

## Coherus

### Takeaways from Management Meetings

We recently had the opportunity to meet with Coherus management including CEO Denny Lanfear and wanted to share our latest thoughts. With biosimilars increasingly in focus and with a highly experienced management team, we see Coherus as well-positioned within this emerging market. The company remains on track for several additional data read-outs in the near term and for important filings for biosimilar versions of Neulasta, Enbrel, and Humira over the next 6-12 months. Remain OW.

- **Near-term biosimilar Neulasta filing represents significant opportunity.** Coherus remains on track for a 1Q16 BLA filing for CHS-1701 based on the generally positive PK/PD results and upcoming immunogenicity data. We continue to see CHS-1701 as an attractive opportunity with a large market, relatively few competitors, a relatively straightforward patent landscape, and reasonable commercial footprint requirements. In particular, management highlighted that some competitors' progress appears to have stalled in recent months, which could benefit Coherus's competitive positioning.
- **Biosimilar Humira opportunity depends on IPR on AbbVie's '135 patent.** Coherus has filed an IPR petition on AbbVie's '135 Humira patent related to the method of treating rheumatoid arthritis. Recall that beyond the composition of matter patents that expire in December 2016 in the US, AbbVie has described a set of dosing patents that extend to the early 2020s. We see the IPR as a key step towards a potential launch and will be watching for any updates on this front (PTO decision whether to move forward expected in ~6 months). We note that the '135 patent is only related to the method of treating rheumatoid arthritis and are watching for potential IPR petitions on additional patents.
- **Next up: Several data read-outs expected.** Up next, we are watching for data from the CHS-1701 (biosimilar Neulasta) immunogenicity study, which (together with the PK/PD study) we expect to enable a BLA filing in 1Q16. We are also expecting data from the second phase III study for CHS-0214 (biosimilar Enbrel) in rheumatoid arthritis in 1Q16. Relative to CHS-1420 (biosimilar Humira), the company remains on track for a BLA in 2H16 and we are watching for any updates on the '135 IPR. Beyond these initial assets, we are also watching for any updates on additional molecules in development.

## Overweight

CHRS, CHRS US

Price: \$27.23

Price Target: \$37.00

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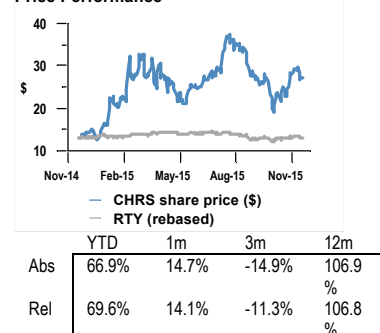
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### Price Performance



### 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)	(6.73)	(6.45)
Bloomberg EPS FY (\$)	-	-	-4.21	-4.94	-4.98

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

### Company Data

Price (\$)	27.23
Date Of Price	18 Nov 15
52-week Range (\$)	38.10-12.38
Market Cap (\$ mn)	1,046.36
Fiscal Year End	Dec
Shares O/S (mn)	38
Price Target (\$)	37.00
Price Target End Date	31-Dec-16

### See page 4 for analyst certification and important disclosures.

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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 \$666 million in revenue by 2020, growing to roughly \$1.3 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 and 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 growth rate of 0% past 2030. We also risk adjust our enterprise value with a 70% 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	1Q15A	2Q15A	3Q15A	4Q15E
Revenues	31,106	28,468	37,500	192,337	Revenues	-	-	-	-
Cost of products sold	0	0	0	(23,226)	Cost of products sold	-	-	-	-
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(17,564)	(36,074)	(65,000)	(125,000)	SG&A	-	-	-	-
R&D	(78,224)	(236,629)	(240,000)	(200,000)	R&D	-	-	-	-
Operating income	(64,682)	(244,235)	(267,500)	(155,889)	Operating income	-	-	-	-
Net interest (income) / expense	(3,900)	(33)	0	0	Net interest (income) / expense	-	-	-	-
Other income / (expense)	(18,595)	(4,465)	0	0	Other income / (expense)	-	-	-	-
Pretax income	(87,177)	(248,733)	(267,500)	(155,889)	Pretax income	-	-	-	-
Income taxes	0	0	0	0	Income taxes	-	-	-	-
Net income - recurring	(87,177)	(248,733)	(267,500)	(155,889)	Net income - recurring	-	-	-	-
Diluted shares outstanding	-	-	-	-	Diluted shares outstanding	-	-	-	-
EPS - excluding non-recurring	(10.65)	(6.73)	(6.45)	(3.30)	EPS - excluding non-recurring	-	-	-	-
EPS - recurring	(10.65)	(6.73)	(6.45)	(3.30)	EPS - recurring	-	-	-	-
Balance Sheet and Cash Flow Data	FY14A	FY15E	FY16E	FY17E	Ratio Analysis	FY14A	FY15E	FY16E	FY17E
Cash and cash equivalents	150,392	79,320	35,668	81,992	Sales growth	1030.7%	(8.5%)	31.7%	412.9%
Short Term Investment	-	-	-	-	EBIT growth	79.7%	277.6%	9.5%	(41.7%)
Accounts receivable	4,232	5,315	5,605	28,528	EPS growth - recurring	10.3%	(36.8%)	(4.2%)	(48.8%)
Inventories	-	-	-	-	Gross margin	-	-	-	-
Other current assets	24,512	24,512	24,512	24,512	EBIT margin	(207.9%)	(857.9%)	(713.3%)	(81.0%)
Current assets	179,136	109,147	65,784	135,032	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%)	(873.7%)	(713.3%)	(81.0%)
Total assets	187,221	119,407	78,219	149,642					
Total debt	0	0	0	0					
Total liabilities	120,464	121,686	121,686	121,686					
Shareholders' equity	66,757	(2,279)	(43,467)	27,956					
Net income (including charges)	(87,177)	(248,733)	(267,500)	(155,889)					
D&A	674	674	674	674					
Change in working capital	28,434	139	(290)	(22,924)					
Other	22,933	35,000	0	0					
Cash flow from operations	(23,927)	(201,858)	(256,054)	(167,077)					
Capex	(2,849)	(2,849)	(2,849)	(2,849)					
Free cash flow	(22,876)	(204,674)	(258,903)	(169,926)					
Cash flow from investing activities	(525)	(2,849)	(2,849)	(2,849)					
Cash flow from financing activities	135,956	133,635	215,250	216,250					

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

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

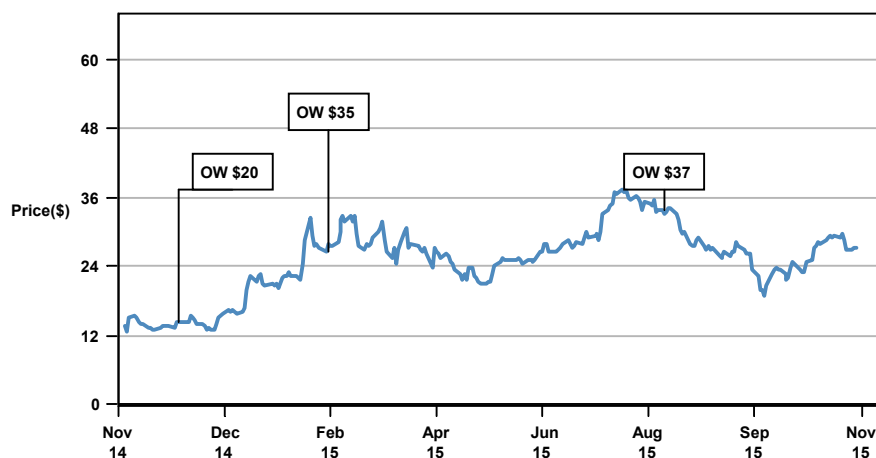
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Coherus (CHRS, CHRS US) Price Chart



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

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