OncoMed Pharmaceuticals, Inc. (OMED) — Overweight

Busy ASCO Highlights Emerging Pipeline; Reiterate Overweight

CONCLUSION

OncoMed presented 3 abstracts at the American Society of Clinical Oncology (ASCO) meeting this weekend. We saw positive data from the first-in-man study of OMP-54F28, which targets the WNT pathway in patients with advanced solid tumors. We also saw intriguing data evaluating OMP-59R5 (anti-Notch2/3) in small cell lung cancer (SCLC), as well as data with gemcizumab in NSCLC patients. These positive data sets further validate OncoMed's rich cancer pipeline and we look forward to seeing additional data releases as well as trial initiations later this year. We reiterate our Overweight rating and $48 price target.

- **Oral Presentation on First-in Man Data for OMP-54F28.** Dr. Antonio Jimeno from Colorado presented first-in-man solid tumor data on OMP-54F28 (FZD8-Fc) targeting the WNT pathway. The study included 26 patients and showed a relatively clean safety profile for OMP-54F28, with grade 1 or 2 AEs predominating. The DLT was seen in the 20mg/kg every 3-week cohort, which is 2x the target dose to be used in future studies. Although examining efficacy was not the primary objective, 9 patients evaluated achieved stable disease including 3 for >6-months. We are encouraged by these initial signs of activity in such a highly pretreated population. OncoMed has initiated 3 additional 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.

- **OMP-59R5 Active in SCLC.** Researchers also presented Phase Ib data examining OMP-59R5 (anti-Notch2/3) with etoposide and cisplatin in SCLC patients. OMP-59R5 is partnered with GSK. Overall, the study showed that the drug was well tolerated up to 10mg/kg in 11 evaluable patients for safety and a DLT of grade 3 nausea at that dose. Of the 10 patients evaluable for efficacy, changes in the radiographic target lesions indicate that the drug could be inducing tumor shrinkage. Based on the results from this trial, a Phase II study looking at this combination in patients with high expression of the Notch 3 biomarker should begin before year end.

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$22.60
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$60.8
FY15E Rev (mil)	—	US$57.8
FY14E EPS	—	US$(1.00)
FY15E EPS	—	US$(1.02)

52-Week High / Low	US$42.34 / US$12.07
Shares Out (mil)	29.6
Source: Form 10K as of March 11, 2014	
Market Cap. (mil)	US$669.0
Avg Daily Vol (000)	173
Book Value/Share	US$3.58
Net Cash Per Share	US$9.61
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	17.7x	(0.39)	(0.41)	(0.15)	(0.08)	(0.85)	NM
2014E	6.0A	28.9	3.9	21.9	60.8	11.0x	(0.47)A	0.22	(0.65)	(0.10)	(1.00)	NM
2015E	—	—	—	—	57.8	11.6x	—	—	—	—	(1.02)	NM

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

- **Phase Ib Demcizumab in NSCLC.** This trial that looked at demcizumab + Alimta + carboplatin in first-line non-small cell lung cancer (NSCLC) patients. The results from this study indicate strong activity for demcizumab in this population. In the 39 patient population, there was 1 complete responder (CR), 13 partial responders (PR) and 14 achieved stable disease (SD). Median progression free survival in the 5mg/kg cohort (N=20) was 5.3 months at the time of this readout. Based on the strength of this data, a Phase II trial in 1st line non-squamous NSCLC is set to begin this year. This study adds to the growing dataset that shows potential for Demcizumab, which 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.

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.

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

May 8, 2014

	2012A	1QA	2QA	3QA	4QA	2013A	1QA	2QE	3QE	4QE	2014E	2015E
Revenues:												
Collaborative R&D	$24,659	$2,932	$2,932	$12,932	$18,983	$37,778	$6,015	$28,932	$3,932	$21,932	$60,810	$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**	**$6,015**	**$28,932**	**$3,932**	**$21,932**	**$60,810**	**$57,756**
Operating Expenses:												
Research and Development	$39,893	$9,576	$10,475	$13,126	$16,871	$50,048	$16,709	$18,000	$19,000	$20,000	$73,709	$70,000
General and Administrative	7,157	1,985	1,952	3,175	4,518	11,630	3,213	4,500	4,500	5,000	17,213	20,000
Total Operating Expenses	**$47,050**	**$11,561**	**$12,427**	**$16,301**	**$21,389**	**$61,678**	**$19,922**	**$22,500**	**$23,500**	**$25,000**	**$90,922**	**$90,000**
Operating Loss	**($22,369)**	**($8,630)**	**($9,496)**	**($3,369)**	**($2,406)**	**($23,900)**	**($13,907)**	**$6,432**	**($19,569)**	**($3,069)**	**($30,113)**	**($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)	$36	$45	$40	$35	$156	$100
Pretax Loss	**($22,235)**	**($8,599)**	**($9,645)**	**($3,486)**	**($2,399)**	**($24,128)**	**($13,871)**	**$6,477**	**($19,529)**	**($3,034)**	**($29,957)**	**($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)**	**($8,599)**	**($9,645)**	**($3,486)**	**($2,399)**	**($24,128)**	**($13,871)**	**$6,477**	**($19,529)**	**($3,034)**	**($29,957)**	**($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)**	**($0.47)**	**$0.22**	**($0.65)**	**($0.10)**	**($1.00)**	**($1.02)**
Shares Outstanding	22,224	22,265	23,763	23,179	28,361	28,361	29,443	29,750	30,250	30,500	29,986	31,500

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

Current disclosure information for this company can be found at http://www.piperjaffray.com/researchdisclosures.

For up-to-date disclosure info on this company, please visit
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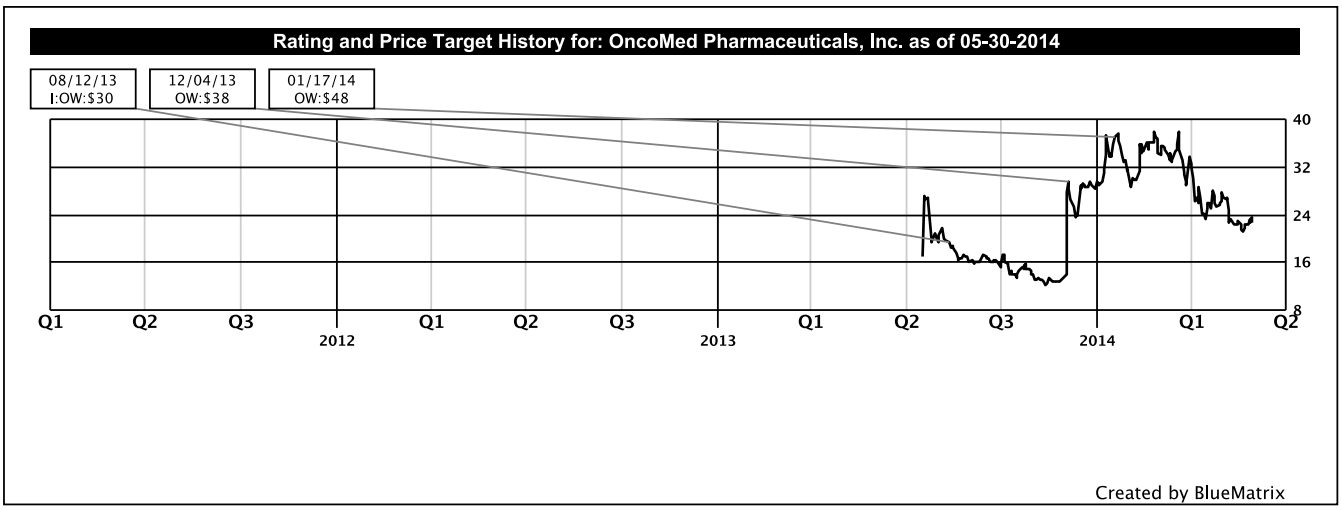

Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

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I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services
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			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OW]	353	61.71	89	25.21
HOLD [N]	203	35.49	20	9.85
SELL [UW]	16	2.80	0	0.00

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