May 27, 2014

OUTPERFORM

Reason for report:

EARNINGS

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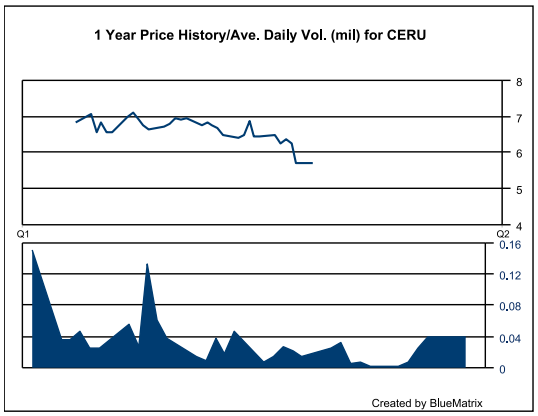
LEERINK

CERULEAN PHARMA INC.

Model Update for 1Q14 Financial Results

• **Bottom Line:** We are updating our model to reflect 1Q14 financial results provided in the 10-Q filing today. We maintain our Outperform rating and $13 price target.

Key Stats:	**(NASDAQ:CERU)**
S&P 600 Health Care Index:	**1,260.59**
Price:	**$5.75**
Price Target:	$13.00
Methodology:	DCF analysis with 16% discount rate
52 Week High:	$8.06
52 Week Low:	$5.05
Shares Outstanding (mil):	19.0
Market Capitalization (mil):	$109.3
Book Value/Share:	$0.00
Cash Per Share:	$2.81
Dividend (ann):	$0.00
Dividend Yield:	0.0%



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2013A	--	--	--	--	0.0	--	--	--	--	($25.10)	NM
2014E - New	**0.0A**	**0.0**	**0.0**	**0.0**	**0.0**	**($3.70)A**	**($0.43)**	**($0.53)**	**($0.64)**	**($2.31)**	**NM**
2014E - Old	0.0A	0.0	0.0	0.0	0.0	($6.83)	($0.43)	($0.53)	($0.64)	($2.45)	NM
2015E - New	**--**	**--**	**--**	**--**	**0.0**	**--**	**--**	**--**	**--**	**($1.67)**	**NM**
2015E - Old	--	--	--	--	0.0	--	--	--	--	($2.00)	NM

Source: Company Information and Leerink Partners LLC Research
GAAP EPS presented

INVESTMENT THESIS

We rate Cerulean Pharma (CERU) Outperform with a $13/share price target representing a $240M valuation. CERU is an oncology-focused company developing anti-cancer drugs based on its proprietary nanoparticle drug delivery platform. CERU's lead product CRLX-101 has an attractive mechanism of action in our view that could overcome several limitations of approved agents. Based on our analysis we believe CRLX-101 is active and CERU's development rationale is strong. Three major catalysts by 2H15 could validate CRLX-101's therapeutic potential. We believe CRLX-101 could address a $1Bn US opportunity in 2030E and apply a 25% probability of success.

VALUATION

We estimate a $13 per share price target in 12 months for CERU, reflecting a $240M market capitalization based on a discounted cash flow analysis. We use a 16% WACC as the discount rate, which we view as appropriate for CERU. We use probability weighted revenue assumptions. We model ~$1.0Bn peak US CRLX-101 sales in 2030E across three lead indications in 3rd line renal cell cancer, platinum-resistant ovarian cancer, and neoadjuvant rectal cancer.

RISKS TO VALUATION

CERU faces significant clinical and regulatory risks since its main value driver is currently in multiple early stage investigator-sponsored clinical trials. Like many other developmental stage Biopharma companies, CERU faces manufacturing, competitive, commercial, regulatory and safety risks, as well as risks to its intellectual property. Specifically, CERU faces regulator uncertainty on whether pCR will be accepted by the FDA as an approvable endpoint for a potential future neoadjuvant rectal cancer trial. CERU also faces financial risk and may need to raise dilutive capital near term. We expect the company's current cash balance to be sufficient to fund operations until late 2015.

CERU P&L (in $MM)	2012A	2013A	1Q14A	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
Product revenue	-	-	-	-	-	-	-	-	-
Other revenue	0.6	0.0	0.0	-	-	-	0.0	-	-
Total Revenue	**0.6**	**0.0**	**0.0**	**-**	**-**	**-**	**0.0**	**-**	**-**
COGS	-	-	-	-	-	-	-	-	-
R&D Expense	15.8	9.7	1.5	5.0	7.0	9.0	22.5	35.0	55.0
SG&A Expense	6.4	6.2	1.5	3.0	3.0	3.0	10.5	11.6	12.7
Total Operating Expenses	22.2	15.9	3.0	8.0	10.0	12.0	33.0	46.6	67.7
Operating income (Loss)	(21.6)	(15.9)	(3.0)	(8.0)	(10.0)	(12.0)	(33.0)	(46.6)	(67.7)
Total other income (expense) - net	(0.5)	(1.3)	0.0	(0.1)	(0.1)	(0.1)	(0.4)	(0.3)	-
EBT	(22.1)	(17.1)	(2.9)	(8.1)	(10.1)	(12.1)	(33.3)	(46.8)	(67.7)
Tax	-	-	-	-	-	-	-	-	-
Net income (loss)	(22.1)	(17.1)	(2.9)	(8.1)	(10.1)	(12.1)	(33.3)	(46.8)	(67.7)
Accretion of redeemable convertible preferred stock	(0.1)	-	-	-	-	-	-	-	-
Net loss attributable to common shareholders	**(22.2)**	**(17.1)**	**(2.9)**	**(8.1)**	**(10.1)**	**(12.1)**	**(33.3)**	**(46.8)**	**(67.7)**
EPS - basic	(36.4)	(25.1)	(3.70)	(0.43)	(0.53)	(0.64)	(2.31)	(1.67)	(2.42)
EPS - diluted	(36.4)	(25.1)	(3.70)	(0.43)	(0.53)	(0.64)	(2.31)	(1.67)	(2.42)
Common shares outstanding - basic	0.6	0.7	0.8	19.0	19.0	19.0	14.5	28.0	28.0
Common shares outstanding - diluted	0.6	0.7	0.8	19.0	19.0	19.0	14.5	28.0	28.0

CERU BS & CFS (in $MM)	2012A	2013A	1Q14A	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
Cash & equivalents	16.7	5.5	8.5	53.4	43.4	31.4	31.4	65.5	3.7
Debt	9.1	15.1	23.2	5.0	4.2	3.3	3.3	-	-

Change in Cash	1.4	(11.2)	3.0	45.0	(10.1)	(11.9)	26.0	34.0	(61.8)
Cash from operations	**(21.0)**	**(16.6)**	**(3.7)**	**(7.4)**	**(9.2)**	**(11.1)**	**(31.4)**	**(42.6)**	**(61.8)**
Net income (loss)	(22.2)	(17.1)	(2.9)	(8.1)	(10.1)	(12.1)	(33.3)	(46.8)	(67.7)
Share based comp	0.5	0.6	0.1	0.6	0.8	1.0	2.5	3.7	5.4
Non-cash interest expense	0.1	0.6	0.1	-	-	-	0.1	-	-
D&A	0.3	0.2	0.0	0.1	0.1	0.1	0.3	0.5	0.5
Other (Change in WC)	0.2	(0.9)	(1.1)	-	-	-	(1.1)	-	-
Cash from investing	**(0.2)**	**(0.0)**	**(0.0)**	**-**	**-**	**-**	**(0.0)**	**-**	**-**
Capex	(0.2)	(0.0)	(14.0)	-	-	-	(14.0)	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Other	-	-	14.0	-	-	-	14.0	-	-
Cash from financing	**22.5**	**5.4**	**6.7**	**52.4**	**(0.8)**	**(0.8)**	**57.3**	**76.6**	**-**
Equity issue (buyback)	12.9	0.0	0.0	53.2	-	-	53.2	80.0	-
Debt issue (principal payment)	9.6	5.4	7.7	(0.8)	(0.8)	(0.8)	5.2	(3.4)	-
Other	(0.0)	-	(1.1)	-	-	-	(1.1)	-	-

Source: SEC Filings and Leerink Partners Estimates

DCF analysis	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Sales					-	162	334	516	832	857	883	909	937	965	994	1,024	1,055
COGS	-	-	-	-	-	16	33	26	42	43	44	45	47	48	50	51	53
R&D	15	35	55	50	45	30	18	12	8	8	4	-	-	-	-	-	-
SG&A	11	12	13	14	15	80	84	129	208	214	221	227	234	241	249	256	264
OpEx	26	47	68	64	60	126	135	167	258	265	269	273	281	290	298	307	317
EBT	(33)	(47)	(68)	(64)	(60)	36	199	349	574	592	614	637	656	676	696	717	739
Tax	-	-	-	-	-	-	-	87	144	148	153	159	164	169	174	179	185
NI	(33)	(47)	(68)	(64)	(60)	36	199	262	431	444	460	477	492	507	522	538	554
Periods	-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
PVFCF	(33)	(40)	(50)	(41)	(33)	17	82	93	131	117	104	93	83	74	65	58	52
NPV	770																
Probability of success	*25%*																
P/V NPV	192																
Estimated net cash post-IPO	48																
Combined ($M)	**241**																
Shares outstanding post-IPO (M)	19																
Price Target ($)	**13**																

Source: Leerink Partners Estimates

CRLX-101

Indication	Trial	Event	Timing
3rd/4th line mRCC	Phase I Avastin combination IST	Trials in progress presentation	ASCO 2014
		Final data (ORR, PFS)	1Q15
	Phase II randomized Avastin combination	Initiate Phase II	2H14
		ORR data	**4Q15**
Platinum-resistant OC	Phase II single agent IST	Updated single arm data	ASCO 2014
	Phase II Avastin combination IST	Single arm ORR data	4Q14
		Final data (ORR, PFS)	**3Q15**
	Phase II/III randomized Avasting combination	Initiate Phase II/III	2015
Neoadjuvant rectal cancer	Phase I/II CRT/Xeloda combination IST	ID MTD, launch Phase II single arm expansion	mid-14
		Single arm pCR data	4Q14
	Phase II randomized CRT/Xeloda combination	Initiate Phase II	4Q14
		pCR data	**4Q15**
		End-of-Phase II FDA meeting	1Q16
	Phase III randomized CRT/Xeloda combination	Initiate Phase III	2016
HER2- gastric cancer	Phase II PD single agent IST	trial ongoing	
2nd line SCLC	Phase II randomized single agent IST vs. topotecan	trial ongoing	

CRLX-301

Indication	Trial	Event	Timing
Solid tumors	Phase I	Initiate trial	4Q14
		Phase I data	4Q15

Source: Leerink Partners Estimates and Company Filings

Product Pipeline			
Product		**Stage**	**Indication**
CRLX-101	Nanoparticle formulation of camptothecin	Phase II	Renal Cell Cancer
			Ovarian Cancer
		Phase I	Rectal Cancer
CRLX-301	Nanoparticle formulation of docetaxel	Preclinical	Solid tumors

Source: SEC filings

Disclosures Appendix

Analyst Certification

I, Michael Schmidt, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

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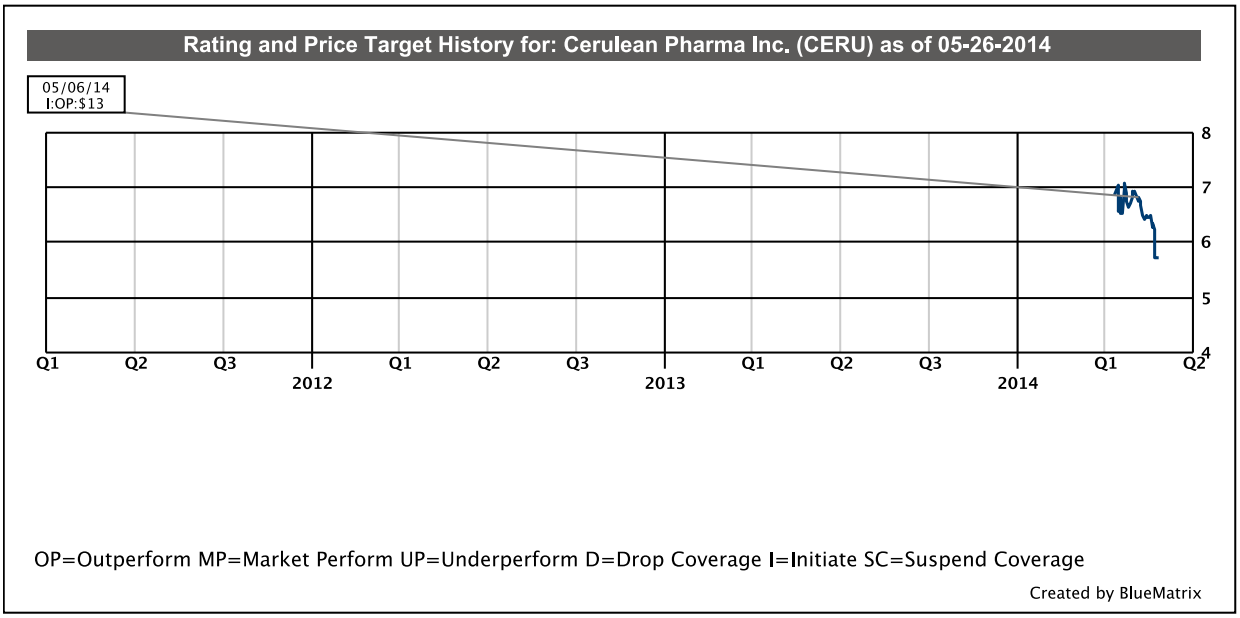

Distribution of Ratings/Investment Banking Services (IB) as of 03/31/14			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	131	68.23	46	35.11
HOLD [MP]	61	31.77	3	4.92
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months.The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

Important Disclosures

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In the past 12 months, the Firm has received compensation for providing investment banking services to Cerulean Pharma Inc. .

Leerink Partners LLC makes a market in Cerulean Pharma Inc.

Leerink Partners LLC has acted as the manager for a public offering of Cerulean Pharma Inc. in the past 12 months.

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