

Coherus

Takeaways from 2Q Conference Call

Coherus reported 2Q earnings and provided updates on its biosimilar development programs. The company remains on track for several data read-outs in the near term and for important filings for biosimilar versions of Neulasta, Enbrel, and Humira over the next 6-18 months. Beyond these initial molecules, Coherus is preparing several INDs for additional biosimilar candidates, from which we expect updates in 1H16. With biosimilars increasingly in focus and a highly experienced management team, we see Coherus as well-positioned within this emerging market. Remain OW.

- **Updates on the portfolio.** Coherus remains on-track for a number of near-term data read-outs and important filings for its three lead molecules over the next 6-18 months. Dosing has been completed for the BLA-enabling study for CHS-1701 (biosimilar Neulasta), and we are expecting a top-line update in 3Q, setting up a late 2015/early 2016 filing. We also expect top-line read-outs for the CHS-0214 (biosimilar Enbrel) phase III studies in 4Q (psoriasis) and 1Q16 (RA), setting up an MAA filing in 2H16. In addition, Coherus has initiated a global phase III study for CHS-1420 (biosimilar Humira), which remains on track for a 2H16 BLA filing.
- **CMS proposed Part B reimbursement guidelines highlight financial incentives to switch to biosimilars.** The CMS recently proposed Part B reimbursement guidelines, which affect how Medicare/Medicaid reimburses hospital-dispensed products (e.g., Neulasta). In our view, these proposed changes confirm the financial incentives physicians would have to switch to biosimilars (i.e., at biosimilar market formation, a physician would initially be reimbursed for a biosimilar at the same rate as the branded drug despite lower cost). The proposed changes also specified that all biosimilars of a branded molecule would share a single J-code and be reimbursed at the same rate, which could result in a more competitive pricing environment for Part B biosimilars. We await a final ruling from the CMS.

Overweight

CHRS, CHRS US

Price: \$33.87

▲ **Price Target: \$37.00**
Previous: \$35.00

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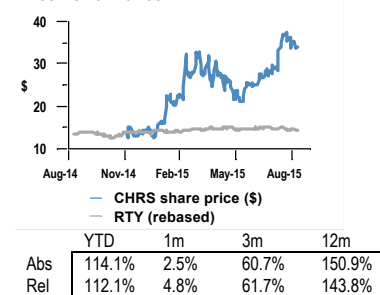
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Price Performance



Coherus BioSciences, Inc. (CHRS;CHRS US)

FYE Dec	2012A	2013A	2014A	2015E (Prev)	2015E (Curr)	2016E (Prev)	2016E (Curr)
EPS (\$)							
Q1 (Mar)	-	-	-	-	-	-	-
Q2 (Jun)	-	-	-	-	-	-	-
Q3 (Sep)	-	-	-	-	-	-	-
Q4 (Dec)	-	-	-	-	-	-	-
FY	(9.51)	(9.66)	(10.65)	(3.12)	(5.98)	(4.50)	(5.90)
Bloomberg EPS FY (\$)	-	-	-4.21	-	-3.12	-	-4.50

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

Company Data

Price (\$)	33.87
Date Of Price	10 Aug 15
52-week Range (\$)	38.10-12.27
Market Cap (\$ mn)	1,297,149.00
Fiscal Year End	Dec
Shares O/S (mn)	38,298
Price Target (\$)	37.00
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: \$37.00*)

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. 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

Increasing Dec-15 price target to \$37. Using a risk-adjusted DCF analysis, we arrive at a December 2015 price target of \$37. 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	2Q15A	3Q15E	4Q15E
Revenues	31,106	29,926	37,500	82,129	Revenues	-	-	-	-
Cost of products sold	0	0	0	(6,694)	Cost of products sold	-	-	-	-
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(17,564)	(32,908)	(65,000)	(125,000)	SG&A	-	-	-	-
R&D	(78,224)	(213,411)	(210,000)	(170,000)	R&D	-	-	-	-
Operating income	(64,682)	(216,393)	(237,500)	(219,565)	Operating income	-	-	-	-
Net interest (income) / expense	(3,900)	0	0	0	Net interest (income) / expense	-	-	-	-
Other income / (expense)	(18,595)	(4,230)	0	0	Other income / (expense)	-	-	-	-
Pretax income	(87,177)	(220,623)	(237,500)	(219,565)	Pretax income	-	-	-	-
Income taxes	0	0	0	0	Income taxes	-	-	-	-
Net income - recurring	(87,177)	(220,623)	(237,500)	(219,565)	Net income - recurring	-	-	-	-
Diluted shares outstanding	-	-	-	-	Diluted shares outstanding	-	-	-	-
EPS - excluding non-recurring	(10.65)	(5.98)	(5.90)	(4.89)	EPS - excluding non-recurring	-	-	-	-
EPS - recurring	(10.65)	(5.98)	(5.90)	(4.89)	EPS - recurring	-	-	-	-
Balance Sheet and Cash Flow Data	FY14A	FY15E	FY16E	FY17E	Ratio Analysis	FY14A	FY15E	FY16E	FY17E
Cash and cash equivalents	150,392	106,111	15,958	12,413	Sales growth	1030.7%	(3.8%)	25.3%	119.0%
Short Term Investment	-	-	-	-	EBIT growth	79.7%	234.5%	9.8%	(7.6%)
Accounts receivable	4,232	5,315	5,605	13,222	EPS growth - recurring	10.3%	(43.9%)	(1.4%)	(17.1%)
Inventories	-	-	-	-	Gross margin	-	-	-	-
Other current assets	24,512	24,512	24,512	24,512	EBIT margin	(207.9%)	(723.1%)	(633.3%)	(267.3%)
Current assets	179,136	135,938	46,075	50,147	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%)	(737.2%)	(633.3%)	(267.3%)
Total assets	187,221	146,198	58,510	64,757					
Total debt	0	0	0	0					
Total liabilities	120,464	121,686	121,686	121,686					
Shareholders' equity	66,757	24,512	(63,176)	(56,929)					
Net income (including charges)	(87,177)	(220,623)	(237,500)	(219,565)					
D&A	674	674	674	674					
Change in working capital	28,434	139	(290)	(7,617)					
Other	22,933	35,000	0	0					
Cash flow from operations	(23,927)	(173,748)	(226,054)	(215,446)					
Capex	(2,849)	(2,849)	(2,849)	(2,849)					
Free cash flow	(22,876)	(176,597)	(228,903)	(218,295)					
Cash flow from investing activities	(525)	(2,849)	(2,849)	(2,849)					
Cash flow from financing activities	135,956	132,316	138,750	214,750					

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

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

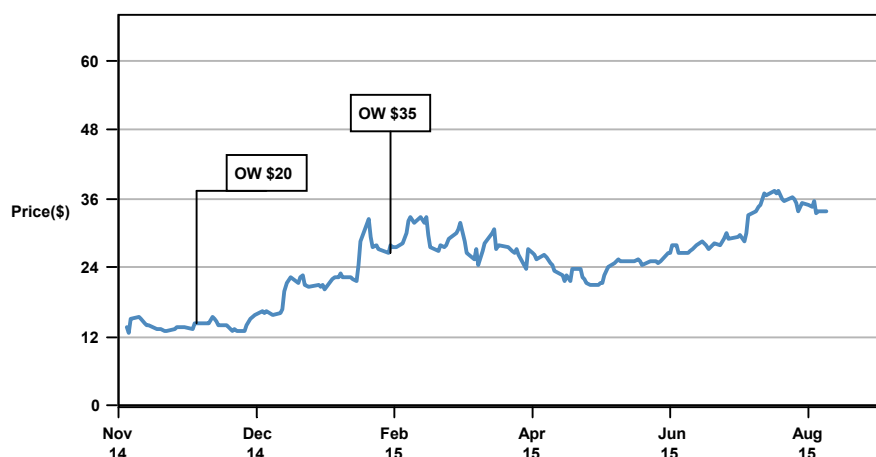
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Coherus (CHRS, CHRS US) Price Chart



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

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