

Coherus

Updating Model Post 3Q14 Results

This afternoon, Coherus reported 3Q earnings and provided an update on the development of its lead biosimilars. Importantly, the company confirmed that it will be filing CHS-1701 (biosimilar pegfilgrastim) under the FDA's 351(k) biosimilar pathway, which will likely allow the company to commercialize the product in the US without a partner. We continue to expect all three of Coherus's lead molecules to be in late-stage trials by 2015 and to potentially launch in the 2016-17 time frame. With biosimilars increasingly in focus and a highly experienced management team, we see the company as well-positioned within this emerging market. Reiterate Overweight.

- **Coherus will file CHS-1701 under the 351(k) pathway.** Management confirmed the company now plans to file CHS-1701 (biosimilar pegfilgrastim) under the FDA's 351(k) biosimilar pathway, which would only require one BLA-enabling study. The company expects to be able to execute such a study with post-IPO cash and, as a result, now plans to commercialize the product in the US without a partner. We expect Coherus to finalize the CHS-1701 development plan in 1Q15 and to initiate a BLA-enabling study in 2015.
- **We continue to expect a phase III CHS-1420 study in 1H15.** We are also expecting Coherus to start a phase III CHS-1420 (biosimilar adalimumab) study in 1H15. This positions Coherus to have full phase III data by 2016 and launch in 2017. As a reminder, we see CHS-1420 as a core value driver for the company, and we are forecasting a late-2017 launch in the US and a 2018 launch in the EU with 2025 sales expected to reach \$435 million.
- **With regards to IP, Coherus is pursuing a non-infringement based strategy.** On the call, management stated that they do not plan to launch any products in the face of substantial patents, and that Coherus plans to embrace the US biosimilar legal process and patent exchange process.

Overweight

CHRS, CHRS US

Price: \$13.78

Price Target: \$20.00

Pharmaceuticals — Major & Specialty

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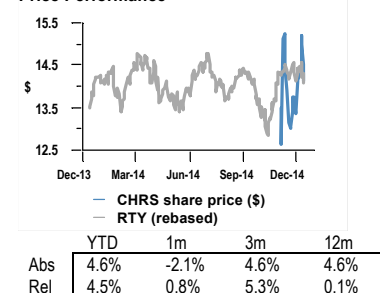
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Price Performance



Coherus BioSciences, Inc. (CHRS;CHRS US)

FYE Dec	2012A	2013A	2014E (Prev)	2014E (Curr)	2015E	2016E
EPS Adjusted (\$)						
Q1 (Mar)	-	-	-	-	-	-
Q2 (Jun)	-	-	-	-	-	-
Q3 (Sep)	-	-	-	-	-	-
Q4 (Dec)	-	-	-	-	-	-
FY	(9.51)	(9.66)	(5.62)	(5.75)	(2.98)	(3.05)

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

Company Data

Price (\$)	13.78
Date Of Price	15 Dec 14
52-week Range (\$)	16.25-12.27
Market Cap (\$ mn)	175,501.80
Fiscal Year End	Dec
Shares O/S (mn)	12,736
Price Target (\$)	20.00
Price Target End Date	31-Dec-15

See page 4 for analyst certification and important disclosures.

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Investment Thesis, Valuation and Risks

Coherus (*Overweight; Price Target: \$20.00*)

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 \$45 million in revenue by 2020, growing to roughly \$850 million by 2025.

Valuation

Maintain Dec-15 price target of \$20. Using a risk-adjusted DCF analysis, we arrive at a December 2015 price target of \$20. 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	FY13A	FY14E	FY15E	FY16E	Income Statement - Quarterly	1Q14A	2Q14A	3Q14A	4Q14E
Revenues	2,751	35,045	2,500	52,500	Revenues	-	-	-	-
Cost of products sold	0	0	0	0	Cost of products sold	-	-	-	-
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(7,465)	(15,378)	(20,000)	(75,000)	SG&A	-	-	-	-
R&D	(31,279)	(71,357)	(80,000)	(90,000)	R&D	-	-	-	-
Operating income	(35,993)	(51,690)	(97,500)	(112,500)	Operating income	-	-	-	-
Net interest (income) / expense	(5,293)	(5,400)	0	0	Net interest (income) / expense	-	-	-	-
Other income / (expense)	(12,349)	(16,132)	0	0	Other income / (expense)	-	-	-	-
Pretax income	(53,635)	(73,222)	(97,500)	(112,500)	Pretax income	-	-	-	-
Income taxes	0	0	0	0	Income taxes	0A	0A	0A	0
Net income - recurring	(53,635)	(73,222)	(97,500)	(112,500)	Net income - recurring	0A	0A	0A	0
Diluted shares outstanding	-	-	-	-	Diluted shares outstanding	-	-	-	-
EPS - excluding non-recurring	(9.66)	(5.75)	(2.98)	(3.05)	EPS - excluding non-recurring	-	-	-	-
EPS - recurring	(9.66)	(5.75)	(2.98)	(3.05)	EPS - recurring	-	-	-	-
Balance Sheet and Cash Flow Data	FY13A	FY14E	FY15E	FY16E	Ratio Analysis	FY13A	FY14E	FY15E	FY16E
Cash and cash equivalents	39,554	170,682	78,832	119,427	Sales growth	44.9%	1173.9%	(92.9%)	2000.0%
Short Term Investment	-	-	-	-	EBIT growth	(6.6%)	43.6%	88.6%	15.4%
Accounts receivable	385	407	507	5,412	EPS growth - recurring	1.5%	(40.5%)	(48.1%)	2.4%
Inventories	-	-	-	-	Gross margin	-	-	-	-
Other current assets	5,738	5,738	5,738	5,738	EBIT margin	(1308.4%)	(147.5%)	(3900.0%)	(214.3%)
Current assets	45,677	176,827	85,077	130,577	Tax rate	0.0%	0.0%	0.0%	0.0%
PP&E	1,743	1,993	2,243	2,493	Net Profit Margin	(1949.7%)	(208.9%)	(3900.0%)	(214.3%)
Total assets	47,447	178,847	87,347	133,097					
Total debt	28,454	28,454	28,454	28,454					
Total liabilities	144,524	145,222	146,222	146,222					
Shareholders' equity	(97,077)	33,625	(58,875)	(13,125)					
Net income (including charges)	(53,635)	(73,222)	(97,500)	(112,500)					
D&A	404	0	0	0					
Change in working capital	41,415	0	900	(4,905)					
Other	17,615	119,555	0	0					
Cash flow from operations	15,423	46,333	(96,600)	(117,405)					
Capex	(373)	(250)	(250)	(250)					
Free cash flow	20,343	51,483	(96,850)	(117,655)					
Cash flow from investing activities	(373)	(250)	(250)	(250)					
Cash flow from financing activities	9,956	85,000	5,000	158,250					

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

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

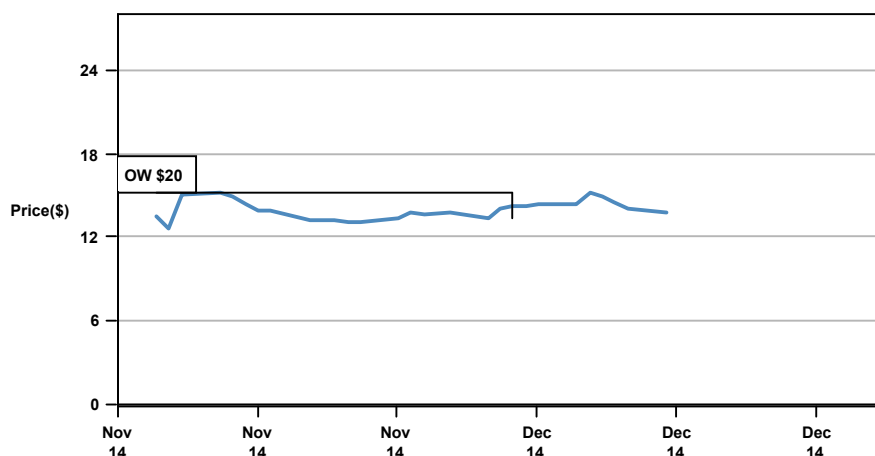
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Coherus (CHRS, CHRS US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
02-Dec-14	OW	13.37	20.00

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

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