

US Equity Research

15 December 2014

BUY

unchanged

PRICE TARGET US\$11.00

unchanged

Price (15-Dec) US\$5.98

Ticker CERU-NASDAQ

52-Week Range (US\$): 3.35 - 8.06
 Avg Daily Vol (M) : 39.5
 Shares Out. (M) : 20.1
 Market Cap (US\$M): 120

FYE Dec	2013A	2014E	2015E
Sales (US\$M)	0.0	0.0	0.0
EPS Adj&Dil (US\$)	(0.90)	(1.21)	(2.26)

Quarterly Sales	Q1	Q2	Q3	Q4
2013A	0.0	0.0	0.0	0.0
2014E	0.0A↓	0.0A↓	0.0A	0.0
2015E	0.0	0.0	0.0	0.0

Quarterly EPS Adj&Dil	Q1	Q2	Q3	Q4
2013A	0.00	0.00	0.00	0.00
2014E	(0.17)A	(0.44)A	(0.28)A	(0.32)
2015E	(0.63)	(0.53)	(0.57)	(0.53)



Cerulean is a development-stage oncology company developing novel cancer drugs using its tumor targeting platform.

John Newman, PhD | Canaccord Genuity Inc. (US) | JNewman@canaccordgenuity.com | 212.389.8042

Kevin Dai | Canaccord Genuity Inc. (US) | kdai@canaccordgenuity.com | 212.389.8043

Company Update

CRLX101 completes Phase 1b/2 study enrollment in relapsed RCC, on track

CRLX101 completes Phase 1b/2 study enrollment in relapsed RCC, on track; possible \$136M peak sales

Cerulean completed enrollment of its Phase 1b/2 study of CRLX101 + avastin in relapsed renal cell carcinoma (RCC) of 22 patients, which we believe is a positive as the drug is on track for data readout by end of 2015. We remind investors that prior proof of concept data in 11 patients demonstrated a ~27% overall response rate (ORR) in a single-arm relapsed/refractory RCC study, an improvement vs. Avastin monotherapy, suggesting strong efficacy for CRLX101. Historically, third-line patients that previously received a TKI have achieved RECIST partial response rates of 2-4% with a median PFS of 3.5 months, while CRLX101 achieved a near doubling PFS of ~7.6 months. Even moving to second-line, response rates are generally <10%. We expect positive results by YE15 to be a major catalyst for the stock.

Expect data for CRLX101 in rectal cancer by early 2015; encouraging early data

Early-look data in neoadjuvant rectal cancer showed one pathologic complete response (pCR) and two patients with substantially reduced disease burden with CRLX101 + chemoradiation, which we find interesting. Importantly, we believe the results will be positive since it is already known that other FDA-approved topoisomerase inhibitors, specifically irinotecan, demonstrates activity in this setting (irinotecan + Xeloda with radiotherapy demonstrated pCR of 21 – 37% in neoadjuvant rectal cancer). The trial is on track for data readout in 10-12 patients by H1/15, with anticipated ~30% pathologic complete response rate for trial advancement into Phase 2.

Maintain BUY rating, \$11 PT

We maintain our BUY rating of CERU and an \$11PT. We believe the company is currently on track for data readout for CRLX101 in RCC by YE15, as well as data in rectal and ovarian cancer by early 2015.

Figure 1: CERU Income statement

(000's) [FY - DEC]	2012A	1Q13A	2Q13A	3Q13A	4Q13A	2013A	Mar-14A	Jun-14A	Sep-14A	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues																	
Rectal														-	-	24,257	123,603
RCC														-	-	19,397	65,914
Ovarian														-	55,214	182,988	332,844
Total														-	55,214	226,643	522,362
Income Statement						2013A	Mar-14A	Jun-14A	Sep-14A	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues																	
Total Revenue	625					6	47	33	-					-	55,214	226,643	522,362
COGS	0													-	8,282	33,996	78,354
Gross Profit	625					6	47	33	-	-				-	46,932	192,646	444,007
Operating Expenses																	
Research and development	15,807					9,700	1,495	2,648	2,928	3,928	10,999	46,667	49,000	51,450	54,023	48,620	48,620
General and administrative	6,393					6,166	1,510	2,029	2,441	2,700	8,680	13,200	14,520	15,972	24,972	33,972	42,972
Total Operating Expense	22,200					15,866	3,005	4,677	5,369	6,628	19,679	59,867	63,520	67,422	78,995	82,592	91,592
EBITDA																	
Operating income	(21,575)					(15,860)	(2,958)	(4,644)	(5,369)	(6,628)	(19,599)	(59,867)	(63,520)	(67,422)	(32,062)	110,054	352,415
Investment income, net																	
Interest Income	2					2	1	2	2								
Interest Expense	(567)					(1,487)	(461)	(268)	(191)	-	(920)	-	-	-	-	-	-
Loss on extinguishment of debt								(2,493)									
Decrease in value of pref stock	39					202											
Pre-tax income (GAAP)	(526)					(17,143)	(3,418)	(7,403)	(5,558)	(6,628)	(23,007)	(59,867)	(63,520)	(67,422)	(32,062)	110,054	352,415
Pre-tax income (non-GAAP)																	
Taxes (GAAP)						-	-	-	-	-	-	-	-	-	-	40,720	130,394
Tax rate (GAAP)						37%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%
Net Income (GAAP)	(22,101)					(17,143)	(3,418)	(7,403)	(5,558)	(6,628)	(23,007)	(59,867)	(63,520)	(67,422)	(32,062)	69,334	222,022
GAAP adjustments																	
Adjusted Net Income																	
GAAP EPS (diluted)						(\$0.90)	(\$0.17)	(\$0.44)	(\$0.28)	(\$0.32)	(\$1.21)	(\$2.26)	(\$1.82)	(\$1.64)	(\$0.72)	\$1.56	\$4.96
Basic shares outstanding							19	19	19	19	19	26	35	41	44	45	45
Diluted shares outstanding							20	17	20	21	19	26	35	41	44	45	45

Source: Company reports, Canaccord Genuity Estimates

Figure 2: CERU valuation

	Peak Sales	Year	Current Value	Probability Adjustment	Value Per Share
Ovarian	\$333	2020	\$419	30%	\$7
RCC	\$136	2021	\$95	30%	\$1
Rectal	\$191	2021	\$159	30%	\$3
Total			\$673	30%	\$11
Risk Free Rate	2%				
Beta	1.3				
Risk Premium	9%				
Discount Rate	13.9%				
				Shares outstanding (M's)	19

Source: Canaccord Genuity Estimates

Appendix: Important Disclosures

Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

Analysts employed outside the US are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity Inc. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Compendium Report

If this report covers six or more subject companies, it is a compendium report and Canaccord Genuity and its affiliated companies hereby direct the reader to the specific disclosures related to the subject companies discussed in this report, which may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures.canaccordgenuity.com/EN/Pages/default.aspx>; or by sending a request to Canaccord Genuity Corp. Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2; or by sending a request by email to disclosures@canaccordgenuity.com. The reader may also obtain a copy of Canaccord Genuity's policies and procedures regarding the dissemination of research by following the steps outlined above.

Target Price / Valuation Methodology:

Cerulean Pharma - CERU:

We have an \$11 price target based on a sum-of-the-parts probability-adjusted NPV analysis.

Risks to achieving Target Price / Valuation:

Cerulean Pharma - CERU:

Cerulean's lead drug CRLX101 may fail in any or all three currently ongoing clinical programs, resulting in downside to our price target and the current stock price. In addition, clinical studies may be successful but not meet investor expectations, also resulting in downside to our price target and the stock price. Even assuming clinical success for CRLX101, FDA approval could require more clinical data than originally anticipated, resulting in delayed revenue timelines, potentially pressuring the share price. In addition, CRLX101 may be deemed efficacious, but could generate unexpected toxicity, resulting in reduced market share and lower revenues than expected, even if FDA approval is attained. We view the use of CRLX101 in combination with Avastin for the treatment of ovarian cancer as potentially risky because Avastin has not been FDA approved for the treatment of ovarian cancer. While Avastin is approved in the EU for the treatment of ovarian cancer there have been issues with regards to safety in certain cancer indications, including ovarian. Specifically, adverse events and safety data may be skewed significantly higher as a result of the effects of Avastin, rather than from CRLX101. US studies of Avastin in ovarian cancer resulted in some bowel perforations and deaths, which might limit the overall safety profile for CRLX101+Avastin in platinum resistant ovarian cancer in the clinic, resulting in downside to our price target and the stock price. Although data readouts are expected throughout 2014 and 2015, critical randomized data are unlikely to be available until 2H15, a timeline which may be too long for certain investors, creating potential downside pressure on the stock. In addition, if timelines for any data readouts during 2014 and 2015 are delayed, investors could become skeptical regarding the results, also creating downward pressure on the stock and potential downside to our price target. The oncology space is highly competitive, and other companies could generate data potentially limiting the commercial opportunity for Cerulean, resulting in downside to our revenue estimates and price target. Specifically, although we view recent data from Merrimack as a positive, some investors may believe that the drug will compete directly with CRLX101, limiting upside for Cerulean. Also, other companies are developing "reformulated" chemotherapy drugs including Sorrento, Nektar, Celgene, and others. Specifically, Nektar is also developing a reformulated, long-acting PEGylated formulation of irinotecan, which investors may also view as a threat to CRLX101 market share going forward, pressuring the stock.

Distribution of Ratings:

Global Stock Ratings (as of 12/15/14)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	702	65.42%	34.90%
Hold	321	29.92%	14.95%
Sell	50	4.66%	2.00%
	1073*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

“Risk-adjusted return” refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Genuity Company-Specific Disclosures (as of date of this publication)

Cerulean Pharma currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided investment banking services to Cerulean Pharma

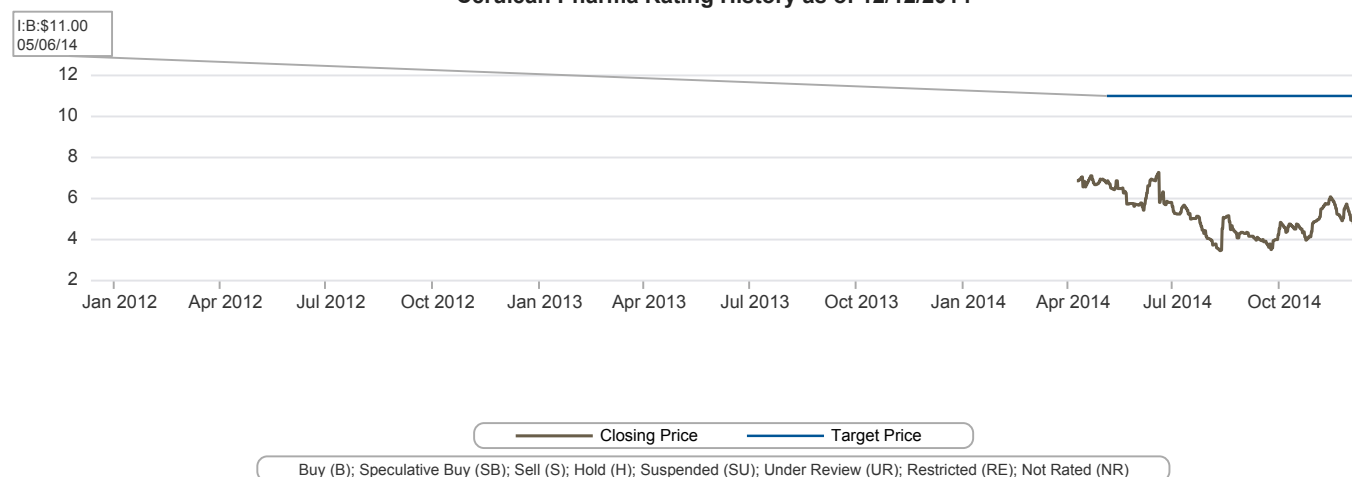
In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from Cerulean Pharma .

In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of Cerulean Pharma or any publicly disclosed offer of securities of Cerulean Pharma or in any related derivatives.

Canaccord Genuity or one or more of its affiliated companies is a market maker or liquidity provider in the securities of Cerulean Pharma or in any related derivatives.

Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Corporate Finance/Investment Banking services from Cerulean Pharma in the next six months.

An analyst has visited the material operations of Cerulean Pharma. No payment was received for the related travel costs.

Cerulean Pharma Rating History as of 12/12/2014**General Disclosures**

“Canaccord Genuity” is the business name used by certain wholly owned subsidiaries of Canaccord Genuity Group Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, Canaccord Genuity Corp., and Canaccord Genuity (Australia) Limited, an affiliated company that is 50%-owned by Canaccord Genuity Group Inc.

The authoring analysts who are responsible for the preparation of this research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in New York, Boston, San Francisco and Houston, or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London (UK) and Dublin (Ireland), or Canaccord Genuity (Australia) Limited, an Australian broker-dealer with principal offices located in Sydney and Melbourne.

The authoring analysts who are responsible for the preparation of this research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such

authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the issuer that is the subject of this research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of research. This research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this research constitute Canaccord Genuity's judgement as of the date of this research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

This research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this research may not be eligible for sale in some jurisdictions. This research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this research.

For Canadian Residents:

This research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this research and its dissemination in Canada. Canadian clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular province or territory.

For United States Residents:

Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this research and its dissemination in the United States. This research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analysts employed outside the US, as specifically indicated elsewhere in this report, are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity Inc. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

For United Kingdom and European Residents:

This research is distributed in the United Kingdom and elsewhere Europe, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Conduct Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or elsewhere in Europe to retail clients, as defined under the rules of the Financial Conduct Authority.

For Jersey, Guernsey and Isle of Man Residents:

This research is sent to you by Canaccord Genuity Wealth (International) Limited (CGWI) for information purposes and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research has been produced by an affiliate of CGWI for circulation to its institutional clients and also CGWI. Its contents have been approved by CGWI and we are providing it to you on the basis that we believe it to be of interest to you. This statement should be read in conjunction with your client

agreement, CGWI's current terms of business and the other disclosures and disclaimers contained within this research. If you are in any doubt, you should consult your financial adviser.

CGWI is licensed and regulated by the Guernsey Financial Services Commission, the Jersey Financial Services Commission and the Isle of Man Financial Supervision Commission. CGWI is registered in Guernsey and is a wholly owned subsidiary of Canaccord Genuity Group Inc.

For Australian Residents:

This research is distributed in Australia by Canaccord Genuity (Australia) Limited ABN 19 075 071 466 holder of AFS Licence No 234666. To the extent that this research contains any advice, this is limited to general advice only. Recipients should take into account their own personal circumstances before making an investment decision. Clients wishing to effect any transactions in any financial products discussed in the research should do so through a qualified representative of Canaccord Genuity (Australia) Limited. Canaccord Genuity Wealth Management is a division of Canaccord Genuity (Australia) Limited.

For Singapore Residents:

This research is distributed pursuant to 32C of the Financial Advisers under an arrangement between each of the Canaccord Genuity entities that publish research and Canaccord Genuity Singapore Pte. Ltd who are an exempt financial adviser under section 23(1)(d) of the Financial Advisers Act. This research is only intended for persons who fall within the definition of accredited investor, expert investor or institutional investor as defined under section 4A of the Securities and Futures Act. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Recipients of this report can contact Canaccord Genuity Singapore Pte. Ltd. (Contact Person: Tom Gunnersen's tel # is +852 3919 2561) in respect of any matters arising from, or in connection with, the [analyses or report].

For Hong Kong Residents:

This research is distributed in Hong Kong by Canaccord Genuity (Hong Kong) Limited who is licensed by the Securities and Futures Commission. This research is only intended for persons who fall within the definition of professional investor as defined in the Securities and Futures Ordinance. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Recipients of this report can contact Canaccord Genuity (Hong Kong). Ltd. (Contact Person: Tom Gunnersen's tel # is +852 3919 2561) in respect of any matters arising from, or in connection with, the research.

Additional information is available on request.

Copyright © Canaccord Genuity Corp. 2014 . – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2014 . – Member LSE, authorized and regulated by the Financial Conduct Authority.

Copyright © Canaccord Genuity Inc. 2014 . – Member FINRA/SIPC

Copyright © Canaccord Genuity (Australia) Limited 2014 . – Participant of ASX Group, Chi-x Australia and of the NSX. Authorized and regulated by ASIC.

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, Canaccord Genuity Inc or Canaccord Genuity Group Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.