

OncoMed Pharmaceuticals

(OMED-NASDAQ)

Stock Rating: Outperform
Industry Rating: Outperform

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Encouraging Progress Across Multiple Cancer Therapeutic Programs

Event

OncoMed reported 3Q13 operating results earlier today, with an update on key initiatives. The net loss per share of \$0.15 was wider than consensus of a \$0.02 loss, and OMED ended 3Q13 with \$128.6 million in cash. Collaboration revenues in 3Q13 were \$12.9 million, up from \$7.7 million in 3Q12. With the primary focus on the company's cancer therapeutics targeting the Notch and Wnt pathways, OMED highlighted recent data presentations for four of the company's five clinical-stage programs at major medical conferences, with safety and anti-tumor activity data presented for demcizumab (anti-DLL4), vantiactumab (anti-Fzd7), OMP-52M51 (anti-Notch1), and OMP-54F28 (FZD8-Fc). OMED also highlighted its plan to have at least 11 clinical trials under way by year-end 2013 and noted two recently initiated phase 1b trials: demcizumab in combination with paclitaxel in platinum-resistant ovarian cancer and vantiactumab in combination with paclitaxel in breast cancer. Other highlights included the issuance of three US patents related to vantiactumab and antibodies targeting the RSPO-LGR pathway, as well as the MabTrap antibody display technology.

Impact & Analysis

We are maintaining our Outperform rating on shares of OncoMed following 3Q13 results. We continue to believe that significant upside potential from current valuation levels exists on prospects for lead anti-DLL4 antibody demcizumab in NSCLC and pancreatic cancer alone, while phase 2 proof-of-concept data across 11 studies spanning multiple cancer indications are expected by 2016.

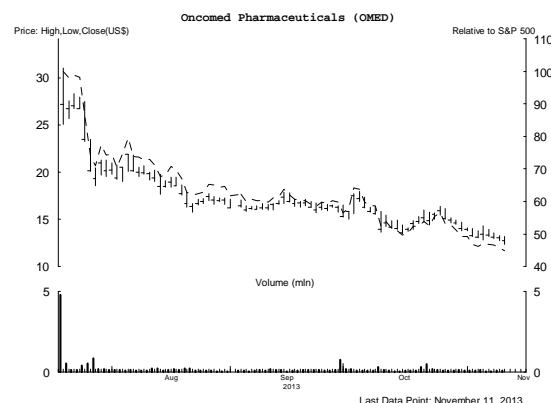
Valuation & Recommendation

We arrive at our \$32 price target by applying a 20x multiple on 2020 EPS estimate of \$6.65 and discounting at 30%. We rate OMED shares Outperform.

Securities Info

Price (11-Nov)	\$12.76	Target Price	\$32.00
52-Wk High/Low	\$31/\$12	Dividend	--
Mkt Cap (mm)	\$287	Yield	--
Shs O/S (mm, BASIC)	22.5	Float O/S (mm)	5.4
Options O/S (mm)	NA	ADVol (30-day, 000s)	145

Price Performance



Valuation/Financial Data

(FY-Dec.)	2011A	2012A	2013E	2014E
EPS GAAP	-\$15.40	-\$1.00	-\$1.32↓	-\$1.43
P/E			nm	nm
First Call Cons.			-\$0.67	-\$0.80
FCF	na	na	na	na
P/FCF			na	na
EBITDA (\$mm)	-\$15	-\$22	-\$39	-\$44
EV/EBITDA			nm	nm
Rev. (\$mm)	\$31	\$25	\$19	\$47
EV/Rev			7.6x	3.1x
Quarterly EPS	1Q	2Q	3Q	4Q
2012A	na	na	na	na
2013E	-\$0.16A	-\$0.43A	-\$0.15A	-\$0.57

Balance Sheet Data (31-Mar)

Net Debt (\$mm)	-\$144	Total Debt/EBITDA	nm
Total Debt (\$mm)	\$0	EBITDA/IntExp	na
Net Debt/Cap.	nm	Price/Book	-0.1x

Notes: Quarterly EPS may not sum due to share count. All values in US\$.

Source: BMO Capital Markets estimates, Bloomberg, Thomson Reuters, and IHS Global Insight.

Changes

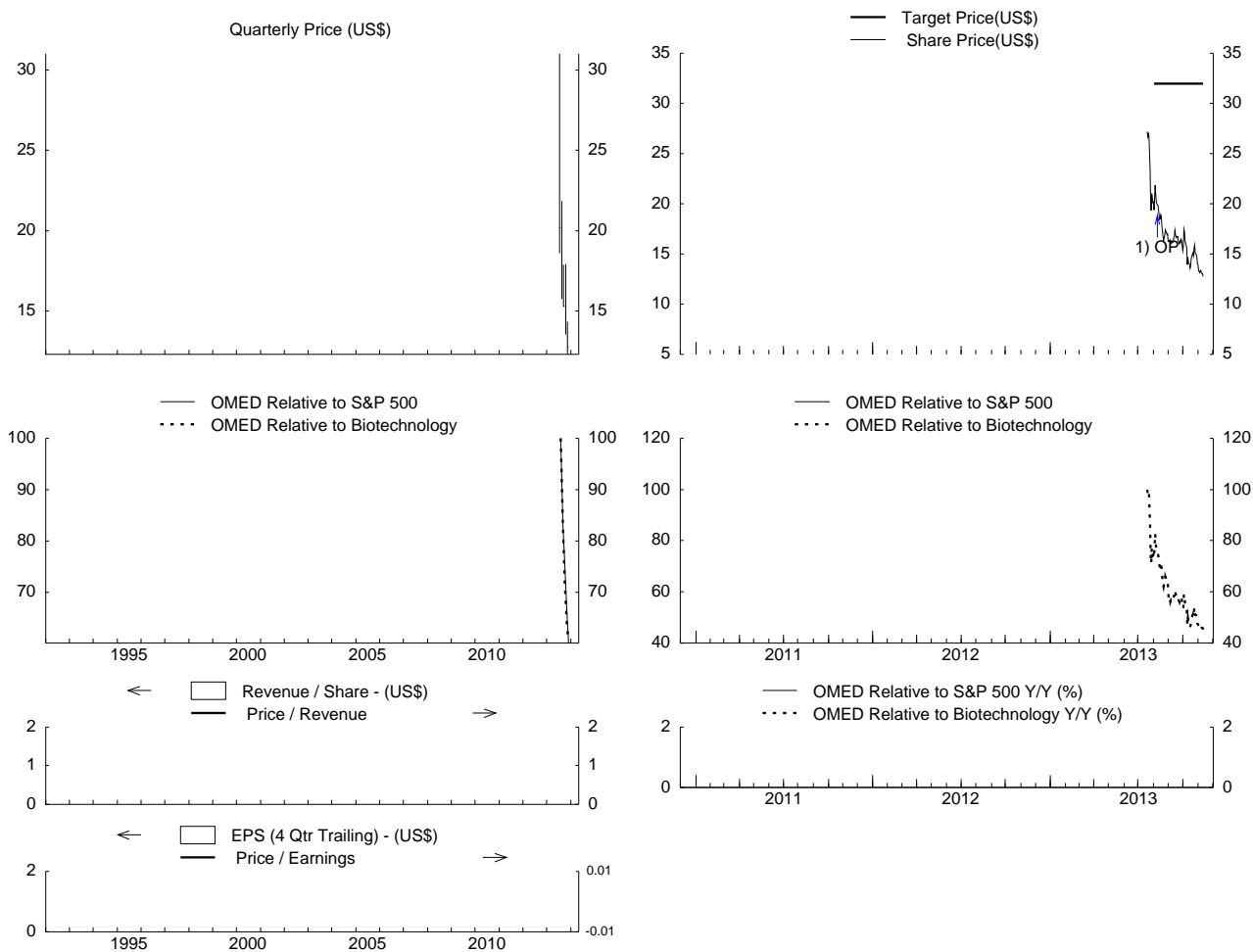
Annual EPS
 2013E -\$0.77 to -\$1.32

Exhibit 1: OMED Income Statement 2012A-2020E

INCOMESTATEMENT (\$M)	2012A	1Q13A	2Q13A	3Q13A	4Q13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES													
Product Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112.2	\$ 364.2	\$ 520.2
Collaborative Revenues/Milestones	24.7	2.9	2.9	12.9	-	18.8	47.0	48.0	50.0	30.0	-	-	-
TOTAL REVENUES	\$ 24.7	\$ 2.9	\$ 2.9	\$ 12.9	\$ -	\$ 18.8	\$ 47.0	\$ 48.0	\$ 50.0	\$ 30.0	\$ 112.2	\$ 364.2	\$ 520.2
EXPENSES (GAAP)													
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.2	\$ 0.7	\$ 1.0
R&D Expense	39.9	9.6	10.5	13.1	14.0	47.1	72.0	108.0	120.0	118.9	120.0	120.0	120.0
SG&A Expense	7.2	2.0	2.0	3.2	3.5	10.7	19.0	27.0	34.7	43.0	51.0	59.0	66.9
TOTAL EXPENSES	47.1	11.6	12.4	16.4	17.5	57.8	91.0	135.0	154.7	162.9	171.2	179.7	187.9
Operating Income	(22.4)	(8.6)	(9.5)	(3.5)	(17.5)	(39.1)	(44.0)	(87.0)	(104.7)	(132.9)	(59.0)	184.5	332.3
Depreciation and Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(22.4)	(8.6)	(9.5)	(3.5)	(17.5)	(39.1)	(44.0)	(87.0)	(104.7)	(132.9)	(59.0)	184.5	332.3
Interest Income	0.1	0.0	-	-	0.3	0.3	0.9	0.7	0.5	0.3	0.1	0.7	2.9
Interest Expense	(0.0)	5.0	(0.1)	-	-	-	-	(0.1)	-	-	(0.1)	-	(0.3)
Other Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest and Other (net)	\$ 0.1	\$ 5.0	\$ (0.1)	\$ -	\$ 0.3	\$ 5.2	\$ 0.9	\$ 0.6	\$ 0.5	\$ 0.3	\$ 0.0	\$ 0.7	\$ 2.6
Pre-Tax Income	(22.2)	(3.6)	(9.6)	(3.5)	(17.2)	(33.9)	(43.0)	(86.3)	(104.2)	(132.6)	(59.0)	185.2	335.0
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	(22.2)	(3.6)	(9.6)	(3.5)	(17.2)	(33.9)	(43.0)	(86.3)	(104.2)	(132.6)	(59.0)	185.2	335.0
EPS (GAAP) (basic)	\$ (1.00)	\$ (0.16)	\$ (0.43)	\$ (0.15)	\$ (0.62)	\$ (1.36)	\$ (1.53)	\$ (2.69)	\$ (2.85)	\$ (3.17)	\$ (1.31)	\$ 3.88	\$ 6.95
EPS (GAAP) (diluted)	\$ (1.00)	\$ (0.16)	\$ (0.43)	\$ (0.15)	\$ (0.57)	\$ (1.32)	\$ (1.43)	\$ (2.52)	\$ (2.70)	\$ (3.01)	\$ (1.25)	\$ 3.71	\$ 6.65
Total of Reconciliation Items	4.4	0.2	0.3	2.0	2.0	4.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Net Income (Non-GAAP)	\$ (27.4)	\$ (3.4)	\$ (9.4)	\$ (1.5)	\$ (15.2)	\$ (29.4)	\$ (35.0)	\$ (78.3)	\$ (96.2)	\$ (124.6)	\$ (51.0)	\$ 193.2	\$ 343.0
Impact of Adjustments to EPS	4.12	0.01	0.01	0.09	0.07	0.18	0.27	0.24	0.21	0.18	0.16	0.16	0.16
EPS (Non-GAAP) (basic)	\$ (14.13)	\$ (0.15)	\$ (0.42)	\$ (0.07)	\$ (0.54)	\$ (1.18)	\$ (1.25)	\$ (2.44)	\$ (2.63)	\$ (2.98)	\$ (1.14)	\$ 4.04	\$ 7.12
EPS (Non-GAAP) (diluted)	\$ (14.13)	\$ (0.15)	\$ (0.42)	\$ (0.07)	\$ (0.51)	\$ (1.14)	\$ (1.16)	\$ (2.29)	\$ (2.49)	\$ (2.83)	\$ (1.09)	\$ 3.87	\$ 6.81
Weighted average shares outstanding (basic)	22.2	22.3	22.3	22.5	27.9	23.7	28.0	32.1	36.7	42.4	46.5	47.7	48.2
Weighted average shares outstanding (diluted)	22.2	22.3	22.3	22.5	28.9	24.2	30.1	34.1	38.8	44.5	48.6	48.9	50.4

Source: Company reports and BMO Capital Markets

Oncomed Pharmaceuticals (OMED)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %	OMED - Rating as of 17-Jul-13 = NR		
Range*:		na na		NC			>15 >15		Date	Rating Change	Share Price
Current*	ND	na	0.00	0.0	na	3.8	3.6	na	1 8-Aug-13	NR to OP	\$19.88

* Current EPS is the 4 Quarter Trailing to Q1/2013.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (November 11, 2013): \$12.76
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology: We arrive at our price target by applying a 20x multiple to our 2020 GAAP EPS estimate of \$6.65 and discounting at 30%.

Risks: There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	35.8%	20.3%	47.8%	36.7%	48.3%	52.6%
Hold	Market Perform	59.4%	13.1%	51.1%	56.9%	50.2%	41.7%
Sell	Underperform	4.9%	3.4%	1.1%	6.4%	1.5%	5.6%

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;

(S) = Speculative investment;

NR = No rating at this time; and

R = Restricted – Dissemination of research is currently restricted.

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