

Coherus

Takeaways from 1Q Conference Call

This afternoon, Coherus reported 1Q earnings, and provided an update on the development of its lead biosimilars. The company remains on track for several important filings for biosimilar versions of Neulasta, Enbrel, and Humira over the next 6-18 months, and expects to bring a molecule per year into phase III development beginning in 2017. With biosimilars increasingly in focus and a highly experienced management team, we see Coherus as well-positioned within this emerging market and see the recent pullback in shares as creating a very attractive risk/reward. Reiterate OW.

- **Management highlighted CHS-1701 (biosimilar Neulasta) opportunity, expects top-line data in 2H.** Coherus highlighted the CHS-1701 opportunity as a large market opportunity with relatively few competitors (Coherus sees 2 biosimilar competitors initially in the US) and reasonable commercial footprint requirements. In addition, management also noted that the patent landscape for the product appears relatively clear. Coherus is enrolling the BLA-enabling bioequivalence study and expects to disclose top-line data later this year, setting up a BLA filing in 4Q/15 or 1Q/16.
- **Coherus sees payers focused on quality and reliability of product.** Coherus has begun pre-commercialization activities for CHS-1701 and is "highly engaged" with payers. While we continue to await details around the company's commercial strategy, management disclosed that they see payers focused on three key issues: 1) product quality, 2) breadth of the label, and 3) reliability of supply.
- **Updates on the portfolio.** On the call, management noted that both phase III studies of CHS-0214 (biosimilar Enbrel) have now completed enrollment, and that Coherus expects top-line data from the 619-patient rheumatoid arthritis study to read out at the end of Q3, setting up a mid-2016 MAA filing. In addition, Coherus continues to plan to initiate a phase III trial for CHS-1420 (biosimilar Humira) in plaque psoriasis in the near term, setting up a filing in 2H16. Beyond the initial assets, Coherus is looking at a group of product candidates, and expects to bring a new asset into phase III development annually beginning in 2017. We expect additional color around this second wave pipeline later this year.

Overweight

CHRS, CHRS US

Price: \$21.08

Price Target: \$35.00

Pharmaceuticals — Major & Specialty

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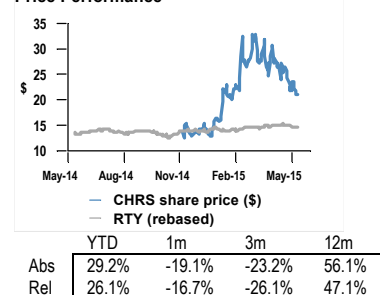
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Price Performance



Coherus BioSciences, Inc. (CHRS;CHRS US)

FYE Dec	2012A	2013A	2014A	2015E (Prev)	2015E (Curr)	2016E (Prev)	2016E (Curr)
EPS Adjusted (\$)							
Q1 (Mar)	-	-	-	-	-	-	-
Q2 (Jun)	-	-	-	-	-	-	-
Q3 (Sep)	-	-	-	-	-	-	-
Q4 (Dec)	-	-	-	-	-	-	-
FY	(9.51)	(9.66)	(10.65)	(2.11)	(3.12)	(3.87)	(4.50)
Bloomberg EPS FY (\$)	-	-9.66	-4.21	-	-2.92	-	-2.20

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Price (\$)	21.08
Date Of Price	11 May 15
52-week Range (\$)	33.30-12.27
Market Cap (\$ mn)	795,854.30
Fiscal Year End	Dec
Shares O/S (mn)	37,754
Price Target (\$)	35.00
Price Target End Date	31-Dec-15

See page 4 for analyst certification and important disclosures.

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Investment Thesis, Valuation and Risks

Coherus (*Overweight; Price Target: \$35.00*)

Investment Thesis

Maintain Overweight rating. We expect a range of biosimilars will launch over the next 5-10 years with biologic products with ~\$100 billion in annual sales losing patent protection through 2020. Coherus is a pure-play on this opportunity with three lead biosimilar candidates (biosimilar versions of Humira, Enbrel, and Neulasta), all of which will have entered late-stage clinical development by early 2015. These products target several of the largest biologics currently on the market, with 2014 branded sales in Coherus's targeted markets expected to reach roughly \$20 billion in 2014. Assuming a modest biosimilar market share and 4-5 competitors per market, we see Coherus generating roughly \$650 million in revenue by 2020, growing to roughly \$1.1 billion by 2025.

Valuation

Maintaining Dec-15 price target of \$35. Using a risk-adjusted DCF analysis, we arrive at a December 2015 price target of \$35. We assume that Baxter launches CHS-0214 in Europe in 2017 and that Coherus launches CHS-1420 in the US in 2017 and in Europe in 2018 and CHS-1701 in the US in 2017 and in Europe in 2018.

We estimate a weighted average cost of capital (WACC) of 11%, which is consistent with WACC estimates for companies of Coherus's size and development stage due to the risk of the company's business model relative to more established branded pharma companies with commercialized products. We use a terminal decline of 1% past 2030. We also risk adjust our enterprise value with an 80% probability of success.

Risks to Rating and Price Target

Risks to the downside include 1) uncertainty surrounding the IP and patent resolution process, 2) biosimilars might not achieve the market penetration we have forecast, 3) Coherus could face more competitors and experience more price competition than anticipated, and 4) the company will need to raise additional capital or seek a partner for its products prior to commercialization.

Coherus: Summary of Financials

Income Statement - Annual	FY14A	FY15E	FY16E	FY17E	Income Statement - Quarterly	1Q15A	2Q15E	3Q15E	4Q15E
Revenues	31,106	55,185	57,500	102,129	Revenues	-	-	-	-
Cost of products sold	0	0	0	(6,694)	Cost of products sold	-	-	-	-
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(17,564)	(21,091)	(90,000)	(125,000)	SG&A	-	-	-	-
R&D	(78,224)	(144,467)	(145,000)	(140,000)	R&D	-	-	-	-
Operating income	(64,682)	(110,373)	(177,500)	(169,565)	Operating income	-	-	-	-
Net interest (income) / expense	(3,900)	0	0	0	Net interest (income) / expense	-	-	-	-
Other income / (expense)	(18,595)	(4,091)	0	0	Other income / (expense)	-	-	-	-
Pretax income	(87,177)	(114,464)	(177,500)	(169,565)	Pretax income	-	-	-	-
Income taxes	0	0	0	0	Income taxes	-	-	-	-
Net income - recurring	(87,177)	(114,464)	(177,500)	(169,565)	Net income - recurring	-	-	-	-
Diluted shares outstanding	-	-	-	-	Diluted shares outstanding	-	-	-	-
EPS - excluding non-recurring	(10.65)	(3.12)	(4.50)	(3.86)	EPS - excluding non-recurring	-	-	-	-
EPS - recurring	(10.65)	(3.12)	(4.50)	(3.86)	EPS - recurring	-	-	-	-
Balance Sheet and Cash Flow Data	FY14A	FY15E	FY16E	FY17E	Ratio Analysis	FY14A	FY15E	FY16E	FY17E
Cash and cash equivalents	150,392	173,232	114,058	158,256	Sales growth	1030.7%	77.4%	4.2%	77.6%
Short Term Investment	-	-	-	-	EBIT growth	79.7%	70.6%	60.8%	(4.5%)
Accounts receivable	4,232	5,315	7,626	16,000	EPS growth - recurring	10.3%	(70.7%)	44.1%	(14.2%)
Inventories	-	-	-	-	Gross margin	-	-	-	-
Other current assets	24,512	24,512	24,512	24,512	EBIT margin	(207.9%)	(200.0%)	(308.7%)	(166.0%)
Current assets	179,136	203,059	146,196	198,768	Tax rate	0.0%	0.0%	0.0%	0.0%
PP&E	4,472	6,647	8,822	10,997	Net Profit Margin	(280.3%)	(207.4%)	(308.7%)	(166.0%)
Total assets	187,221	213,319	158,631	213,378					
Total debt	0	0	0	0					
Total liabilities	120,464	121,686	121,686	121,686					
Shareholders' equity	66,757	91,633	36,945	91,692					
Net income (including charges)	(87,177)	(114,464)	(177,500)	(169,565)					
D&A	674	674	674	674					
Change in working capital	28,434	139	(2,311)	(8,374)					
Other	22,933	0	0	0					
Cash flow from operations	(23,927)	(102,589)	(168,075)	(166,203)					
Capex	(2,849)	(2,849)	(2,849)	(2,849)					
Free cash flow	(22,876)	(105,438)	(170,924)	(169,052)					
Cash flow from investing activities	(525)	(2,849)	(2,849)	(2,849)					
Cash flow from financing activities	135,956	128,278	111,750	213,250					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

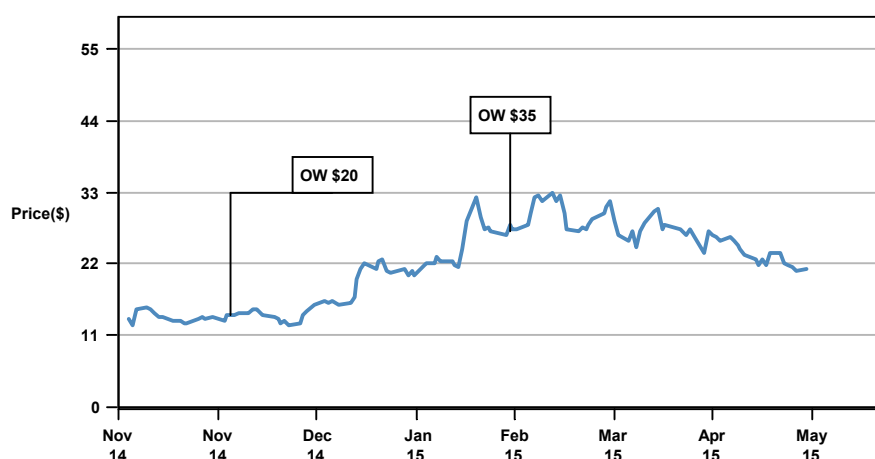
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Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 02, 2014.

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