

COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Biotechnology

May 8, 2014

Jefferies

OncoMed (OMED) 1Q14 OMED Earnings: Pipeline Continues To Progress

Key Takeaway

We continue to expect multiple incremental data readouts in 2014 and several likely Phase 2 data readouts in 2015/2016. With a strong cash position (\$284m to end the quarter) and multiple cancer drugs in the pipeline, we remain positive on OMED's outlook and reiterate our Buy rating.

Multiple Data Readouts and Pipeline Advancements For 2014. The company will have an oral presentation at ASCO on initial Phase 1 data for its FZD8 antibody in solid tumors (Phase 1b rolled out in pancreatic, hepatocellular, ovarian cancer), as well as posters with more mature Phase 1b data for its Notch compounds. Additional data for both Notch programs will also be at the oncology meetings in the fall. Notch 2/3 is still in the dose-escalation portion of Phase 1b of the ALPINE study (first-line pancreatic cancer) and should advance to Phase 2 in 2014. The Phase 1b portion of the PINNACLE trial (late-stage small-cell lung cancer) is ongoing. The Phase 2 portion should also initiate in 2014, with results by the end of 2016. A randomized demcizumab Phase 2 first-line pancreatic cancer trial in combination with Abraxane and gemcitabine is expected to initiate this year. Lastly, OMED expects to file an IND to start clinical trials for its bispecific (anti-DLL4/anti-VEGF) antibody later this year.

Financials and Guidance. OMED reported a non-GAAP loss in 1Q14 of \$13.2m, excluding options expenses and ended the quarter with \$284m in cash. They reiterated their 2014 operating expenses guidance of \$90-95m. OMED also reiterated its end-of-year cash guidance of >\$215m, which should last through at least 2016 (excluding future milestone payments).

Valuation/Risks

Our price target of \$48 is based on \$23 demcizumab + \$5 GSK + \$4 Bayer collaboration + \$7 CELG + \$8 cash, previously \$50 due to changes in our calculation of cash. Risks: clinical, regulatory, commercial.

USD	Prev.	2012A	Prev.	2013A	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	24.7	--	37.8	98.7	85.0	--	183.0
EPS								
Mar	--	--	--	(0.39)	(0.12)	(0.47)A	--	--
Jun	--	--	--	(0.43)	0.22	0.27	--	--
Sep	--	--	--	(0.15)	0.21	0.22	--	--
Dec	--	--	--	(0.15)	(0.10)	(0.11)	--	--
FY Dec	--	(21.25)	--	(1.12)	0.21	(0.08)	2.47	2.49

BUY

Price target \$48.00

(from \$50.00)

Price \$22.63

Financial Summary

Net Debt (MM):	(\$316.2)
Cash/Share:	\$316.20

Market Data

52 Week Range:	\$42.34 - \$12.07
Total Entprs. Value (MM):	\$326.5
Market Cap. (MM):	\$642.7
Shares Out. (MM):	28.4
Float (MM):	7.7
Avg. Daily Vol.:	197,150

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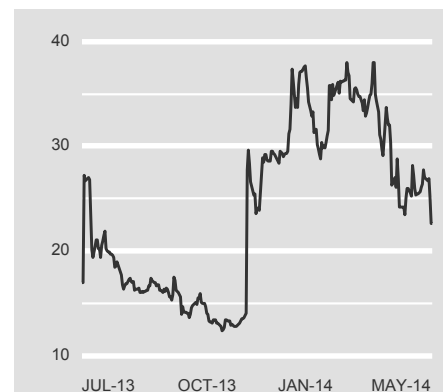
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Price Performance



Scenarios

Target Investment Thesis

- We believe OMED is a leader in cancer stem cell (CSC) targeting drugs
- We are encouraged by single agent activity with demcizumab in pancreatic and lung
- We see the GSK, Celgene, and Bayer collaborations as lucrative and validating the technology
- Target Price: \$48 = \$23 demcizumab + \$5 GSK + \$4 Bayer + \$7 CELG + \$8 cash

Upside Scenario

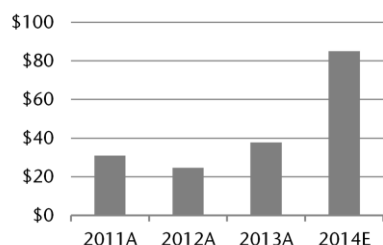
- We believe with CELG support, demcizumab could be a leading add-on to conventional chemotherapy
- Positive Phase 2 data and pivotal trials could increase the probability of success across programs
- No cost upside with GSK and Bayer covering costs of late stage development and commercialization
- Target Price: \$62 = \$27 demcizumab + \$9 GSK + \$9 Bayer + \$9 CELG + \$8 cash

Downside Scenarios

- All programs are early stage
- Historical CV issues with demcizumab may persist or give FDA pause
- Collaborators may not opt-in to development programs
- Target Price: \$11 = \$7 demcizumab + \$0 GSK + \$0 Bayer + \$0 CELG + \$4 cash

Long Term Analysis

Revenue (millions)



Source: Company data, Jefferies

Long Term Financial Model Drivers

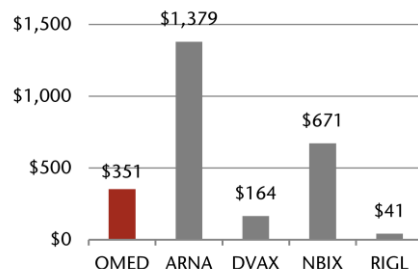
5-Year Revenue CAGR **66%**

Other Considerations

With several eagerly anticipated product launches, anemic pipelines at large cap biotech and pharma, and an increasingly conservative FDA stance, we believe mid-cap biotech could lead sector performance in 2014. We see a premium placed on late-stage and marketed products. M&A interest could also factor into the performance of the sector, particularly among small-cap and mid-cap companies with later stage programs.

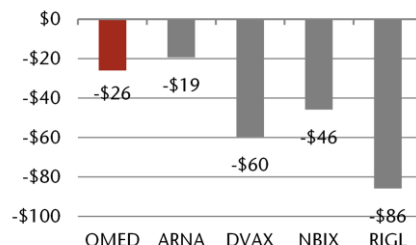
Peer Group

Group EVs



Source: FactSet

Net Income



Source: Company data

Recommendation / Price Target

Ticker	Recommendation	PT
OMED	BUY	\$48
ARNA	BUY	\$11
DVAX	BUY	\$3
NBIX	BUY	\$21
RIGL	BUY	\$10

Catalysts

- 2Q14 - Vantictumab Ph1a data at ASCO
- 2014 - Initiation of ALPINE and PINNACLE Phase 2 trials for Notch 2/3
- 2014 - Initiation of demcizumab Phase 2 pancreatic cancer trial

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. Many of these compounds are being developed under pharmaceutical partnerships with GSK, Bayer, and Celgene. The lead drug is demcizumab, an antiDLL4 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, vantictumab, an anti-Fzd7 antibody, and OMP-54F28, a Fzd8-Fc fusion protein.

OMED: Historical and Projected Revenue and Earnings

December 31 Fiscal Year (\$000s)	2012A	1Q13A	2Q13A	3Q13A	4Q13A	2013A	1Q14A	2Q14E	3Q14E	4Q14E	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	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	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	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	NM	NM	NM	NM	365%	114%	91%	45%
U.S. Demcizumab Gross Profit Split to Oncomed																			
WW Demcizumab Revenue to Oncomed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	44,446	194,103	347,802	615,632	801,231
% Of Sales	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0	4,876	31,057	76,256	152,975
GSK/Bayer/CEIG Royalties to Oncomed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	29,232	146,970	324,073	477,287	642,124
Demcizumab Upfront/Milestone Payments	0	0	0	0	0	0	0	13,163	13,163	3,163	29,490	77,959	87,959	107,959	130,000	90,000	90,000	75,000	45,000
GSK/Bayer/CEIG Upfront/Milestone Payments	24,659	2,932	2,932	12,932	18,983	37,779	6,015	16,500	16,500	16,500	55,515	105,000	167,000	203,797	320,676	329,173	481,455	445,971	402,081
Other Revenues	22	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenue	24,681	2,932	2,932	12,932	18,983	37,779	6,015	29,663	29,663	19,663	85,005	182,959	254,959	311,756	524,354	765,123	1,274,386	1,690,146	2,043,411
Y/Y Change	NM	17%	-61%	67%	174%	53%	105%	912%	129%	4%	125%	115%	39%	22%	68%	46%	67%	33%	21%
COGS	0	0	0	0	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%	0%	0%	0%	0%
Research and Development	39,396	9,436	10,341	12,882	16,432	49,091	16,298	17,000	18,000	18,750	70,048	40,000	52,000	67,600	87,880	114,244	148,517	193,072	250,994
Y/Y Change	NM	-18%	9%	37%	75%	25%	73%	64%	40%	14%	43%	-43%	30%	30%	30%	30%	30%	30%	30%
% Total Revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Selling, General and Administrative	6,818	1,900	1,821	2,927	4,203	10,851	2,934	4,000	4,000	4,000	14,934	16,129	17,742	23,951	32,334	35,567	48,016	64,822	71,304
Y/Y Change	NM	13%	12%	60%	150%	59%	54%	120%	37%	-5%	38%	10%	10%	35%	35%	35%	35%	35%	35%
% Total Revenue	28%	65%	62%	23%	22%	29%	49%	13%	13%	20%	18%	9%	7%	8%	6%	5%	4%	4%	3%
Total Operating Expenses	46,214	11,336	12,162	15,809	20,635	59,942	19,232	21,000	22,000	22,750	84,982	56,129	69,742	91,551	120,214	149,811	196,533	257,894	322,298
Income From Operations	(21,533)	(8,404)	(9,230)	(2,877)	(1,652)	(22,163)	(13,217)	8,663	7,663	(3,087)	23	126,830	185,218	220,205	404,140	615,312	1,077,853	1,432,252	1,721,113
Operating margin	NM	NM	NM	NM	NM	NM	NM	29%	26%	NM	0%	69%	73%	71%	77%	80%	85%	85%	84%
Total Other Income (Expense), Net	134	31	(149)	(117)	7	(228)	36	108	111	112	367	1,447	1,706	2,103	2,890	4,328	6,716	10,340	15,073
Interest income	140	31	(149)	(117)	7	(228)	36	108	111	112	367	1,447	1,706	2,103	2,890	4,328	6,716	10,340	15,073
Interest expense	-6	0	0	0	0	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	0	0	0	0
Pretax-Income	(21,399)	(8,373)	(9,379)	(2,994)	(1,645)	(22,391)	(13,181)	8,771	7,774	(2,975)	390	128,277	186,924	222,308	407,030	619,640	1,084,569	1,442,592	1,736,187
Income Tax Expense	0	0	0	0	1,944	1,944	0	0	0	0	0	47,463	69,162	82,254	150,601	229,267	401,290	533,759	642,389
Tax Rate	0.0%	0.0%	0.0%	0.0%	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%
Non-GAAP Net Income	(21,399)	(8,373)	(9,379)	(2,994)	(3,589)	(24,335)	(13,181)	8,771	7,774	(2,975)	390	80,815	117,762	140,054	256,429	390,373	683,278	908,833	1,093,798
Y/Y Change	NM	-19%	164%	-13%	-12%	14%	57%	-194%	-360%	-17%	-102%	20609%	46%	83%	52%	75%	33%	20%	20%
Shares Outstanding	1,044	22,265	22,272	23,179	28,361	24,019	29,443	30,443	31,443	32,443	30,943	31,645	32,075	32,196	32,791	32,922	33,639	33,792	34,594
Non-GAAP EPS	(\$20.49)	(\$0.38)	(\$0.42)	(\$0.13)	(\$0.13)	(\$1.01)	(\$0.45)	\$0.29	\$0.25	(\$0.09)	\$0.01	\$2.55	\$3.67	\$4.35	\$11.86	\$20.31	\$26.89	\$31.62	\$31.62
Y/Y Change	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	70%	113%	173%	160%	127%	56%
Options Expense	786	225	265	492	754	1,736	690	700	700	700	2,790	3,348	4,018	4,821	5,785	6,942	8,331	9,997	11,996
% Operating Income	NM	NM	NM	NM	NM	NM	NM	8.1%	9.1%	NM	12239.0%	2.6%	2.2%	2.2%	1.4%	1.1%	0.8%	0.7%	0.7%
GAAP EPS	(\$21.25)	(\$0.39)	(\$0.43)	(\$0.15)	(\$0.15)	(\$1.12)	(\$0.47)	\$0.27	\$0.22	(\$0.11)	(\$0.08)	\$2.49	\$3.59	\$4.26	\$7.71	\$11.72	\$20.16	\$26.71	\$31.40

Source: Company data, Jefferies LLC estimates
May 8, 2014

OMED: Historical and Projected Changes in Financial Position

December 31 Fiscal Year (\$000s)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net income	(21,399)	(24,335)	390	80,815	117,762	140,054	256,429	390,373	683,278	908,833	1,093,798
Adjustments to reconcile net cash flows from operating activities:											
Depreciation and amortization	1,295	1,378	1,578	1,678	1,978	2,178	2,478	2,678	2,978	3,178	3,478
Deferred rent and other long-term liabilities	(12)	247									
Utilization of NOL carryforwards	-	-	-	10,660	-	-	-	-	-	-	-
Upfront/milestone payments	-	-	(37,959)	(37,959)	(37,959)	(37,959)	-	-	-	-	-
Total Adjustments	1,283	1,625	(36,381)	(25,622)	(35,981)	(35,781)	2,478	2,678	2,978	3,178	3,478
Changes in operating assets and liabilities:											
Accounts receivable	(4,023)	4,000	(7,871)	(16,326)	(12,000)	(9,466)	(35,433)	(40,128)	(84,877)	(69,293)	(58,877)
Prepaid expenses and other current	(3,411)	(1,325)									
Accounts payable and accrued liabilities	(3,184)	12,809									
Deferred revenue	(2,165)	151,884									
Other	(446)	(114)									
Net cash flows provided by operating activities	(33,345)	144,544	(43,862)	38,867	69,781	94,807	223,474	352,923	601,379	842,718	1,038,398
Cash flows from investing activities:											
Acquisitions, net of cash acquired	-										
Capital Expenditure	(714)	(557)	(2,000)	(3,000)	(4,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Net cash flows used in investing activities	(714)	(557)	(2,000)	(3,000)	(4,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Cash flows from financing activities:											
Proceeds (repurchases) from common stock	156	105,918	734	788	1,265	1,958	4,580	4,366	6,363	9,164	13,075
Proceeds (repayments) from borrowings	(346)										
Other	-										
Net cash flows used in financing activities	(190)	105,918	734	788	1,265	1,958	4,580	4,366	6,363	9,164	13,075
Net increase (decrease) in cash and cash equivalents	(34,249)	249,905	(45,127)	36,656	67,046	91,765	223,054	352,289	602,742	846,882	1,046,473
Exchange rate changes			-	-	-	-	-	-	-	-	-
Cash and cash equivalents, beginning of the year	100,488	66,239	316,144	271,017	307,672	374,718	466,483	689,537	1,041,826	1,644,568	2,491,450
Cash and cash equivalents, end of the year	66,239	316,144	271,017	307,672	374,718	466,483	689,537	1,041,826	1,644,568	2,491,450	3,537,923

Source: Company data, Jefferies LLC estimates
May 8, 2014

OMED: Historical Condensed Balance Sheets

	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014
Current assets:						
Cash and cash equivalents	16,263	9,937	16,173	11,092	208,931	25,950
Short-term investments	49,976	50,282	40,291	117,554	107,263	257,963
Receivables – related parties	4,023	23	23	23	23	23
Prepaid and other current assets	1,123	1,222	1,224	11,929	2,527	2,502
Total current assets	71,385	61,464	57,711	140,598	318,744	286,438
Property and equipment, net	5,462	5,190	4,884	4,569	4,641	4,962
Other assets	2,921	3,170	3,639	43	10,300	10,486
Total assets	79,768	69,824	66,234	145,210	333,685	301,886
Current liabilities:						
Accounts payable	849	809	812	2101	5,706	2,935
Accrued liabilities	3,798	5,348	6,008	6,865	9,860	0
Current portion of deferred revenue	14,726	14,726	22,726	22,726	35,059	35,059
Current portion of deferred rent	560	579	596	610	624	637
Liability for shares issued with repurchase rights	14	12	11	10	10	10
Convertible preferred stock warrant liability	182	161	328	0	0	0
Other current liabilities					10,758	10,064
Total current liabilities	20,129	21,635	30,481	32,312	62,017	48,705
Deferred revenue, less current portion	17,320	14,388	11,457	8,525	148,871	142,856
Deferred rent, less current portion	3,750	3,598	3,460	3,303	3,146	2,980
Liability for shares issued with repurchase rights, less current portion	23	21	18	16	14	11
Non-current income tax payable					1,515	1,517
Total liabilities	41,222	39,642	45,416	44,156	215,563	196,069
Stockholder equity	-144,227	30,182	20,818	101,054	118,122	105,817
Total liabilities and stockholder equity	79,768	69,824	66,234	145,210	333,685	301,886

Source: Company data, Jefferies LLC estimates

May 8, 2014

Company Description

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

Jefferies Group LLC makes a market in the securities or ADRs of Celgene Corporation.

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.

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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.

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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.

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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.

Jefferies Franchise Picks

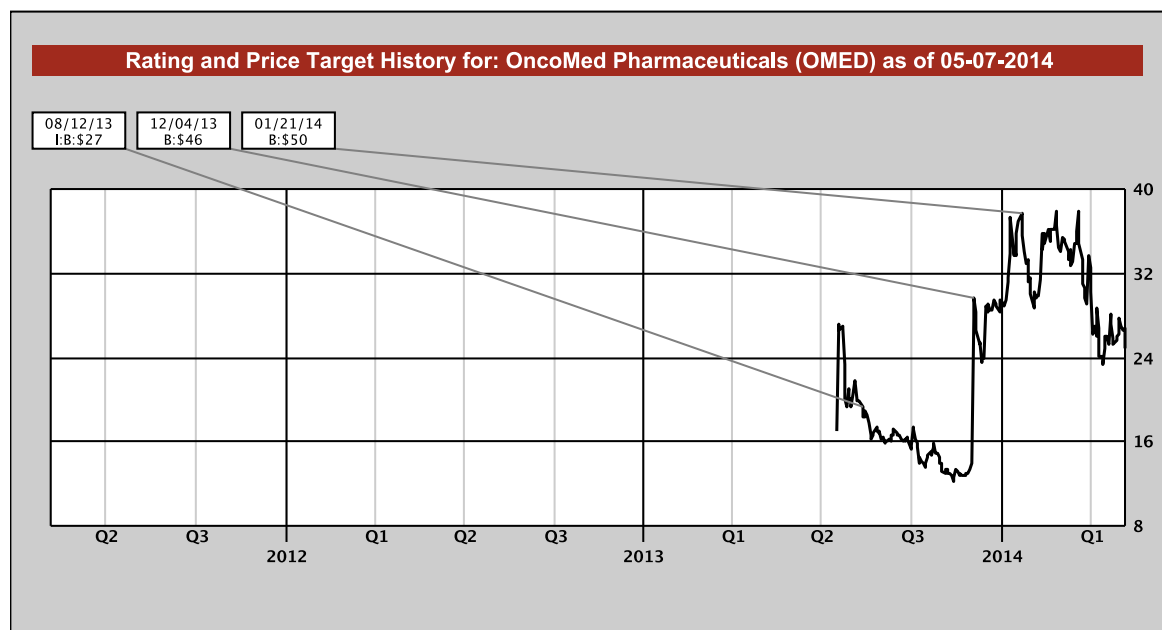
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Risk which may impede the achievement of our Price Target

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Other Companies Mentioned in This Report

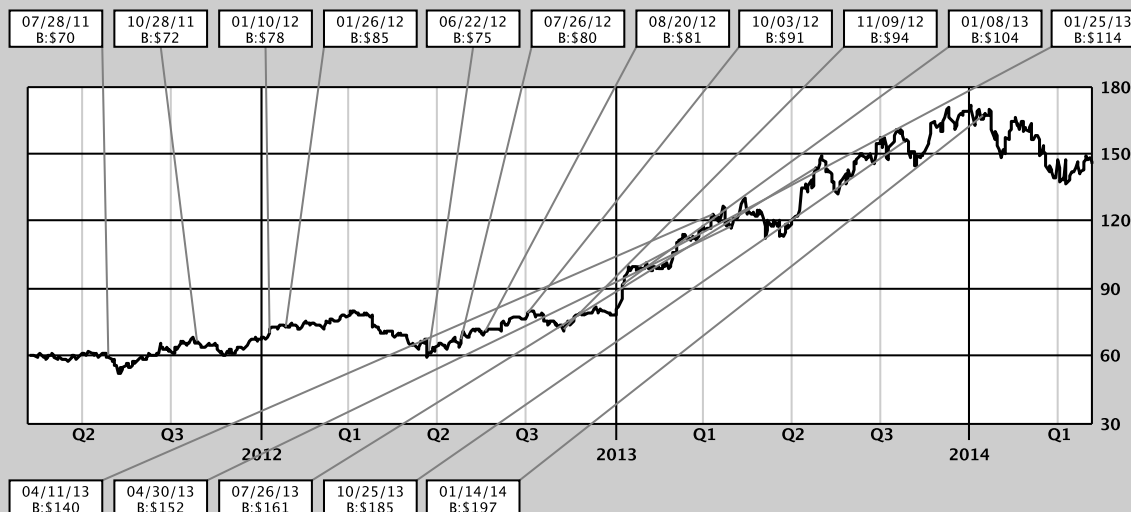
- Bayer AG (BAYN GR: €100.20, BUY)
- Celgene Corporation (CELG: \$144.12, BUY)
- GlaxoSmithKline Plc (GSK LN: p1,617.00, HOLD)

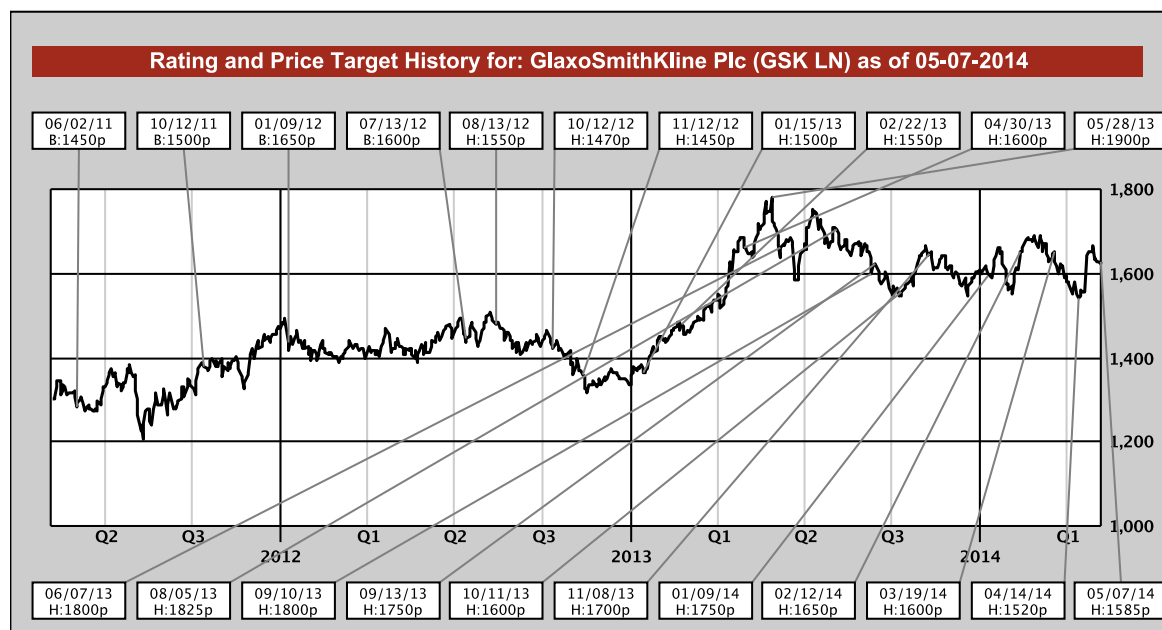


Rating and Price Target History for: Bayer AG (BAYN GR) as of 05-07-2014



Rating and Price Target History for: Celgene Corporation (CELG) as of 05-07-2014





Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	909	49.67%	246	27.06%
HOLD	774	42.30%	133	17.18%
UNDERPERFORM	147	8.03%	5	3.40%

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