

# OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Leading CSC Play to Present Data at Upcoming Conferences; Reiterate Overweight

## CONCLUSION

OncoMed was granted a 3rd patent addressing the RSPO-LGR pathway, a novel cancer stem cell (CSC) pathway, which the company could partner or take forward itself. OncoMed has a rich clinical pipeline of 5 cancer antibodies and 2 partnerships with GlaxoSmithKline and Bayer. We look for clinical data this weekend in Europe and at the AACR-NCI-EORTC meeting next month in Boston to validate OncoMed's early pipeline and drive shareholder value. We reiterate our Overweight rating and \$30 price target.

- **Key Data Releases On Tap.** OncoMed will present updated Phase I data on vancictumab (OMP-18R5) in a poster on Sunday September 29 at the Joint ECCO 17, 38th ESMO and 32nd ESTRO European Cancer Congress 2013 Conference in Amsterdam. In addition, the company will have an important AACR-NCI-EORTC meeting in Boston next month presenting Phase Ib data on demcizumab in NSCLC and pancreatic cancer and first-in-man Phase I data on OMP-52M51 (GSK, Notch 1) and OMP-54F28 (Bayer, Fxd8-Fc). This data will serve to validate OncoMed's early clinical pipeline and drive shareholder value.
- **Demcizumab First-in-Class Antibody.** Demcizumab is a wholly-owned, anti-DLL4 antibody presently in 2 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 should 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.
- **Quality Big Pharma Partnerships.** In 2007, OncoMed signed a Notch pathway alliance with GSK receiving \$35 million upfront payment and is eligible for up to \$1.4 billion in milestones plus double-digit royalties. In 2010, the company signed a Wnt pathway alliance with Bayer having received \$80 million to date and is eligible for additional milestones as well as double-digit royalties. We see the opportunity for OncoMed to sign future partnership creating additional shareholder value.

## 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.

PRICE: US\$16.16

TARGET: US\$30.00

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

Edward A. Tenthoff

Sr Research Analyst, Piper Jaffray & Co.  
212 284-9403, edward.a.tenthoff@pjc.com

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\$(0.40)
FY14E EPS	—	US\$(0.13)

52-Week High / Low US\$31.00 / US\$15.69  
Shares Out (mil) 27.8

Incl. shares issued in IPO + over allotment

Market Cap. (mil)	US\$449.2
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

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	18.2x	—	—	—	—	(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

Piper Jaffray does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decisions. This report should be read in conjunction with important disclosure information, including an attestation under Regulation Analyst certification, found on pages 3 - 4 of this report or at the following site: <http://www.piperjaffray.com/researchdisclosures>.

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

9/3/13

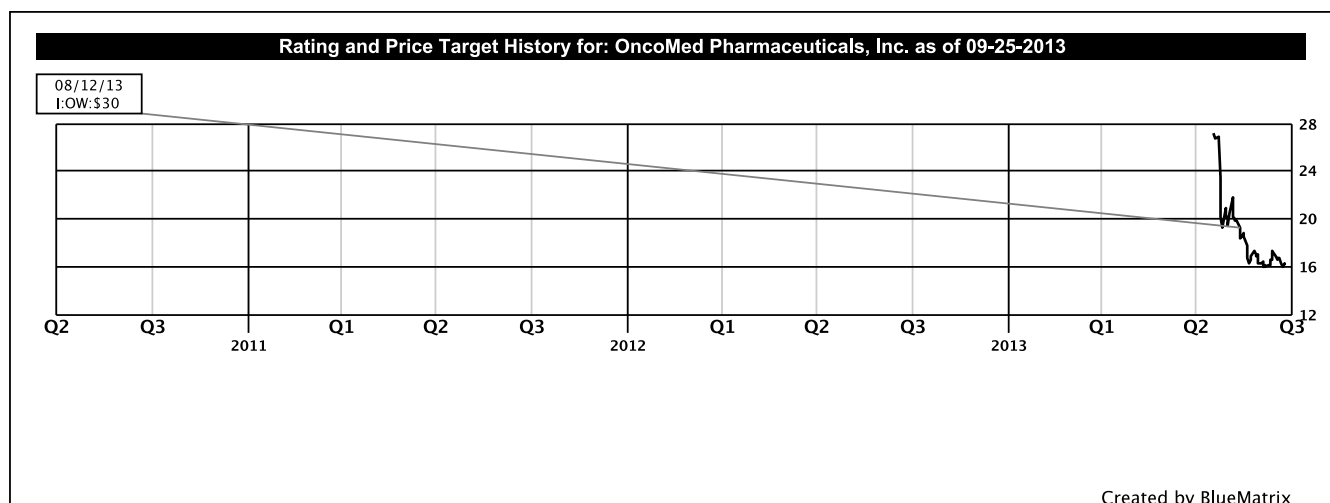
	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QE</u>	<u>4QE</u>	<u>2013E</u>	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>
<b>Revenues:</b>											
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$25,932	\$44,726	\$3,932	\$28,932	\$3,932	\$21,932	\$58,726
Grants	22	0	0	0	0	0	0	0	0	0	0
<b>Total Revenues</b>	<b>\$24,681</b>	<b>\$2,932</b>	<b>\$2,932</b>	<b>\$12,932</b>	<b>\$25,932</b>	<b>\$44,726</b>	<b>\$3,932</b>	<b>\$28,932</b>	<b>\$3,932</b>	<b>\$21,932</b>	<b>\$58,726</b>
<b>Operating Expenses:</b>											
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
<b>Total Operating Expenses</b>	<b>\$47,050</b>	<b>\$11,561</b>	<b>\$12,427</b>	<b>\$13,500</b>	<b>\$14,500</b>	<b>\$51,988</b>	<b>\$14,250</b>	<b>\$15,500</b>	<b>\$16,000</b>	<b>\$16,750</b>	<b>\$62,500</b>
<b>Operating Loss</b>	<b>(\$22,369)</b>	<b>(\$8,630)</b>	<b>(\$9,495)</b>	<b>(\$569)</b>	<b>\$11,432</b>	<b>(\$7,262)</b>	<b>(\$10,319)</b>	<b>\$13,432</b>	<b>(\$12,069)</b>	<b>\$5,182</b>	<b>(\$3,774)</b>
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
<b>Total Other Income/(Expense)</b>	<b>\$134</b>	<b>\$31</b>	<b>(\$149)</b>	<b>\$65</b>	<b>\$55</b>	<b>\$2</b>	<b>\$45</b>	<b>\$35</b>	<b>\$25</b>	<b>\$15</b>	<b>\$120</b>
<b>Pretax Loss</b>	<b>(\$22,235)</b>	<b>(\$8,598)</b>	<b>(\$9,644)</b>	<b>(\$504)</b>	<b>\$11,487</b>	<b>(\$7,259)</b>	<b>(\$10,274)</b>	<b>\$13,467</b>	<b>(\$12,044)</b>	<b>\$5,197</b>	<b>(\$3,654)</b>
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
<b>Net Loss</b>	<b>(\$22,235)</b>	<b>(\$8,598)</b>	<b>(\$9,644)</b>	<b>(\$504)</b>	<b>\$11,487</b>	<b>(\$7,259)</b>	<b>(\$10,274)</b>	<b>\$13,467</b>	<b>(\$12,044)</b>	<b>\$5,197</b>	<b>(\$3,654)</b>
Pretax Margin	NM	NM	NM	NM	44.3%	NM	NM	46.5%	NM	23.7%	NM
<b>Net Loss per Share</b>	<b>(\$1.00)</b>	<b>(\$0.39)</b>	<b>(\$0.41)</b>	<b>(\$0.02)</b>	<b>\$0.41</b>	<b>(\$0.40)</b>	<b>(\$0.36)</b>	<b>\$0.47</b>	<b>(\$0.42)</b>	<b>\$0.18</b>	<b>(\$0.13)</b>
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  
<http://www.piperjaffray.com/researchdisclosures>

## IMPORTANT RESEARCH DISCLOSURES



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

### 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
<b>BUY [OW]</b>	336	57.05	71	21.13
<b>HOLD [N]</b>	227	38.54	12	5.29
<b>SELL [UW]</b>	26	4.41	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.

## Research Disclosures

Piper Jaffray was making a market in the securities of OncoMed Pharmaceuticals, Inc. at the time this research report was published. Piper Jaffray will buy and sell OncoMed Pharmaceuticals, Inc. securities on a principal basis.

Piper Jaffray expects to receive or intends to seek compensation for investment banking services from OncoMed Pharmaceuticals, Inc. in the next 3 months.

Piper Jaffray has received compensation for investment banking services from or has had a client relationship with OncoMed Pharmaceuticals, Inc. within the past 12 months.

Within the past 12 months Piper Jaffray was a managing underwriter of a public offering of, or dealer manager of a tender offer for, the securities of OncoMed Pharmaceuticals, Inc. or the securities of an affiliate.

Within the past 3 years Piper Jaffray participated in a public offering of, or acted as a dealer manager for, OncoMed Pharmaceuticals, Inc. securities.

Piper Jaffray research analysts receive compensation that is based, in part, on overall firm revenues, which include investment banking revenues.

## Rating Definitions

**Stock Ratings:** Piper Jaffray ratings are indicators of expected total return (price appreciation plus dividend) within the next 12 months. At times analysts may specify a different investment horizon or may include additional investment time horizons for specific stocks. Stock performance is measured relative to the group of stocks covered by each analyst. Lists of the stocks covered by each are available at [www.piperjaffray.com/researchdisclosures](http://www.piperjaffray.com/researchdisclosures). Stock ratings and/or stock coverage may be suspended from time to time in the event that there is no active analyst opinion or analyst coverage, but the opinion or coverage is expected to resume. Research reports and ratings should not be relied upon as individual investment advice. As always, an investor's decision to buy or sell a security must depend on individual circumstances, including existing holdings, time horizons and risk tolerance. Piper Jaffray sales and trading personnel may provide written or oral commentary, trade ideas, or other information about a particular stock to clients or internal trading desks reflecting different opinions than those expressed by the research analyst. In addition, Piper Jaffray technical research products are based on different methodologies and may contradict the opinions contained in fundamental research reports.

- **Overweight (OW):** Anticipated to outperform relative to the median of the group of stocks covered by the analyst.
- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

## Other Important Information

The material regarding the subject company is based on data obtained from sources we deem to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Piper Jaffray has not assessed the suitability of the subject company for any person. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security. Unless otherwise noted, the price of a security mentioned in this report is the market closing price as of the end of the prior business day. Piper Jaffray does not maintain a predetermined schedule for publication of research and will not necessarily update this report. Piper Jaffray policy generally prohibits research analysts from sending draft research reports to subject companies; however, it should be presumed that the analyst(s) who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication, and has had assistance from the company in conducting diligence, including visits to company sites and meetings with company management and other representatives.

**Notice to customers:** This material is not directed to, or intended for distribution to or use by, any person or entity if Piper Jaffray is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to such person or entity. Customers in any of the jurisdictions where Piper Jaffray and its affiliates do business who wish to effect a transaction in the securities discussed in this report should contact their local Piper Jaffray representative. **Europe:** This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or persons who have been categorised by Piper Jaffray Ltd. as professional clients under the rules of the Financial Conduct Authority. **United States:** This report is distributed in the United States by Piper Jaffray & Co., member SIPC, FINRA and NYSE, Inc., which accepts responsibility for its contents. The securities described in this report may not have been registered under the U.S. Securities Act of 1933 and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been so registered, or an exemption from the registration requirements is available.

This report is produced for the use of Piper Jaffray customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Piper Jaffray & Co. Additional information is available upon request.

Copyright 2013 Piper Jaffray. All rights reserved.