

Cerulean Pharma (CERU)

Q3:14 EPS, Clinical Trials on Track for Data Readouts in 2015, Reiterate OUTPERFORM

- CERU reported EPS of (\$0.28), below our estimate of (\$0.19) and ended the quarter with a cash balance of \$57.8M, enough to fund all ongoing clinical trials through 2015.
- The Phase II trial of lead candidate CRLX101, its nanoparticle formulation of camptothecin, in relapsed renal cell carcinoma (RCC) began in Q3:14 and is expected to report data YE:15. This trial, which is studying CRLX101 and Avastin (bevacizumab) vs. current standard of care, is enrolling 110 patients. Recall data from an investigator-sponsored study observed a 27% objective response rate in 11 patients – current standard of care provides only a 2-4% ORR in this setting.
- Management reiterated that clinical data from two ongoing investigator-sponsored trials of CRLX101 in relapsed ovarian cancer and in non-metastatic rectal cancer is expected in Q1:15, enabling CERU to make a decision on advancement into randomized trials. Preliminary data showed CRXL101 generated a 14% ORR in relapsed ovarian cancer vs. 3% for approved camptothecin-analog topotecan. In addition, early clinical data from the non-metastatic rectal cancer setting has indicated increased safety and efficacy of CRXL101 compared to another already approved camptothecin-analog, irinotecan.
- CERU's second drug candidate CRXL301, a nanoparticle-drug formulation of docetaxel, is still on track to enter the clinic in Q4:14 for treatment of advanced solid tumors, with data available in Q4:15.
- Reiterate OUTPERFORM rating and \$12 price target. Our \$12 price target is derived from applying a 6 multiple to estimated 2020 sales of CRLX101, discounted back by 35%.

November 14, 2014

Price
\$5.93

Rating
OUTPERFORM

12-Month Price Target
\$12

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Company Information

Shares Outst (M)	20.1
Market Cap (M)	\$119.3
52-Wk Range	\$3.35 - \$8.06
Book Value/sh	\$2.87
Cash/sh	\$2.87
Enterprise Value (M)	\$63.0
LT Debt/Cap %	0.0
Cash Burn (M)	\$27.1

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

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	0.0A	0.0A		\$0.0 E	0.0E		\$0.0E
Q2 Jun	0.0A	0.0A		0.0 E	0.0E		0.0E
Q3 Sep	0.0A	0.0A		0.0 E	0.0E		0.0E
Q4 Dec	0.0A	0.0E		0.0E	0.0E		0.0E
Year*	0.0A	0.1E		\$0.1E	0.0E		\$0.0E
Change	--	1233%			-100%		
EPS	2013A	2014E			2015E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.00A	(\$3.70)A		--	(\$0.40)E	(\$0.34)E	--
Q2 Jun	\$0.00A	(\$0.44)A		--	(\$0.55)E	(\$0.49)E	--
Q3 Sep	(\$0.96)A	(\$0.28)A	(\$0.19)E	--	(\$0.55)E	(\$0.49)E	--
Q4 Dec	(\$0.24)A	(\$0.30)E	(\$0.24)E	--	(\$0.59)E	(\$0.53)E	--
Year*	(\$1.20)A	(\$4.71)E	(\$4.56)E	--	(\$2.09)E	(\$1.84)E	--
P/E	--	--			--		
Change	--	-293%			56%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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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.

Milestones

YE:14 Initiation of Phase I study of CRLX301 in advanced cancers

Q1:15 Potential data from Phase II trial of CRLX101 in combination with Avastin in relapsed ovarian cancer

Q1:15 Potential data from Phase I/II trial of CRLX101 in combination with chemoradiation in non-metastatic rectal cancer

Q4:15 Phase I data for CRLX301

Q4:15 Potential data from Phase II trial of CRLX101 in combination with Avastin in relapsed RCC

11/13/2014

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	\$33	\$0	\$0	\$80	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenues	305	625	6	47	33	0	0	80	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	2,648	2,928	3,928	10,999	37,712	50,146	54,279	58,754	63,597	68,839
SG&A	5,335	6,393	6,166	1,510	2,029	2,441	2,490	8,470	10,467	11,052	13,393	57,464	105,080	130,800
Total Operating Expenses	19,183	22,200	15,866	3,005	4,677	5,369	6,418	19,469	48,179	61,198	68,313	123,140	183,797	224,168
Operating Income (Loss)	(18,878)	(21,575)	(15,860)	(2,958)	(4,644)	(5,369)	(6,418)	(19,389)	(48,179)	(61,198)	(61,903)	(20,987)	70,637	197,636
Net Interest Income (Expense)	(25)	(565)	(1,485)	(460)	(2,759)	(189)	423	(2,985)	1,403	1,254	969	1,168	966	2,978
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)	(7,403)	(5,558)	(5,995)	(22,374)	(46,776)	(59,945)	(60,933)	(19,819)	71,603	200,614
Provision for Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	27,925	78,239
Net Income (Loss)	(19,563)	(22,174)	(17,143)	(2,914)	(7,403)	(5,558)	(5,995)	(22,374)	(46,776)	(59,945)	(60,933)	(19,819)	43,678	122,375
Non-GAAP EPS	(1.51)	(1.51)	(1.15)	(3.52)	(0.36)	(0.28)	(0.30)	(1.11)	(1.90)	(2.02)	(1.81)	(0.57)	1.34	3.71
GAAP EPS	(1.37)	(1.55)	(1.20)	(3.70)	(0.44)	(0.28)	(0.30)	(4.71)	(2.09)	(2.26)	(2.03)	(0.60)	1.31	3.68
Total Shares Outstanding	14,305	14,305	14,305	787	20,123	20,125	20,150	20,150	24,250	29,250	33,250	33,250	33,250	33,250
Cash Burn	(18,590)	(18,590)	(7,840)	4,002	(20,951)	(5,742)	(4,367)	(27,058)	(49,420)	(60,128)	(62,379)	(26,879)	62,054	185,381
Cash Balance	16,707	16,707	5,488	8,468	64,271	57,786	53,020	53,020	42,157	53,080	47,391	21,334	56,154	165,553

Source: Company Data and Wedbush Securities

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

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Neutral: 43%	Neutral: 1%
Underperform: 3%	Underperform: 0%

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Company	Disclosure
Cerulean Pharma	1,3,4,5

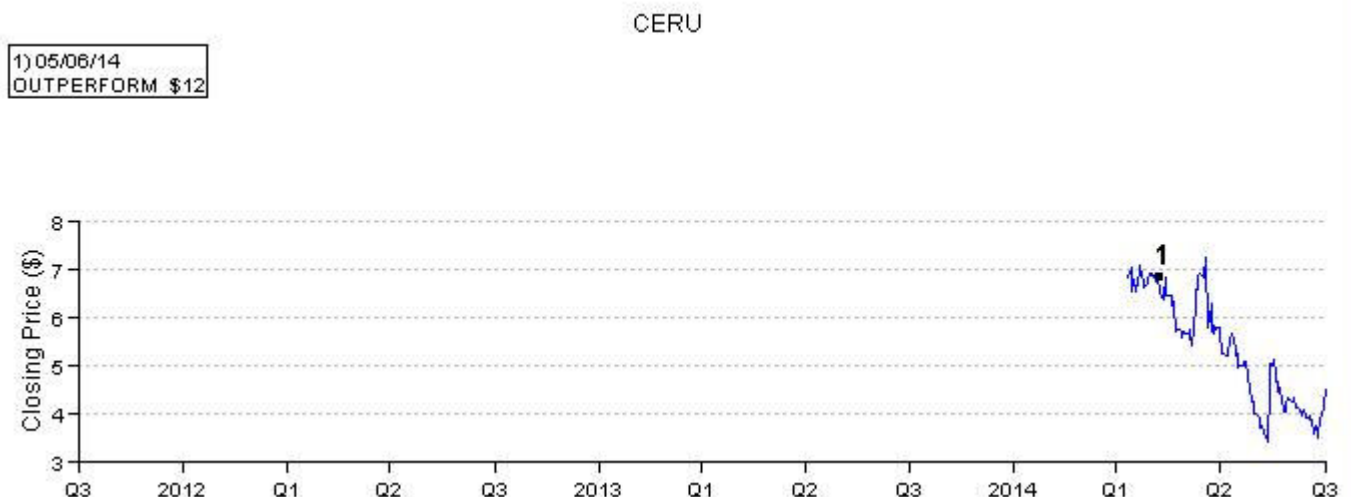
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