

OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Pro forma Cash of \$149 million to Advance Rich Cancer Antibody Pipeline

CONCLUSION

Following a successful IPO in July, OncoMed ended 3Q:13 with cash of \$128.6 million. The company has subsequently received milestone payments from its partners bringing pro forma cash to \$148.7 million, or \$5.33 per share, at the end of October. OncoMed is the premier cancer stem cell (CSC) play, in our view, with industry leading discovery efforts, intellectual property, partnerships with GlaxoSmithKline and Bayer, plus a rich pipeline of five novel cancer antibodies in the clinic. We anticipate a wave of clinical data at ASCO-GI in January and at ASCO in June to validate this pipeline and drive value for OMED shareholders. We reiterate our Overweight rating and \$30 price target.

- **Strong Balance Sheet.** OncoMed ended 3Q:13 with cash of \$128.6 million. Subsequent milestone payments from partners brought pro forma cash to \$148.7 million at the end of October.
- **Demcizumab is Active.** At the AACR-NCI-EORTC meeting, OncoMed reported positive Phase Ib data in 1st-line NSCLC and pancreatic cancer. The NSCLC dose-escalation trial of 2.5mg/kg, 5mg/kg and 7.5mg/kg demcizumab + Alimta + carboplatin showed 9 (39%) PRs, 11 (48%) stable disease and only 3 (13%) progressive disease. Median PFS was 126 days on 2.5mg/kg and 160 days on 5mg/kg including 3 patients with PFS of >480 days. The ongoing pancreatic cancer trial evaluated patients at 2.5mg/kg and 5mg/kg demcizumab + gemcitabine with 4 (25%) PRs, 7 (44%) stable disease for an impressive disease control rate (DCR) of 69%. Estimated median PFS with 5mg/kg demcizumab + gemcitabine was 176 days. The pancreatic cancer study will enroll patients to demcizumab + gemcitabine + Abraxane with data at ASCO-GI in January. Importantly, the risk mitigation program is working. Of the seven NSCLC and three pancreatic patients who received truncated dosing, none had CV tox and three had PRs and four patients with stable disease. OncoMed will initiate Phase II trials in both indications in 2014.
- **Other Pipeline Progress.** Also at the AACR-NCI-EORTC meeting, OncoMed presented first-in-man data on OMP-52M51 (Notch1) showing single agent activity in metastatic colorectal and HER2-negative breast cancer patients. Dose escalation continues of OMP-52M51 in an expansion cohort of patients with tumors that have Notch1 activation. OMP-54F28 (Fxd8-Fc) has shown on-target Wnt pathway knock-down. OncoMed and Bayer will initiate 3 Phase Ib studies in 2014. We believe these trials will serve to further validate OncoMed's early clinical pipeline.

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	14.1x	—	—	—	—	(1.00)	NM
2013E	2.9A	2.9A	12.9A	25.9	44.7	7.8x	(0.39)A	(0.41)A	(0.15)A	0.34	(0.60)	NM
2014E	3.9	28.9	3.9	21.9	58.7	5.9x	(0.43)	0.40	(0.47)	0.11	(0.39)	NM

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

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OncoMed Pharmaceuticals, Inc.

PRICE: US\$12.47

TARGET: US\$30.00

Proj EV of \$684 million + \$164 million
mid'14E cash

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$30.00
FY13E Rev (mil)	—	US\$44.7
FY14E Rev (mil)	—	US\$58.7
FY13E EPS	US\$(0.40)	US\$(0.60)
FY14E EPS	US\$(0.13)	US\$(0.39)

52-Week High / Low US\$31.00 / US\$12.07
Shares Out (mil) 27.9

Source: Form 10Q

Market Cap. (mil)	US\$347.9
Avg Daily Vol (000)	129
Book Value/Share	US\$3.64
Net Cash Per Share	US\$5.33
Debt to Total Capital	0%
Div (ann)	NA
Fiscal Year End	Dec

Note: Price as of the close November 13, 2013.

Pro forma cash following \$25M milestone payments

Price Performance - 1 Year



Source: Bloomberg

INVESTMENT RECOMMENDATION

We reiterate our Overweight rating of OncoMed and \$30 price target based on a projected enterprise value of \$684 million plus \$164 million mid'14E net cash. We value wholly-owned demcizumab at \$266 million by applying an industry standard 5x multiple to 2020 U.S. NSCLC and pancreatic cancer sales of \$1.13 billion, discounted back at 60% annually to mid'14. This discount rate is high, however we believe captures the safety and clinical risks associated with demcizumab and could come down with positive clinical data. We presently value OMP-59R5 (partnered with GSK) at \$168 million by applying a 5x 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 mid'14. We view this discount rate as appropriate for this Phase Ib/II antibody having reported early signs of activity. We add \$250 million for the rest of OncoMed's wholly-owned and partnered cancer antibody pipeline, which we will adjust based on +/- clinical results. To this we add mid'14 net cash of \$144 million, down from \$164 million, which assumes several milestone payments over the next 12 months. Any delay or failure to achieve these milestones would lower our \$30 target. OncoMed has no meaningful long-term debt.

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

11/13/13

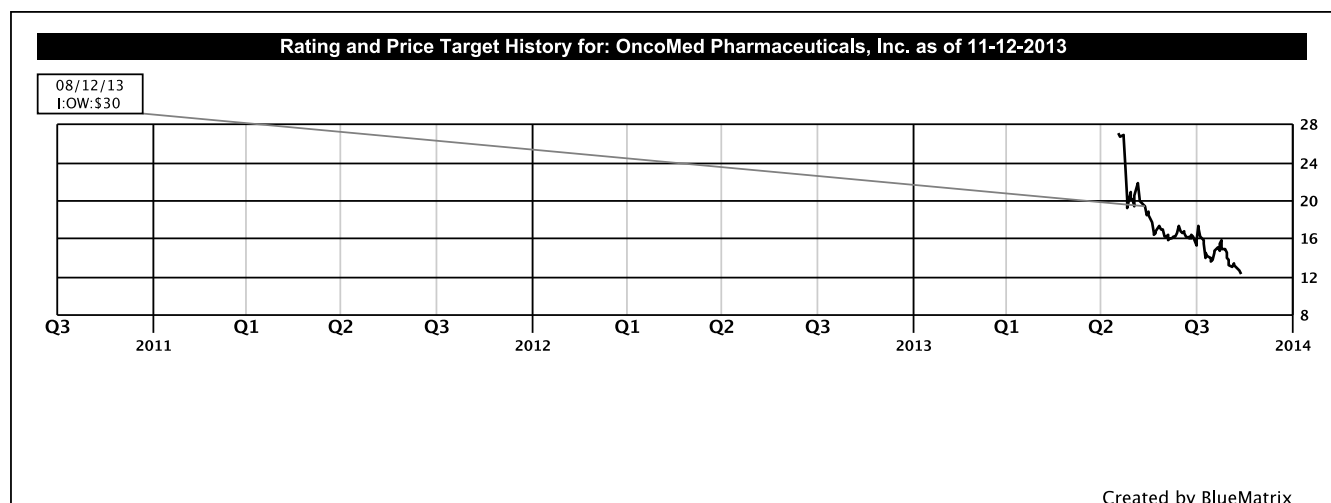
	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QE</u>	<u>2013E</u>	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>
Revenues:											
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$25,932	\$44,727	\$3,932	\$28,932	\$3,932	\$21,932	\$58,726
Grants	22	0	0	0	0	0	0	0	0	0	0
Total Revenues	\$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%	NM	NM	39.5%	NM	14.5%	NM
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%	NM	NM	39.6%	NM	14.6%	NM
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%	NM	NM	39.6%	NM	14.6%	NM
Net Loss per Share	(\$1.00)	(\$0.39)	(\$0.41)	(\$0.15)	\$0.34	(\$0.60)	(\$0.43)	\$0.40	(\$0.47)	\$0.11	(\$0.39)
Shares Outstanding	22,224	22,265	23,763	23,179	28,000	24,302	28,250	28,500	28,750	29,000	28,625

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

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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 Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	338	56.81	72	21.30
HOLD [N]	231	38.82	15	6.49
SELL [UW]	26	4.37	1	3.85

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Analyst Certification — Edward A. Tenthoff, Sr Research Analyst

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