

## OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Presents Positive Pancreatic Cancer Data at ASCO-GI; Increasing Target to \$48

### CONCLUSION

We are attending the ASCO-GI Symposium in San Francisco where OncoMed presented positive Phase Ib data on both demcizumab and OMP-59R5 in pancreatic cancer. Demcizumab was well tolerated and achieved an impressive disease control rate (DCR) of 83% in combination with gemcitabine and Abraxane. Dose escalation of OMP-59R5 in the ALPINE trial continues with a triple combo DCR of 77%. OncoMed will advance both drugs into Phase II studies in pancreatic cancer. We look for additional clinical validation of OncoMed's cancer pipeline throughout 2014. As a result of the Celgene Mega alliance, OncoMed holds pro forma cash of \$326 million. We reiterate our Overweight rating and are increasing our price target to \$48 from \$38.

- Demcizumab Active in Pancreatic Cancer.** At ASCO-GI today, OncoMed reported initial Phase Ib data on anti-DLL4 antibody demcizumab in combination with gemcitabine and Abraxane (Abstract #259). An impressive 50% (3/6) of patients achieved a partial response (PR) plus 2 patients with stable disease for an DCR of 83%. Importantly, the combination was well tolerated and the demcizumab risk mitigation strategy that includes cardiac monitoring along with truncated dosing and CV medication if necessary is working with no cardio-tox observed. Based on these results, OncoMed will initiate a Phase II trial of demcizumab + gemcitabine + abraxane in 1st-line pancreatic cancer in 2H:14. Celgene has the right to opt in to co-promote Demcizumab at any point after the Phase II trials.
- OMP-59R5 Also Active in Pancreatic Cancer.** Also at ASCO-GI today, OncoMed reported Phase Ib ALPINE data on OMP-59R5 (anti-Notch 2/3) in combination with gemcitabine and Abraxane (Abstract #220). A total of 27 patients have been evaluated at OMP-59R5 doses ranging from 2.5-12.5mg/kg, of whom 18 were combined with gemcitabine + Abraxane. No DLTs have been observed and escalation continues to 15mg/kg OMP-59R5. Thirteen triple combo patients were evaluable for response, of whom 6 (46%) achieved a PR and 3 had stable disease equating to a DCR of 77%. OncoMed will begin the Phase II portion of the ALPINE trial in 2Q:14.
- Transformative Alliance with Celgene.** In November, OncoMed signed a transformative alliance with Celgene covering demcizumab plus 5 preclinical antibodies. OncoMed received \$177.25 million upfront and stands to receive up to \$3.15 billion in milestones! Importantly, OncoMed maintained development control with Celgene maintaining opt in rights on all 6 drugs. If Celgene opts in, OncoMed retains a 50/50 profit split in the U.S. with healthy double-digit OUS royalties.

### 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\$35.87

TARGET: US\$48.00

Proj EV of \$1.15 billion + YE: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\$38.00	US\$48.00
FY13E Rev (mil)	—	US\$44.7
FY14E Rev (mil)	—	US\$58.7
FY13E EPS	—	US\$(0.61)
FY14E EPS	—	US\$(0.37)
52-Week High / Low	US\$38.25 / US\$12.07	
Shares Out (mil)		29.4
<i>Incl. CELG equity investment</i>		
Market Cap. (mil)		US\$1,054.6
Avg Daily Vol (000)		333
Book Value/Share		NA
Net Cash Per Share		US\$11.10
<i>Pro forma cash following \$25M milestone and CELG deal</i>		
Debt to Total Capital		0%
Div (ann)		NA
Fiscal Year End		Dec

### 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	42.7x	—	—	—	—	(1.00)	NM
2013E	2.9A	2.9A	12.9A	25.9	44.7	23.6x	(0.39)A	(0.41)A	(0.15)A	0.33	(0.61)	NM
2014E	3.9	28.9	3.9	21.9	58.7	18.0x	(0.41)	0.38	(0.45)	0.10	(0.37)	NM

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

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## INVESTMENT RECOMMENDATION

We reiterate our Overweight rating and are increasing our price target to \$48 from \$38 to account for the positive Phase Ib pancreatic cancer data on demcizumab and OMP-59R5. Our new \$48 price target is based on a projected enterprise value of \$1.15 billion, up from \$851 million. We now value OncoMed's portion of demcizumab at \$396 million, up from \$299 million, by applying the same 10x multiple to 2021 profit share of \$533 million, discounted back at a reduced 45% due to the program moving into Phase II trials this year. Prior we applied a 10x multiple to 2020 profit share of \$299 million, discounted back at 50%. We value 4 preclinical antibodies partnered with Celgene at \$50 million each.

We now value OMP-59R5 (partnered with GSK) at \$404 million, up from \$202 million, by applying an increased 10x multiple to OncoMed's royalties on 2021 U.S. sales in pancreatic and small cell cancer of \$544 million, discounted back at 45% annually to YE:14. We believe this increased 10x multiple is justified considering the higher margin royalties to be received from GSK. Further, we view this discount rate as appropriate for this Phase Ib/II antibody having reported early signs of activity. We add the same \$150 million for the rest of OncoMed's partnered cancer antibody pipeline, which we will adjust based on +/- clinical results.

We continue to add YE:14 net cash of \$316 million by adding the \$177 million Celgene upfront payment. OncoMed has no meaningful long-term debt. We now divide our projected market capitalization of \$1.46 billion by 30.5 million shares at YE:14.

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

12/3/13

	2012A	1QA	2QA	3QA	4QE	2013E	1QE	2QE	3QE	4QE	2014E
<b>Revenues:</b>											
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$25,932	\$44,727	\$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>\$44,727</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	\$13,126	\$14,000	\$47,177	\$14,000	\$15,000	\$15,000	\$16,000	\$60,000
General and Administrative	7,157	1,985	1,952	3,175	2,500	9,612	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>\$16,301</b>	<b>\$16,500</b>	<b>\$56,789</b>	<b>\$16,250</b>	<b>\$17,500</b>	<b>\$17,500</b>	<b>\$18,750</b>	<b>\$70,000</b>
<b>Operating Loss</b>	<b>(\$22,369)</b>	<b>(\$8,630)</b>	<b>(\$9,495)</b>	<b>(\$3,369)</b>	<b>\$9,432</b>	<b>(\$12,062)</b>	<b>(\$12,319)</b>	<b>\$11,432</b>	<b>(\$13,569)</b>	<b>\$3,182</b>	<b>(\$11,274)</b>
Operating Margin	NM	NM	NM	NM	36.4%	(0)	(3)	39.5%	(3)	14.5%	(0)
Total Other Income/(Expense)	\$134	\$31	(\$149)	(\$117)	\$55	(\$180)	\$45	\$35	\$25	\$15	\$120
<b>Pretax Loss</b>	<b>(\$22,235)</b>	<b>(\$8,598)</b>	<b>(\$9,644)</b>	<b>(\$3,486)</b>	<b>\$9,487</b>	<b>(\$12,242)</b>	<b>(\$12,274)</b>	<b>\$11,467</b>	<b>(\$13,544)</b>	<b>\$3,197</b>	<b>(\$11,154)</b>
Pretax Margin	NM	NM	NM	NM	36.6%	(0)	(3)	39.6%	(3)	14.6%	(0)
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>(\$3,486)</b>	<b>\$9,487</b>	<b>(\$12,242)</b>	<b>(\$12,274)</b>	<b>\$11,467</b>	<b>(\$13,544)</b>	<b>\$3,197</b>	<b>(\$11,154)</b>
Pretax Margin	NM	NM	NM	NM	36.6%	(0)	(3)	39.6%	(3)	14.6%	(0)
<b>Net Loss per Share</b>	<b>(\$1.00)</b>	<b>(\$0.39)</b>	<b>(\$0.41)</b>	<b>(\$0.15)</b>	<b>\$0.33</b>	<b>(\$0.61)</b>	<b>(\$0.41)</b>	<b>\$0.38</b>	<b>(\$0.45)</b>	<b>\$0.10</b>	<b>(\$0.37)</b>
Shares Outstanding	22,224	22,265	23,763	23,179	28,500	24,427	29,750	30,000	30,250	30,500	30,125

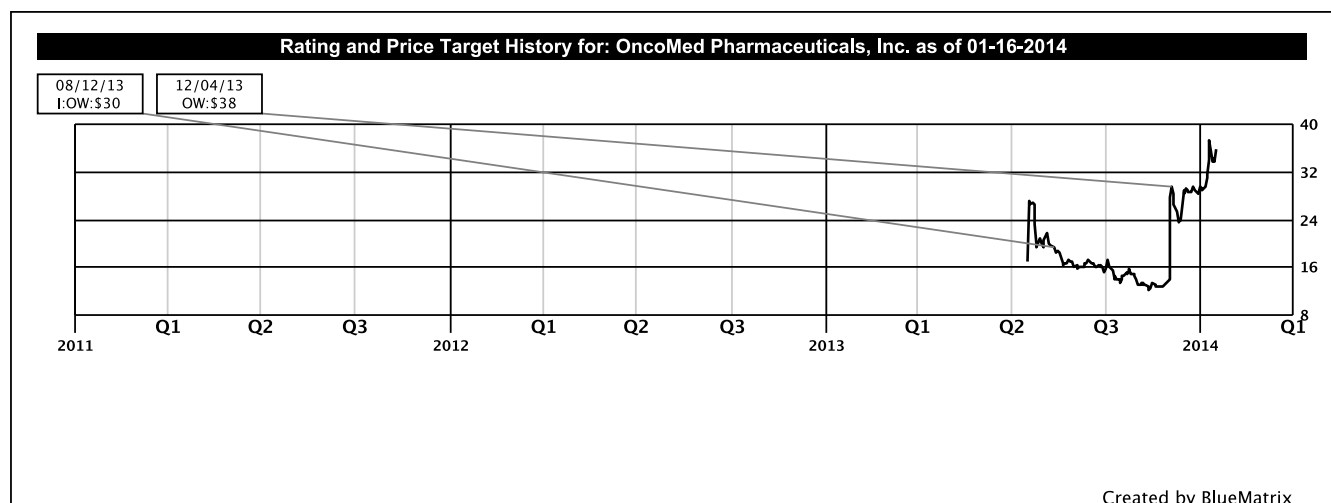
Source: Company reports and Piper Jaffray & Co. analysis.

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N: Neutral  
UW: Underweight  
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			Count	Percent
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<b>HOLD [N]</b>	<b>228</b>	<b>38.26</b>	<b>23</b>	<b>10.09</b>
<b>SELL [UW]</b>	<b>21</b>	<b>3.52</b>	<b>0</b>	<b>0.00</b>

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### Analyst Certification — Edward A. Tenthoff, Sr Research Analyst

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