

OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Ends 1Q:14 with Cash of \$284 million, Active ASCO; Reiterate Overweight

CONCLUSION

OncoMed ended 1Q:14 with \$284 million in cash and guided to end the year with \$215 million, which we forecast should fund operations through 2016. We look for clinical validation of OncoMed's pipeline to drive value this year including 1 oral presentation and 2 posters at ASCO at the end of the month. We reiterate our Overweight rating and \$48 price target.

- **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 31st. (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 at ASCO.** Also on Saturday May 31st, 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. We believe the recently announced Novartis/GSK commercial oncology deal will have little impact to the OncoMed Notch pathway alliance as GSK is retaining its Drug Discovery units.
- **Phase Ib Demcizumab Poster at ASCO.** Researchers will present a poster on Sunday, June 1st on 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\$24.95

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	US\$60.8
FY15E Rev (mil)	—	US\$57.8
FY14E EPS	US\$(0.83)	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\$738.5	
Avg Daily Vol (ooo)	197	
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	19.5x	(0.39)	(0.41)	(0.15)	(0.08)	(0.85)	NM
2014E	6.0A	28.9	3.9	21.9	60.8	12.1x	(0.47)A	0.22	(0.65)	(0.10)	(1.00)	NM
2015E	—	—	—	—	57.8	12.8x	—	—	—	—	(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)

May 8, 2014

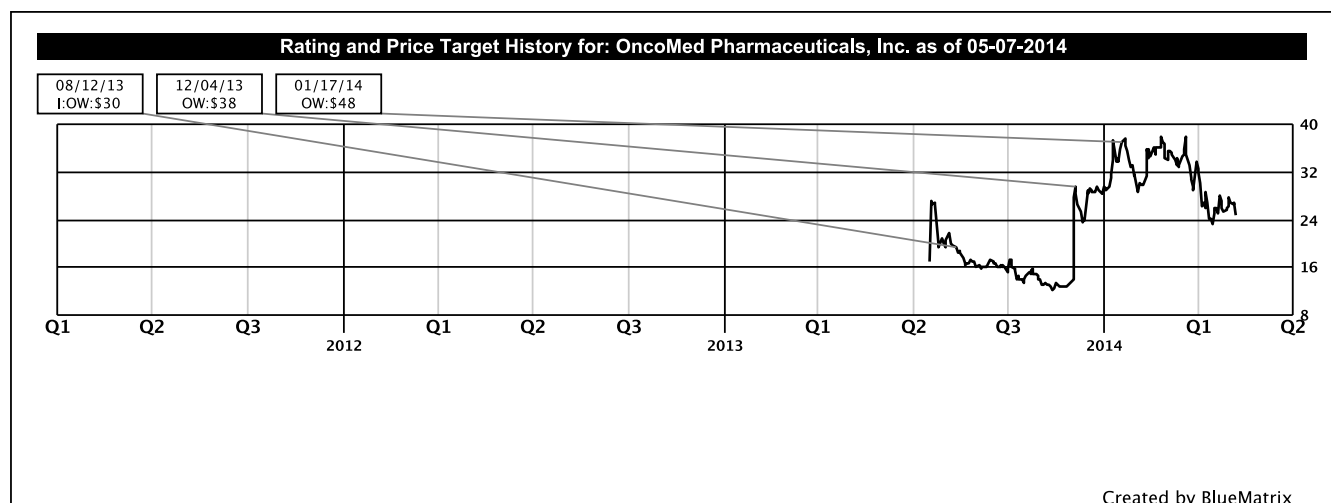
	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QA</u>	<u>2013A</u>	<u>1QA</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>	<u>2015E</u>
Revenues:												
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$18,983	\$37,778	\$6,015	\$28,932	\$3,932	\$21,932	\$60,810	\$57,756
<u>Grants</u>	<u>22</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
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
<u>General and Administrative</u>	<u>7,157</u>	<u>1,985</u>	<u>1,952</u>	<u>3,175</u>	<u>4,518</u>	<u>11,630</u>	<u>3,213</u>	<u>4,500</u>	<u>4,500</u>	<u>5,000</u>	<u>17,213</u>	<u>20,000</u>
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)
<i>Operating Margin</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	22.2%	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>
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)
<i>Pretax Margin</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	22.4%	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>
Income Tax/(Benefit)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Tax Rate</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>
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)
<i>Pretax Margin</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	22.4%	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>
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.

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T: Transferring Coverage
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]	353	61.50	88	24.93
HOLD [N]	203	35.37	21	10.34
SELL [UW]	18	3.14	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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