

## COMPANY NOTE

Estimate Change

USA | Healthcare | Biotechnology

September 4, 2013

# Jefferies

## OncoMed (OMED)

### OMED 2Q13 Update: Next Data in October at AACR-NCI-EORTC Meeting

#### Key Takeaway

**OMED remains on track with multiple Phase 1/2 studies for its cancer stem cell pipeline candidates and reiterated plans to initiate a Phase 1b/2 trial combining demcizumab with paclitaxel in ovarian cancer in 3Q13. We remain buyers of OMED with the next stock catalyst coming from multiple Phase 1 data read-outs to be presented at the AACR-NCI-EORTC meeting in October.**

**Financials and Guidance.** For 2Q13, OMED reported a net loss of \$9.6m. Today, the company announced it achieved a development milestone of \$10m from Bayer in August for the Phase 1a dose escalation study of vanticumab. Pro forma cash following the IPO in July is \$140m.

**Pipeline Update and Near-term Catalysts.** OncoMed has five product candidates in clinical development. The first candidate, demcizumab, is currently in Phase 1b combination therapy trials in patients with non-small cell lung cancer (NSCLC) and pancreatic cancer and will initiate a Phase 1b/2 trial combining demcizumab with paclitaxel in ovarian cancer in 3Q13. We expect data from the initial cohorts in NSCLC and pancreatic cancer using the new truncated dosing schedule may be presented at the AACR-NCI-EORTC meeting in October. The second candidate, OMP-59R5 (anti-Notch2/3), partnered with GSK, is in combination therapy Phase 1b/2 trials in pancreatic (ALPINE Trial) and small cell lung cancer (PINNACLE Trial), with data expected in 2014. OMED also has three additional product candidates, vanticumab (anti-Fzd7), OMP-52M51 (anti-Notch1) and OMP-54F28 (Fzd8-Fc) in single-agent Phase 1 safety and dose escalation trials. Full data from the vanticumab Phase 1a study should be presented at ASCO 2014. Data from the OMP-52M51 solid tumor Phase 1a study has been submitted for presentation at the AACR-NCI-EORTC meeting in October. Further, OncoMed and Bayer plan to initiate three OMP-54F28 Phase 1b clinical trials in late 2013 or early 2014.

**We Remain Encouraged by the Breadth of Pipeline Opportunities.** While still early, we remain encouraged by OMED's progress in developing a broad pipeline of clinical stage candidates based on cancer stem cell (CSC) targets, with five biologics in Phase 1 trials and initial efficacy signals in multiple programs. We expect up to 11 Phase 2 proof-of-concept data readouts by 2016.

#### Valuation/Risks

Our price target of \$27 is based on \$14 demcizumab + \$4 GSK + \$5 Bayer collaboration + \$4 cash. Risks: clinical, regulatory, commercial.

USD	Prev.	2012A	Prev.	2013E	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	--	--	44.7	--	47.0	--	73.0
<b>EPS</b>								
Mar	--	--	--	(0.39)A	--	--	--	--
Jun	--	--	(0.15)	(0.43)A	--	--	--	--
Sep	--	--	(0.25)	0.26	--	--	--	--
Dec	--	--	(0.17)	(0.26)	--	--	--	--
FY Dec	--	(21.58)	(0.95)	(0.82)	--	(1.40)	0.49	0.48
FY P/E		NM		NM		NM		34.2x

**BUY**

Price target \$27.00

Price \$16.41

#### Financial Summary

Net Debt (MM):	(\$140.0)
Cash/Share:	\$60.20

#### Market Data

52 Week Range:	\$31.00 - \$15.74
Total Entprs. Value (MM):	\$316.2
Market Cap. (MM):	\$456.2
Shares Out. (MM):	27.8
Float (MM):	5.4
Avg. Daily Vol.:	NA

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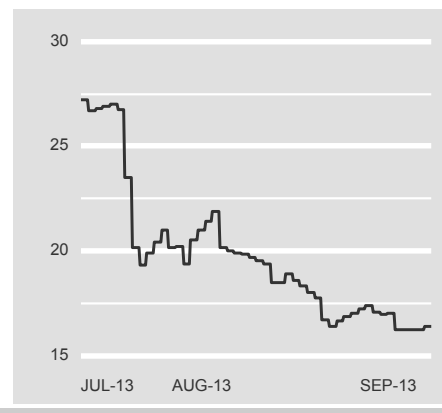
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#### Price Performance



**OMED: Historical and Projected Revenue and Earnings**

December 31 Fiscal Year (\$000s)	2012A	1Q13A	2Q13A	3Q13E	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Demcizumab Sales															
U.S. Demcizumab Sales	0	0	0	0	0	0	0	0	0	0	101,592	431,341	752,003	1,331,096	1,732,391
International Demcizumab Sales	0	0	0	0	0	0	0	0	0	0	0	40,637	258,804	601,603	1,064,877
WW Demcizumab Sales	0	0	0	0	0	0	0	0	0	0	101,592	471,977	1,010,808	1,932,699	2,797,268
Y/Y Change	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	365%	114%	91%	45%
Demcizumab Royalties to Oncomed	0	0	0	0	0	0	0	0	0	0	16,255	73,891	161,457	335,720	508,749
% Of Sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	16%	16%	16%	17%	18%
GSK/Bayer Royalties to Oncomed	0	0	0	0	0	0	0	0	0	0	29,232	98,250	152,203	195,561	268,508
Demcizumab Upfront/Milestone Payments	0	0	0	0	0	0	0	25,000	65,000	75,000	110,000	100,000	85,000	75,000	45,000
GSK/Bayer Upfront/Milestone Payments	24,659	2,932	2,932	20,932	17,932	44,728	47,000	48,000	50,000	92,797	158,676	223,173	164,026	132,542	199,367
Other Revenues	22	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Revenue</b>	<b>24,681</b>	<b>2,932</b>	<b>2,932</b>	<b>20,932</b>	<b>17,932</b>	<b>44,728</b>	<b>47,000</b>	<b>73,000</b>	<b>115,000</b>	<b>167,797</b>	<b>314,162</b>	<b>495,314</b>	<b>562,687</b>	<b>738,823</b>	<b>1,021,624</b>
Y/Y Change	NM	17%	-61%	319%	85%	81%	5%	55%	58%	46%	87%	58%	14%	31%	38%
COGS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
% Product sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Research and Development	39,396	9,436	10,341	12,384	17,839	50,000	75,000	35,000	45,500	59,150	76,895	99,964	129,953	168,938	219,620
Y/Y Change	NM	-16%	9%	77%	52%	27%	50%	-53%	30%	30%	30%	30%	30%	30%	30%
% Total Revenue	NM	NM	NM	NM	NM	NM	160%	48%	40%	35%	24%	20%	23%	23%	21%
Selling, General and Administrative	6,818	1,900	1,821	2,554	5,725	12,000	12,960	13,997	15,396	16,936	18,630	20,493	22,542	24,796	27,276
Y/Y Change	NM	13%	12%	NM	63%	76%	8%	8%	10%	10%	10%	10%	10%	10%	10%
% Total Revenue	28%	65%	62%	12%	32%	27%	28%	19%	13%	10%	6%	4%	4%	3%	3%
<b>Total Operating Expenses</b>	<b>46,214</b>	<b>11,336</b>	<b>12,162</b>	<b>14,938</b>	<b>23,564</b>	<b>62,000</b>	<b>87,960</b>	<b>48,997</b>	<b>60,896</b>	<b>76,086</b>	<b>95,525</b>	<b>120,456</b>	<b>152,495</b>	<b>193,735</b>	<b>246,896</b>
<b>Income From Operations</b>	<b>(21,533)</b>	<b>(8,404)</b>	<b>(9,230)</b>	<b>5,994</b>	<b>(5,632)</b>	<b>(17,272)</b>	<b>(40,960)</b>	<b>24,003</b>	<b>54,104</b>	<b>91,711</b>	<b>218,638</b>	<b>374,858</b>	<b>410,192</b>	<b>545,088</b>	<b>774,728</b>
Operating margin	NM	NM	NM	29%	NM	NM	NM	33%	47%	55%	70%	76%	73%	74%	76%
Total Other Income (Expense), Net	134	31	(149)	166	167	215	741	963	1,202	1,411	1,858	2,691	3,876	5,357	7,358
Interest income	140	31	(149)	166	167	215	741	963	1,202	1,411	1,858	2,691	3,876	5,357	7,358
Interest expense	-6	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pretax-Income	(21,399)	(8,373)	(9,379)	6,160	(5,465)	(17,057)	(40,219)	24,967	55,306	93,122	220,496	377,549	414,068	550,445	782,086
Income Tax Expense	0	0	0	0	0	0	0	9,238	20,463	34,455	81,583	139,693	153,205	203,665	289,372
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
<b>Non-GAAP Net Income</b>	<b>(21,399)</b>	<b>(8,373)</b>	<b>(9,379)</b>	<b>6,160</b>	<b>(5,465)</b>	<b>(17,057)</b>	<b>(40,219)</b>	<b>15,729</b>	<b>34,843</b>	<b>58,667</b>	<b>138,912</b>	<b>237,856</b>	<b>260,863</b>	<b>346,780</b>	<b>492,714</b>
Y/Y Change	NM	-19%	164%	-408%	-1%	-20%	136%	-139%	122%	68%	137%	71%	10%	33%	42%
Shares Outstanding	1,035	22,265	22,272	22,322	22,372	22,308	29,783	30,302	33,689	30,752	34,202	31,302	34,815	31,952	35,515
<b>Non-GAAP EPS</b>	<b>(\$20.67)</b>	<b>(\$0.38)</b>	<b>(\$0.42)</b>	<b>\$0.28</b>	<b>(\$0.24)</b>	<b>(\$0.76)</b>	<b>(\$1.35)</b>	<b>\$0.52</b>	<b>\$1.03</b>	<b>\$1.91</b>	<b>\$4.06</b>	<b>\$7.60</b>	<b>\$7.49</b>	<b>\$10.85</b>	<b>\$13.87</b>
Y/Y Change	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	84%	43%	85%
Options Expense	786	225	265	300	350	1,140	1,368	1,642	1,970	2,364	2,837	3,404	4,085	4,902	5,882
% Operating Income	NM	NM	NM	5.0%	NM	NM	NM	6.8%	3.6%	2.6%	1.3%	0.9%	1.0%	0.9%	0.8%
<b>GAAP EPS</b>	<b>(\$21.43)</b>	<b>(\$0.39)</b>	<b>(\$0.43)</b>	<b>\$0.26</b>	<b>(\$0.26)</b>	<b>(\$0.82)</b>	<b>(\$1.40)</b>	<b>\$0.48</b>	<b>\$1.00</b>	<b>\$1.86</b>	<b>\$4.01</b>	<b>\$7.53</b>	<b>\$7.42</b>	<b>\$10.76</b>	<b>\$13.77</b>

Source: Company data, Jefferies LLC estimates  
September 3, 2013

**OMED: Historical and Projected Changes in Financial Position**

December 31 Fiscal Year (\$000s)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Net income</b>	<b>(21,399)</b>	<b>(17,057)</b>	<b>(40,219)</b>	<b>15,729</b>	<b>34,843</b>	<b>58,667</b>	<b>138,912</b>	<b>237,856</b>	<b>260,863</b>	<b>346,780</b>	<b>492,714</b>
<b>Adjustments to reconcile net cash flows from operating activities:</b>											
Depreciation and amortization	1,295	1,395	1,595	1,695	1,995	2,195	2,495	2,695	2,995	3,195	3,495
Deferred rent and other long-term liabilities	(12)										
Utilization of NOL carryforwards	-	-	-	9,238	20,463	33,042	-	-	-	-	-
Upfront/milestone payments	-	-	-	50,000	(25,000)	(25,000)	-	-	-	-	-
<b>Total Adjustments</b>	<b>1,283</b>	<b>1,395</b>	<b>1,595</b>	<b>60,933</b>	<b>(2,542)</b>	<b>10,237</b>	<b>2,495</b>	<b>2,695</b>	<b>2,995</b>	<b>3,195</b>	<b>3,495</b>
<b>Changes in operating assets and liabilities:</b>											
Accounts receivable	(4,023)	(3,341)	(379)	(4,333)	(7,000)	(8,800)	(24,394)	(30,192)	(11,229)	(29,356)	(47,134)
Prepaid expenses and other current	(3,411)										
Accounts payable and accrued liabilities	(3,184)										
Deferred revenue	(2,165)										
Other	(446)										
<b>Net cash flows provided by operating activities</b>	<b>(33,345)</b>	<b>(19,003)</b>	<b>(39,003)</b>	<b>72,328</b>	<b>25,301</b>	<b>60,105</b>	<b>117,013</b>	<b>210,359</b>	<b>252,629</b>	<b>320,619</b>	<b>449,076</b>
<b>Cash flows from investing activities:</b>											
Acquisitions, net of cash acquired	-										
Capital Expenditure	(714)	(1,000)	(2,000)	(3,000)	(4,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
<b>Net cash flows used in investing activities</b>	<b>(714)</b>	<b>(1,000)</b>	<b>(2,000)</b>	<b>(3,000)</b>	<b>(4,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>
<b>Cash flows from financing activities:</b>											
Proceeds (repurchases) from common stock	156	89,103	58,600	2,012	2,943	4,251	7,345	8,622	12,142	16,999	23,677
Proceeds (repayments) from borrowings	(346)										
Other	-										
<b>Net cash flows used in financing activities</b>	<b>(190)</b>	<b>89,103</b>	<b>58,600</b>	<b>2,012</b>	<b>2,943</b>	<b>4,251</b>	<b>7,345</b>	<b>8,622</b>	<b>12,142</b>	<b>16,999</b>	<b>23,677</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(34,249)</b>	<b>69,100</b>	<b>17,598</b>	<b>71,341</b>	<b>24,244</b>	<b>59,356</b>	<b>119,358</b>	<b>213,981</b>	<b>259,771</b>	<b>332,618</b>	<b>467,753</b>
Exchange rate changes			-	-	-	-	-	-	-	-	-
<b>Cash and cash equivalents, beginning of the year</b>	<b>104,554</b>	<b>70,305</b>	<b>139,405</b>	<b>157,003</b>	<b>228,343</b>	<b>252,587</b>	<b>311,943</b>	<b>431,301</b>	<b>645,282</b>	<b>905,054</b>	<b>1,237,672</b>
<b>Cash and cash equivalents, end of the year</b>	<b>70,305</b>	<b>139,405</b>	<b>157,003</b>	<b>228,343</b>	<b>252,587</b>	<b>311,943</b>	<b>431,301</b>	<b>645,282</b>	<b>905,054</b>	<b>1,237,672</b>	<b>1,705,425</b>

Source: Company data, Jefferies LLC estimates  
September 3, 2013

**OMED: Historical Condensed Balance Sheets**

	12/31/2012	3/31/2013	6/30/2013
Current assets:			
Cash and cash equivalents	16,263	9,937	16,173
Short-term investments	49,976	50,282	40,291
Receivables – related parties	4,023	23	23
Prepaid and other current assets	1,123	1,222	1,224
Total current assets	71,385	61,464	57,711
Property and equipment, net	5,462	5,190	4,884
Other assets	2,921	3,170	3,639
Total assets	79,768	69,824	66,234
Current liabilities:			
Accounts payable	849	809	812
Accrued liabilities	3,798	5,348	6,008
Current portion of deferred revenue	14,726	14,726	22,726
Current portion of deferred rent	560	579	596
Liability for shares issued with repurchase rights	14	12	11
Convertible preferred stock warrant liability	182	161	328
Total current liabilities	20,129	21,635	30,481
Deferred revenue, less current portion	17,320	14,388	11,457
Deferred rent, less current portion	3,750	3,598	3,460
Liability for shares issued with repurchase rights, less current portion	23	21	18
Total liabilities	41,222	39,642	45,416
Stockholder equity		30,182	20,818
Total liabilities and stockholder equity		69,824	66,234

Source: Company data, Jefferies LLC estimates  
September 3, 2013

## Company Description

OncoMed Pharmaceuticals (OMED) is a Redwood City, CA-based biopharmaceutical company that is a leader in the science behind cancer stem cells (CSCs), which are thought to drive cancer progression, metastasis, and chemotherapy resistance. Using proprietary technology, OMED has generated five clinical stage candidates targeting CSC pathways. Four of these compounds are being developed under two pharmaceutical partnerships with GSK and Bayer. The lead wholly owned drug is demcizumab, an anti-DLL4 antibody currently in Phase 1b trials in pancreatic, lung and ovarian cancer. Close behind in development are OMP-59R5, an anti-Notch2/3 antibody, OMP-52M51, an anti-Notch1 antibody, vantiactumab, an anti-Fzd7 antibody, and OMP-54F28, a Fzd8-Fc fusion protein.

## Analyst Certification

I, Thomas Wei, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Shaunak Deepak, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgement.

## Company Specific Disclosures

Jefferies Group LLC makes a market in the securities or ADRs of OncoMed Pharmaceuticals.

Within the past 12 months, Jefferies Group LLC, its affiliates or subsidiaries has received compensation from investment banking services from OncoMed Pharmaceuticals.

Within the past twelve months, OncoMed Pharmaceuticals has been a client of Jefferies LLC and investment banking services are being or have been provided.

Jefferies Group LLC, its affiliates or subsidiaries has acted as a manager or co-manager in the underwriting or placement of securities for OncoMed Pharmaceuticals or one of its affiliates within the past twelve months.

## Meanings of Jefferies Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

## Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

### Conviction List Methodology

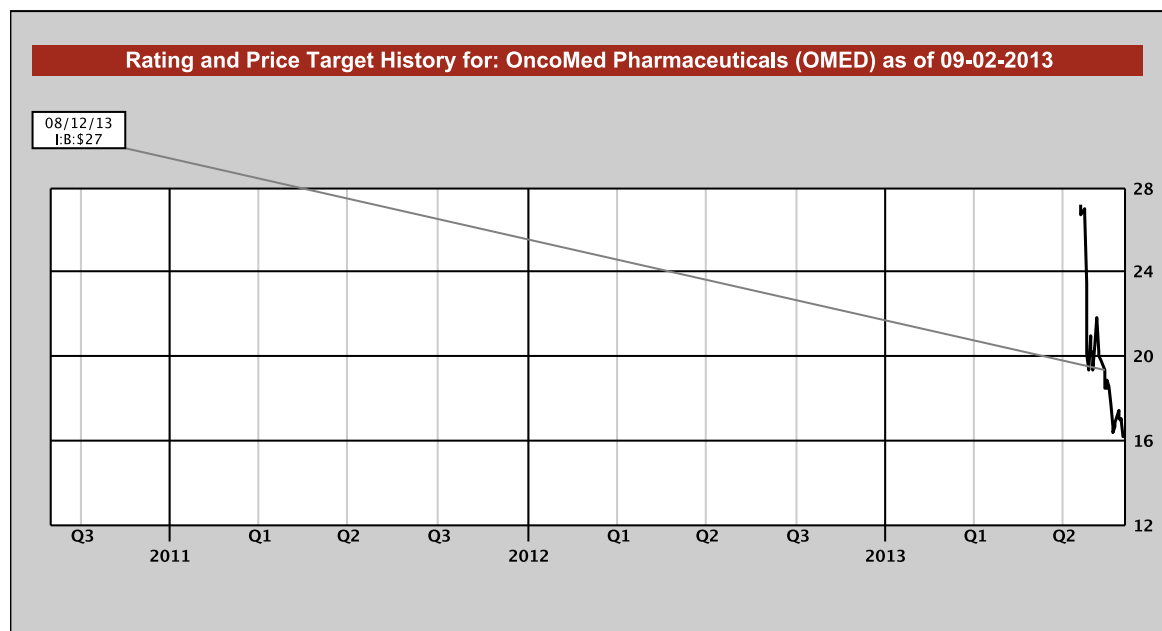
1. The aim of the conviction list is to publicise the best individual stock ideas from Jefferies Global Research
2. Only stocks with a Buy or Underperform rating are allowed to be included in the recommended list.
3. Stocks are screened for minimum market capitalisation and adequate daily turnover. Furthermore, a valuation, correlation and style screen is used to ensure a well-diversified portfolio.
4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.
5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative to the current stock price. These are then assessed against existing holdings to ensure consistency. Stocks that have either reached their target price, been downgraded over the course of the month or where a more suitable candidate has been found are removed.
6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US\$.
8. The conviction list is published once a month whilst global equity markets are closed.
9. Transaction fees are not included.
10. All corporate actions are taken into account.

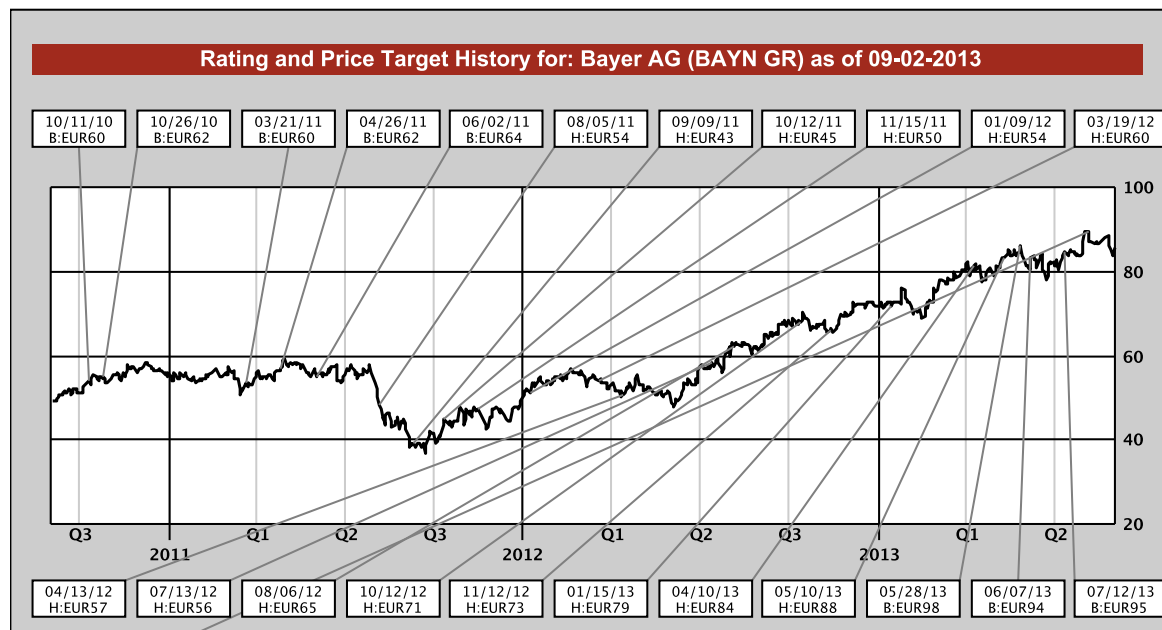
## Risk which may impede the achievement of our Price Target

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.

## Other Companies Mentioned in This Report

- Bayer AG (BAYN GR: €84.70, BUY)





## Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	791	47.17%	174	22.00%
HOLD	743	44.31%	119	16.02%
UNDERPERFORM	143	8.53%	1	0.70%

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