

Reason for report:

EARNINGS

ONCOMED PHARMACEUTICALS, INC.

1Q:14 Report -- Broad Portfolio, Strong Cash Position

• **Bottom Line:** OMED reported 1Q:14 results and provided an update on clinical development. Following a recent strong presence at the AACR, OMED will present new data from three Phase I/II programs (demcizumab in NSCLC, PINNACLE trial in small cell lung cancer, and OMP-54F28 in advanced solid tumor) at ASCO 2014. With 15 ongoing clinical trials targeting five anti-cancer stem cell therapies, we see continued advancement in clinical development with catalysts in the next 12-18 months. Additionally, cost-effective partnerships and a strong cash position can support operations through 2016. Our price target on OMED remains \$37.

• **Three presentations at ASCO 2014.** Updated data following initial presentation last fall on OMP-54F28 (anti-Fzd8-Fc), a decoy receptor for WNT ligands, will be presented in an oral presentation. Interim data from the OMP-59R5 (anti-Notch2/3) Phase Ib PINNACLE study in extensive-stage untreated small cell lung cancer, as well as an update of demcizumab (anti-DLL4) Phase Ib data in NSCLC, will also be presented at ASCO.

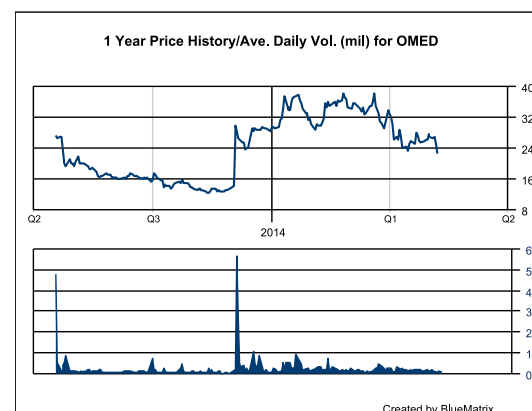
• **On-track clinical development.** OMED is on track to initiate the Phase II portion of the ALPINE trial in front-line pancreatic cancer and the PINNACLE trial in front-line small cell lung cancer for OMP-59R5 (anti-Notch2/3). Other updates include initiation of randomized Phase II trials for demcizumab, and an IND filing for OMP-305B83 (DLL4/VEGF bi-specific).

• **Model Updates.** OMED reported \$6M in total revenue and (\$0.47) in EPS for 1Q:14 vs. our estimates of \$16.5M/(\$0.19). The company ended the quarter with \$284M in cash, sufficient to support operations through 2016. The company reaffirmed guidance of \$90-95M in 2014 operating expenses and >\$215M in YE:14 cash. We update our model to reflect these changes. As a result, our revenue estimate changes from \$69M to \$47M, and our EPS forecast changes from (\$0.85) to (\$1.50), for 2014E.

Key Stats:

(NASDAQ:OMED)

S&P 600 Health Care Index:	1,199.05
Price:	\$22.63
Price Target:	\$37.00
Methodology:	Probability-weighted NPV, 10% discount rate
52 Week High:	\$42.34
52 Week Low:	\$12.07
Shares Outstanding (mil):	29.4
Market Capitalization (mil):	\$665.3
Book Value/Share:	\$(5.23)
Cash Per Share:	\$9.64
Dividend (ann):	\$0.00
Dividend Yield:	0.0%



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2013A	\$2.9	\$2.9	\$12.9	\$19.0	\$37.8	(\$0.39)	(\$0.43)	(\$0.15)	(\$0.15)	(\$1.93)	NM
2014E - New	\$6.0A	\$13.0	\$14.0	\$14.0	\$47.0	(\$0.47)A	(\$0.33)	(\$0.33)	(\$0.36)	(\$1.50)	NM
2014E - Old	\$16.5	\$17.5	\$17.5	\$17.5	\$69.0	(\$0.19)	(\$0.19)	(\$0.22)	(\$0.25)	(\$0.85)	NM
2015E - New	--	--	--	--	\$70.0	--	--	--	--	(\$0.77)	NM
2015E - Old	--	--	--	--	\$70.0	--	--	--	--	(\$0.87)	NM

Source: Company Information and Leerink Partners LLC Research

Revenues in M; EPS are GAAP. OMED went public via an IPO on 7/18/13.

INVESTMENT THESIS

OMED is the longest-standing cancer stem cell (CSC)-focused biotech company. It has a strong technology platform centered on the identifying and targeting of the critical pathways for cancer stem cells, coupled with monitoring specific surface markers. OMED has developed full pipeline assets internally and possesses a portfolio of 5 anti-CSC monoclonal antibodies in clinical development. The breadth of the pipeline with a sharp focus on CSC provides multiple shots on goal. All 5 of OMED's clinical candidates are first in class. Together with 2 additional candidates that are also likely first in class and could enter the clinic in 2014, OMED's portfolio of agents systematically target several of critically important pathways in cancer -- Notch, Wnt, and RSPO-LGR. Although the ultimate success remains to be proven clinically, validations of these targets include mutations identified in genome sequencing. All of OMED's candidates are antibodies or protein-based macromolecules, and its portfolio represents one of the largest clusters of biologics in a small-cap biotech company. OMED has formed partnerships with GSK (MP), Bayer and CELG (OP) to co-develop CSC therapeutics targeting the Notch, Wnt, RSPO-LGR and other undisclosed signaling pathways. The deals provided a cost-effective development path for OMED. In addition, these partnerships provide an independent validation for the platform and targeted CSC therapies. The partnership formed with CELG on demcizumab, the most advanced anti-DLL4 antibody targeting the DLL4/Notch signaling pathway, may alleviate some concerns on cardiovascular risk (seen as a class toxicity), which could be manageable through truncated dosing. Additionally, the bi-specific DLL4/VEGF candidate could provide enhanced activity while potentially mitigating CV toxicity owing to its VEGF target.

OMED – Upcoming Events

Drug	Time	Event
Notch Pathway		
OMP-59R5 (anti-Notch2/3)	2Q:14	Initiating Phase II portion of ALPINE in front line pancreatic cancer and PINNACLE in front line small cell lung cancer
	ASCO	Interim Phase Ib PINNACLE data in front line extensive-stage small cell lung cancer
Demcizumab ('21M18, anti-DLL4)	ASCO	Updated Phase 1b data in first line nonsquamous NSCLC
	2014	Initiation of Phase 2 (Paclitaxel+DEM) trials in platinum resistant ovarian cancer, NSCLC and pancreatic cancer
OMP-305B83 (DLL4/VEGF)	2014	IND filing
Wnt Pathway		
Vantictumab ('18R5, anti-Fzd7)	2014	Complete enrollment in 3 Phase I trials
OMP-54F28 (anti-Fzd8-Fc)	ASCO	Oral presentation of Phase Ia data in advanced solid tumors
	2014	Complete enrollment in 3 Phase I trials
RSPO-LGR Pathway		
	2014	IND filing

Source: Company Reports

VALUATION

Our valuation is \$37 for OMED. We assume the demcizumab, anti-DLL4/VEGF program and the other 8 partner candidates launch in the front-line settings for pancreatic cancer, NSCLC (non-small cell lung cancer) and ovarian cancer in 2019-22 in the U.S. and in 2020-23 in the EU. Our royalty assumption is 12-15% for two Notch inhibitors, 12-16% for the first Wnt inhibitor, 5-10% for the second Wnt inhibitor, 10-15% for demcizumab, 5-13% for other four biologic candidates partnered with CELG. Our projection for peak penetration is 12% for NSCLC, 20% for pancreatic cancer, and 18% for ovarian cancer in the U.S. Our projection for probability-weighted (10%) sales for each asset reaches \$245M by 2030, two years after patent expiration. We also assign a 2X terminal value multiple to account for challenging generic entry for large molecule drugs. Our valuation is based on NPV and sum-of-the-part analysis using a discount rate of 10%, which we believe is appropriate given probability-weighted sales projection.

RISK TO VALUATION

- Development risk – All of pipeline assets are still in early-stage clinical or preclinical development and they could fail at each development stage. OMED's agents have been all first-in-class. While this improved the upside upon success, the developmental risk may be higher.
- As therapies targeting cancer stem cells by design may only affect a small subpopulation of the tumor cells, observing an anti-tumor signal in early clinical development may be more challenging and demonstration of clinical efficacy may require a randomized study with a longer follow-up.
- Financing risk – OMED's cash could be sufficient to fund operations through the readout of most current ongoing/planned Phase I/II trials.

OMED Income Statement	2011A	2012A	2013A	Mar-14A	Jun-14E	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E
Collaboration revenue - related party	3,365	15,970	1,972	0				0	0		
Collaboration revenue	28,000	8,689	35,807	6,015	13,000	14,000	14,000	47,015	70,000	72,000	142,000
Grant revenue	44	22	0					0			
Demcizumab sales											
Royalties											
Total revenue	31,409	24,681	37,779	6,015	13,000	14,000	14,000	47,015	70,000	72,000	142,000
COGS											
% of revenue											
R&D	40,058	39,893	50,048	16,709	17,709	18,709	19,709	72,836	75,021	77,272	79,590
G&A	6,591	7,157	11,630	3,213	5,000	5,000	5,000	18,213	18,759	20,635	22,699
% of revenue											
Total operating expenses	46,649	47,050	61,678	19,922	22,709	23,709	24,709	91,049	93,780	97,907	102,289
Net income (loss) from operations	(15,240)	(22,369)	(23,899)	(13,907)	(9,709)	(9,709)	(10,709)	(44,034)	(23,780)	(25,907)	39,711
Interest expenses	(38)	(6)	0					0	0	0	
Other income	244	140	(228)	36				0	0	0	
Total other income (expenses)	206	134	(228)	36	0	0	0	0	0	0	0
Net income (loss) before income taxes	(15,034)	(22,235)	(24,127)	(13,871)	(9,709)	(9,709)	(10,709)	(44,034)	(23,780)	(25,907)	39,711
Provision (benefit) for income taxes	0	0	1,944					0	0		
Tax rate											
Net income (loss)	(15,034)	(22,235)	(26,071)	(13,871)	(9,709)	(9,709)	(10,709)	(44,034)	(23,780)	(25,907)	39,711
Net loss per share	(15.40)	(21.30)	(1.93)	(0.47)	(0.33)	(0.33)	(0.36)	(1.50)	(0.77)	(0.80)	1.08
Basic shares	976	1,044	13,530	29,443	29,446	29,449	29,452	29,448	30,920	32,466	34,089
Dilutive shares			26,795	31,943	31,946	31,949	31,952	31,948	33,445	35,016	36,665

Source: Company Reports and Leerink Partners

Disclosures Appendix

Analyst Certification

I, Howard Liang, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

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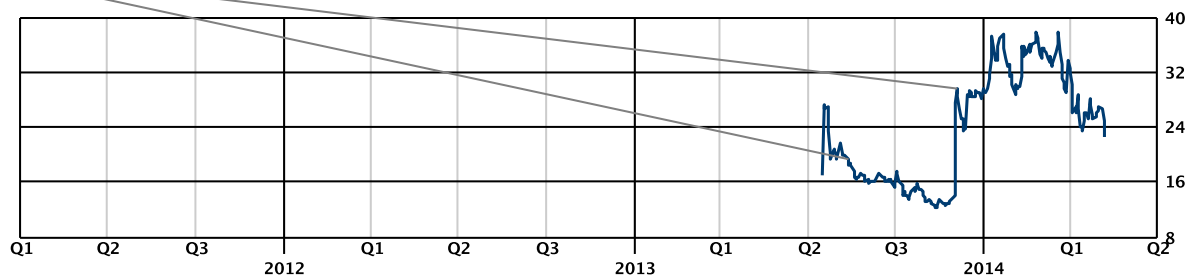
Rating and Price Target History for: OncoMed Pharmaceuticals, Inc. (OMED) as of 05-08-2014

08/12/13

I:OP:\$27

12/04/13

OP:\$37



On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Rating and Price Target History for: Celgene, Inc. (CELG) as of 05-08-2014

07/26/13

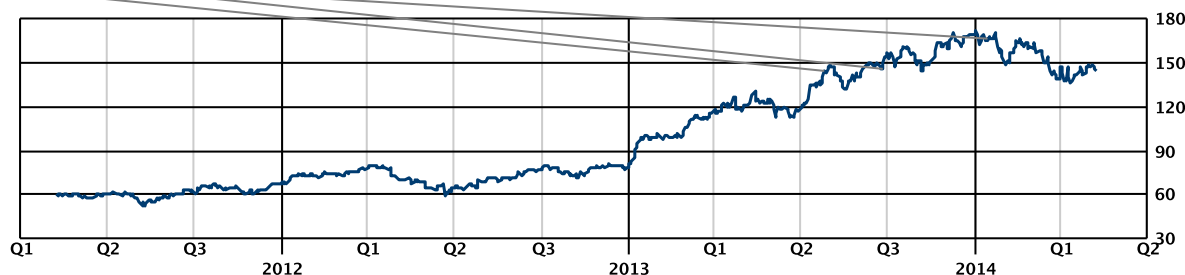
OP:\$165

09/25/13

OP:\$177

01/14/14

OP:\$197



Leerink Swann initiated coverage of CELG with an Outperform rating on February 7, 2003. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

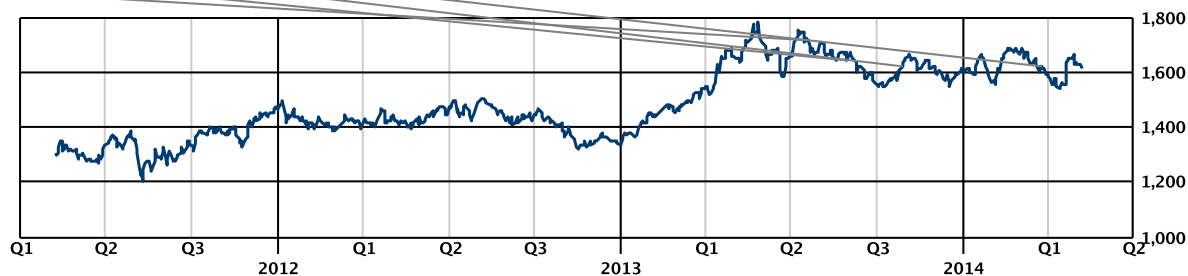
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Rating and Price Target History for: GlaxoSmithKline plc (GSK LN) as of 05-08-2014

07/17/13
MP:1830p

08/30/13
MP:1836p

10/28/13
MP:1715p

03/26/14
MP:1654p


Leerink Swann initiated coverage of GSK LN with a Market Perform rating on Nov. 24, 2009. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Distribution of Ratings/Investment Banking Services (IB) as of 03/31/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	131	68.23	46	35.11
HOLD [MP]	61	31.77	3	4.92
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

Important Disclosures

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MEDACorp is a network of healthcare professionals, attorneys, physicians, key opinion leaders and other specialists accessed by Leerink and it provides information used by its analysts in preparing research.

In the past 12 months, the Firm has received compensation for providing investment banking services to OncoMed Pharmaceuticals, Inc. .

Leerink Partners LLC makes a market in OncoMed Pharmaceuticals, Inc. and Celgene, Inc.

Leerink Partners LLC is willing to sell to, or buy from, clients the common stock of GlaxoSmithKline plc on a principal basis.

Leerink Partners LLC has acted as the manager for a public offering of OncoMed Pharmaceuticals, Inc. in the past 12 months.

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