

COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Biotechnology

December 4, 2013

Jefferies

OncoMed (OMED) CELG Collaboration Validates OMED's Platform and Pipeline

Key Takeaway

We are positive on the CELG deal, which provides validation demcizumab and its cancer stem cell platform. Further, this deal relieves OMED of any near-term financing risk with a large upfront payment (the cash component of which is ~\$5/share in equity value). We remain positive on OMED's prospects with potentially 11 Phase 2 readouts by 2016 that could be funded with pro forma cash (\$322m) and anticipated milestones.

Celgene Collaboration For Demcizumab and Up To Five Preclinical Programs.

OMED and CELG (CELG, Buy) announced an agreement to jointly develop and commercialize up to six OMED anti-cancer stem cell (CSC) product candidates across three cancer pathways, including demcizumab. OMED will lead initial clinical studies (Phase 2 studies for demcizumab and Phase 1 studies for the other candidates) at which point CELG has an option to license worldwide rights to up to six novel anti-CSC candidates over a 6-year term. OMED retains rights to 50% U.S. profit sharing for up to five products, and royalties on ex-U.S. sales. The deal provides some degree of endorsement for demcizumab, which has been regarded in a mixed way by investors given cardiovascular toxicity. The collaboration also involves up to five pipeline candidates including OMED's anti-DLL4/VEGF bispecific antibody and up to four additional biologics programs targeting either the RSPO-LGR CSC pathway (OMED currently has four preclinical RSPO product candidates) or an additional undisclosed CSC pathway. The company did confirm that this novel pathway involves a target that is both a cancer stem cell target and a novel immune check point target discovered internally. We see the deal as an endorsement of the quality of OMED's discovery platform in the cancer stem cell arena.

Favorable Deal Terms For OMED. We view the \$155m cash upfront as a favorable sign of the value of OMED's programs. Total payments to OMED could total up to \$790m for demcizumab, including payment for achievement of pre-determined safety criteria in Phase 2 studies, \$505m for the anti-DLL4/VEGF bispecific antibody, and \$440m for each of the other four biologics. OMED could also receive >\$100m in payments for the small molecule program.

Valuation/Risks

We are raising our price target to \$46 (\$21 demcizumab + \$4 GSK + \$4 Bayer + \$7 CELG + \$11 cash) from \$27 (\$14 demcizumab + \$4 GSK + \$5 Bayer collaboration + \$4 cash). Risks: clinical, regulatory, commercial.

USD	Prev.	2012A	Prev.	2013E	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	--	36.7	39.9	47.0	124.0	73.0	183.0
EPS								
Mar	--	--	--	(0.39)A	--	--	--	--
Jun	--	--	--	(0.43)A	--	--	--	--
Sep	--	--	--	(0.15)A	--	--	--	--
Dec	--	--	(0.08)	0.05	--	--	--	--
FY Dec	--	(21.58)	(1.04)	(0.84)	(1.48)	0.65	0.43	2.61
FY P/E		NM		NM		42.6x		10.6x

BUY

Price target \$46.00

(from \$27.00)

Price \$27.70

Financial Summary

Net Debt (MM):	(\$140.0)
Cash/Share:	\$60.20

Market Data

52 Week Range:	\$31.99 - \$12.07
Total Entprs. Value (MM):	\$630.1
Market Cap. (MM):	\$770.1
Shares Out. (MM):	27.8
Float (MM):	5.5
Avg. Daily Vol.:	121,800

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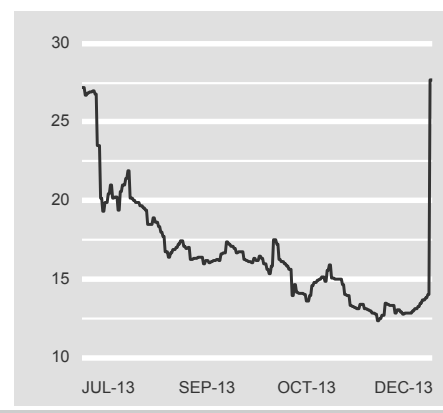
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Price Performance



Scenarios

Target Investment Thesis

- We believe OMED is a leader in cancer stem cell (CSC) targeting drugs
- We are encouraged by single agent activity with demcizumab in pancreatic and lung
- We see the GSK, Celgene, and Bayer collaborations as lucrative and validating the technology
- Target Price: \$46 = \$21 demcizumab + \$4 GSK + \$4 Bayer + \$7 CELG + \$11 cash

Upside Scenario

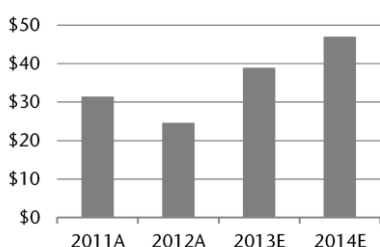
- We believe with CELG support, demcizumab could be a leading add-on to conventional chemotherapy
- Positive Phase 2 data and pivotal trials could increase the probability of success across programs
- No cost upside with GSK and Bayer covering costs of late stage development and commercialization
- Target Price: \$65 = \$27 demcizumab + \$9 GSK + \$9 Bayer + \$9 CELG + \$11 cash

Downside Scenarios

- All programs are early stage
- Historical CV issues with demcizumab may persist or give FDA pause
- Collaborators may not opt-in to development programs
- Target Price: \$11 = \$7 demcizumab + \$0 GSK + \$0 Bayer + \$0 CELG + \$4 cash

Long Term Analysis

Revenue (millions)



Source: Company data, Jefferies

Long Term Financial Model Drivers

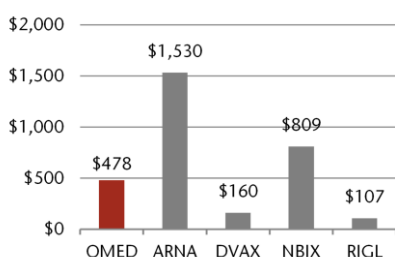
5-Year Revenue CAGR **52%**

Other Considerations

With several eagerly anticipated product launches, anemic pipelines at large cap biotech and pharma, and an increasingly conservative FDA stance, we believe mid-cap biotech could lead sector performance in 2013. We see a premium placed on late-stage and marketed products. M&A interest could also factor into the performance of the sector, particularly among small-cap and mid-cap companies with later stage programs.

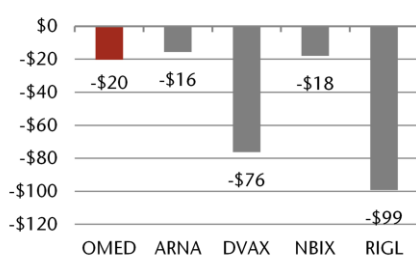
Peer Group

Group EVs



Source: FactSet

Net Income



Source: Company data

Recommendation / Price Target

Ticker	Recommendation	PT
OMED	BUY	\$46
ARNA	BUY	\$12
DVAX	BUY	\$3
NBIX	BUY	\$16
RIGL	BUY	\$6

Catalysts

- 4Q13- Data from OMP-52M51 at AACR-NCI-EORTC
- 2H13/1H14 – Bayer initiates vantiactumab Ph1b trials
- 2H13/1H14 – Bayer initiates OMP-54F28 Ph1b trials
- 2Q14 - Vantiactumab Ph1a data at ASCO
- 2H14 – Final Ph2 data from ALPINE trial of OMP-59R5 in pancreatic

Company Description

OncoMed Pharmaceuticals (OMED) is a Redwood City, CA-based biopharmaceutical company that is a leader in the science behind cancer stem cells (CSCs), which are thought to drive cancer progression, metastasis, and chemotherapy resistance. Using proprietary technology, OMED has generated five clinical stage candidates targeting CSC pathways. Four of these compounds are being developed under two pharmaceutical partnerships with GSK and Bayer. The lead wholly owned drug is demcizumab, an antiDLL4 antibody currently in Phase 1b trials in pancreatic, lung and ovarian cancer. Close behind in development are OMP-59R5, an anti-Notch2/3 antibody, OMP-52M51, an antiNotch1 antibody, vantiactumab, an anti-Fzd7 antibody, and OMP-54F28, a Fzd8-Fc fusion protein.

OMED: Historical and Projected Revenue and Earnings

December 31 Fiscal Year (\$000s)	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Demcizumab Sales															
U.S. Demcizumab Sales	0	0	0	0	0	0	0	0	0	0	101,592	431,341	752,003	1,331,096	1,732,391
International Demcizumab Sales	0	0	0	0	0	0	0	0	0	0	0	40,637	258,804	601,603	1,064,877
WW Demcizumab Sales	0	0	0	0	0	0	0	0	0	0	101,592	471,977	1,010,808	1,932,699	2,797,268
Y/Y Change	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	365%	114%	91%	45%
U.S. Demcizumab Gross Profit Split to Oncomed							0	0	0	0	44,446	194,103	347,802	615,632	801,231
WW Demcizumab Revenue to Oncomed	0	0	0	0	0	0	0	0	0	0	0	4,876	31,057	76,256	152,975
% Of Sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0%	1%	3%	4%	5%
GSK/Bayer/CELG Royalties to Oncomed	0	0	0	0	0	0	0	0	0	0	29,232	146,970	324,073	477,287	642,124
Demcizumab Upfront/Milestone Payments	0	0	0	0	3,163	3,163	57,959	77,959	87,959	107,959	130,000	90,000	90,000	75,000	45,000
GSK/Bayer/CELG Upfront/Milestone Payments	24,659	2,932	2,932	12,932	17,932	36,728	66,000	105,000	167,000	203,797	320,676	329,173	481,455	445,971	402,081
Other Revenues	22	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenue	24,681	2,932	2,932	12,932	21,095	39,891	123,959	182,959	254,959	311,756	524,354	765,123	1,274,386	1,690,146	2,043,411
Y/Y Change	NM	17%	-61%	67%	204%	62%	211%	48%	39%	22%	68%	46%	67%	33%	21%
COGS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
% Product sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Research and Development	39,396	9,436	10,341	12,882	16,000	48,659	75,000	35,000	45,500	59,150	76,895	99,964	129,953	168,938	219,620
Y/Y Change	NM	-16%	9%	37%	71%	24%	54%	-53%	30%	30%	30%	30%	30%	30%	30%
% Total Revenue	NM	NM	NM	NM	NM	NM	61%	19%	18%	19%	15%	13%	10%	10%	11%
Selling, General and Administrative	6,818	1,900	1,821	2,927	3,500	10,148	15,400	16,632	18,295	24,699	33,343	36,677	49,514	66,844	73,529
Y/Y Change	NM	13%	12%	60%	108%	49%	52%	8%	10%	35%	35%	10%	35%	35%	10%
% Total Revenue	28%	65%	62%	23%	17%	25%	12%	9%	7%	8%	6%	5%	4%	4%	4%
Total Operating Expenses	46,214	11,336	12,162	15,809	19,500	58,807	90,400	51,632	63,795	83,849	110,238	136,641	179,467	235,783	293,149
Income From Operations	(21,533)	(8,404)	(9,230)	(2,877)	1,595	(18,916)	33,559	131,327	191,164	227,908	414,116	628,482	1,094,919	1,454,364	1,750,263
Operating margin	NM	NM	NM	NM	8%	NM	27%	72%	75%	73%	79%	82%	86%	86%	86%
Total Other Income (Expense), Net	134	31	(149)	(117)	229	(6)	1,650	1,959	2,322	2,753	3,586	5,084	7,547	11,270	16,133
Interest income	140	31	(149)	(117)	229	-6	1,650	1,959	2,322	2,753	3,586	5,084	7,547	11,270	16,133
Interest expense	-6	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pretax-Income	(21,399)	(8,373)	(9,379)	(2,994)	1,825	(18,921)	35,210	133,286	193,486	230,661	417,702	633,566	1,102,466	1,465,633	1,766,396
Income Tax Expense	0	0	0	0	0	0	13,028	49,316	71,590	85,345	154,550	234,420	407,913	542,284	653,566
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
Non-GAAP Net Income	(21,399)	(8,373)	(9,379)	(2,994)	1,825	(18,921)	22,182	83,970	121,896	145,316	263,152	399,147	694,554	923,349	1,112,829
Y/Y Change	NM	-19%	164%	-13%	-145%	-12%	-217%	279%	45%	19%	81%	52%	74%	33%	21%
Shares Outstanding	1,044	22,265	22,272	23,179	28,398	24,028	32,704	31,723	34,110	32,173	34,623	32,723	35,236	33,373	35,936
Non-GAAP EPS	(\$0.49)	(\$0.38)	(\$0.42)	(\$0.13)	\$0.06	(\$0.79)	\$0.68	\$2.65	\$3.57	\$4.52	\$7.60	\$12.20	\$19.71	\$27.67	\$30.97
Y/Y Change	NM	NM	NM	NM	NM	NM	NM	NM	NM	71%	113%	170%	159%	127%	57%
Options Expense	786	225	265	492	350	1,332	1,598	1,918	2,302	2,762	3,314	3,977	4,773	5,727	6,873
% Operating Income	NM	NM	NM	NM	21.9%	NM	4.8%	1.5%	1.2%	1.2%	0.8%	0.6%	0.4%	0.4%	0.4%
GAAP EPS	(\$21.25)	(\$0.39)	(\$0.43)	(\$0.15)	\$0.05	(\$0.84)	\$0.65	\$2.61	\$3.53	\$4.46	\$7.54	\$12.12	\$19.63	\$27.56	\$30.85

Source: Company data, Jefferies LLC estimates
December 3, 2013

OMED: Historical and Projected Changes in Financial Position

December 31 Fiscal Year (\$000s)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net income	(21,399)	(18,921)	22,182	83,970	121,896	145,316	263,152	399,147	694,554	923,349	1,112,829
Adjustments to reconcile net cash flows from operating activities:											
Depreciation and amortization	1,295	1,395	1,595	1,695	1,995	2,195	2,495	2,695	2,995	3,195	3,495
Deferred rent and other long-term liabilities	(12)										
Utilization of NOL carryforwards	-	-	13,028	35,524	-	-	-	-	-	-	-
Upfront/milestone payments	-	151,837	(37,959)	(37,959)	(37,959)	(37,959)	-	-	-	-	-
Total Adjustments	1,283	153,232	(23,337)	(740)	(35,964)	(35,764)	2,495	2,695	2,995	3,195	3,495
Changes in operating assets and liabilities:											
Accounts receivable	(4,023)	(2,535)	(14,011)	(9,833)	(12,000)	(9,466)	(35,433)	(40,128)	(84,877)	(69,293)	(58,877)
Prepaid expenses and other current	(3,411)										
Accounts payable and accrued liabilities	(3,184)										
Deferred revenue	(2,165)										
Other	(446)	(7,000)									
Net cash flows provided by operating activities	(33,345)	124,775	(15,166)	73,397	73,932	100,086	230,214	361,714	612,672	857,251	1,057,447
Cash flows from investing activities:											
Acquisitions, net of cash acquired	-										
Capital Expenditure	(714)	(1,000)	(2,000)	(3,000)	(4,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Net cash flows used in investing activities	(714)	(1,000)	(2,000)	(3,000)	(4,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Cash flows from financing activities:											
Proceeds (repurchases) from common stock	156	110,443	68,285	2,012	2,943	4,251	8,671	8,622	12,142	16,999	23,677
Proceeds (repayments) from borrowings	(346)										
Other	-										
Net cash flows used in financing activities	(190)	110,443	68,285	2,012	2,943	4,251	8,671	8,622	12,142	16,999	23,677
Net increase (decrease) in cash and cash equivalents	(34,249)	234,218	51,119	72,410	72,875	99,337	233,885	365,335	619,814	869,250	1,076,124
Exchange rate changes											
Cash and cash equivalents, beginning of the year	104,554	70,305	304,523	355,642	428,052	500,927	600,265	834,150	1,199,485	1,819,298	2,688,548
Cash and cash equivalents, end of the year	70,305	304,523	355,642	428,052	500,927	600,265	834,150	1,199,485	1,819,298	2,688,548	3,764,672

Source: Company data, Jefferies LLC estimates
December 3, 2013

OMED: Historical Condensed Balance Sheets

	12/31/2012	3/31/2013	6/30/2013	9/30/2013
Current assets:				
Cash and cash equivalents	16,263	9,937	16,173	11,092
Short-term investments	49,976	50,282	40,291	117,554
Receivables – related parties	4,023	23	23	23
Prepaid and other current assets	1,123	1,222	1,224	11,929
Total current assets	71,385	61,464	57,711	140,598
Property and equipment, net	5,462	5,190	4,884	4,569
Other assets	2,921	3,170	3,639	43
Total assets	79,768	69,824	66,234	145,210
Current liabilities:				
Accounts payable	849	809	812	2,101
Accrued liabilities	3,798	5,348	6,008	6,865
Current portion of deferred revenue	14,726	14,726	22,726	22,726
Current portion of deferred rent	560	579	596	610
Liability for shares issued with repurchase rights	14	12	11	10
Convertible preferred stock warrant liability	182	161	328	0
Total current liabilities	20,129	21,635	30,481	32,312
Deferred revenue, less current portion	17,320	14,388	11,457	8,525
Deferred rent, less current portion	3,750	3,598	3,460	3,303
Liability for shares issued with repurchase rights, less current portion	23	21	18	16
Total liabilities	41,222	39,642	45,416	44,156
Stockholder equity	-144,227	30,182	20,818	101,054
Total liabilities and stockholder equity	79,768	69,824	66,234	145,210

Source: Company data, Jefferies LLC estimates
December 3, 2013

Company Description

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I, Thomas Wei, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Company Specific Disclosures

Jefferies Group LLC makes a market in the securities or ADRs of OncoMed Pharmaceuticals.

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Within the past 12 months, Jefferies Group LLC, its affiliates or subsidiaries has received compensation from investment banking services from OncoMed Pharmaceuticals.

Within the past twelve months, OncoMed Pharmaceuticals has been a client of Jefferies LLC and investment banking services are being or have been provided.

Jefferies Group LLC, its affiliates or subsidiaries has acted as a manager or co-manager in the underwriting or placement of securities for OncoMed Pharmaceuticals or one of its affiliates within the past twelve months.

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Meanings of Jefferies Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Conviction List Methodology

1. The aim of the conviction list is to publicise the best individual stock ideas from Jefferies Global Research
2. Only stocks with a Buy or Underperform rating are allowed to be included in the recommended list.
3. Stocks are screened for minimum market capitalisation and adequate daily turnover. Furthermore, a valuation, correlation and style screen is used to ensure a well-diversified portfolio.
4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.
5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative to the current stock price. These are then assessed against existing holdings to ensure consistency. Stocks that have either reached their target price, been downgraded over the course of the month or where a more suitable candidate has been found are removed.
6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US\$.
8. The conviction list is published once a month whilst global equity markets are closed.
9. Transaction fees are not included.
10. All corporate actions are taken into account.

Risk which may impede the achievement of our Price Target

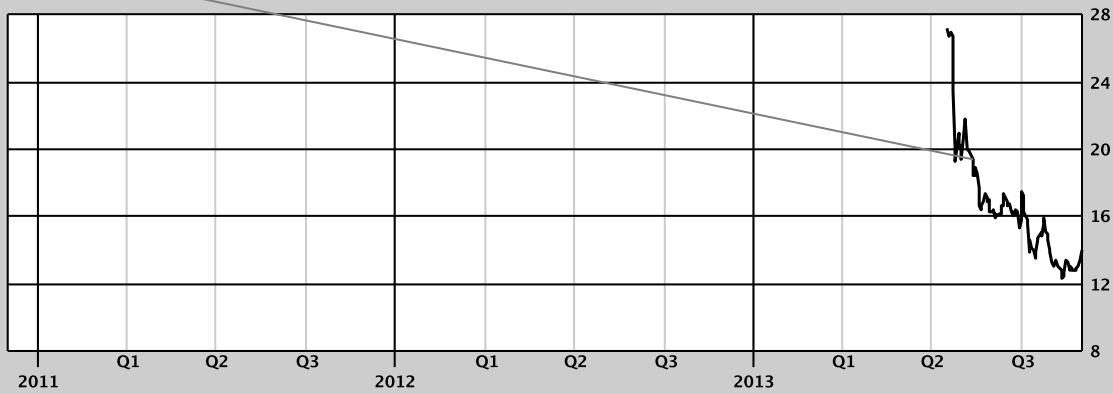
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Other Companies Mentioned in This Report

- Arena Pharmaceuticals, Inc. (ARNA: \$6.60, BUY)
- Dynavax Technologies Inc. (DVAX: \$1.78, BUY)
- Neurocrine Biosciences (NBIX: \$9.84, BUY)
- OncoMed Pharmaceuticals (OMED: \$27.70, BUY)
- Rigel Pharmaceuticals, Inc. (RIGL: \$2.64, BUY)

Rating and Price Target History for: OncoMed Pharmaceuticals (OMED) as of 12-02-2013

08/12/13
I:B:\$27



Rating and Price Target History for: Arena Pharmaceuticals, Inc. (ARNA) as of 12-03-2013

05/11/12
B:\$9

06/28/12
B:\$20

11/07/12
B:\$14

05/03/13
B:\$12



Rating and Price Target History for: Dynavax Technologies Inc. (DVAX) as of 12-03-2013



Rating and Price Target History for: Neurocrine Biosciences (NBIX) as of 12-02-2013



Rating and Price Target History for: Rigel Pharmaceuticals, Inc. (RIGL) as of 12-02-2013

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	843	48.09%	187	22.18%
HOLD	768	43.81%	119	15.49%
UNDERPERFORM	142	8.10%	2	1.41%

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