

## Coherus

### 3Q Takeaways: Biosimilar Enbrel Phase III Meets Endpoints

Yesterday afternoon, Coherus reported 3Q earnings and announced that the first of two phase III trials of CHS-0214 (biosimilar Enbrel) met its primary endpoints. Management also announced that they have filed an IPR on AbbVie's '135 dosing patent for Humira. Coherus 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 6-18 months. With biosimilars increasingly in focus and a highly experienced management team, we see Coherus as well-positioned within this emerging market. Remain OW.

- **Phase III CHS-0214 trial in psoriasis shows bioequivalence.** Coherus announced that the first of two phase III CHS-0214 trials met its primary endpoints. The study, which was conducted in patients with plaque psoriasis, demonstrated that CHS-0214 was bioequivalent to Enbrel with respect to the mean change in PASI from baseline and the proportion of subjects achieving PASI75 at week 12. On the call, management noted that anti-drug antibody data will be available at the end of the ongoing 52-week trial.
- **Coherus filed IPR on AbbVie's '135 Humira patent.** Coherus has filed an IPR petition on AbbVie's '135 Humira dosing patent related to the method of treating rheumatoid arthritis. Recall that beyond the composition of matter patents that expire in Dec 16 in the US, AbbVie has described a broad patent portfolio including several 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 response expected in ~6 months).
- **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. Management noted that the company remains on track for a CHS-1420 (biosimilar Humira) BLA in 2H16. Beyond these initial assets, we are also watching for any updates on additional molecules in development.
- **Updating model.** We are updating our model to reflect 3Q results and our view of the biosimilar markets.

#### Coherus BioSciences, Inc. (CHRS;CHRS US)

FYE Dec	2012A	2013A	2014A	2015E (Prev)	2015E (Curr)	2016E (Prev)	2016E (Curr)
EPS (\$)							
Q1 (Mar)	-	-	-	-	-	-	-
Q2 (Jun)	-	-	-	-	-	-	-
Q3 (Sep)	-	-	-	-	-	-	-
Q4 (Dec)	-	-	-	-	-	-	-
FY	(9.51)	(9.66)	(10.65)	(5.98)	(6.73)	(5.90)	(6.45)
Bloomberg EPS FY (\$)	-	-	-4.21	-	-4.57	-	-4.70

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

#### See page 5 for analyst certification and important disclosures.

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## Overweight

CHRS, CHRS US

Price: \$29.06

Price Target: \$37.00

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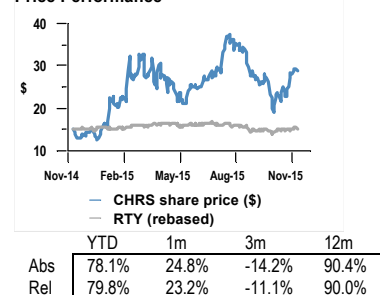
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#### Price Performance



Company Data	
Price (\$)	29.06
Date Of Price	09 Nov 15
52-week Range (\$)	38.10-12.38
Market Cap (\$ mn)	1,116.68
Fiscal Year End	Dec
Shares O/S (mn)	38
Price Target (\$)	37.00
Price Target End Date	31-Dec-16

Figure 1: CHRS P&L 2012-2020E

\$ in millions

thousands USD Fiscal year ends December 31	FY 2012A	FY 2013A	FY 2014A	1Q15A	2Q15A	3Q15E	4Q15E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E
<b>Income Statement</b>													
Ex-US etanercept	-	-	-	-	-	-	-	-	-	1,557	9,343	19,464	19,464
US pegfilgrastim	-	-	-	-	-	-	-	-	-	153,280	267,887	345,036	403,809
Ex-US pegfilgrastim	-	-	-	-	-	-	-	-	-	-	13,347	31,293	56,891
US adalimumab	-	-	-	-	-	-	-	-	-	-	6,283	31,241	97,509
Ex-US adalimumab	-	-	-	-	-	-	-	-	-	-	5,462	18,640	55,920
Unnamed Asset 1 (probability adjusted)	-	-	-	-	-	-	-	-	-	-	-	5,000	25,000
Unnamed Asset 2 (probability adjusted)	-	-	-	-	-	-	-	-	-	-	-	-	5,000
Unnamed Asset 3 (probability adjusted)	-	-	-	-	-	-	-	-	-	-	-	-	-
Unnamed Asset 4 (probability adjusted)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total New Pipeline Biosimilar Assets	-	-	-	-	-	-	-	-	-	-	-	5,000	30,000
Total product revenue	-	-	-	-	-	-	-	-	-	154,837	302,321	450,674	663,592
Collaboration and license revenue - Daiichi	1,899	2,025	1,893	-	-	-	625	625	2,500	2,500	2,500	2,500	2,500
Collaboration and license revenue - Baxter	-	726	29,213	5,810	6,866	7,167	8,000	27,843	35,000	35,000	10,000	-	-
Collaboration and license revenue - pegfilgrastim	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenue</b>	<b>1,899</b>	<b>2,751</b>	<b>31,106</b>	<b>5,810</b>	<b>6,866</b>	<b>7,167</b>	<b>8,625</b>	<b>28,468</b>	<b>37,500</b>	<b>192,337</b>	<b>314,821</b>	<b>453,174</b>	<b>666,092</b>
Cost of goods sold	-	-	-	-	-	-	-	-	-	23,226	36,279	54,081	79,631
<b>Gross profit</b>	<b>1,899</b>	<b>2,751</b>	<b>31,106</b>	<b>5,810</b>	<b>6,866</b>	<b>7,167</b>	<b>8,625</b>	<b>28,468</b>	<b>37,500</b>	<b>169,111</b>	<b>278,543</b>	<b>399,093</b>	<b>586,461</b>
R&D	34,886	31,279	78,224	36,467	56,944	68,218	75,000	236,629	240,000	200,000	180,000	160,000	140,000
SG&A	5,531	7,465	17,564	6,091	8,817	10,166	11,000	36,074	65,000	125,000	140,000	160,000	180,000
<b>Total operating expense</b>	<b>40,417</b>	<b>38,744</b>	<b>95,788</b>	<b>42,558</b>	<b>65,761</b>	<b>78,384</b>	<b>86,000</b>	<b>272,703</b>	<b>305,000</b>	<b>325,000</b>	<b>320,000</b>	<b>320,000</b>	<b>320,000</b>
<b>Income (loss) from operations (EBIT)</b>	<b>(38,518)</b>	<b>(35,993)</b>	<b>(64,682)</b>	<b>(36,748)</b>	<b>(58,895)</b>	<b>(71,217)</b>	<b>(77,375)</b>	<b>(244,233)</b>	<b>(267,500)</b>	<b>(155,889)</b>	<b>(41,457)</b>	<b>79,093</b>	<b>266,461</b>
Interest income (expense)	(1,514)	(5,293)	(3,900)	-	-	(33)	-	(235)	-	-	-	-	-
Other income	7,014	(12,349)	(18,595)	(4,091)	(139)	(235)	-	(4,465)	-	-	-	-	-
<b>Total other income (expense)</b>	<b>5,500</b>	<b>(17,642)</b>	<b>(22,495)</b>	<b>(4,091)</b>	<b>(139)</b>	<b>(268)</b>	<b>-</b>	<b>(4,498)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Earnings (loss) before tax (EBT)</b>	<b>(33,018)</b>	<b>(53,635)</b>	<b>(87,177)</b>	<b>(40,839)</b>	<b>(59,034)</b>	<b>(71,485)</b>	<b>(77,375)</b>	<b>(248,733)</b>	<b>(267,500)</b>	<b>(155,889)</b>	<b>(41,457)</b>	<b>79,093</b>	<b>266,461</b>
Income tax (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>NET INCOME</b>	<b>(33,018)</b>	<b>(53,635)</b>	<b>(87,177)</b>	<b>(40,839)</b>	<b>(59,034)</b>	<b>(71,485)</b>	<b>(77,375)</b>	<b>(248,733)</b>	<b>(267,500)</b>	<b>(155,889)</b>	<b>(41,457)</b>	<b>79,093</b>	<b>266,461</b>
Non-controlling Interests	-	-	44	114	224	151	-	-	-	-	-	-	-
<b>NET INCOME ATTRIBUTABLE TO CHRS</b>	<b>(33,018)</b>	<b>(53,635)</b>	<b>(87,133)</b>	<b>(40,725)</b>	<b>(58,810)</b>	<b>(71,334)</b>	<b>(77,375)</b>	<b>(248,733)</b>	<b>(267,500)</b>	<b>(155,889)</b>	<b>(41,457)</b>	<b>79,093</b>	<b>266,461</b>
<b>EPS</b>	<b>(9.51)</b>	<b>(9.66)</b>	<b>(10.64)</b>	<b>(1.22)</b>	<b>(1.56)</b>	<b>(1.86)</b>	<b>(2.01)</b>	<b>(6.73)</b>	<b>(6.45)</b>	<b>(3.30)</b>	<b>(0.83)</b>	<b>1.57</b>	<b>5.25</b>
Basic shares outstanding	3,472	5,554	8,187	33,377	37,673	38,427	38,427	36,976	41,502	47,263	50,122	50,445	50,726
FD shares outstanding	3,472	5,554	8,187	33,377	37,673	38,427	38,427	36,976	41,502	47,263	50,122	50,445	50,726
<b>Margins</b>													
Gross margin										85%	88%	88%	88%
R&D										104%	57%	35%	21%
SG&A										65%	44%	35%	27%
<b>Operating margin</b>										-81%	-13%	17%	40%
<b>Pretax margin</b>										-81%	-13%	17%	40%
Tax rate										0%	0%	0%	0%
<b>NET MARGIN</b>										-81%	-13%	17%	40%
<b>Growth Rates</b>													
Revenue		45%	1031%					-8%	32%	413%	64%	44%	47%
COGS		n/a	n/a					n/a	n/a	n/a	56%	49%	47%
Gross profit		45%	1031%					-8%	32%	351%	65%	43%	47%
R&D		-10%	150%					203%	1%	-17%	-10%	-11%	-13%
SG&A		35%	135%					105%	80%	92%	12%	14%	13%
Operating income		-4%	147%					185%	12%	7%	-2%	0%	0%
Pretax income		n/a	n/a					n/a	n/a	n/a	n/a	n/a	237%
<b>NET INCOME</b>		n/a	n/a					n/a	n/a	n/a	n/a	n/a	237%
<b>EPS</b>		n/a	n/a					n/a	n/a	n/a	n/a	n/a	235%
FD shares outstanding (sequential)		60%	47%					352%	12%	14%	6%	1%	1%

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

## 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

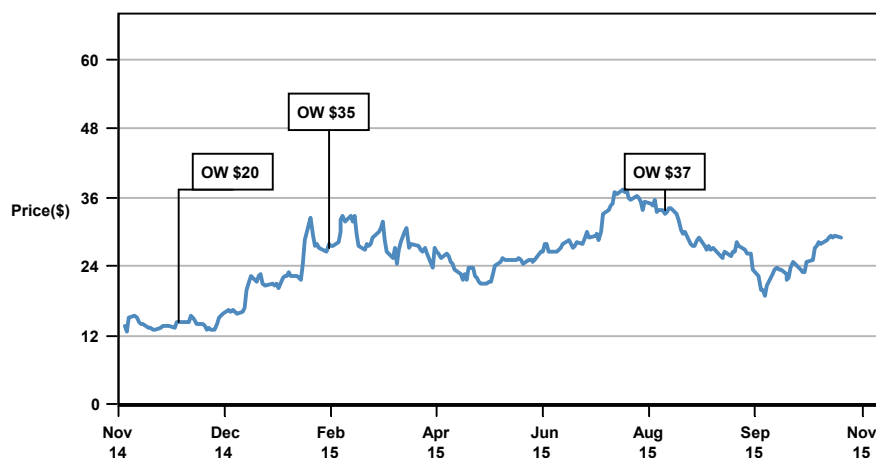
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Coherus (CHRS, CHRS US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
02-Dec-14	OW	14.14	20.00
17-Feb-15	OW	27.11	35.00
10-Aug-15	OW	33.87	37.00

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

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