

Coherus

Updating Model For 4Q14 Results, Recent Offering

We are updating our estimates following 4Q14 results and the recent secondary offering. As a result, we now forecast 2015/2016 net loss of \$28mm and \$28mm, and EPS of (\$2.11) and (\$3.87). We forecast YE2015 cash of \$207mm.

Overweight

CHRS, CHRS US

Price: \$26.00

Price Target: \$35.00

Pharmaceuticals — Major & Specialty

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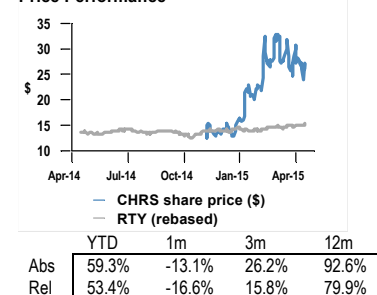
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J.P. Morgan Securities LLC

Price Performance



Coherus BioSciences, Inc. (CHRS;CHRS US)

FYE Dec	2012A	2013A	2014A	2015E (Prev)	2015E (Curr)	2016E (Prev)	2016E (Curr)
EPS Adjusted (\$)							
Q1 (Mar)	-	-	-	-	-	-	-
Q2 (Jun)	-	-	-	-	-	-	-
Q3 (Sep)	-	-	-	-	-	-	-
Q4 (Dec)	-	-	-	-	-	-	-
FY	(9.51)	(9.66)	(10.65)	(2.98)	(2.11)	(3.46)	(3.87)

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

Company Data

Price (\$)	26.00
Date Of Price	16 Apr 15
52-week Range (\$)	33.30-12.27
Market Cap (\$ mn)	982,800.00
Fiscal Year End	Dec
Shares O/S (mn)	37,800
Price Target (\$)	35.00
Price Target End Date	31-Dec-15

See page 5 for analyst certification and important disclosures.

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Figure 1: CHRS P&L 2012-2025E

\$ in millions

thousands USD Fiscal year ends December 31	FY 2012A	FY 2013A	FY 2014A	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Income Statement														
Ex-US etanercept	-	-	-	-	-	1,557	9,343	19,464	19,464	19,464	19,464	19,464	19,464	19,464
US pegfilgrastim	-	-	-	-	-	36,787	122,463	159,248	186,373	215,427	246,520	279,768	291,043	302,772
Ex-US pegfilgrastim	-	-	-	-	-	-	3,575	16,176	28,445	38,306	48,362	53,730	59,201	59,793
US adalimumab	-	-	-	-	-	6,285	47,120	168,700	260,023	314,953	366,227	354,874	343,873	333,213
Ex-US adalimumab	-	-	-	-	-	-	5,462	26,628	125,819	159,371	189,253	215,749	239,122	227,166
Unnamed Asset 1 (probability adjusted)	-	-	-	-	-	-	-	5,000	25,000	50,000	50,000	50,000	50,000	50,000
Unnamed Asset 2 (probability adjusted)	-	-	-	-	-	-	-	-	-	5,000	25,000	50,000	50,000	50,000
Unnamed Asset 3 (probability adjusted)	-	-	-	-	-	-	-	-	-	-	-	5,000	25,000	50,000
Unnamed Asset 4 (probability adjusted)	-	-	-	-	-	-	-	-	-	-	-	-	-	5,000
Total New Pipeline Biosimilar Assets	-	-	-	-	-	-	-	5,000	25,000	55,000	75,000	105,000	125,000	155,000
Total product revenue	-	-	-	-	-	44,629	187,963	395,216	645,125	802,521	944,826	1,028,585	1,077,702	1,097,407
Collaboration and license revenue - Daiichi	1,899	2,025	1,893	2,500	2,500	2,500	2,500	2,500	2,500	-	-	-	-	-
Collaboration and license revenue - Baxter	-	726	29,213	25,000	25,000	25,000	-	-	-	-	-	-	-	-
Collaboration and license revenue - pegfilgrastim	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	1,899	2,751	31,106	27,500	27,500	72,129	190,463	397,716	647,625	802,521	944,826	1,028,585	1,077,702	1,097,407
Cost of goods sold	-	-	-	-	-	6,694	28,194	59,282	96,769	120,378	141,724	154,288	161,655	164,611
Gross profit	1,899	2,751	31,106	27,500	27,500	65,435	162,268	338,433	550,856	682,143	803,102	874,297	916,047	932,796
R&D	34,886	31,279	78,224	85,000	90,000	90,000	100,000	100,000	125,000	224,706	236,206	226,289	215,540	219,481
SG&A	5,531	7,465	17,564	20,000	90,000	125,000	150,000	175,000	200,000	280,882	302,344	308,575	312,534	296,300
Total operating expense	40,417	38,744	95,788	105,000	180,000	215,000	250,000	275,000	325,000	505,588	538,551	534,864	528,074	515,781
Income (loss) from operations (EBIT)	(38,518)	(35,993)	(64,682)	(77,500)	(152,500)	(149,565)	(87,732)	63,433	225,856	176,555	264,551	339,433	387,973	417,015
Interest income (expense)	(1,514)	(5,293)	(3,900)	-	-	-	-	-	-	-	-	-	-	-
Other income	7,014	(12,349)	(18,595)	-	-	-	-	-	-	-	-	-	-	-
Total other income (expense)	5,500	(17,642)	(22,495)	-	-	-	-	-	-	-	-	-	-	-
Earnings (loss) before tax (EBT)	(33,018)	(53,635)	(87,177)	(77,500)	(152,500)	(149,565)	(87,732)	63,433	225,856	176,555	264,551	339,433	387,973	417,015
Income tax (expense)	-	-	-	-	-	-	-	-	-	8,828	26,455	67,887	135,790	145,955
NET INCOME	(33,018)	(53,635)	(87,177)	(77,500)	(152,500)	(149,565)	(87,732)	63,433	225,856	167,727	238,096	271,546	252,182	271,060
Non-controlling Interests	-	-	44	-	-	-	-	-	-	-	-	-	-	-
NET INCOME ATTRIBUTABLE TO CHRS	(33,018)	(53,635)	(87,133)	(77,500)	(152,500)	(149,565)	(87,732)	63,433	225,856	167,727	238,096	271,546	252,182	271,060
EPS	(9.51)	(9.66)	(10.64)	(2.11)	(3.87)	(3.51)	(1.99)	1.43	5.05	3.72	5.24	5.94	5.48	5.86
Basic shares outstanding	3,472	5,554	8,187	36,681	39,448	42,553	44,153	44,432	44,709	45,040	45,406	45,734	46,017	46,258
FD shares outstanding	3,472	5,554	8,187	36,681	39,448	42,553	44,153	44,432	44,709	45,040	45,406	45,734	46,017	46,258
Margins														
Gross margin						85%	85%	85%	85%	85%	85%	85%	85%	85%
R&D						125%	53%	25%	19%	28%	25%	22%	20%	20%
SG&A						173%	79%	44%	31%	35%	32%	30%	29%	27%
Operating margin						-207%	-46%	16%	35%	22%	28%	33%	36%	38%
Pretax margin						-207%	-46%	16%	35%	22%	28%	33%	36%	38%
Tax rate						0%	0%	0%	0%	5%	10%	20%	35%	35%
NET MARGIN						-207%	-46%	16%	35%	21%	25%	26%	23%	25%
Growth Rates														
Revenue		45%	1031%	-12%	0%	162%	164%	109%	63%	24%	18%	9%	5%	2%
COGS		n/a	n/a	n/a	n/a	n/a	321%	110%	63%	24%	18%	9%	5%	2%
Gross profit		45%	1031%	-12%	0%	138%	148%	109%	63%	24%	18%	9%	5%	2%
R&D		-10%	150%	9%	6%	0%	11%	0%	25%	80%	5%	-4%	-5%	2%
SG&A		35%	135%	14%	350%	39%	20%	17%	14%	40%	8%	2%	1%	-5%
Operating income		-4%	147%	10%	71%	19%	16%	10%	18%	56%	7%	-1%	-1%	-2%
Pretax income		n/a	n/a	n/a	n/a	n/a	n/a	n/a	256%	-22%	50%	28%	14%	7%
NET INCOME		n/a	n/a	n/a	n/a	n/a	n/a	n/a	256%	-26%	42%	14%	-7%	7%
EPS		n/a	n/a	n/a	n/a	n/a	n/a	n/a	254%	-26%	41%	13%	-8%	7%
FD shares outstanding (sequential)		60%	47%	348%	8%	8%	4%	1%	1%	1%	1%	1%	1%	1%

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

Investment Thesis, Valuation and Risks

Coherus (*Overweight; Price Target: \$35.00*)

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 in 2014. 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

Maintaining Dec-15 price target of \$35. Using a risk-adjusted DCF analysis, we arrive at a December 2015 price target of \$35. 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	1Q15E	2Q15E	3Q15E	4Q15E
Revenues	31,106	27,500	27,500	72,129	Revenues	-	-	-	-
Cost of products sold	0	0	0	(6,694)	Cost of products sold	-	-	-	-
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(17,564)	(20,000)	(90,000)	(125,000)	SG&A	-	-	-	-
R&D	(78,224)	(85,000)	(90,000)	(90,000)	R&D	-	-	-	-
Operating income	(64,682)	(77,500)	(152,500)	(149,565)	Operating income	-	-	-	-
Net interest (income) / expense	(3,900)	0	0	0	Net interest (income) / expense	-	-	-	-
Other income / (expense)	(18,595)	0	0	0	Other income / (expense)	-	-	-	-
Pretax income	(87,177)	(77,500)	(152,500)	(149,565)	Pretax income	-	-	-	-
Income taxes	0	0	0	0	Income taxes	-	-	-	-
Net income - recurring	(87,177)	(77,500)	(152,500)	(149,565)	Net income - recurring	-	-	-	-
Diluted shares outstanding	-	-	-	-	Diluted shares outstanding	-	-	-	-
EPS - excluding non-recurring	(10.65)	(2.11)	(3.87)	(3.51)	EPS - excluding non-recurring	-	-	-	-
EPS - recurring	(10.65)	(2.11)	(3.87)	(3.51)	EPS - recurring	-	-	-	-
Balance Sheet and Cash Flow Data	FY14A	FY15E	FY16E	FY17E	Ratio Analysis	FY14A	FY15E	FY16E	FY17E
Cash and cash equivalents	150,392	207,168	173,276	136,109	Sales growth	1030.7%	(11.6%)	0.0%	162.3%
Short Term Investment	-	-	-	-	EBIT growth	79.7%	19.8%	96.8%	(1.9%)
Accounts receivable	4,232	5,315	4,594	11,833	EPS growth - recurring	10.3%	(80.2%)	83.0%	(9.1%)
Inventories	-	-	-	-	Gross margin	-	-	-	-
Other current assets	24,512	24,512	24,512	24,512	EBIT margin	(207.9%)	(281.8%)	(554.5%)	(207.4%)
Current assets	179,136	236,995	202,382	172,454	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%)	(281.8%)	(554.5%)	(207.4%)
Total assets	187,221	247,255	214,817	187,064					
Total debt	0	0	0	0					
Total liabilities	120,464	121,686	121,686	121,686					
Shareholders' equity	66,757	125,569	93,131	65,378					
Net income (including charges)	(87,177)	(77,500)	(152,500)	(149,565)					
D&A	674	674	674	674					
Change in working capital	28,434	139	721	(7,239)					
Other	22,933	0	0	0					
Cash flow from operations	(23,927)	(65,625)	(140,043)	(145,068)					
Capex	(2,849)	(2,849)	(2,849)	(2,849)					
Free cash flow	(22,876)	(68,474)	(142,892)	(147,917)					
Cash flow from investing activities	(525)	(2,849)	(2,849)	(2,849)					
Cash flow from financing activities	135,956	125,250	109,000	110,750					

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

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

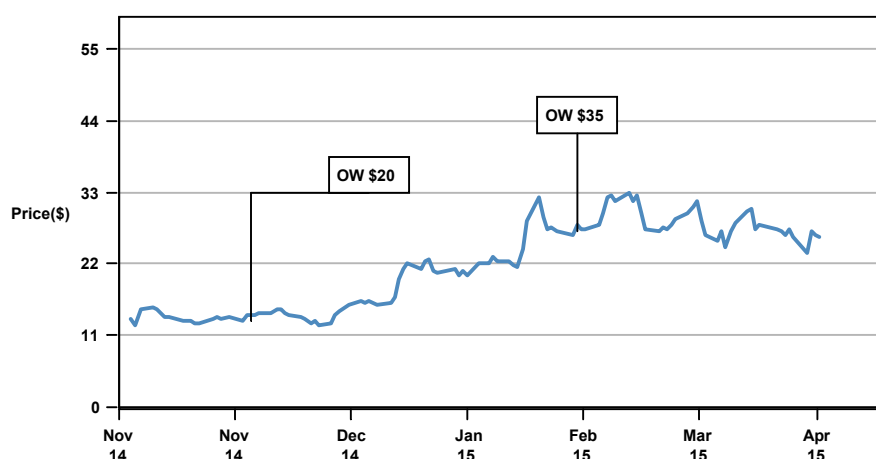
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Coherus (CHRS, CHRS US) Price Chart



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

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