OncoMed Pharmaceuticals, Inc. (OMED) — Overweight

OMP-54F28 Reaches Dose Escalation, Triggering $15 million Milestone

CONCLUSION

Today, OncoMed received a $15 million milestone from partner Bayer for dose escalation in the Phase Ia trial of OMP-54F28 (Fzd8-Fc) in solid tumors. This milestone was expected and reinforces our view that OncoMed has a rich clinical pipeline and strong partnerships. We anticipate a wave of data including at ASCO-GI in January and at ASCO in June to validate this pipeline and drive value for OMED shares. We reiterate our Overweight rating and $30 price target.

- **OMP-54F28 Dose-escalation Triggers $15 million Milestone from Bayer.** OMP-54F28 is a fusion protein that contains part of the Fzd8 receptor. OncoMed reported first-in-man OMP-54F28 data at the AACR-NCI-EORTC meeting last month. A total of 18 advanced solid tumor patients have been administered 0.5, 1, 2.5, 5, 10 and 15 mg/kg OMP-54F28 every 3 weeks (q3W) with dosing ongoing at the 15mg/kg cohort and potential to escalate to 20mg/kg. As of the cut-off date of August 30th, the most common Grade 1/2 treatment-related AEs have been decreased appetite (28%), muscle spasm (28%), nausea (22%), altered taste (22%), fatigue (22%), hypocalcemia (16%), diarrhea (11%), peripheral edema (11%), hypophosphatemia (11%), pruritus (11%) and vomiting (11%). One case of Grade 3 anemia was observed. OMP-54F28 appears to have decreased expression of the Wnt pathway and shown intriguing activity in two Desmoid tumors, one RCC and one pancreatic cancer patient. We anticipate OncoMed will begin three Phase Ib combination trials in 2014.

- **Demcizumab is Active.** Also 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 three 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 progression free survival (PFS) of 5mg/kg demcizumab + gemcitabine was 176 days. The pancreatic cancer study will enroll patients to demcizumab + gemcitabine + Abraxane with data potentially at ASCO-GI in January. OncoMed will initiate Phase II trials in both indications in 2014. 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 there were four patients with stable disease including durable responses.

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$13.11
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)
FY14E EPS	—	US$(0.13)

52-Week High / Low	US$31.00 / US$13.06
Shares Out (mil)	27.8
Incl. shares issued in IPO + over allotment	
Market Cap. (mil)	US$364.5
Avg Daily Vol (000)	128
Book Value/Share	NA
Net Cash Per Share	US$5.39
Debt to Total Capital	0%
Div (ann)	NA
Fiscal Year End	Dec

Pro forma cash following IPO

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
2012A	—	—	—	—	24.7	14.8x	—	—	—	—	(1.00)	NM
2013E	2.9A	2.9A	12.9	25.9	44.7	8.2x	(0.39)A	(0.41)A	(0.02)	0.41	(0.40)	NM
2014E	3.9	28.9	3.9	21.9	58.7	6.2x	(0.36)	0.47	(0.42)	0.18	(0.13)	NM

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

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 whollyowned 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 $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.

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OncoMed Pharmaceuticals, Inc.

Quarterly Earnings Estimates

($ in thousands, except per share data)

9/3/13

	2012A	1QA	2QA	3QE	4QE	2013E	1QE	2QE	3QE	4QE	2014E
Revenues:											
Collaborative R&D	**$24,659**	$2,932	$2,932	$12,932	$25,932	$44,726	$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**	**$44,726**	**$3,932**	**$28,932**	**$3,932**	**$21,932**	**$58,726**
Operating Expenses:											
Research and Development	$39,893	$9,576	$10,475	$11,000	$12,000	$43,051	$12,000	$13,000	$13,500	$14,000	$52,500
General and Administrative	7,157	1,985	1,952	2,500	2,500	8,937	2,250	2,500	2,500	2,750	10,000
Total Operating Expenses	**$47,050**	**$11,561**	**$12,427**	**$13,500**	**$14,500**	**$51,988**	**$14,250**	**$15,500**	**$16,000**	**$16,750**	**$62,500**
Operating Loss	**($22,369)**	**($8,630)**	**($9,495)**	**($569)**	**$11,432**	**($7,262)**	**($10,319)**	**$13,432**	**($12,069)**	**$5,182**	**($3,774)**
Operating Margin	*NM*	*NM*	*NM*	*NM*	*44.1%*	*NM*	*NM*	*46.4%*	*NM*	*23.6%*	*NM*
Other Income/(Expense):											
Interest and Other Income	$140	$31	($149)	$65	$55	$2	$45	$35	$25	$15	$120
Interest Expense	(6)	0	0	0	0	0	0	0	0	0	0
Total Other Income/(Expense)	**$134**	**$31**	**($149)**	**$65**	**$55**	**$2**	**$45**	**$35**	**$25**	**$15**	**$120**
Pretax Loss	**($22,235)**	**($8,598)**	**($9,644)**	**($504)**	**$11,487**	**($7,259)**	**($10,274)**	**$13,467**	**($12,044)**	**$5,197**	**($3,654)**
Pretax Margin	*NM*	*NM*	*NM*	*NM*	*44.3%*	*NM*	*NM*	*46.5%*	*NM*	*23.7%*	*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)**	**($504)**	**$11,487**	**($7,259)**	**($10,274)**	**$13,467**	**($12,044)**	**$5,197**	**($3,654)**
Pretax Margin	*NM*	*NM*	*NM*	*NM*	*44.3%*	*NM*	*NM*	*46.5%*	*NM*	*23.7%*	*NM*
Net Loss per Share	**($1.00)**	**($0.39)**	**($0.41)**	**($0.02)**	**$0.41**	**($0.40)**	**($0.36)**	**$0.47**	**($0.42)**	**$0.18**	**($0.13)**
Shares Outstanding	**22,224**	22,265	23,763	27,800	28,000	25,457	28,250	28,500	28,750	29,000	28,625

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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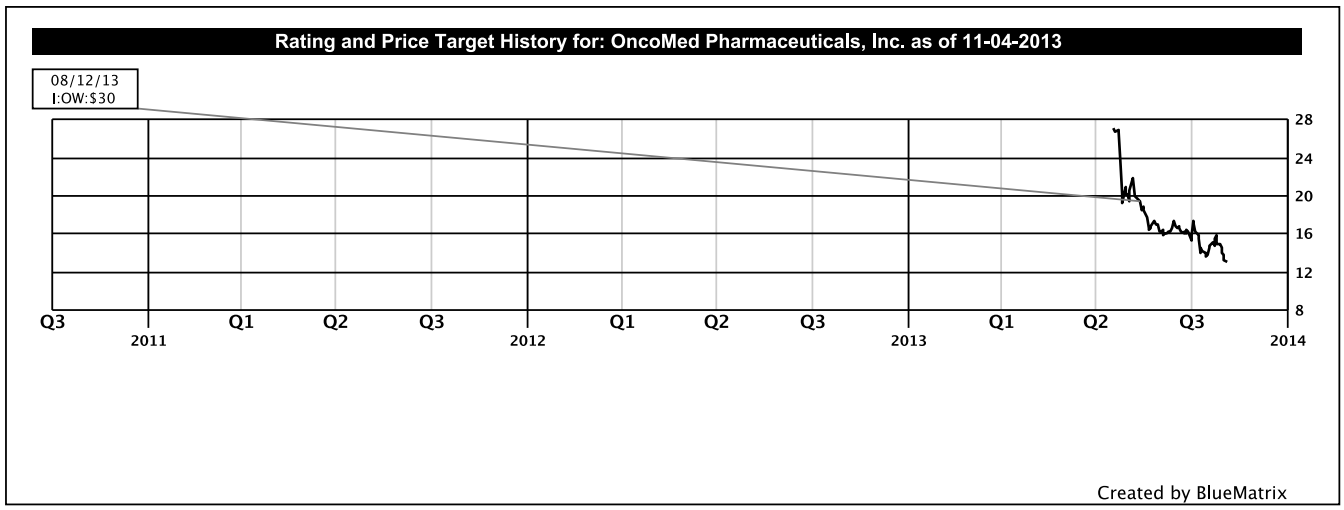

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R: Resuming Coverage
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D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OW]	337	56.83	75	22.26
HOLD [N]	230	38.79	15	6.52
SELL [UW]	26	4.38	0	0.00

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Analyst Certification — Edward A. Tenthoff, Sr Research Analyst

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