

OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Voluntarily Halts Trials for Vantictumab & OMP-54F28; Buyers On Weakness

CONCLUSION

This morning, OncoMed voluntarily halted enrollment and dosing in clinical trials for 2 Wnt pathway inhibitors, vantictumab (OMP-18R5) and Fzd8-Fc (OMP-54F28), due to bone related AEs. Both drugs are partnered with Bayer. Although a setback, OncoMed is making protocol adjustments and expects to continue to evaluate these drugs. We are buyers on today's weakness as demcizumab and OMP-59R5 are the primary value drivers. We reiterate our Overweight rating and are trimming our price target to \$43 from \$48 by removing value for these 2 drugs..

- Voluntarily Halts 2 Clinical Programs.** OncoMed has voluntarily halted new patient enrollment and dosing in clinical trials of 2 Wnt pathway inhibitors that are partnered with Bayer: vantictumab (OMP-18R5) and Fzd8-Fc (OMP-54F28). The decision was based on observations of bone related AEs in 8 of 63 patients (13%) of vantictumab and 2 of 41 patients (5%) of OMP-54F28 patients. The company is making protocol modifications including lower doses, less frequent dosing, increased monitoring, increase emphasis on bone protection and an adjustment of enrollment criteria likely to exclude patients who are at greatest risk. Patients in both trials who have had clinical benefit from the therapies are able to stay on the drug and will either continue with the current treatment regimen or have modest adjustments to reduce risk.
- Buyers On Weakness.** Although clearly a setback, we believe today's sell off is over done and are buyers on weakness. OncoMed is acting prudently and will not necessarily discontinue the programs that are partnered with Bayer. We did not see vantictumab nor OMP-54F28 as primary drivers for OMED shares and assign greater value to demcizumab (anti-DLL4: Notch) which is currently being investigated in non-small cell lung cancer (NSCLC) and pancreatic cancer and OMP-59R5 (anti-Notch2/3; Notch) is also being looked at in these cancers. In fact, removing all value for vantictumab and OMP-54F28 takes our price target to \$43 from \$48.

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\$24.90

TARGET: US\$43.00

Proj EV of \$1.05B + YE:14E cash

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	US\$48.00	US\$43.00
FY14E Rev (mil)	—	US\$60.8
FY15E Rev (mil)	—	US\$57.8
FY14E EPS	—	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\$737.0	
Avg Daily Vol (ooo)	163	
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, however are trimming our price target to \$43 from \$48 by removing value for vantiactumab and OMP-54F28. Our new \$43 price target is based on a projected enterprise value of \$1.05 billion, down from \$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. Today we are removing \$100 million in value for vantiactumab and OMP-54F28 and still add \$50 million for OMP-52M51, which is partnered with GSK.

We add YE:14 net cash of \$273 million. OncoMed has no meaningful long-term debt. We divide our projected market capitalization of \$1.32 billion by 30.5 million shares at YE:14.

OncoMed Pharmaceuticals, Inc.
Quarterly Earnings Estimates
(\$ in thousands, except per share data)

May 8, 2014

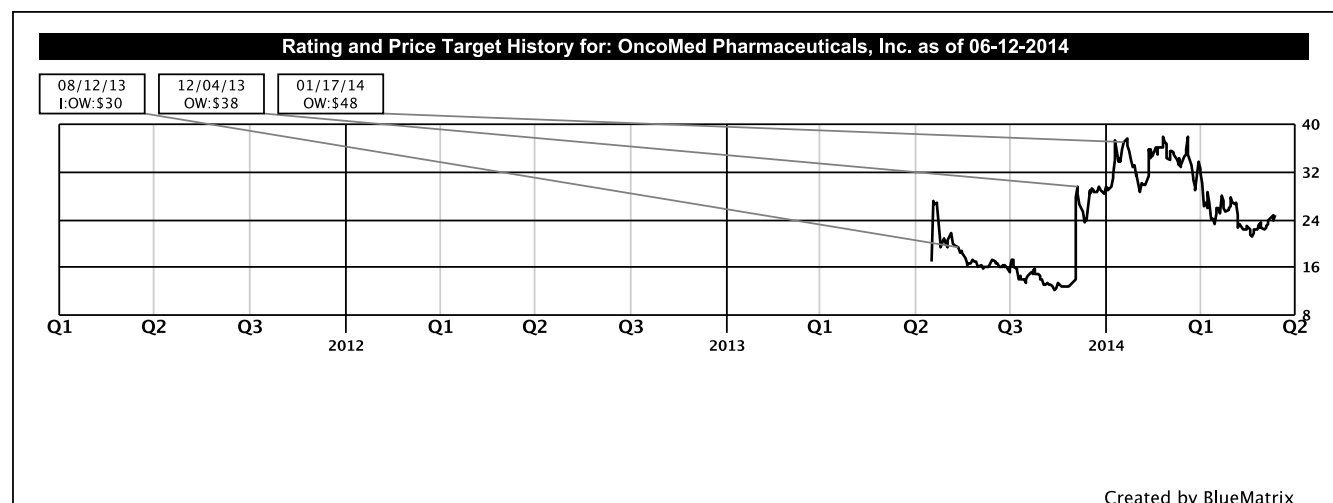
	<u>2012A</u>	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QA</u>	<u>2013A</u>	<u>1QA</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2014E</u>	<u>2015E</u>
Revenues:												
Collaborative R&D	\$24,659	\$2,932	\$2,932	\$12,932	\$18,983	\$37,778	\$6,015	\$28,932	\$3,932	\$21,932	\$60,810	\$57,756
Grants	22	0	0	0	0	0	0	0	0	0	0	0
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
General and Administrative	7,157	1,985	1,952	3,175	4,518	11,630	3,213	4,500	4,500	5,000	17,213	20,000
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)
Operating Margin	NM	NM	NM	NM	NM	NM	NM	22.2%	NM	NM	NM	NM
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)
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	22.4%	NM	NM	NM	NM
Income Tax/(Benefit)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
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)
Pretax Margin	NM	NM	NM	NM	NM	NM	NM	22.4%	NM	NM	NM	NM
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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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
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]	354	61.89	87	24.58
HOLD [N]	203	35.49	20	9.85
SELL [UW]	15	2.62	0	0.00

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