

OncoMed Pharmaceuticals, Inc. (OMED)

Overweight

Initiates Phase II ALPINE Trial For Tarextumab In Pancreatic Cancer

CONCLUSION

This morning, OncoMed announced initiation of the Phase II portion of the ALPINE trial of anti-Notch 2/3 antibody tarextumab in combination with Abraxane and gemcitabine in pancreatic cancer. Partner GlaxoSmithKline pre-paid an \$8M milestone last fall that OncoMed will likely recognize in 3Q:14. Later this year we expect several data readouts on both demcizumab and tarextumab, potentially lifting the partial clinical hold on vanticumab and ipafricept, as well as filing new INDs. OncoMed has a rich cancer antibody pipeline. We reiterate our Overweight rating and \$43 price target.

- **Starts Phase II portion of ALPINE.** OncoMed has initiated the Phase II portion of the ALPINE clinical trial of anti-Notch 2/3 antibody tarextumab (OMP-59R5). This trial will randomize up to 124 pancreatic cancer patients to either 15mg/kg every other week of tarextumab or placebo, both in combination with Abraxane and gemcitabine. The primary endpoint is progression free survival (PFS). In January, OncoMed reported that the Phase Ib portion showed that the tarextumab, Abraxane, gemcitabine combination was well tolerated with a disease control rate (DCR) of 63%. Tarextumab is partnered with GSK, who pre-paid an \$8M milestone last fall that OncoMed will likely recognize in 3Q:14. We expect a look at efficacy from the Phase II trial some time in 2015.
- **Key upcoming milestones.** We look for a busy 2H:14 for OncoMed with data readouts on both demcizumab and tarextumab. OncoMed expects to initiate the Phase II portions of the PINNACLE trial of tarextumab in small cell lung cancer later this year. The company will also initiate two Phase II studies looking at demcizumab in pancreatic and non-small cell lung cancer (NSCLC). The company plans to have data presentations at upcoming medical conferences including ESMO, the EORTC-NCI-AACR meeting and the San Antonio Breast Cancer Symposium in 2H:14. We also look for OncoMed to submit data and protocol adjustment to the FDA to potentially lift the partial clinical hold on vanticumab and ipafricept, as well as filing new INDs.

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\$21.00

TARGET: US\$43.00

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

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	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\$621.6	
Avg Daily Vol (ooo)	162	
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	16.4x	(0.39)	(0.41)	(0.15)	(0.08)	(0.85)	NM
2014E	6.0A	28.9	3.9	21.9	60.8	10.2x	(0.47)A	0.22	(0.65)	(0.10)	(1.00)	NM
2015E	—	—	—	—	57.8	10.8x	—	—	—	—	(1.02)	NM

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

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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
<u>Grants</u>	<u>22</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
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
<u>General and Administrative</u>	<u>7,157</u>	<u>1,985</u>	<u>1,952</u>	<u>3,175</u>	<u>4,518</u>	<u>11,630</u>	<u>3,213</u>	<u>4,500</u>	<u>4,500</u>	<u>5,000</u>	<u>17,213</u>	<u>20,000</u>
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)
<i>Operating Margin</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	22.2%	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>
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)
<i>Pretax Margin</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	22.4%	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>
Income Tax/(Benefit)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Tax Rate</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>
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)
<i>Pretax Margin</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	22.4%	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>
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

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	358	62.59	89	24.86
HOLD [N]	200	34.97	20	10.00
SELL [UW]	14	2.45	0	0.00

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Analyst Certification — Edward A. Tenthoff, Sr Research Analyst — David N. Lebowitz, CFA, Research Analyst

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