

OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Pullback Offers Attractive Entry Point Ahead of Clinical Data

CONCLUSION

OncoMed was granted a 4th U.S. patent #8,628,774 on the RSPO-LGR pathway. OncoMed expects to file an IND for an anti-RSPO3 antibody in late'14/early'15, which could be selected under the Celgene Mega-alliance. We look for additional clinical validation of OncoMed's pipeline with multiple data read-outs at ASCO in June. OncoMed holds cash of \$326 million to advance this rich antibody pipeline. We reiterate our Overweight rating and \$48 price target.

- **Strong IP Estate.** U.S. #9,628,774 is a method patent that covers antibodies targeting Leucine-rich repeat-containing G protein-coupled Receptor (LGR) proteins in order to disrupt the RSPO-LGR signaling pathway. We expect an anti-RSPO3 antibody to enter clinic around year-end, which could be selected under the Celgene alliance.
- **Transformative Alliance with Celgene.** In November, OncoMed signed a transformative alliance with Celgene covering demcizumab, the bi-specific anti-DLL/VEGF antibody, plus 4 preclinical antibodies targeting either RSPO-LGR and/or an undisclosed CSC pathway. 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.
- **Demcizumab Active in Pancreatic Cancer.** Last month, OncoMed reported initial Phase Ib data on anti-DLL4 antibody demcizumab in combination with gemcitabine and Abraxane at ASCO-GI. An impressive 50% (3/6) of patients achieved a partial response (PR) plus 2 patients with stable disease for an DCR of 83%. Based on these results, OncoMed will initiate a Phase II trial of demcizumab + gemcitabine + abraxane in 1st-line pancreatic cancer in 2H:14. Celgene could opt in to co-promote Demcizumab at any point after the Phase II trials.
- **OMP-59R5 Also Active in Pancreatic Cancer.** Also at ASCO-GI, OncoMed reported Phase Ib ALPINE data on OMP-59R5 (anti-Notch 2/3). A total of 27 patients were evaluable at OMP-59R5 doses ranging from 2.5-12.5mg/kg, of whom 18 were combined with gemcitabine + Abraxane. No DLTs have been observed to date and 6/13 (46%) evaluable triple combo patients achieved a PR and 3 had stable disease equating to a DCR of 77%. OncoMed will begin the Phase II portion of the ALPINE trial in 2Q:14.

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
2012A	—	—	—	—	24.7	35.9x	—	—	—	—	(1.00)	NM
2013E	2.9A	2.9A	12.9A	25.9	44.7	19.8x	(0.39)A	(0.41)A	(0.15)A	0.33	(0.61)	NM
2014E	3.9	28.9	3.9	21.9	58.7	15.1x	(0.41)	0.38	(0.45)	0.10	(0.37)	NM

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

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OncoMed Pharmaceuticals, Inc.

PRICE: US\$30.17

TARGET: US\$48.00

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

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$48.00
FY13E Rev (mil)	—	US\$44.7
FY14E Rev (mil)	—	US\$58.7
FY13E EPS	—	US\$(0.61)
FY14E EPS	—	US\$(0.37)
<hr/>		
52-Week High / Low	US\$42.34 /	US\$12.07
Shares Out (mil)		29.4
<i>Incl. CELG equity investment</i>		
Market Cap. (mil)		US\$887.0
Avg Daily Vol (000)		360
Book Value/Share		NA
Net Cash Per Share		US\$11.10
<i>Pro forma cash following \$25M milestone and CELG deal</i>		
Debt to Total Capital		0%
Div (ann)		NA
Fiscal Year End		Dec

Price Performance - 1 Year



Source: Bloomberg

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 4 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 \$316 million. OncoMed has no meaningful long-term debt. We divide our projected market capitalization of \$1.46 billion by 30.5 million shares at YE:14.

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

12/3/13

	2012A	1QA	2QA	3QA	4QE	2013E	1QE	2QE	3QE	4QE	2014E
Revenues:											
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$25,932	\$44,727	\$3,932	\$28,932	\$3,932	\$21,932	\$58,726
Grants	22	0	0	0	0	0	0	0	0	0	0
Total Revenues	\$24,681	\$2,932	\$2,932	\$12,932	\$25,932	\$44,727	\$3,932	\$28,932	\$3,932	\$21,932	\$58,726
Operating Expenses:											
Research and Development	\$39,893	\$9,576	\$10,475	\$13,126	\$14,000	\$47,177	\$14,000	\$15,000	\$15,000	\$16,000	\$60,000
General and Administrative	7,157	1,985	1,952	3,175	2,500	9,612	2,250	2,500	2,500	2,750	10,000
Total Operating Expenses	\$47,050	\$11,561	\$12,427	\$16,301	\$16,500	\$56,789	\$16,250	\$17,500	\$17,500	\$18,750	\$70,000
Operating Loss	(\$22,369)	(\$8,630)	(\$9,495)	(\$3,369)	\$9,432	(\$12,062)	(\$12,319)	\$11,432	(\$13,569)	\$3,182	(\$11,274)
Operating Margin	NM	NM	NM	NM	36.4%	(0)	(3)	39.5%	(3)	14.5%	(0)
Total Other Income/(Expense)	\$134	\$31	(\$149)	(\$117)	\$55	(\$180)	\$45	\$35	\$25	\$15	\$120
Pretax Loss	(\$22,235)	(\$8,598)	(\$9,644)	(\$3,486)	\$9,487	(\$12,242)	(\$12,274)	\$11,467	(\$13,544)	\$3,197	(\$11,154)
Pretax Margin	NM	NM	NM	NM	36.6%	(0)	(3)	39.6%	(3)	14.6%	(0)
Income Tax/(Benefit)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net Loss	(\$22,235)	(\$8,598)	(\$9,644)	(\$3,486)	\$9,487	(\$12,242)	(\$12,274)	\$11,467	(\$13,544)	\$3,197	(\$11,154)
Pretax Margin	NM	NM	NM	NM	36.6%	(0)	(3)	39.6%	(3)	14.6%	(0)
Net Loss per Share	(\$1.00)	(\$0.39)	(\$0.41)	(\$0.15)	\$0.33	(\$0.61)	(\$0.41)	\$0.38	(\$0.45)	\$0.10	(\$0.37)
Shares Outstanding	22,224	22,265	23,763	23,179	28,500	24,427	29,750	30,000	30,250	30,500	30,125

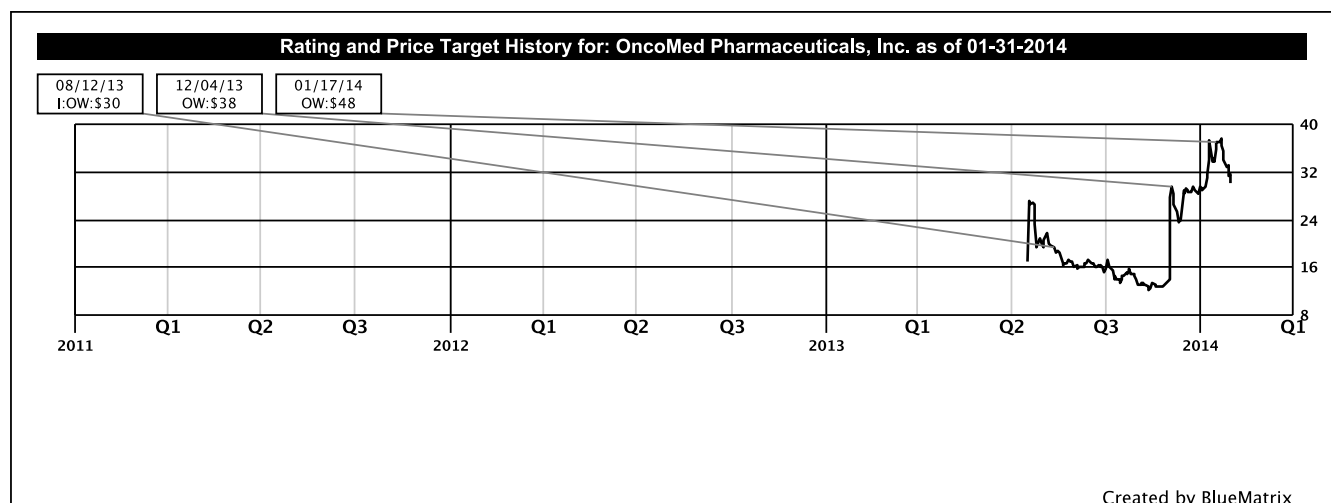
Source: Company reports and Piper Jaffray & Co. analysis.

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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

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	348	58.68	76	21.84
HOLD [N]	225	37.94	23	10.22
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Analyst Certification — Edward A. Tenthoff, Sr Research Analyst

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