

Equity Research

December 16, 2014

**Price: \$13.78** (12/15/2014)

**Price Target: \$45.00**

**OUTPERFORM (1)**

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**Key Data**

Symbol [NASDAQ: CHRS](#)

Market Cap (MM) [\\$448.7](#)

Company Quick Take

## *Biosimilar Programs Remain On Track*

### **The Cowen Insight**

Coherus is one of the key players in the race to develop biosimilars with 3 products in development: (1) CHS-1420, (Humira); (2) CHS-0214, (Enbrel); and (3) CHS-1701, (Neulasta). Our price target of \$45 is based on conservative penetration into the RA and psoriasis markets for CHS-1420 and CHS-0214, with additional contribution from CHS-1701 in the G-CSF market.

### **Biosimilar Development Programs Remain On Track**

Coherus held its first earnings call yesterday after its November IPO. Additional detail was provided on the development of its key products, but otherwise no material updates were made. As described in detail in our initiation report from earlier this month, Coherus is one of the key players in the race to develop biosimilars with three products in development: (1) CHS-1420, a biosimilar of AbbVie's Humira; (2) CHS-0214, a biosimilar of Amgen's Enbrel; and (3) CHS-1701, a biosimilar of Amgen's Neulasta. During the Q3 call, management noted that the two Phase III studies for CHS-0214 in RA and psoriasis have resumed and that a filing in the EU is expected in 2016. Regarding CHS-1701, Coherus met with the FDA in October to discuss a transition in the regulatory pathway from the standard 351(a) route for biologics to the 351(k) path for biosimilars. This should allow Coherus to file for CHS-1701 6-12 month earlier, sometime around year-end 2015 or early 2016. Overall, the discussions with the Agency regarding CHS-1701 have been positive and another meeting is expected in Q1:2015. Finally, for CHS-1420 – the company's key asset – the Phase III program continues to remain on track to begin during the first half of 2015.

### **Coherus Is A Leader In What Should Be A Massive Biosimilars Market**

By 2017, we estimate the WW sales of Humira for the rheumatoid arthritis (RA) and psoriasis indications alone will be approximately \$10B. For Enbrel, Amgen has U.S. patent protection until 2029 in the U.S., but we estimate the 2017 ex-U.S. sales will still be \$3.2B for just the RA and psoriasis indications. Finally, Neulasta WW sales are expected to be roughly \$4.4B by 2017. Put simply, Coherus is currently developing three lead biosimilar products with an estimated total addressable market of \$18B by 2017. And the Company's impressive development platform is easily transferable to a long list of additional biosimilar opportunities. From a clinician, patient, and overall health care system (governments and private payors) viewpoint, there is an escalating, in fact desperate, need for effective and therapeutically equivalent low-cost alternatives. We believe Coherus will be at the forefront of alleviating the massive cost pressures via what should be a successful development of its biosimilar products.

### **Valuation Appears Attractive Here**

Our base-case valuation assumes U.S. approval for CHS-1420 (Humira) in 2017, and peak sales via direct commercialization by Coherus eventually reaching approximately \$1B, assuming a 3% penetration of the U.S. RA and psoriasis markets by 2022. We also assume ex-U.S. approvals of CHS-1420 in 2018 with peak royalty revenues of

\$190MM+. For CHS-0214 (Enbrel), we assume ex-U.S. approvals in 2017 with peak royalty revenues of \$200MM+. Finally, we assume a 2017 U.S. approval for CHS-1701 (Neulasta) with peak sales via direct marketing by Coherus of \$260MM+. We also assume ex-U.S. approval of CHS-1701 in 2018 with peak royalty revenues of \$30MM+. We would note, our valuation does not attribute any value to the potential additional indications for CHS-1420 and CHS-0214 that are currently found in the labels for Humira and Enbrel. Our industry checks continue to suggest that physicians are willing to use biosimilars and that managed care will clearly pressure for adoption. As a result, our current assumptions may prove to be conservative. We would note, our valuation does not attribute any value to the potential additional indications for CHS-1420 and CHS-0214 that are currently found in the labels for Humira and Enbrel. The broader utilization could garner significant upside to our base case \$45 valuation since the RA and psoriasis indications only make up 55% of Humira's current U.S. sales

## *Valuation Methodology And Risks*

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### **Valuation Methodology**

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#### **Pharmaceuticals/Specialty**

For our valuation methodology, we arrive at fair value utilizing a discounted cash flow (DCF) approach to derive our 12-month price target.

### **Investment Risks**

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#### **Pharmaceuticals/Specialty**

**Risks include:** (1) growing competitive dynamics in the specialty pharmaceuticals space; (2) the ability of management to execute on external growth by successfully acquiring new strategic, accretive products; (3) the ability to grow organically and keep the product pipeline robust; (4) potential regulatory delays, rejections, or failures of pipeline products; (5) economic sensitivity of any self-pay products or weakening consumer demand; (6) domestic or international pricing pressures for marketed products; and (7) failure to execute on new product launches.

#### **Risks To The Price Target**

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Coherus is a development-stage biosimilar company and while the strategy appears to be risk-mitigated from a clinical efficacy perspective, regulatory and legal hurdles could negatively affect the Company's share price.

# Addendum

## Stocks Mentioned In Important Disclosures

Ticker	Company Name
CHRS	Coherus BioSciences

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**Market Perform (2):** The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

**Underperform (3):** Stock is expected to achieve a total negative return of at least 10% over the next 12 months

**Assumption:** The expected total return calculation includes anticipated dividend yield

#### Cowen and Company Rating System until May 25, 2013

**Outperform (1):** Stock expected to outperform the S&P 500

**Neutral (2):** Stock expected to perform in line with the S&P 500

**Underperform (3):** Stock expected to underperform the S&P 500

**Assumptions:** Time horizon is 12 months; S&P 500 is flat over forecast period

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## Cowen And Company Rating Definitions

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Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	440	59.95%	105	23.86%
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Sell (c)	16	2.18%	0	0.00%

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### Coherus BioSciences Rating History as of 12/15/2014

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### Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | \$xx = Price Target | NA = Not Available | S=Suspended

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