Cerulean Pharma (CERU)

Q1:14 EPS, CRLX101 Data at ASCO, Reiterate OUTPERFORM

- **Data to be presented at ASCO reaffirms the safety of CRLX101.** CRLX101, a nanoparticle formulation of camptothecin, is currently being developed for relapsed renal cell carcinoma (RCC), platinum-resistant ovarian cancer (PROC) and neoadjuvant rectal cancer. We expect potential data in late 2014/early 2015 from the Phase II trial in PROC and Phase I/II trial in neoadjuvant rectal cancer to provide further evidence of CRLX101's utility in these settings.
- **Results from the initial monotherapy stage of a Phase II trial in relapsed ovarian cancer show that CRLX101 was well tolerated, with no drug-related SAEs, treatment discontinuations or deaths observed (abstract:5581).** As previously reported, CRLX101 met the primary efficacy endpoint with a median PFS of 161 days and six patients having PFS over six months. Of the 19 evaluable PROC patients, three (16%) achieved PRs and 14 (74%) had net tumor reductions. We expect data from the second stage evaluating CRLX101 in combination with Avastin to be available by year end.
- **Results from an interim analysis of a Phase Ib/II trial of CRLX101 plus Avastin in metastatic RCC show the combination to be safe with no dose-limiting toxicities observed (abstract:e15611).** The median PFS of 7.6 months exceeded the pre-specified threshold, and of the nine evaluable patients three (33%) achieved a PR and four (44%) displayed stable disease. CERU plans to start a Phase II trial in relapsed RCC during the summer.
- **Also being presented is the trial design for an ongoing Phase Ib/II trial in neoadjuvant rectal cancer evaluating CRLX101 in combination with Xeloda (capecitabine) plus radiation (abstract:TPS3667).** The study is enrolling up to 53 patients and data from the study is expected in late 2014/early 2015. If results are positive (pCR rate ≥35%), CERU will advance the combination treatment into a Phase II trial in 80-120 patients in 2015.
- **Q1:14 earnings released earlier this week show that CERU lost $2.9M in the quarter, and with proceeds from its April IPO we estimate the company currently has ~$65M in cash on hand.** We expect cash to be sufficient to fund operations through 2015.
- **Reiterate OUTPERFORM rating and $12 price target.** Our $12 PT is derived from a 6 multiple of estimated 2020 sales of CRLX101, discounted back by 35%.

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	0.0A	0.0A		$0.0A	0.0E		$0.0E
Q2 Jun	0.0A	0.0E		0.0E	0.0E		0.0E
Q3 Sep	0.0A	0.0E		0.0E	0.0E		0.0E
Q4 Dec	0.0A	0.0E		0.0E	0.0E		0.0E
Year*	**0.0A**	**0.0E**		**$0.0E**	**0.0E**		**$0.0E**
Change	--	683%			-100%		
	2013A	**2014E**			**2015E**		
EPS	**ACTUAL**	**CURR.**	**PREV.**	**CONS.**	**CURR.**	**PREV.**	**CONS.**
Q1 Mar	$0.00A	($3.70)A	($0.21)A	--	($0.27)E	($0.28)E	--
Q2 Jun	$0.00A	($0.29)E	($0.30)E	--	($0.43)E		--
Q3 Sep	($0.96)A	($0.12)E	($0.13)E	--	($0.44)E	($0.45)E	--
Q4 Dec	($0.24)A	($0.17)E	($0.18)E	--	($0.48)E		--
Year*	**($1.20)A**	**($4.29)E**	**($0.82)E**	**--**	**($1.62)E**	**($1.65)E**	**--**
P/E	--	--			--		
Change	--	-258%			62%		

Consensus estimates are from Thomson First Call. * *Numbers may not add up due to rounding.*

May 29, 2014

Price
$5.62

Rating
OUTPERFORM

12-Month Price Target
$12

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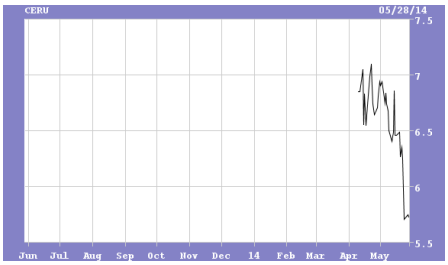
Company Information	
Shares Outst (M)	20.3
Market Cap (M)	$114.0
52-Wk Range	$5.05 - $8.06
Book Value/sh	$N/A
Cash/sh	$3.19
Enterprise Value (M)	$51.7
LT Debt/Cap %	-0.4
Cash Burn (M)	$6.8

Company Description

CERU is developing tumor-targeted nanopharmaceutical drug candidates for the treatment of cancer. The company's lead product candidate is CRLX101, a nanopharmaceutical of camptothecin in Phase II trials in multiple cancer indications.



Source: Thomson Reuters

Risks to the achievement of our price target include failure to gain approval for CRLX101 in the ovarian, renal cell carcinoma and neoadjuvant rectal cancer settings, failure to achieve sales estimates for CRLX101 and failure to achieve earnings estimates.

Investment Thesis

Cerulean Pharma (NASDAQ:CERU) is focused on developing dynamically tumor-targeted nanopharmaceuticals for the treatment of cancer. The company's lead product candidate, CRLX101, is a nanopharmaceutical formulation of camptothecin in Phase II development for multiple cancers, including renal cell carcinoma and ovarian cancer, and in the Phase I/II stage for neoadjuvant rectal cancer. CRLX101 is being developed as an add-on therapy in these lead indications, due to the synergistic effect the dual topoisomerase I and hypoxia inducible factor inhibitor has with VEGF inhibitors and radiotherapy. The company is also developing CRLX301, a nanopharmaceutical formulation of docetaxel that is expected to enter the clinic by the end of 2014.

Financial Model

5/29/2014
Ticker: (CERU:Nasdaq)
Cerulean Pharma, Inc

Wedbush PacGrow Life Sciences
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	2011	2012	2013	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues:														
US Product Sales	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$6,410	$69,227	$151,200	$245,284
ex-US sales	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$32,926	$103,235	$176,520
Licensing and other revenue	$305	$625	$6	$47	$0	$0	$0	$47	$0	$0	$0	$0	$0	$0
Total Revenues	**305**	**625**	**6**	**47**	**0**	**0**	**0**	**47**	**0**	**0**	**6,410**	**102,153**	**254,435**	**421,805**
Cost and Expenses:														
Cost of Sales	0	0	0	0	0	0	0	0	0	0	641	6,923	15,120	24,528
R&D	13,848	15,807	9,700	1,495	1,495	1,525	2,525	7,040	32,100	44,247	47,894	51,843	56,116	60,742
SG&A	5,335	6,393	6,166	1,510	4,381	1,540	1,571	9,002	6,605	6,974	9,042	52,983	100,599	126,319
Total Operating Expenses	**19,183**	**22,200**	**15,866**	**3,005**	**5,876**	**3,065**	**4,096**	**16,042**	**38,704**	**51,221**	**57,577**	**111,748**	**171,835**	**211,589**
Operating Income (Loss)	(18,878)	(21,575)	(15,860)	(2,958)	(5,876)	(3,065)	(4,096)	(15,995)	(38,704)	(51,221)	(51,167)	(9,595)	82,599	210,215
Net Interest Income (Expense)	(25)	(565)	(1,485)	(460)	23	593	584	741	1,945	2,092	2,175	2,781	2,928	5,225
Other non-operating Income (Expense)	(660)	(34)	202	504	0	0	0	0	0	0	0	0	0	0
Income Before Income Taxes	(19,563)	(22,174)	(17,143)	(2,914)	(5,853)	(2,472)	(3,511)	(15,254)	(36,759)	(49,129)	(48,992)	(6,814)	85,528	215,441
Provision for Income Taxes	0	0	0	0	0	0	0	0	0	0	0	705	33,356	84,022
Net Income (Loss)	(19,563)	(22,174)	(17,143)	(2,914)	(5,853)	(2,472)	(3,511)	(15,254)	(36,759)	(49,129)	(48,992)	(7,519)	52,172	131,419
Non-GAAP EPS	**(1.59)**	**(1.59)**	**(1.24)**	**(3.70)**	**(0.29)**	**(0.12)**	**(0.17)**	**(0.75)**	**(1.53)**	**(1.69)**	**(1.49)**	**(0.25)**	**1.53**	**3.90**
GAAP EPS	**(1.37)**	**(1.55)**	**(1.20)**	**(3.70)**	**(0.29)**	**(0.12)**	**(0.17)**	**(4.29)**	**(1.62)**	**(1.84)**	**(1.62)**	**(0.22)**	**1.56**	**3.93**
Total Shares Outstanding	14,305	14,305	14,305	787	20,290	20,315	20,340	20,340	24,440	29,440	33,440	33,440	33,440	33,440
Cash Burn	(18,590)	(18,590)	(7,840)	4,002	(3,699)	(3,139)	(4,007)	(6,844)	(40,442)	(50,192)	(51,706)	(15,541)	73,970	197,909
Cash Balance	16,707	16,707	5,488	8,468	64,639	61,115	56,671	56,671	63,599	85,226	91,485	77,674	120,941	239,334

Analyst Biography

David Nierengarten, Ph.D. is an Analyst covering stocks in the Biotechnology/Biopharmaceuticals/BioDefense sector. His prior sellside research experience at Robert W. Baird & Co. covered biotechnology companies of all market capitalizations, with a focus on oncology and rare diseases.
David received his B.S. (Biochemistry) from the University of Wisconsin-Madison and Ph.D. (Molecular and Cell Biology) from the University of California-Berkeley.
David's Edge: David's early stage venture capital investing experience gives him a balanced perspective on developmental-stage biotechnology companies and their ultimate risk/reward potential. His experience on the other side of that equation in a clinical-stage, venture backed biotechnology company provides him with insights into corporate operations. The combination of experiences creates a focus on value creation in this event-driven space.

Analyst Certification
I, David M. Nierengarten, Ph.D., Dilip Joseph, Liana Moussatos, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
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Rating Distribution (as of March 31, 2014)	**Investment Banking Relationships (as of March 31, 2014)**
Outperform:54% Neutral: 43% Underperform: 3%	Outperform:22% Neutral: 2% Underperform: 0%

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Wedbush Equity Research Disclosures as of May 29, 2014

Company	Disclosure
Cerulean Pharma	1,3,5,7

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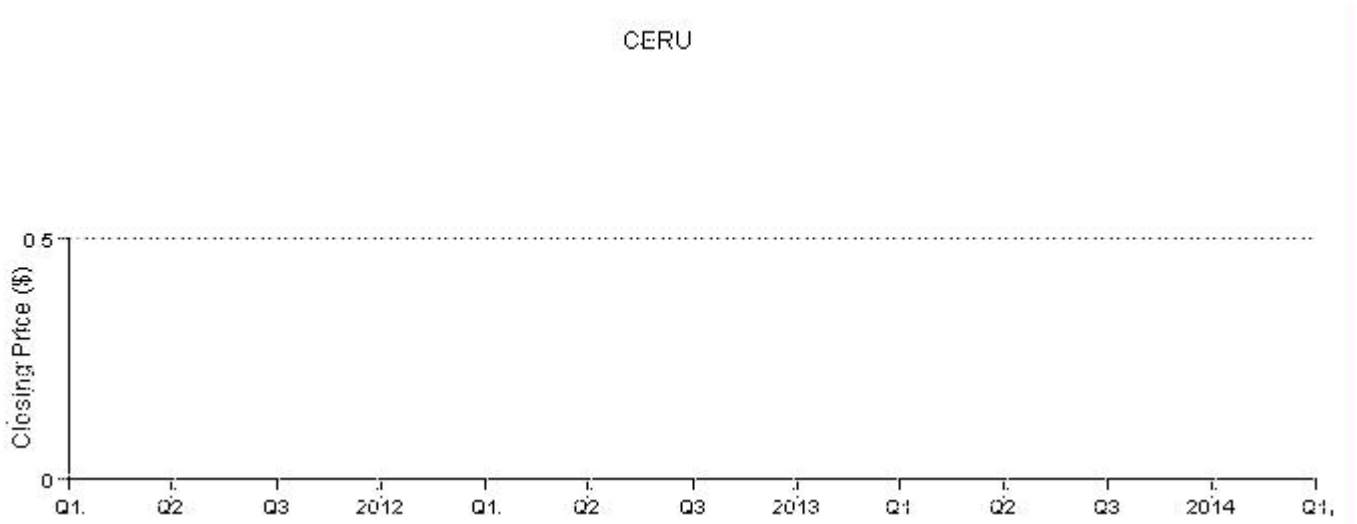

* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.
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