

OncoMed Pharmaceuticals

(OMED-NASDAQ)

Stock Rating: Outperform**Industry Rating:** Outperform

May 8, 2014

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Continued Pipeline Progress With Cancer Stem Cell Therapeutics

Event

OMED reported 1Q14 operating results yesterday, with an update on key initiatives. The net loss per share was (\$0.47) vs. (\$0.13) consensus, and OMED ended 4Q13 with \$283.9 million in cash. With a primary focus on the company's cancer stem cell therapeutics targeting Notch and Wnt pathways, for which 15 studies are currently under way, OMED highlighted upcoming ASCO data presentations on phase 1b study of demcizumab (anti-DLL4) in NSCLC, phase 1b/2 study of OMP-59R5 (anti-Notch2/3) in SCLC, and phase 1a study of OMP-54F28 (Fzd8-Fc) in advanced solid tumors. OMED also highlighted enrollment completion in the phase 1a studies of vantiactumab (anti-Fzd7) and OMP-54F28 (Fzd8-Fc), and recent initiations of six phase 1b trials, including three trials of OMP-54F28 in pancreatic cancer, hepatocellular cancer, and platinum-sensitive ovarian cancer, and three trials of vantiactumab in NSCLC, Her2-negative breast cancer, and pancreatic cancer.

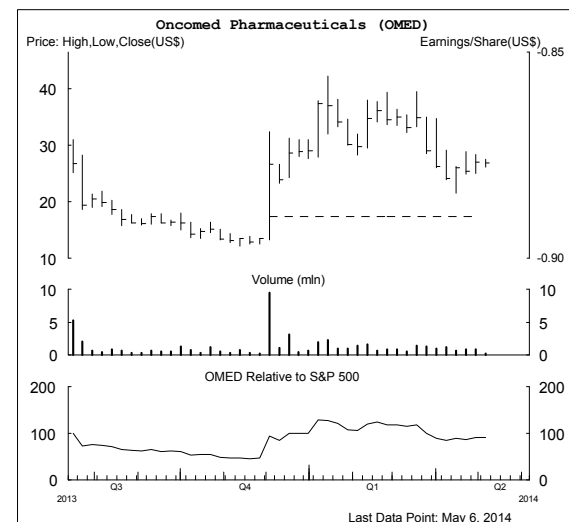
Impact & Analysis

We maintain our Outperform rating on OMED after 1Q14 results. Following the recent collaboration with Celgene, we see significant validation for the cancer stem cell approach and substantial support to expand the breadth of development and accelerate timelines. With multiple cancer stem cell therapeutics across multiple indications, we expect significant data from OMED over the next 12-18 months and substantial value creation.

Valuation & Recommendation

Our \$43 price target is based on 20x our 2020 EPS estimate of \$6.01 and discounting at 25%. We rate OMED shares Outperform.

Price (7-May) \$24.95 **52-Week High** \$42.34
Target Price \$43.00 **52-Week Low** \$12.07



| (FY-Dec.) | 2012A | 2013A | 2014E | 2015E |
|------------------|----------|---------|---------|----------|
| EPS | -\$21.30 | -\$1.93 | \$0.10↓ | -\$0.99↑ |
| P/E | | | nm | na |
| CFPS | na | na | na | na |
| P/CFPS | | | na | na |
| Rev. (\$mm) | \$25 | \$38 | \$95 | \$99 |
| EV (\$mm) | na | \$676 | \$676 | \$676 |
| EBITDA (\$mm) | -\$22 | -\$24 | \$1 | -\$36 |
| EV/EBITDA | na | na | 614.1x | na |
| Quarterly EPS | Q1 | Q2 | Q3 | Q4 |
| 2012A | na | na | na | na |
| 2013A | -\$0.16 | -\$0.43 | -\$0.15 | -\$0.15 |
| 2014E | -\$0.47a | -\$0.05 | -\$0.13 | \$0.75↓ |
| Dividend | \$0.00 | | | 0.0% |
| Book Value | \$3.63 | | | 6.9x |
| Shares O/S (mm) | 29.4 | | | \$734 |
| Float O/S (mm) | 6.2 | | | \$154 |
| Wkly Vol (000s) | 1,234 | | | \$33.2 |
| Net Debt (\$mm) | -\$316 | | | na |
| Yield | | | | 0.0% |
| Price/Book | | | | 6.9x |
| Mkt. Cap (mm) | | | | \$734 |
| Float Cap (mm) | | | | \$154 |
| Wkly \$ Vol (mm) | | | | \$33.2 |
| Next Rep. Date | | | | na |

Notes: Quarterly EPS may not sum due to share count. All values in US\$

Major Shareholders:

First Call Mean Estimates: ONCOMED PHARMACEUTICALS INC (US\$) 2014E: -\$0.28; 2015E: -\$0.36

Changes

Annual EPS

2014E \$0.64 to \$0.10
2015E -\$1.02 to -\$0.99

Quarterly EPS

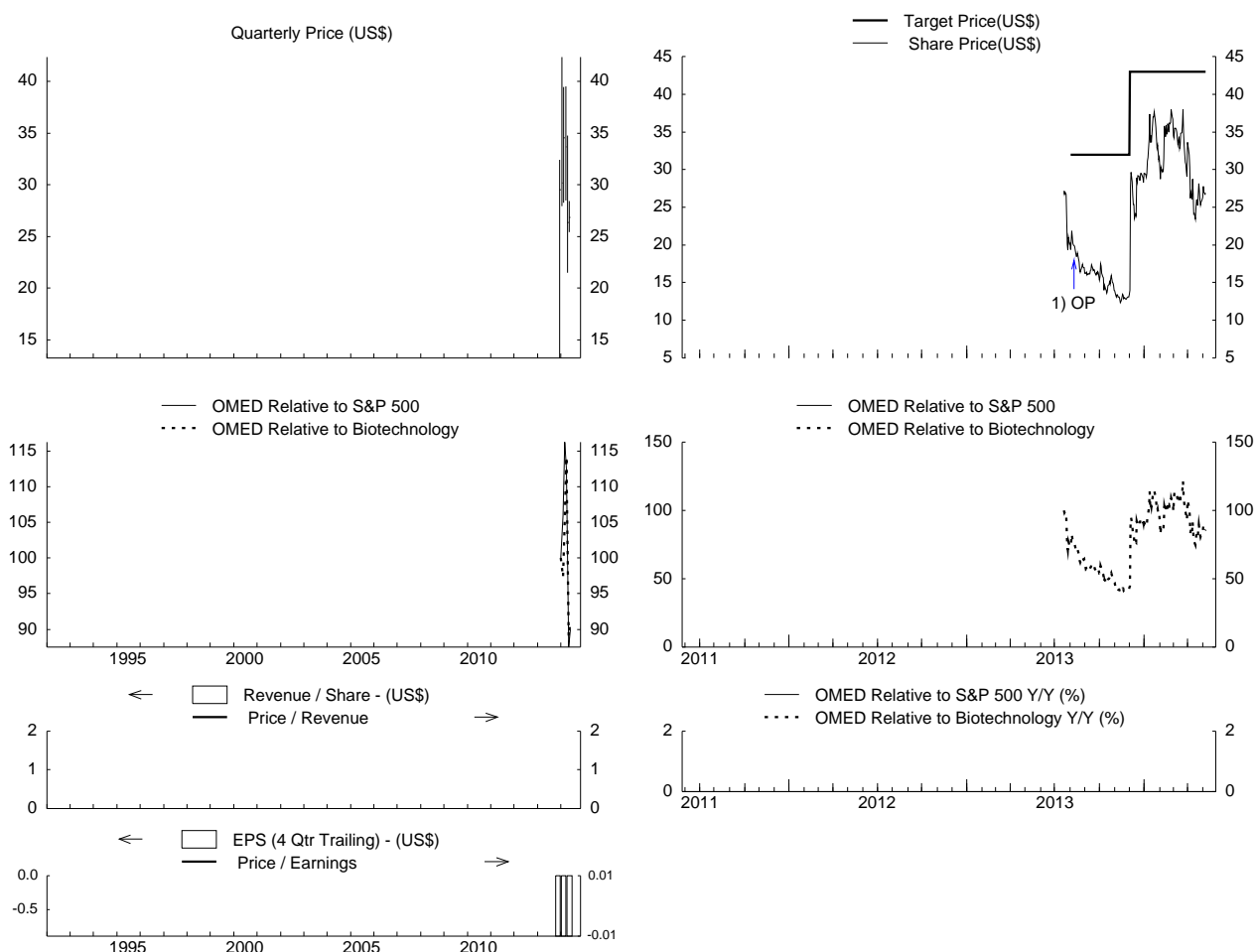
Q4/14E \$0.78 to \$0.75

Exhibit 1: OMED Income Statement 2013A-2020E

| INCOME STATEMENT (\$M) | 2013A | 1Q14A | 2Q14E | 3Q14E | 4Q14E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|-----------------------------------------------|------------------|------------------|------------------|------------------|----------------|----------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|
| REVENUES | | | | | | | | | | | | |
| Product Revenues | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 112.2 | \$ 364.2 | \$ 520.2 |
| Collaborative Revenues/Milestones | 37.8 | 6.0 | 19.8 | 19.8 | 49.8 | 95.3 | 99.0 | 99.0 | 99.0 | 99.0 | - | - |
| TOTAL REVENUES | \$ 37.8 | \$ 6.0 | \$ 19.8 | \$ 19.8 | \$ 49.8 | \$ 95.3 | \$ 99.0 | \$ 99.0 | \$ 99.0 | \$ 211.2 | \$ 364.2 | \$ 520.2 |
| EXPENSES (GAAP) | | | | | | | | | | | | |
| Cost of Goods Sold (COGS) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1.1 | \$ 3.6 | \$ 4.9 |
| R&D Expense | 50.0 | 16.7 | 17.3 | 19.3 | 22.2 | 75.4 | 107.0 | 120.5 | 120.5 | 121.5 | 124.0 | 124.0 |
| SG&A Expense | 11.6 | 3.2 | 4.5 | 5.0 | 6.0 | 18.7 | 28.0 | 33.5 | 42.3 | 52.5 | 66.0 | 66.0 |
| TOTAL EXPENSES | 61.7 | 19.9 | 21.8 | 24.3 | 28.2 | 94.1 | 135.0 | 154.0 | 162.7 | 175.1 | 193.6 | 194.9 |
| Operating Income | (23.9) | (13.9) | (2.0) | (4.5) | 21.6 | 1.1 | (36.0) | (55.0) | (63.7) | 36.1 | 170.6 | 325.3 |
| Depreciation and Amortization | - | - | - | - | - | - | - | - | - | - | - | - |
| EBIT | (23.9) | (13.9) | (2.0) | (4.5) | 21.6 | 1.1 | (36.0) | (55.0) | (63.7) | 36.1 | 170.6 | 325.3 |
| Interest Income | 0.0 | 0.0 | 0.7 | 0.7 | 0.7 | 2.0 | 3.0 | 3.3 | 3.7 | 4.1 | 5.3 | 7.4 |
| Interest Expense | (0.3) | - | - | - | - | - | (0.1) | - | - | (0.1) | - | (0.3) |
| Other Expense | - | - | - | - | - | - | - | - | - | - | - | - |
| Interest and Other (net) | \$ (0.2) | \$ 0.0 | \$ 0.7 | \$ 0.7 | \$ 0.7 | \$ 2.0 | \$ 2.9 | \$ 3.3 | \$ 3.7 | \$ 4.0 | \$ 5.3 | \$ 7.1 |
| Pre-Tax Income | (24.1) | (13.9) | (1.3) | (3.8) | 22.2 | 3.2 | (33.0) | (51.7) | (60.0) | 40.1 | 175.8 | 332.3 |
| Income Taxes | 1.9 | - | - | - | - | - | - | - | - | - | - | 32.8 |
| Net Income (GAAP) | (26.1) | (13.9) | (1.3) | (3.8) | 22.2 | 3.2 | (33.0) | (51.7) | (60.0) | 40.1 | 175.8 | 299.5 |
| EPS (GAAP) (basic) | \$ (1.93) | \$ (0.47) | \$ (0.05) | \$ (0.13) | \$ 0.75 | \$ 0.10 | \$ (0.99) | \$ (1.37) | \$ (1.38) | \$ 0.79 | \$ 3.56 | \$ 6.01 |
| EPS (GAAP) (diluted) | \$ (1.93) | \$ (0.47) | \$ (0.05) | \$ (0.13) | \$ 0.75 | \$ 0.10 | \$ (0.99) | \$ (1.37) | \$ (1.38) | \$ 0.79 | \$ 3.56 | \$ 6.01 |
| Total of Reconciliation Items | 1.7 | 2.0 | 2.0 | 2.0 | 2.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Net Income (Non-GAAP) | \$ (19.3) | \$ (11.9) | \$ 0.7 | \$ (1.8) | \$ 24.2 | \$ 11.2 | \$ (25.0) | \$ (43.7) | \$ (52.0) | \$ 48.1 | \$ 183.8 | \$ 307.5 |
| Impact of Adjustments to EPS | 0.07 | 0.07 | 0.07 | 0.07 | 0.07 | 0.27 | 0.24 | 0.21 | 0.18 | 0.17 | 0.16 | 0.16 |
| EPS (Non-GAAP) (basic) | \$ (0.83) | \$ (0.40) | \$ 0.02 | \$ (0.06) | \$ 0.82 | \$ 0.37 | \$ (0.76) | \$ (1.16) | \$ (1.20) | \$ 0.96 | \$ 3.72 | \$ 6.17 |
| EPS (Non-GAAP) (diluted) | \$ (0.83) | \$ (0.40) | \$ 0.02 | \$ (0.06) | \$ 0.82 | \$ 0.37 | \$ (0.76) | \$ (1.16) | \$ (1.20) | \$ 0.96 | \$ 3.72 | \$ 6.17 |
| Weighted average shares outstanding (basic) | 13.5 | 29.4 | 29.5 | 29.6 | 29.7 | 29.6 | 33.6 | 38.2 | 44.0 | 48.1 | 49.3 | 49.9 |
| Weighted average shares outstanding (diluted) | 13.5 | 29.4 | 29.5 | 29.6 | 29.7 | 29.6 | 33.6 | 38.2 | 44.0 | 48.1 | 49.3 | 49.9 |

Source: Company reports and BMO Capital Markets

Oncomed Pharmaceuticals (OMED)



| FYE (Dec.) | EPS US\$ | P/E Hi - Lo | DPS US\$ | Yield% Hi - Lo | Payout % | BV US\$ | P/B Hi - Lo | ROE % |
|---------------|-------------|----------------|-------------|-------------------|-------------|------------|----------------|----------|
| 2013 | -1.93 | na na | 0.00 | 0.0 0.0 | 0 | 4.0 | 8.1 3.0 | |
| Range* | | na na | | 0.0 0.0 | | | 8.1 3.0 | |
| Current* | -0.89 | na | 0.00 | 0.0 | 0 | 3.6 | 7.3 | na |

OMED - Rating as of 17-Jul-13 = NR

| Date | Rating Change | Share Price |
|------------|---------------|-------------|
| 1 8-Aug-13 | NR to OP | \$19.88 |

* Current EPS is the 4 Quarter Trailing to Q4/2013.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (May 6, 2014): \$26.84
 Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation

Methodology: We arrive at our price target by applying a 20x multiple to our 2020 GAAP EPS estimate of \$6.65 and discounting at 25%.

Risks: There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

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|-----------------|----------------|--------------------|-----------------------|------------------------|--------------------|-----------------------|-------------------|
| Buy | Outperform | 42.0% | 21.5% | 60.7% | 40.8% | 53.6% | 53.6% |
| Hold | Market Perform | 52.8% | 10.8% | 38.2% | 52.8% | 43.8% | 40.8% |
| Sell | Underperform | 5.2% | 3.2% | 1.1% | 6.3% | 2.7% | 5.6% |

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis on a total return basis

(S) = speculative investment;

NR = No rating at this time;

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