

OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Proforma Cash of \$150 million to Progress Antibody Pipeline

CONCLUSION

Following a successful IPO in July, OncoMed received a \$10 million milestone from Bayer in August bringing proforma cash to ~\$150 million. OncoMed is the premier Cancer Stem Cell play with industry leading discovery efforts, intellectual property, partnerships and a rich pipeline of five novel antibodies in the clinic. We look for a rich flow of clinical data starting at the AACR-NCI-EORTC meeting in October through ASCO next June to validate OncoMed's pipeline and drive shareholder value. We reiterate our Overweight rating and \$30 price target.

- Strong Balance Sheet.** OncoMed ended 2Q:13 with cash of \$56 million. The company subsequently completed an IPO bringing in net proceeds of \$87.3 million and received a \$10 million milestone from Bayer for dose-escalation in the Phase I trial of vantiactumab bringing proforma cash to ~\$150 million. 2Q revenues of \$2.9 million came in below our \$10.9 million forecast due to the timing of recognition of a \$8 million milestone from GSK, which was paid in 2Q:13, but will not be recognized until 4Q:13 upon initiation of Phase II studies.
- Demcizumab First-in-Class Antibody.** Demcizumab is a wholly-owned, anti-DLL4 antibody presently in two Phase Ib combination trials with *Alimta* + carboplatin in non-small cell lung cancer (NSCLC) and with *Abraxane* + gemcitabine in pancreatic cancer. OncoMed expects to initiate a new Phase Ib/II trial of demcizumab + paclitaxel in recurrent ovarian cancer soon. We have observed initial signs of activity, but PoC combination data will drive the stock and inform future regulatory paths. OncoMed also intends to file an IND on wholly-owned, bi-specific antibody targeting DLL4 and VEGF in 2014.
- GSK Partnership.** In 2007, OncoMed signed an alliance with GSK to develop antibodies targeting the Notch pathway. OncoMed received \$35 million upfront and is eligible for up to \$1.4 billion in milestones and double-digit royalties. The partners are conducting two Phase Ib/II trials of OMP-59R5 targeting Notch 2/3 and two Phase Ia trials on OMP-52M51 targeting Notch 1.
- Bayer Alliance.** In 2010, OncoMed signed an alliance with Bayer to develop antibodies targeting the Wnt pathway. OncoMed has received \$90 million to date and is eligible for significant milestones plus double-digit royalties. The partners are conducting Phase I trials of vantiactumab targeting Fzd7 and OMP-54F28 targeting Fzd8-Fc.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Cancer is a competitive space. Demcizumab or OncoMed's other antibodies may fail in the clinic. OncoMed may not sign new partnerships and will likely require future cash.

COMPANY DESCRIPTION

OncoMed is developing therapeutic antibodies to treat cancer.

| YEAR | REVENUE (US\$ m) | | | | | | EARNINGS PER SHARE (US\$) | | | | | |
|-------|------------------|------|------|------|------|-------|---------------------------|---------|--------|------|--------|--------|
| | Mar | Jun | Sep | Dec | FY | FY RM | Mar | Jun | Sep | Dec | FY | FY P/E |
| 2012A | — | — | — | — | 24.7 | 18.3x | — | — | — | — | (1.00) | NM |
| 2013E | 2.9A | 2.9A | 12.9 | 25.9 | 44.7 | 10.1x | (0.39)A | (0.41)A | (0.02) | 0.41 | (0.40) | NM |
| 2014E | 3.9 | 28.9 | 3.9 | 21.9 | 58.7 | 7.7x | (0.36) | 0.47 | (0.42) | 0.18 | (0.13) | NM |

2013 qtrly EPS does not add to annual b/c of IPO

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OncoMed Pharmaceuticals, Inc.

PRICE: US\$16.23

TARGET: US\$30.00

Proj EV of \$684 million + \$164 million
mid'14E cash

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| Changes | Previous | Current |
|-----------------|------------|------------|
| Rating | — | Overweight |
| Price Tgt | — | US\$30.00 |
| FY13E Rev (mil) | — | US\$44.7 |
| FY14E Rev (mil) | — | US\$58.7 |
| FY13E EPS | US\$(0.28) | US\$(0.40) |
| FY14E EPS | — | US\$(0.13) |

52-Week High / Low US\$31.00 / US\$15.74
Shares Out (mil) 27.8

Incl. shares issued in IPO + over allotment

| | |
|-----------------------|-----------|
| Market Cap. (mil) | US\$451.2 |
| Book Value/Share | NA |
| Net Cash Per Share | US\$5.39 |
| Debt to Total Capital | 0% |
| Div (ann) | NA |
| Fiscal Year End | Dec |

Pro forma cash following IPO

Price Performance - 1 Year



Source: Bloomberg

OncoMed Pharmaceuticals, Inc.
Quarterly Earnings Estimates
(\$ in thousands, except per share data)

9/3/13

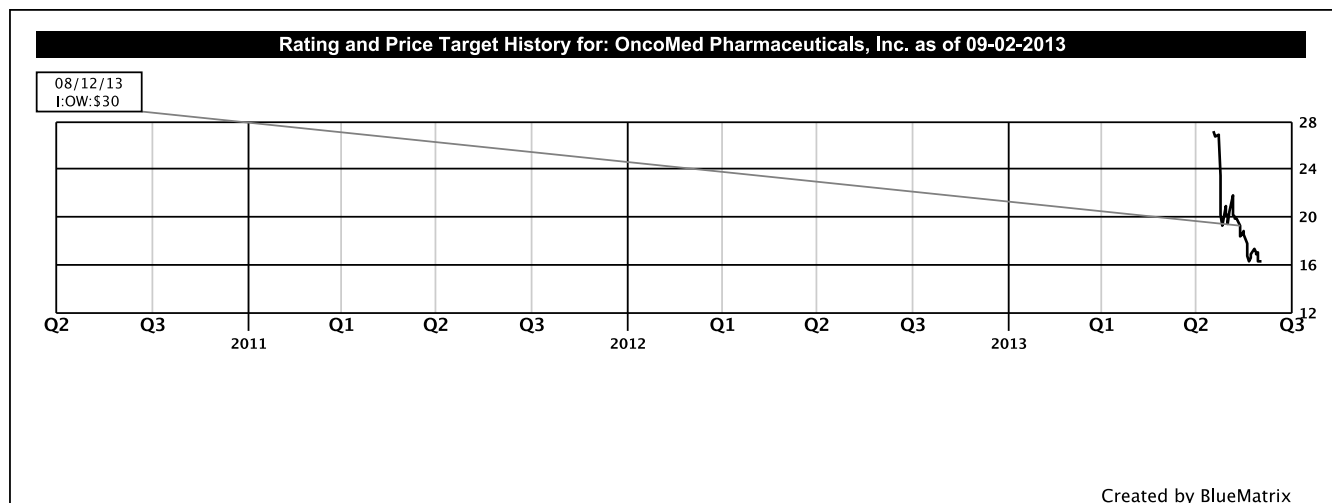
| | <u>2012A</u> | <u>1QA</u> | <u>2QA</u> | <u>3QE</u> | <u>4QE</u> | <u>2013E</u> | <u>1QE</u> | <u>2QE</u> | <u>3QE</u> | <u>4QE</u> | <u>2014E</u> |
|-------------------------------------|-------------------|------------------|------------------|-----------------|-----------------|------------------|-------------------|-----------------|-------------------|-----------------|------------------|
| Revenues: | | | | | | | | | | | |
| Collaborative R&D | \$24,659 | \$2,932 | \$2,932 | \$12,932 | \$25,932 | \$44,726 | \$3,932 | \$28,932 | \$3,932 | \$21,932 | \$58,726 |
| Grants | 22 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Revenues | \$24,681 | \$2,932 | \$2,932 | \$12,932 | \$25,932 | \$44,726 | \$3,932 | \$28,932 | \$3,932 | \$21,932 | \$58,726 |
| Operating Expenses: | | | | | | | | | | | |
| Research and Development | \$39,893 | \$9,576 | \$10,475 | \$11,000 | \$12,000 | \$43,051 | \$12,000 | \$13,000 | \$13,500 | \$14,000 | \$52,500 |
| General and Administrative | 7,157 | 1,985 | 1,952 | 2,500 | 2,500 | 8,937 | 2,250 | 2,500 | 2,500 | 2,750 | 10,000 |
| Total Operating Expenses | \$47,050 | \$11,561 | \$12,427 | \$13,500 | \$14,500 | \$51,988 | \$14,250 | \$15,500 | \$16,000 | \$16,750 | \$62,500 |
| Operating Loss | (\$22,369) | (\$8,630) | (\$9,495) | (\$569) | \$11,432 | (\$7,262) | (\$10,319) | \$13,432 | (\$12,069) | \$5,182 | (\$3,774) |
| Operating Margin | NM | NM | NM | NM | 44.1% | NM | NM | 46.4% | NM | 23.6% | NM |
| Other Income/(Expense): | | | | | | | | | | | |
| Interest and Other Income | \$140 | \$31 | (\$149) | \$65 | \$55 | \$2 | \$45 | \$35 | \$25 | \$15 | \$120 |
| Interest Expense | (6) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Other Income/(Expense) | \$134 | \$31 | (\$149) | \$65 | \$55 | \$2 | \$45 | \$35 | \$25 | \$15 | \$120 |
| Pretax Loss | (\$22,235) | (\$8,598) | (\$9,644) | (\$504) | \$11,487 | (\$7,259) | (\$10,274) | \$13,467 | (\$12,044) | \$5,197 | (\$3,654) |
| Pretax Margin | NM | NM | NM | NM | 44.3% | NM | NM | 46.5% | NM | 23.7% | NM |
| Income Tax/(Benefit) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Tax Rate | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM |
| Net Loss | (\$22,235) | (\$8,598) | (\$9,644) | (\$504) | \$11,487 | (\$7,259) | (\$10,274) | \$13,467 | (\$12,044) | \$5,197 | (\$3,654) |
| Pretax Margin | NM | NM | NM | NM | 44.3% | NM | NM | 46.5% | NM | 23.7% | NM |
| Net Loss per Share | (\$1.00) | (\$0.39) | (\$0.41) | (\$0.02) | \$0.41 | (\$0.40) | (\$0.36) | \$0.47 | (\$0.42) | \$0.18 | (\$0.13) |
| Shares Outstanding | 22,224 | 22,265 | 23,763 | 27,800 | 28,000 | 25,457 | 28,250 | 28,500 | 28,750 | 29,000 | 28,625 |

Source: Company reports and Piper Jaffray & Co. analysis.

Current disclosure information for this company can be found at <http://www.piperjaffray.com/researchdisclosures>.

For up-to-date disclosure info on this company, please visit
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Legend:

I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

| Distribution of Ratings/IB Services Piper Jaffray | | | | |
|--|------------|--------------|-----------------------|--------------|
| Rating | Count | Percent | IB Serv./Past 12 Mos. | |
| | | | Count | Percent |
| BUY [OW] | 343 | 57.17 | 70 | 20.41 |
| HOLD [N] | 228 | 38.00 | 16 | 7.02 |
| SELL [UW] | 29 | 4.83 | 0 | 0.00 |

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — Edward A. Tenthoff, Sr Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

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