

OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

GSK-Novartis Oncology Deal No Cause for Concern; 3 Abstracts at ASCO

CONCLUSION

Yesterday, GlaxoSmithKline (GSK) and Novartis announced a major transaction involving the companies' Consumer Healthcare, Vaccines and Oncology businesses. Most relevant to OncoMed, GSK is selling its commercial oncology assets and Akt inhibitor to Novartis; however, it will retain its Discovery units and ongoing partnerships including with OncoMed for the Notch pathway. Thus we see no near-term negative impact and in fact OncoMed may gain a strong future commercial partner in Novartis. We look for clinical validation of OncoMed's pipeline to drive value this year. This morning the company announced an oral presentation and 2 posters have been accepted at ASCO in June. OncoMed ended 2013 with \$316 million in cash. We reiterate our Overweight rating and \$48 price target.

- **GSK-Novartis deal: no real impact to OncoMed.** Under a major transaction announced today, GSK is selling its commercial oncology assets and Akt inhibitor to Novartis for upwards of \$16 billion. Importantly, GSK will retain its Discovery units and ongoing partnerships including with OncoMed for the Notch pathway including OMP-59R5 and OMP-52M51.
- **Oral presentation at ASCO.** Dr. Antonio Jimeno from Colorado will present first-in-man solid tumor data on OMP-54F28 (FZD8-Fc) targeting the WNT pathway, on Saturday, May 31. (Abstract# 2505) OncoMed has initiated 3 Phase Ib trials of OMP-54F28: with Nexavar in first-line liver cancer, with carboplatin and paclitaxel in platinum sensitive ovarian cancer and with Abraxane and gemcitabine in pancreatic cancer. OMP-54F28 is partnered with Bayer.
- **Phase Ib OMP-59R5 poster.** Also on Saturday, May 31, researchers will present Phase Ib data from the PINNACLE study of OMP-59R5 (anti-Notch2/3) with etoposide and cisplatin in small-cell lung cancer patients. (Abstract# 7601) At ASCO-GI in January, preliminary Phase Ib ALPINE data on OMP-59R5 in pancreatic cancer patients showed no DLTs with 3 PRs and 3 patients with SD for a DCR of 77%. OMP-59R5 is partnered with GSK.
- **Phase Ib Demcizumab poster.** Researchers will present a poster on Sunday, June 1 reporting Phase Ib data on demcizumab + *Alimta* + carboplatin in first-line non-small cell lung cancer (NSCLC) patients. (Abstract # 2544) Demcizumab has already shown compelling activity in combination with Abraxane + gemcitabine in 1st-line pancreatic cancer. Celgene can opt in to co-promote Demcizumab after Phase II.

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\$28.13

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\$829.8	
Avg Daily Vol (ooo)	216	
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	19.0	37.8	22.0X	(0.39)	(0.41)	(0.15)	(0.08)	(0.85)	NM
2014E	11.9	28.9	3.9	21.9	66.7	12.4X	(0.29)	0.22	(0.65)	(0.10)	(0.83)	NM
2015E	—	—	—	—	57.8	14.4X	—	—	—	—	(1.02)	NM

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

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INVESTMENT RECOMMENDATION

We reiterate our Overweight rating and \$48 price target based on a projected enterprise value of \$1.15 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 \$150 million 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 \$299 million. OncoMed has no meaningful long-term debt. We divide our projected market capitalization of \$1.45 billion by 30.5 million shares at YE:14.

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

April 8, 2014

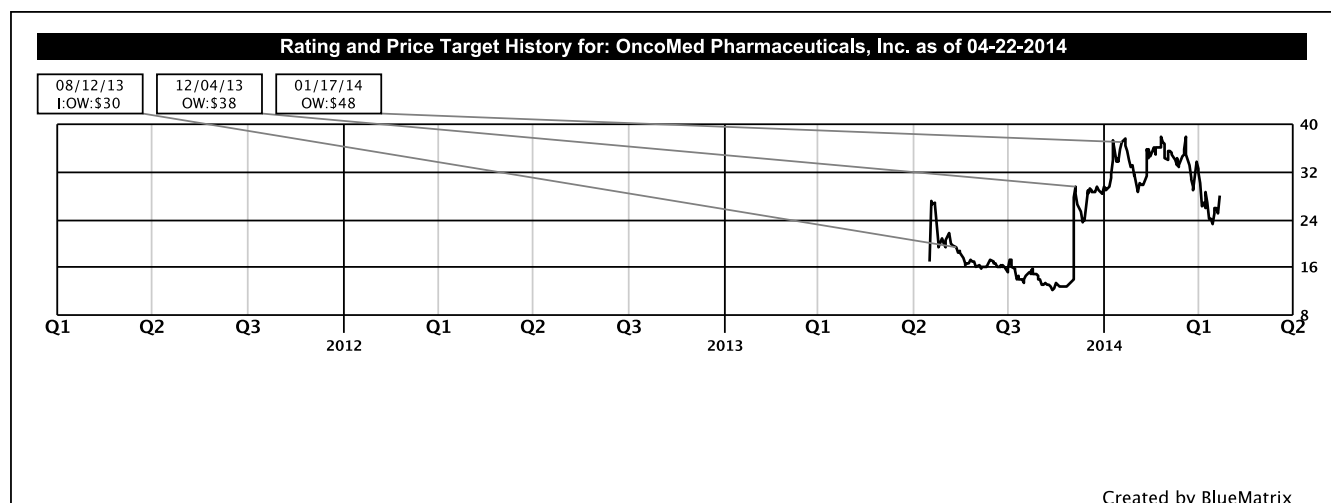
	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QA</u>	<u>2013A</u>	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>	<u>2014E</u>
Revenues:												
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$18,983	\$37,778	\$11,932	\$28,932	\$3,932	\$21,932	\$66,726	\$57,756
Grants	22	0	0	0	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)	(\$24,128)	(\$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
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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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	357	61.03	86	24.09
HOLD [N]	208	35.56	20	9.62
SELL [UW]	20	3.42	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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