COWEN
AND COMPANY

Pharmaceuticals/Specialty

Coherus BioSciences

Equity Research

Quick Take: Earnings Update

March 24, 2015

Price: $25.60 (03/23/2015)

Price Target: $45.00

OUTPERFORM (1)

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Key Data

Symbol	NASDAQ: CHRS
Market Cap (MM)	$853.1

Positive Updates Continue To Provide Solid Momentum

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 primarily on conservative penetration into the RA and psoriasis markets for CHS-1420 and CHS-0214, with modest contribution from CHS-1701. Our positive views have only been reinforced.

Biosimilar Development Programs Continue To Make Significant Progress

Coherus held its Q4 earnings call and provided additional detail on the development of its key products. And nearly all of the updates were exceedingly positive. As a reminder, Coherus is one of the leading players in the race to develop biosimilars with three key 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.

Regarding CHS-1701, Coherus recently met with the FDA to finalize the clinical program, which will require a single-dose PK/PD study of CHS-1701 in 106 healthy patients and a parallel group, two-dose immunogenicity study with 80 healthy patients in each group (CHS-1701 versus its active comparator Neulasta). Importantly, based on the feedback from the FDA, the company will not need to conduct Phase III efficacy studies for CHS-1701 in patients with cancer due to the following reasons: (1) pegfilgrastim is a relatively simple molecule to characterize compared to other proteins such as monoclonal antibodies (i.e., smaller molecular weight, no glycosylation, straightforward pegylation, etc.); (2) treatment with the G-CSF analog is on an acute not chronic basis; and finally (3) there is a clear rapid efficacy marker, which is an increase in neutrophil counts that can be observed in both healthy patients and those with cancer. While these three attributes (easier ability to characterize, rapid and measurable effects, acute use versus chronic) are not applicable for all biosimilars, the Agency's willingness to approach each candidate with a degree of flexibility is encouraging for potential current and future targets. The PK/PD studies for CHS-1701 have already been initiated and a filing of the 351(k) BLA is expected in Q4:2015 or Q1:2016. Management is already in the early stages of formalizing its commercialization and reimbursement strategy, which is encouraging.

For CHS-1420 (biosimilar Humira) – the company's key asset – Coherus continues to make stable progress. Management – in conjunction with the FDA – has decided to conduct its pivotal Phase III program in plaque psoriasis. Specific for the U.S., the study will require a 16 week assessment with a PASI 75 endpoint (75% improvement in the Psoriasis Area and Severity Index score) while for the EMA, the regulators have suggested a 12 week assessment with a mean improvement in PASI endpoint. A PK/PD study of CHS-1420 versus Humira has already been successfully completed and the Phase III programs detailed above are expected to begin toward the end of H1:2015 with anticipated filings in H2:2016. Again, we are encouraged with the

apparent straightforward dialogue and clinical guidance from both the FDA and EMA for this key program.

Regarding CHS-0214 (biosimilar Enbrel partnered with Baxter and Daiichi Sankyo) the pivotal Phase III studies in RA and psoriasis remain right on-track with filings in the EU and Japan expected in mid-2016.

The bottom-line is that the updates were exceedingly encouraging and have only strengthened our thesis and belief in the regulatory pathways and timing to market.

Coherus Is A Leader In What Should Be A Significant 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 Remains 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

Valuation Methodology

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

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

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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Cowen and Company Rating System effective May 25, 2013

Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

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

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

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Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

Cowen And Company Rating Definitions

Distribution of Ratings/Investment Banking Services (IB) as of 12/31/14

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	461	60.50%	109	23.64%
Hold (b)	288	37.80%	14	4.86%
Sell (c)	13	1.71%	0	0.00%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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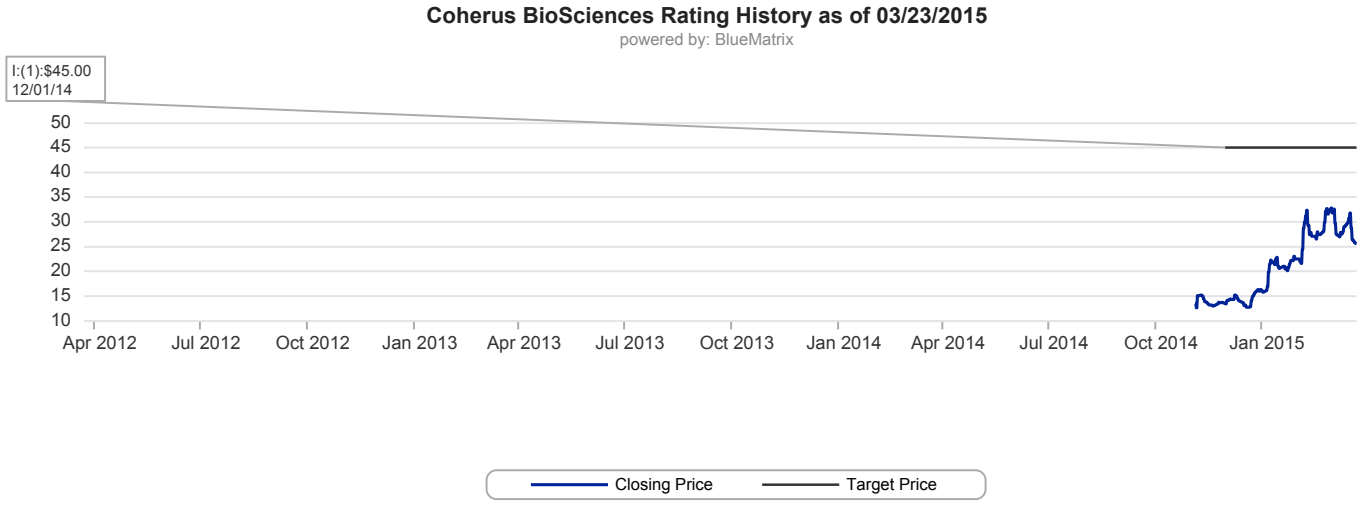

Legend for Price Chart:

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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