

Cerulean Pharma Inc. (CERU)

Announces CEO Departure and Shifts in Senior Management

MARKET DATA

Price	\$4.14
52-Week Range:	\$3.35 - \$8.06
Shares Out. (M):	14.3
Market Cap (\$M):	\$59.2
Average Daily Vol. (000):	23.0
Cash (M):	\$65
Cash/Share:	\$3.19
Enterprise Value (M):	\$165
LT Debt (M):	\$2

Source: Thomson Reuters and JMP Securities LLC

FY DEC	2013A	2014E	2015E
Revenue (\$M) 1Q	--	\$0.0A	\$0.0
2Q	--	\$0.0A	\$0.0
3Q	--	\$0.0	\$0.0
4Q	--	\$0.0	\$0.1
FY	\$0.0	\$0.1	\$0.0
EPS 1Q	--	(\$3.71)A	(\$0.44)
2Q	--	(\$0.44)A	(\$0.86)
3Q	--	(\$0.86)	(\$0.94)
4Q	--	(\$0.94)	(\$3.09)
FY	(\$2.17)	(\$3.09)	(\$2.73)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



MARKET OUTPERFORM | Price: \$4.14 | Target Price: \$14.00

INVESTMENT HIGHLIGHTS

Cerulean Pharma Inc. announced the resignation of Oliver Fetzter, Ph.D., President and CEO; we reiterate our Market Outperform rating, with a year-end price target of \$14 based on a synthesis of our DCF, CAGR, and comparable company valuation methodologies. Although Fetzter's departure to pursue other opportunities is unexpected, we remain optimistic regarding upcoming clinical development milestones. We are also confident in the appointments of Paul Friedman, M.D., who currently serves on Cerulean's Board of Directors, to Executive Chairman of the Board; Chris Guiffre, J.D., Cerulean's Chief Business Officer to the position of Chief Operating Officer; Bill Rastetter, Ph.D., will continue to serve as the Lead Independent Director of the Board. Additional board appointments include Dr. Susan Kelley and Dr. David Parkinson.

Ascending management brings significant expertise to the helm. Dr. Paul Friedman was formerly President and CEO of Incyte Corporation, who retired after growing the company to a \$10bil market cap over 12 years. Dr. Friedman was also formerly the President of Dupont and an SVP at Merck. Importantly, Dr. Friedman played a key role in recruiting Anne C. Whitaker to the position of President and CEO of Synta Pharmaceuticals. Chris Guiffre, J.D. was formerly the CEO of Alvos Therapeutics, CBO of Hydra Biosciences, and General Counsel of Cubist and Renaissance Worldwide.

Additionally, Dr. David Parkinson brings significant experience in oncology development to CERU, having served as SVP of Oncology Research and Development at Biogen Idec, VP of Oncology Development at Amgen, VP of Global Oncology Development at Novartis, and Chief of the Investigational Drug Branch at NCI. Dr. Susan Kelley also brings significant oncology experience to the board of Cerulean, having formerly served as Chief Medical Officer of the Multiple Myeloma Research Consortium, Vice President of Global Clinical Development of Oncology at Bayer, and Executive Director of Oncology Clinical Development at Bristol-Myers Squibb in Oncology. We are confident in the abilities of management to progress CRLX101 and CRLX301 through the clinic.

In our view, Cerulean Therapeutics embodies much of what investors found attractive about Abraxis, a differentiated chemotherapy that maintains or increases its antitumor activity, but has a superior tolerability profile, making it more amenable to combination regimens. On balance, we believe CERU bears a favorable risk/upside potential profile, rooted in the known antitumor activity of camptothecin, as well as the regulatory and commercial paths forward for CRLX101 in its intended indications. Management guided toward multiple value inflection points for 2H14 and into 1H15, including the initiation of a Phase I trial of CRLX301 by the end of the year, with results expected in 4Q15, proof-of-principle data supporting go/no-go decisions in relapsing ovarian and non-metastatic colorectal cancer by 1Q15, and read-out of the Phase II trial for CRLX101 in relapsed RCC in 4Q15.

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FOR DISCLOSURE AND FOOTNOTE INFORMATION, REFER TO JMP FACTS AND DISCLOSURES SECTION.

Provided the data are positive, these events could be expected to bring CERU's market cap in line with comparable platform technologies (e.g., BIND (MO, \$30 PT), ECTY (NC), MACK (NC), NKTR (NC), SRNE (NC)) that trade at an average market cap of ~\$500MM - a significant premium to CERU's present valuation.

FIGURE 1. Upcoming CERU Catalysts

Timing	Candidate	Catalysts
4Q14	CRLX101	Read-out from single Avastin combo in ovarian cancer
4Q14	CRLX101	Read-out from single-arm neoadjuvant rectal cancer IST (UNC)
4Q14	CRLX301	Initiation of Phase I trial in advanced solid tumors
1Q15	CRLX101	Potential initiation of randomized Phase II neoadjuvant rectal cancer study (100 pts)
1Q15	CRLX101	Potential initiation of pivotal ovarian Phase II trial in combination with Avastin
4Q15	CRLX301	Phase I read-outs (PK, MTD, and preliminary efficacy)
4Q15	CRLX101	Read-out from randomized RCC Phase II in combo with Avastin

Source: Company presentations

FIGURE 2. Income Statement

Income Statement (\$MM)	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Total Product Sales and Royalties	0.0	0.0	0.0	0.0	0.0	2.0	2.0	8.0	64.4	156.1	341.6	546.0	852.3
License and research and development revenue	1.6	1.2			2.8								
Milestone Revenue	0.0				0.0								
Total Revenue	1.6	1.2	0.0	0.0	2.8	2.0	2.0	8.0	64.4	156.1	341.6	546.0	852.3
Cost of Goods Sold							0.0	0.0	2.2	7.8	17.5	28.2	37.7
Gross Profit	1.6	1.2	0.0	0.0	2.8	2.0	2.0	8.0	62.2	148.4	324.1	517.9	814.5
Operating Expenses:													
Research and Development	5.6	6.2	9.0	9.5	30.3	37.9	49.3	56.7	63.5	68.6	74.1	80.0	86.4
General and administrative	2.5	2.7	2.5	3.0	10.8	12.4	14.2	21.3	26.7	30.7	33.1	35.8	38.6
Total operating expenses	8.1	9.0	11.5	12.5	41.1	50.3	63.5	78.0	90.2	99.2	107.2	115.8	125.0
Operating income (loss)	(6.5)	(7.7)	(11.5)	(12.5)	(38.2)	(48.3)	(61.5)	(70.0)	(27.9)	49.1	216.9	402.1	689.5
Other income (expense):													
Investment income	0.0	0.0											
Interest expense	(0.4)	-0.3											
Payment to GSK									(2.5)				
Total other income, net	(0.4)	(0.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other comprehensive loss:													
Unrealized loss on investments	0.0												
Change in fair value of preferred stock warrant liability													
Foreign currency transaction gain (loss)													
Pretax income (loss)	(6.9)	(8.0)	(11.5)	(12.5)	(38.9)	(48.3)	(61.5)	(70.0)	(27.9)	49.1	216.9	402.1	689.5
Income tax benefit (provision)					0.0	0.0	0.0	0.0	0.0	0.0	(32.5)	(80.4)	(172.4)
Tax Rate					0%	0%	0%	0%	0%	0%	15%	20%	25%
Comprehensive income (loss)	(6.9)	(8.0)	(11.5)	(12.5)	(38.9)	(48.3)	(61.5)	(70.0)	(27.9)	49.1	184.4	321.7	517.1
Accretion of redeemable convertible preferred stock	0.06												
Net income (loss) attributable to common stockholders	(6.9)	(8.0)	(11.5)	(12.5)	(38.9)	(48.3)	(61.5)	(70.0)	(27.9)	49.1	184.4	321.7	517.1
Basic EPS to common shareholders	\$ (0.76)	\$ (0.45)	\$ (0.65)	\$ (0.71)	\$ (2.20)	\$ (2.39)	\$ (2.71)	\$ (3.09)	\$ (1.11)	\$ 1.78	\$ 6.67	\$ 10.68	\$ 15.86
Diluted EPS to common shareholders	\$ (0.76)	\$ (0.45)	\$ (0.65)	\$ (0.71)	\$ (2.20)	\$ (2.39)	\$ (2.71)	\$ (3.09)	\$ (1.11)	\$ 1.78	\$ 6.70	\$ 10.73	\$ 15.92
Basic shares outstanding	9.2	17.8	17.7	17.7	17.7	20.2	22.7	22.7	25.2	27.7	27.6	30.1	32.6
Diluted shares outstanding	9.2	17.8	17.7	17.7	17.7	20.2	22.7	22.7	25.2	27.5	27.5	30.0	32.5

Source: JMP Securities LLC and Company filings

Company Description

Cerulean Pharma Inc. (CERU) is a Cambridge, MA-based, clinical-stage nanopharmaceutical company that is developing dynamic, tumor-targeted medicines with the aim of maximizing the uptake of drug by tumor cells while preserving healthy tissue across various solid tumor malignancies. The company's lead pipeline candidate, CRLX101, is a nanopharmaceutical formulation of camptothecin - a highly active anti-cancer agent, and highly toxic when delivered as a free compound. CRLX101 is entering randomized Phase II testing for the treatment of 3rd/4th line renal cell carcinoma in combination with Avastin. CRLX101 is also being developed for the treatment of recurrent ovarian carcinoma and rectal cancer in the neoadjuvant setting.

Investment Risks

Clinical. Drug development is an inherently risky business. Like all clinical trials, CRLX101 clinical development carries some risk of failure. CRLX101 may fail to maintain acceptable tolerability or to demonstrate meaningful enough efficacy to warrant further development through large Phase III trials or regulatory approval.

Regulatory and commercial. The ability of Cerulean or its potential partners to market its drugs depends upon those drugs obtaining approval from the FDA and foreign regulatory agencies. Failure to achieve approval or delays in the timelines to approval could negatively impact the company's share price.

Competitive. Oncology drug development is an increasingly competitive field and Cerulean faces considerable competition from companies with development-stage drug candidates, utilizing similar delivery formulation technology, as well as from companies with marketed products seeking to expand the number of indications approved for use. Some of these companies may possess greater R&D and commercial resources than Cerulean or its potential partners.

Financial. Following the IPO, we estimate that Cerulean will complete 1Q14 with approximately \$56MM in cash and cash equivalents—adequate resources to support current trials, the launch of a randomized Phase II trial of CRLX101 plus Avastin in 3rd/4th-line RCC, and company operations into 2H15. In the event current dose-finding studies in ovarian and neoadjuvant rectal cancer yield positive data and Cerulean elects to further development in these indications (a likely scenario, in our view), we anticipate that Cerulean will seek additional equity financing in the form of a secondary offering during 2015, thereby exposing existing shareholders to some degree of dilution risk.

JMP FACTS AND DISCLOSURES

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JMP Securities currently makes a market in the securities of Cerulean Pharma Inc., BIND Therapeutics, Inc. and Incyte Corporation

JMP Securities expects to receive OR intends to seek compensation for investment banking services from Cerulean Pharma Inc., BIND Therapeutics, Inc. and Incyte Corporation in the next 3 months.

JMP Securities was manager or co-manager of a public offering of securities for Cerulean Pharma Inc. and Incyte Corporation (CERU and INCY) in the past 12 months, and received compensation for doing so.

JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

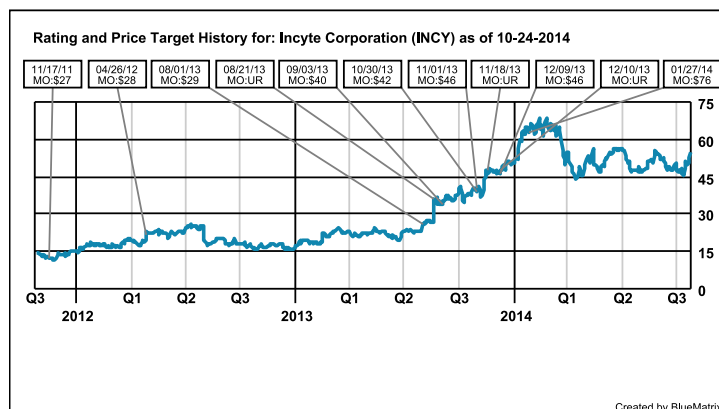
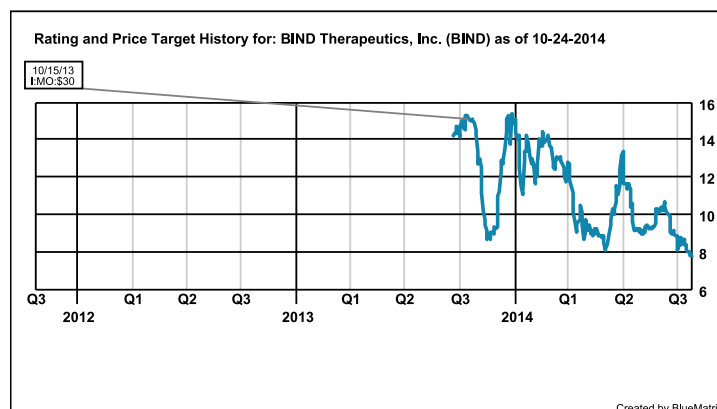
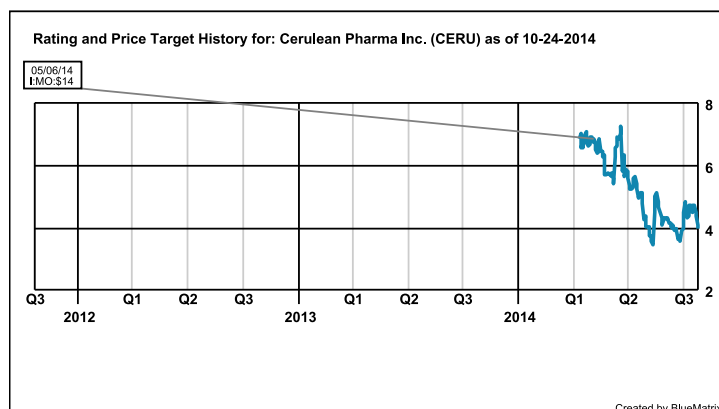
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of October 27, 2014)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months				
				Regulatory Equivalent	# Co's Under Coverage	% of Total	% of Co's With This Rating	
MARKET OUTPERFORM	Buy	283	61.12%	Buy	283	61.12%	106	37.46%
MARKET PERFORM	Hold	141	30.45%	Hold	141	30.45%	15	10.64%
MARKET UNDERPERFORM	Sell	2	0.43%	Sell	2	0.43%	0	0%
COVERAGE IN TRANSITION		36	7.78%		36	7.78%	0	0%
TOTAL:		463	100%		463	100%	122	26.35%

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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