

OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Cash Of \$316M. Look For Clinical Validation To Drive Data In 2014

CONCLUSION

OncoMed ended 2013 with \$316M in cash including the Celgene upfront and a \$15M milestone from Bayer for vantictumab and OMP-54F28. Management provided operating expense guidance of \$90-\$95M primarily due to increased clinical trial costs as the company advances its cancer antibody pipeline. We look for clinical validation of OncoMed's pipeline with multiple data read-outs at AACR in early April and ASCO in June. We reiterate our Overweight rating and \$48 price target.

- **Strong balance sheet thanks to CELG alliance.** In November, OncoMed signed a transformative alliance with Celgene covering demcizumab, the bi-specific anti-DLL/VEGF antibody, plus four preclinical antibodies. OncoMed received \$177M upfront and stands to receive up to \$3.15B 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 \$316M.
- **Demcizumab active in pancreatic cancer.** Following strong demcizumab data presented 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 at any point after the Phase II trials.
- **OMP-59R5 also active in pancreatic cancer.** Recently Phase Ib ALPINE data for OMP-59R5 (anti-Notch 2/3) showed no dose limiting toxicities and achieved three PRs and three SD patients for a DCR of 77%. OncoMed will begin the Phase II portion of the ALPINE trial in 2Q:14.
- **OMP-54F28 progressing.** This quarter, OncoMed initiated three Phase Ib trials evaluating OMP-54F28, which targets the Wnt signaling pathway and is partnered with Bayer. The first study examines OMP-54F28 with Nexavar (sorafenib) in metastatic first-line hepatocellular cancer patients. The second Phase Ib trial is evaluating OMP-54F28 with carboplatin and paclitaxel in platinum sensitive ovarian cancer. The third Phase Ib trial examines OMP-54F28 in combination with Abraxane and gemcitabine in pancreatic cancer. Each study is intended to determine optimal Phase II dosing.

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.

PRICE: US\$36.02

Note: Price as of the close March 19, 2014.

TARGET: US\$48.00

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

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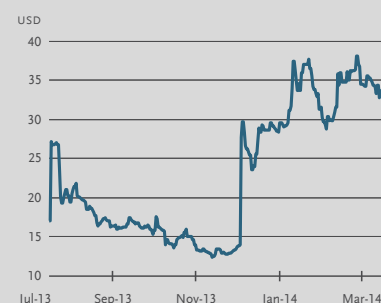
Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$48.00
FY14E Rev (mil)	US\$58.7	US\$66.7
FY15E Rev (mil)	—	US\$57.8
FY14E EPS	US\$(0.37)	US\$(0.83)
FY15E EPS	—	US\$(1.02)

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\$1,062.6
Avg Daily Vol (ooo)	251
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

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	20.0	37.8	28.1x	(0.39)	(0.41)	(0.15)	(0.08)	(0.85)	NM
2014E	11.9	28.9	3.9	21.9	66.7	15.9x	(0.29)	0.22	(0.65)	(0.10)	(0.83)	NM
2015E	—	—	—	—	57.8	18.4x	—	—	—	—	(1.02)	NM

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

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OncoMed Pharmaceuticals, Inc.

BUSY AACR MEETING

At the upcoming 2014 American Association for Cancer Research (AACR) being held April 5-9 in San Diego, OncoMed has multiple posters/presentations on tap examining several of the company's pipeline products including: Demcizumab (Anti-Dll4), OMP-59R5 (Anti-Notch2/3), Anti-RSPO-LGR, OMP-54F28 (Fzd8-Fc), and OMP-18R5 (anti-Frizzled).

Abstract 1898: "The combination of gemcitabine/nab-paclitaxel and anti-DLL4 (demcizumab) produces synergistic growth inhibition, delays tumor recurrence and reduces tumor initiating cells in pancreatic cancer."

Abstract 910: "NOTCH3 expression is predictive of efficacy in pancreas tumor models treated with OMP-59R5, a monoclonal antibody targeting the NOTCH2 and NOTCH3 receptors," could provide insights for demcizumab and OMP-59R5 in pancreatic cancer.

Both drug candidates are set to enter the Phase II portion of pancreatic cancer trials in 2Q:14.

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)

March 19, 2014

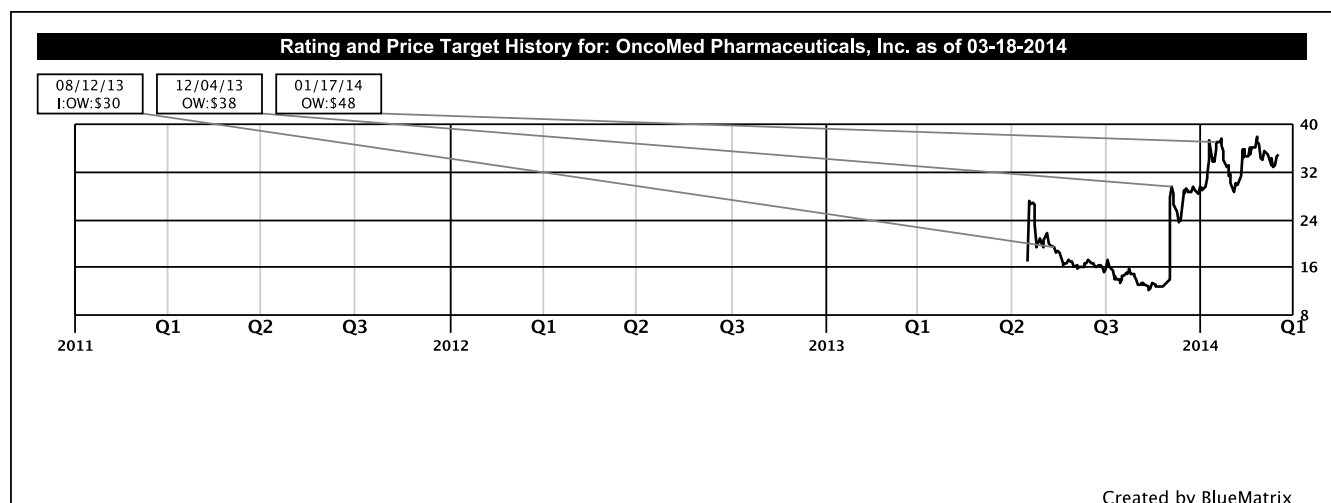
	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QA</u>	<u>2013A</u>	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>	<u>2014E</u>
Revenues:												
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$18,983	\$37,778	\$11,932	\$28,932	\$3,932	\$21,932	\$66,726	\$57,756
Grants	22	0	0	0	0	0	0	0	0	0	0	0
Total Revenues	\$24,681	\$2,932	\$2,932	\$12,932	\$18,983	\$37,778	\$11,932	\$28,932	\$3,932	\$21,932	\$66,726	\$57,756
Operating Expenses:												
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
Total Operating Expenses	\$47,050	\$11,561	\$12,427	\$16,301	\$21,389	\$61,678	\$21,000	\$22,500	\$23,500	\$25,000	\$92,000	\$90,000
Operating Loss	(\$22,369)	(\$8,630)	(\$9,496)	(\$3,369)	(\$2,406)	(\$23,900)	(\$9,069)	\$6,432	(\$19,569)	(\$3,069)	(\$25,274)	(\$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)	\$50	\$45	\$40	\$35	\$170	\$100
Pretax Loss	(\$22,235)	(\$8,598)	(\$9,645)	(\$3,486)	(\$2,399)	(\$24,128)	(\$8,598)	\$6,477	(\$19,529)	(\$3,034)	(\$25,104)	(\$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)	(\$8,598)	(\$9,645)	(\$3,486)	(\$2,399)	\$24,127	(\$8,598)	\$6,477	(\$19,529)	(\$3,034)	(\$25,104)	(\$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	(\$0.29)	\$0.22	(\$0.65)	(\$0.10)	(\$0.83)	(\$1.02)
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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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]	351	58.99	81	23.08
HOLD [N]	224	37.65	23	10.27
SELL [UW]	20	3.36	0	0.00

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