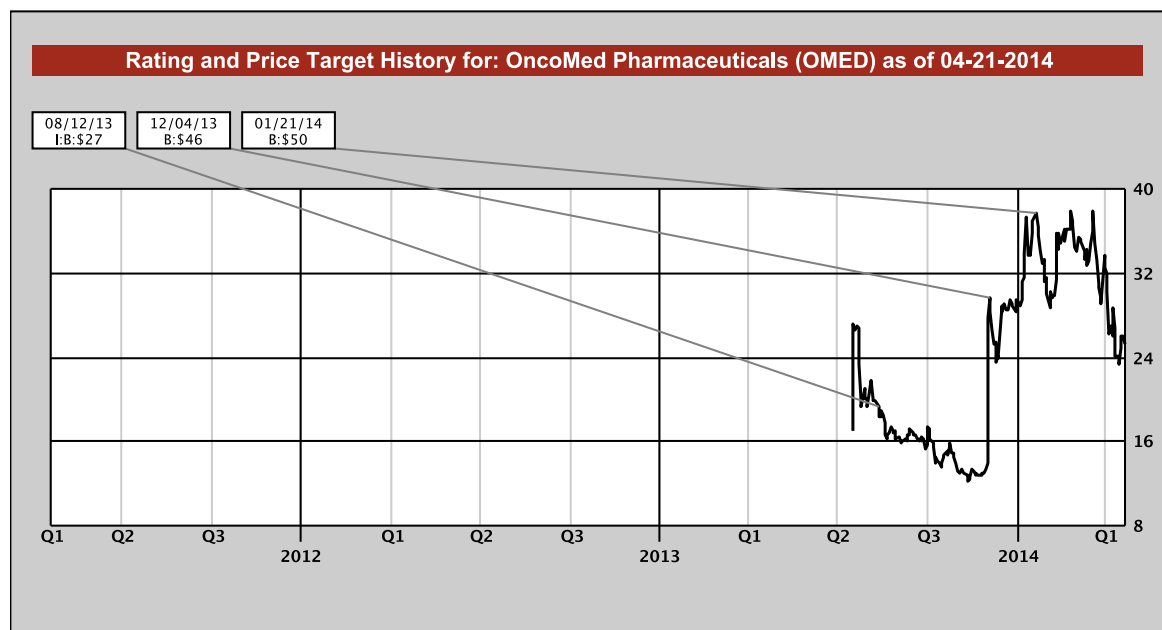
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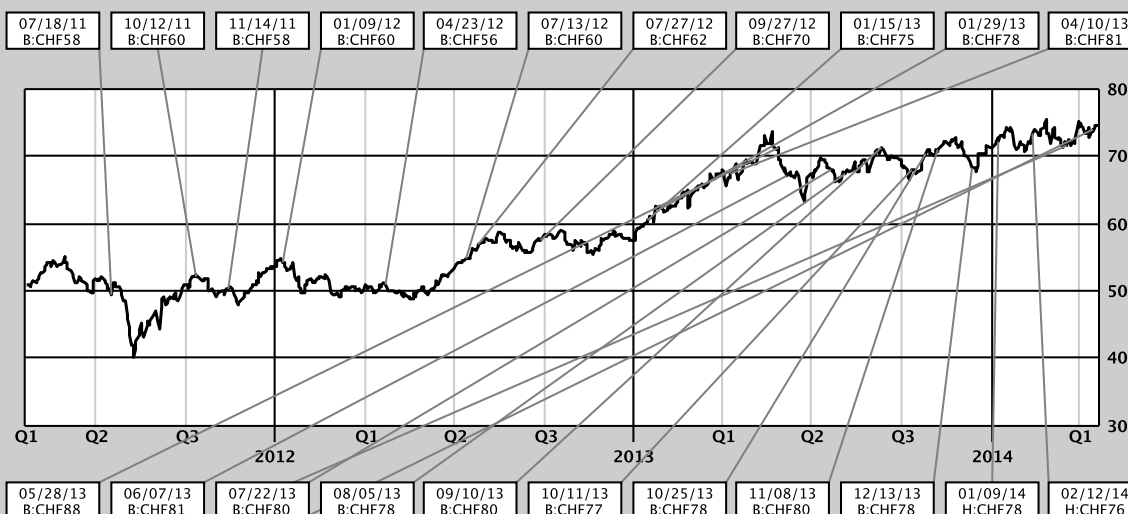
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## Other Companies Mentioned in This Report

- GlaxoSmithKline Plc (GSK LN: p1,640.00, HOLD)
- Novartis AG (NOVN VX: CHF76.40, HOLD)



**Rating and Price Target History for: GlaxoSmithKline Plc (GSK LN) as of 04-21-2014**

**Rating and Price Target History for: Novartis AG (NOVN VX) as of 04-21-2014**

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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