

# OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

LIVE@AACR: Multiple Presentations on OncoMed's Rich Pipeline

## CONCLUSION

We are attending the American Association for Cancer Research (AACR) meeting in San Diego where OncoMed gave 9 presentations on its drug discovery approach and clinical/preclinical pipeline. We look for clinical validation of the pipeline to drive value this year, with presentations at ASCO in June and ESMO in September. OncoMed ended 2013 with \$316 million in cash including the Celgene upfront and a \$15 million milestone from Bayer for vantiactumab and OMP-54F28. We reiterate our Overweight rating and \$48 price target.

- **Oral Presentation.** On Saturday April 5th, Dr. Tim Hoey, SVP of Cancer Biology, gave an oral presentation highlighting the role of OncoMed's patient-derived tumor samples in identifying and researching novel Cancer Stem Cell (CSC) pathways and drugs. From this engine OncoMed has moved five, soon to be seven, biotherapeutics into the clinic.
- **Demcizumab.** Dr. Hoey also presented Poster #1898 showing that demcizumab (anti-DLL4 antibody) is synergistic with Abraxane and gemcitabine in pancreatic xenograft models. Following strong demcizumab data at ASCO-GI in January, OncoMed will initiate a Phase II trial of demcizumab + gemcitabine + abraxane in 1st-line pancreatic cancer. Celgene could opt in to co-promote Demcizumab after Phase II.
- **OMP-59R5.** Abstract #910 identified Notch3 as a biomarker for OncoMed's anti-Notch2/3 antibody OMP-59R5. At ASCO-GI, OncoMed reported Phase Ib ALPINE data on OMP-59R5 that showed no DLTs with 3 PRs and 3 patients with SD for a DCR of 77%. OncoMed will begin the Phase II portion of this trial soon. Poster #3048 showed that OMP-59R5 is active in a squamous cell lung cancer (SCLC) xenograft model. OMP-59R5 is also currently in the Phase Ib/II PINNACLE study in SCLC patients with data due later this year. OMP-59R5 is partnered with GSK.
- **Wnt Pathway.** Poster #2830 identified a novel 6-gene signature associate with vantiactumab response to be used in the ongoing Phase Ib trial in breast cancer patients. Abstract #1907 showed that OMP-54F28 (FZD8-Fc) is active in liver and ovarian cancer xenograft models. OncoMed has initiated 3 Phase Ib trials of OMP-54F28: with Nexavar in first-line metastatic hepatocellular cancer, with carboplatin and paclitaxel in platinum sensitive ovarian cancer and with Abraxane and gemcitabine in pancreatic cancer. Both vantiactumab and OMP-54F28 are partnered with Bayer.

## 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	21.0x	(0.39)	(0.41)	(0.15)	(0.08)	(0.85)	NM
2014E	11.9	28.9	3.9	21.9	66.7	11.9x	(0.29)	0.22	(0.65)	(0.10)	(0.83)	NM
2015E	—	—	—	—	57.8	13.8x	—	—	—	—	(1.02)	NM

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

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OncoMed Pharmaceuticals, Inc.

PRICE: US\$26.95

TARGET: US\$48.00

Proj EV of \$1.15B + YE:14E cash

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$48.00
FY14E Rev (mil)	—	US\$66.7
FY15E Rev (mil)	—	US\$57.8
FY14E EPS	—	US\$(0.83)
FY15E EPS	—	US\$(1.02)

52-Week High / Low US\$42.34 / US\$12.07  
Shares Out (mil) 29.5

Source: Form 10K as of March 11, 2014

Market Cap. (mil)	US\$795.0
Avg Daily Vol (ooo)	250
Book Value/Share	US\$4.01
Net Cash Per Share	US\$10.73
Debt to Total Capital	0%
Div (ann)	NA
Fiscal Year End	Dec

## Price Performance - 1 Year



Source: Bloomberg

- **Preclinical Programs.** On Sunday afternoon, Poster #207 highlighted dual targeting of DLL4 and VEGF, on which OncoMed will file an IND on OMP-305B83 in 2H:14. Also Monday morning, Poster #1764 reviewed activity of novel R-spondin (RSPO) antibodies in several xenograft models. OncoMed intends to file an IND for this program in late 2014/early 2015. Both of these antibodies are part of the Celgene collaboration.
- **Strong Balance Sheet.** In November, OncoMed signed a transformative alliance with Celgene covering demcizumab, the bi-specific anti-DLL/VEGF antibody, plus four preclinical antibodies. OncoMed received \$177 million upfront and stands to receive up to \$3.15 billion in milestones. Importantly, OncoMed maintained development control. If Celgene opts in, OncoMed retains a 50/50 profit split in the U.S. with healthy double-digit OUS royalties. As a result of this deal, OncoMed ended 2013 with cash of \$316 million.

## INVESTMENT RECOMMENDATION

We reiterate our Overweight rating and \$48 price target based on a projected enterprise value of \$1.15B. We value OncoMed's portion of demcizumab at \$396M by applying the same 10x multiple to 2021 profit share of \$533M, discounted back at 45%. We value four preclinical antibodies partnered with Celgene at \$50M each.

We value OMP-59R5 (partnered with GSK) at \$404M by applying a 10x multiple to OncoMed's royalties on 2021 U.S. sales in pancreatic and small cell cancer of \$544M, 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 \$150M for the rest of OncoMed's partnered cancer antibody pipeline, which we will adjust based on +/- clinical results.

We add YE:14 net cash of \$299M, down from \$316M. OncoMed has no meaningful long-term debt. We divide our projected market capitalization of \$1.45B by 30.5M shares at YE:14.

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

April 8, 2014

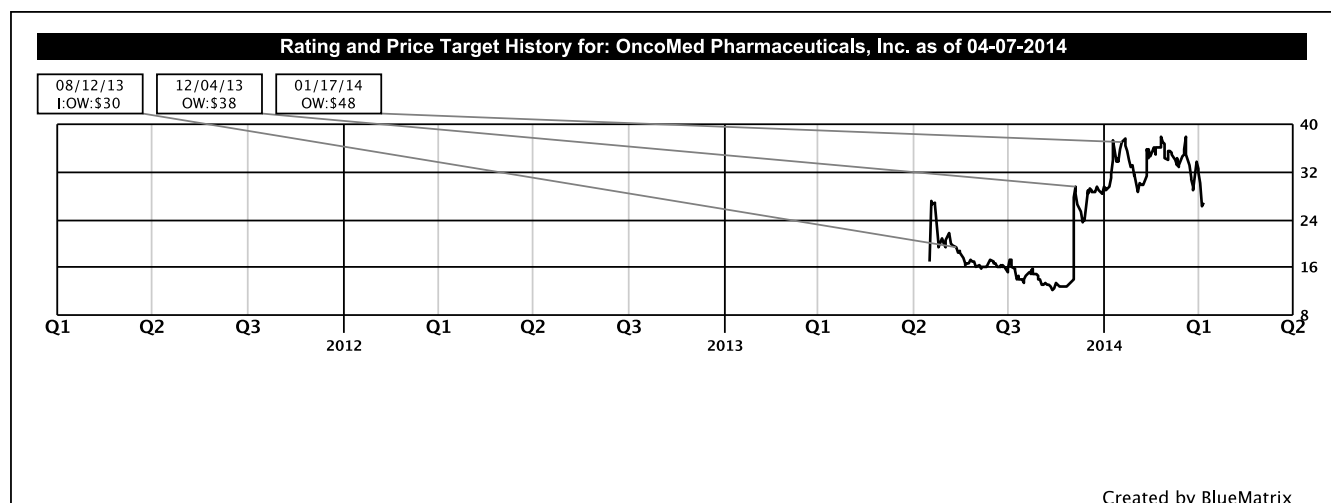
	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QA</u>	<u>2013A</u>	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>	<u>2014E</u>
<b>Revenues:</b>												
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$18,983	\$37,778	\$11,932	\$28,932	\$3,932	\$21,932	\$66,726	\$57,756
Grants	22	0	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>\$18,983</b>	<b>\$37,778</b>	<b>\$11,932</b>	<b>\$28,932</b>	<b>\$3,932</b>	<b>\$21,932</b>	<b>\$66,726</b>	<b>\$57,756</b>
<b>Operating Expenses:</b>												
Research and Development	\$39,893	\$9,576	\$10,475	\$13,126	\$16,871	\$50,048	\$17,000	\$18,000	\$19,000	\$20,000	\$74,000	\$70,000
General and Administrative	7,157	1,985	1,952	3,175	4,518	11,630	4,000	4,500	4,500	5,000	18,000	20,000
<b>Total Operating Expenses</b>	<b>\$47,050</b>	<b>\$11,561</b>	<b>\$12,427</b>	<b>\$16,301</b>	<b>\$21,389</b>	<b>\$61,678</b>	<b>\$21,000</b>	<b>\$22,500</b>	<b>\$23,500</b>	<b>\$25,000</b>	<b>\$92,000</b>	<b>\$90,000</b>
<b>Operating Loss</b>	<b>(\$22,369)</b>	<b>(\$8,630)</b>	<b>(\$9,496)</b>	<b>(\$3,369)</b>	<b>(\$2,406)</b>	<b>(\$23,900)</b>	<b>(\$9,069)</b>	<b>\$6,432</b>	<b>(\$19,569)</b>	<b>(\$3,069)</b>	<b>(\$25,274)</b>	<b>(\$32,244)</b>
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)	\$50	\$45	\$40	\$35	\$170	\$100
<b>Pretax Loss</b>	<b>(\$22,235)</b>	<b>(\$8,598)</b>	<b>(\$9,645)</b>	<b>(\$3,486)</b>	<b>(\$2,399)</b>	<b>(\$24,128)</b>	<b>(\$8,598)</b>	<b>\$6,477</b>	<b>(\$19,529)</b>	<b>(\$3,034)</b>	<b>(\$25,104)</b>	<b>(\$32,144)</b>
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
<b>Net Loss</b>	<b>(\$22,235)</b>	<b>(\$8,598)</b>	<b>(\$9,645)</b>	<b>(\$3,486)</b>	<b>(\$2,399)</b>	<b>(\$24,128)</b>	<b>(\$8,598)</b>	<b>\$6,477</b>	<b>(\$19,529)</b>	<b>(\$3,034)</b>	<b>(\$25,104)</b>	<b>(\$32,144)</b>
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	22.4%	NM	NM	NM	NM
<b>Net Loss per Share</b>	<b>(\$1.00)</b>	<b>(\$0.39)</b>	<b>(\$0.41)</b>	<b>(\$0.15)</b>	<b>(\$0.08)</b>	<b>(\$0.85)</b>	<b>(\$0.29)</b>	<b>\$0.22</b>	<b>(\$0.65)</b>	<b>(\$0.10)</b>	<b>(\$0.83)</b>	<b>(\$1.02)</b>
Shares Outstanding	22,224	22,265	23,763	23,179	28,361	28,361	29,750	30,000	30,250	30,500	30,125	31,500

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

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	353	59.83	86	24.36
HOLD [N]	217	36.78	21	9.68
SELL [UW]	20	3.39	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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