

OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Recent Pullback Offers Buying Opportunity; Reiterate Overweight

CONCLUSION

Following OncoMed's decision to voluntarily halt clinical trials of vantiactumab (OMP-18R5) and Fzd8-Fc (OMP-54F28), the FDA placed vantiactumab on a partial clinical hold Friday evening until revised protocols have been submitted and reviewed. We would be buyers of OMED on any additional weakness ahead of multiple data read-outs in 2H:14 on the remainder of OncoMed's pipeline. Also over the weekend, the company reported data on a Notch 1 biomarker assay being developed as a companion diagnostic test at EHA. We reiterate our Overweight rating and \$43 price target.

- FDA places vantiactumab on partial clinical hold.** On Friday, the FDA placed vantiactumab on a partial clinical hold following OncoMed's decision to voluntarily halt clinical trials of both vantiactumab and OMP-54F28. The partial clinical hold will remain in place until revised clinical trial protocols have been submitted and reviewed by the agency. OncoMed's decision was based on observations of bone related AEs in 8 of 63 patients (13%) of vantiactumab and 2 of 41 patients (5%) of OMP-54F28 patients. The company is making protocol modifications including lower doses, less frequent dosing, increased monitoring, increase emphasis on bone protection and an adjustment of enrollment criteria likely to exclude patients who are at greatest risk. Patients with clinical benefit are able to stay on the therapies and will either continue with the current treatment regimen or have dose adjustments to reduce risk. Both vantiactumab and OMP-54F28 are partnered with Bayer.
- Weakness presents buying opportunity.** Based on the news that OncoMed placed vantiactumab and OMP-54F28 on voluntary clinical hold on Friday, OMED shares ended the day down 8.8%. Although the news is a setback for both drugs, we would be buyers on any additional weakness. This is the primary benefit of OncoMed's rich cancer antibody pipeline. Neither drug is viewed as a key value driver for OncoMed and both are partnered with Bayer. We view the other drugs in development including demcizumab (Celgene option) and OMP-59R5 (partnered with GSK) as more advanced and more important with multiple data read-outs during 2H:14.
- Key upcoming milestones.** OncoMed expects to initiate the Phase II portions of the ALPINE and PINNACLE trials that examine OMP-59R5 (Anti-Notch2/3) in pancreatic cancer and small cell lung cancer. The company will also initiate 2 Phase II studies looking at demcizumab in pancreatic and non-small cell lung cancer. The company plans to have data presentations addressing multiple pipeline drugs at upcoming medical conferences including ESMO, the EORTC-NCI-AACR meeting and the San Antonio Breast Cancer Symposium in 2H:14.

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
2013A	2.9	2.9	12.9	19.0	37.8	17.8x	(0.39)	(0.41)	(0.15)	(0.08)	(0.85)	NM
2014E	6.0A	28.9	3.9	21.9	60.8	11.1x	(0.47)A	0.22	(0.65)	(0.10)	(1.00)	NM
2015E	—	—	—	—	57.8	11.6x	—	—	—	—	(1.02)	NM

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

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OncoMed Pharmaceuticals, Inc.

PRICE: US\$22.71

TARGET: US\$43.00

Proj EV of \$1.05B + YE:14E cash

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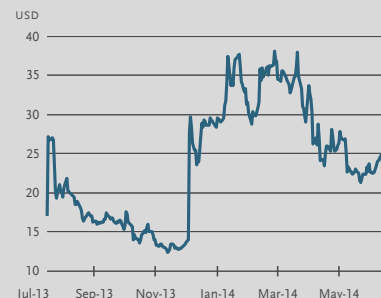
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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$43.00
FY14E Rev (mil)	—	US\$60.8
FY15E Rev (mil)	—	US\$57.8
FY14E EPS	—	US\$(1.00)
FY15E EPS	—	US\$(1.02)
52-Week High / Low	US\$42.34 / US\$12.07	
Shares Out (mil)	29.6	
Source: Form 10K as of March 11, 2014		
Market Cap. (mil)	US\$672.2	
Avg Daily Vol (ooo)	163	
Book Value/Share	US\$3.58	
Net Cash Per Share	US\$9.61	
Debt to Total Capital	0%	
Div (ann)	NA	
Fiscal Year End	Dec	

Price Performance - 1 Year



Source: Bloomberg

INVESTMENT RECOMMENDATION

We reiterate our Overweight rating and \$43 price target based on a projected enterprise value of \$1.05 billion. We value OncoMed's portion of demcizumab at \$396 million by applying the same 10x multiple to 2021 profit share of \$533 million, discounted back at 45%. We value four preclinical antibodies partnered with Celgene at \$50 million each.

We value OMP-59R5 (partnered with GSK) at \$404 million by applying a 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 10x multiple is justified considering the higher margin royalties to be received from GSK and this discount rate as appropriate for a Phase Ib/II antibody having reported early signs of activity. We add \$50 million for OMP-52M51, which is partnered with GSK.

We add YE:14 net cash of \$273 million. OncoMed has no meaningful long-term debt. We divide our projected market capitalization of \$1.32 billion by 30.5 million shares at YE:14.

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

May 8, 2014

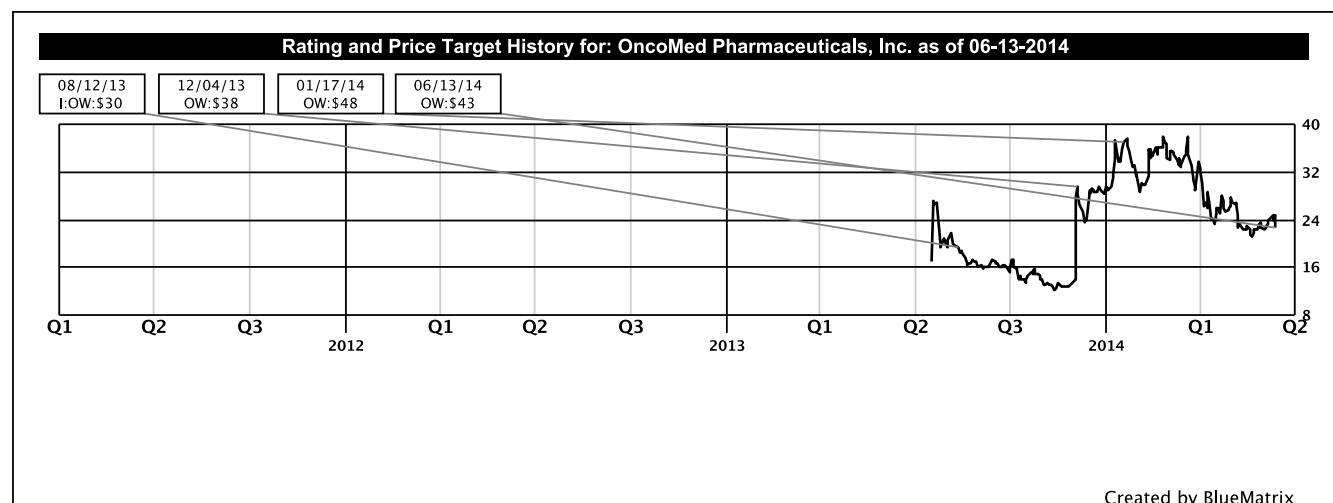
	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QA</u>	<u>2013A</u>	<u>1QA</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>	<u>2015E</u>
Revenues:												
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$18,983	\$37,778	\$6,015	\$28,932	\$3,932	\$21,932	\$60,810	\$57,756
Grants	22	0	0	0	0	0	0	0	0	0	0	0
Total Revenues	\$24,681	\$2,932	\$2,932	\$12,932	\$18,983	\$37,778	\$6,015	\$28,932	\$3,932	\$21,932	\$60,810	\$57,756
Operating Expenses:												
Research and Development	\$39,893	\$9,576	\$10,475	\$13,126	\$16,871	\$50,048	\$16,709	\$18,000	\$19,000	\$20,000	\$73,709	\$70,000
General and Administrative	7,157	1,985	1,952	3,175	4,518	11,630	3,213	4,500	4,500	5,000	17,213	20,000
Total Operating Expenses	\$47,050	\$11,561	\$12,427	\$16,301	\$21,389	\$61,678	\$19,922	\$22,500	\$23,500	\$25,000	\$90,922	\$90,000
Operating Loss	(\$22,369)	(\$8,630)	(\$9,496)	(\$3,369)	(\$2,406)	(\$23,900)	(\$13,907)	\$6,432	(\$19,569)	(\$3,069)	(\$30,113)	(\$32,244)
Operating Margin	NM	NM	NM	NM	NM	NM	NM	22.2%	NM	NM	NM	NM
Total Other Income/(Expense)	\$134	\$31	(\$149)	(\$117)	\$7	(\$228)	\$36	\$45	\$40	\$35	\$156	\$100
Pretax Loss	(\$22,235)	(\$8,599)	(\$9,645)	(\$3,486)	(\$2,399)	(\$24,128)	(\$13,871)	\$6,477	(\$19,529)	(\$3,034)	(\$29,957)	(\$32,144)
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	22.4%	NM	NM	NM	NM
Income Tax/(Benefit)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net Loss	(\$22,235)	(\$8,599)	(\$9,645)	(\$3,486)	(\$2,399)	(\$24,128)	(\$13,871)	\$6,477	(\$19,529)	(\$3,034)	(\$29,957)	(\$32,144)
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	22.4%	NM	NM	NM	NM
Net Loss per Share	(\$1.00)	(\$0.39)	(\$0.41)	(\$0.15)	(\$0.08)	(\$0.85)	(\$0.47)	\$0.22	(\$0.65)	(\$0.10)	(\$1.00)	(\$1.02)
Shares Outstanding	22,224	22,265	23,763	23,179	28,361	28,361	29,443	29,750	30,250	30,500	29,986	31,500

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

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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
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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]	355	61.95	87	24.51
HOLD [N]	203	35.43	21	10.34
SELL [UW]	15	2.62	0	0.00

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Analyst Certification — Edward A. Tenthoff, Sr Research Analyst — David N. Lebowitz, CFA, Research Analyst

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