Coherus

Overall Positive CHS-1701 PK/PD Data, Product On Track for 1Q16 Filing

Overweight

CHRS, CHRS US
Price: $18.83

Price Target: $37.00

Thursday afternoon, Coherus announced overall positive top-line results from the CHS-1701 PK/PD study, reporting that the study met its PD endpoint measures and that CHS-1701 demonstrated a PK-profile in-line with Neulasta literature, despite some abnormalities in the PK profile of one Neulasta arm in the study. While the Neulasta abnormality creates some noise with the study, we would note that 1) the CHS-1701 PK profile was in-line with expectations, the second Neulasta group, and historical and recent Neulasta literature, and 2) the FDA is not recommending a repeat study and suggested that the study may support a BLA even without finding the root cause of the Neulasta abnormality. Overall, CHS-1701 remains on track for a 1Q16 filing, and we continue to see biosimilar Neulasta as a particularly attractive opportunity with a large market and relatively few competitors.

- **CHS-1701 study meets PD endpoints and exhibits PK-profile in-line with Neulasta literature.** Coherus announced that the PK/PD study met the PD endpoints and the Cmax PK endpoint, but slightly missed the AUC PK endpoints due to some abnormalities in the PK profile of one Neulasta group. (Please see Figures 1 & 2 below.) We would highlight that CHS-1701 exhibited a PK-profile consistent with that of the other Neulasta group and in-line with historical and recent Neulasta literature. In addition, on the call, management noted that a few subjects in the abnormal Neulasta group showed PK profiles that were "quite different" than expected and that removing a single outlier would have allowed the study to meet all PK/PD endpoints.

- **Importantly, the FDA did not recommend a repeat study and CHS-1701 remains on-track for a 1Q16 filing.** Coherus has shared this PK/PD data with the FDA, which has not recommended the company to repeat the study. With the support of the FDA, Coherus is investigating the cause of the abnormality in the Neulasta arm, though the FDA has noted that the data from the PK/PD study may support a BLA even if the root cause of the abnormality remains unclear.

- **Lack of neutralizing antibodies increases confidence in immunogenicity study.** We note that no neutralizing antibodies were identified in the PK/PD study, which appears encouraging for the product's immunogenicity study. Management noted that the enlarged immunogenicity study is now fully enrolled and remains on track to support a 1Q16 filing.

Pharmaceuticals — Major & Specialty

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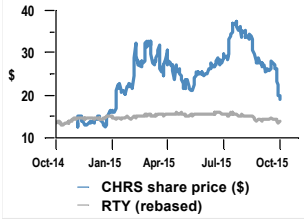
Price Performance



	YTD	1m	3m	12m
Abs	15.4%	-30.1%	-36.9%	39.5%
Rel	24.3%	-27.4%	-24.3%	38.4%

Coherus BioSciences, Inc. (CHRS;CHRS US)

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

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

Company Data	
Price ($)	18.83
Date Of Price	01 Oct 15
52-week Range ($)	38.10-12.27
Market Cap ($ mn)	721,148.90
Fiscal Year End	Dec
Shares O/S (mn)	38,298
Price Target ($)	37.00
Price Target End Date	31-Dec-16

See page 5 for analyst certification and important disclosures.

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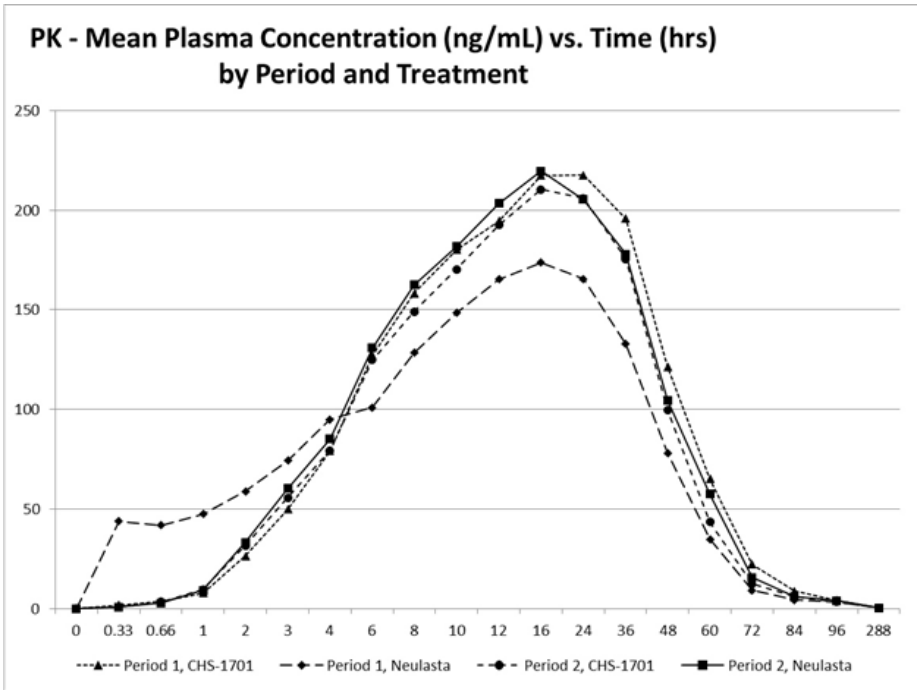
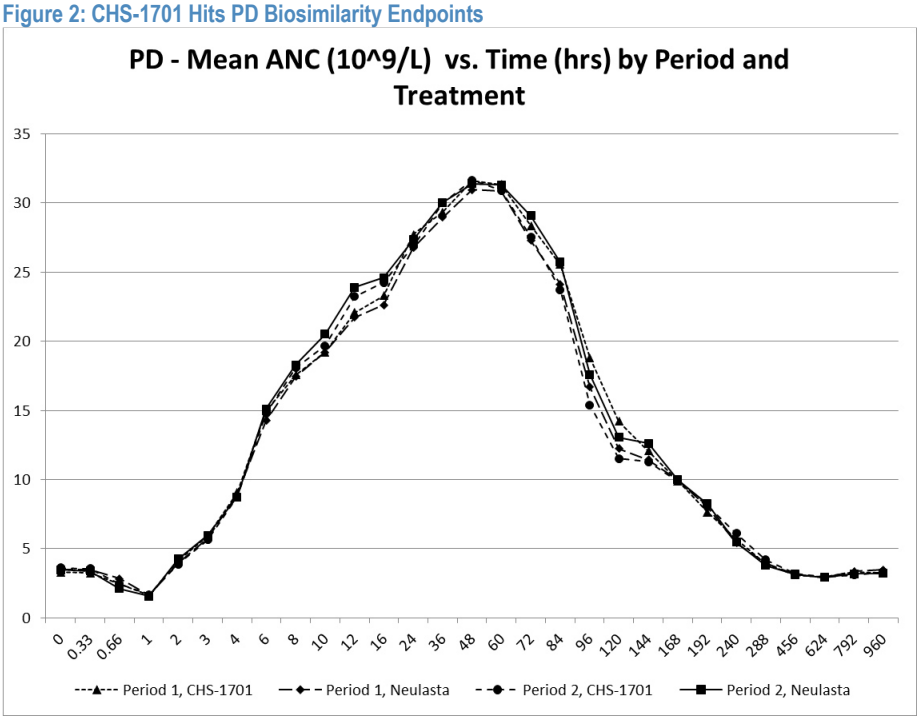
Figure 1: CHS-1701 PK-Profile In-Line with Published Neulasta Profile, but There Were Some Abnormalities in Period 1 Neulasta Arm



Source: Company press release.

Figure 2: CHS-1701 Hits PD Biosimilarity Endpoints



Source: Company press release.

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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

Dec 2016 price target of $37. Using a risk-adjusted DCF analysis, we arrive at a December 2016 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.

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Coherus: Summary of Financials

Income Statement - Annual	FY14A	FY15E	FY16E	FY17E
Revenues	31,106	29,926	37,500	82,129
Cost of products sold	0	0	0	(6,694)
Gross profit	-	-	-	-
SG&A	(17,564)	(32,908)	(65,000)	(125,000)
R&D	(78,224)	(213,411)	(210,000)	(170,000)
Operating income	(64,682)	(216,393)	(237,500)	(219,565)
Net interest (income) / expense	(3,900)	0	0	0
Other income / (expense)	(18,595)	(4,230)	0	0
Pretax income	(87,177)	(220,623)	(237,500)	(219,565)
Income taxes	0	0	0	0
Net income - recurring	(87,177)	(220,623)	(237,500)	(219,565)
Diluted shares outstanding	-	-	-	-
EPS - excluding non-recurring	(10.65)	(5.98)	(5.90)	(4.89)
EPS - recurring	(10.65)	(5.98)	(5.90)	(4.89)

Income Statement - Quarterly	1Q15A	2Q15A	3Q15E	4Q15E
Revenues	-	-	-	-
Cost of products sold	-	-	-	-
Gross profit	-	-	-	-
SG&A	-	-	-	-
R&D	-	-	-	-
Operating income	-	-	-	-
Net interest (income) / expense	-	-	-	-
Other income / (expense)	-	-	-	-
Pretax income	-	-	-	-
Income taxes	-	-	-	-
Net income - recurring	-	-	-	-
Diluted shares outstanding	-	-	-	-
EPS - excluding non-recurring	-	-	-	-
EPS - recurring	-	-	-	-

Balance Sheet and Cash Flow Data	FY14A	FY15E	FY16E	FY17E
Cash and cash equivalents	150,392	106,111	15,958	12,413
Short Term Investment	-	-	-	-
Accounts receivable	4,232	5,315	5,605	13,222
Inventories	-	-	-	-
Other current assets	24,512	24,512	24,512	24,512
Current assets	179,136	135,938	46,075	50,147
PP&E	4,472	6,647	8,822	10,997
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

Ratio Analysis	FY14A	FY15E	FY16E	FY17E
Sales growth	1030.7%	(3.8%)	25.3%	119.0%
EBIT growth	79.7%	234.5%	9.8%	(7.6%)
EPS growth - recurring	10.3%	(43.9%)	(1.4%)	(17.1%)
Gross margin	-	-	-	-
EBIT margin	(207.9%)	(723.1%)	(633.3%)	(267.3%)
Tax rate	0.0%	0.0%	0.0%	0.0%
Net Profit Margin	(280.3%)	(737.2%)	(633.3%)	(267.3%)

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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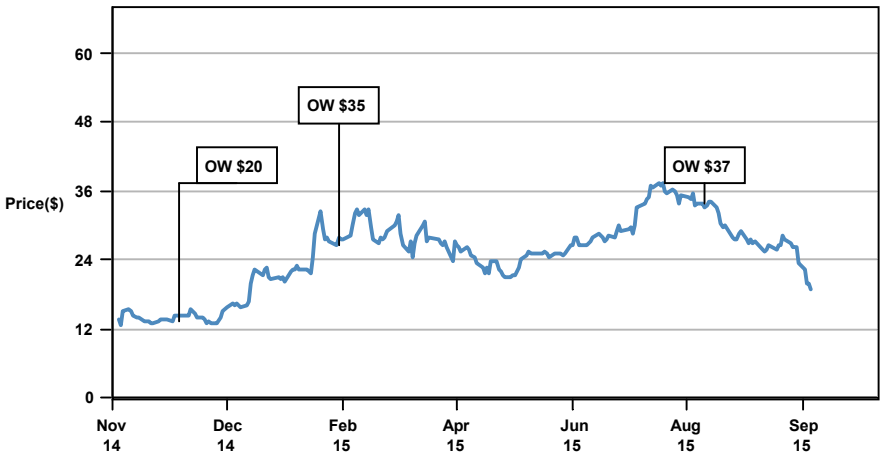

Date	Rating	Share Price ($)	Price Target ($)
02-Dec-14	OW	13.37	20.00
17-Feb-15	OW	26.58	35.00
10-Aug-15	OW	33.87	37.00

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

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