

Ocular Therapeutix

OCUL to host Investor Day to discuss strategic priorities in 2Q

Reiterate Rating: BUY | PO: 15.00 USD | Price: 9.73 USD

Near-term focus on phase 1 Axpaxli data in NPDR

Ocular Therapeutix (OCUL) reported FY23 total revenue for Dextenza of \$58.4mn (+13% y/y), and R&D and SG&A expenses of \$61.1mn and \$74.5mn, respectively. The company highlighted recent leadership appointments to include key retinal experts to the management team and the recent \$325mn private placement (see our [Feb 22 note](#)). Importantly, the company continues to enroll patients into the phase 3 SOL-1 trial evaluating Axpaxli in wet age-related macular degeneration (wAMD) and has noted plans to initiate a second phase 3 trial in 2H. Near-term focus is on the topline readout of the phase 1 HELIOS trial evaluating Axpaxli in non-proliferative diabetic retinopathy (NPDR) expected in 2Q. The company also plans to present phase 2 results for Paxtrava in open-angle glaucoma or ocular hypertension at the upcoming American Society of Cataract and Refractive Surgery (ASCRS, April 5-8) meeting. However, management has commented the key focus for the company is on advancing Axpaxli and their retinal franchise. The company plans to host an Investor Day in 2Q to discuss the updated corporate strategy. We remain encouraged by Axpaxli's differentiated profile in wAMD given the high unmet need for novel therapies to decrease treatment burden and the large commercial opportunity (see our recent coverage [initiation report](#)) and await upcoming updates from the pipeline. In our DCF-based model, we update for FY23 results, cash and share count, and adjust our op ex estimates based on the recent trend. We reiterate our Buy with \$15 PO.

| Estimates (Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|---------|--------|--------|--------|--------|
| EPS | (0.86) | (0.94) | (0.70) | (0.70) | (0.64) |
| GAAP EPS | (0.92) | (1.01) | (0.62) | (0.61) | (0.57) |
| EPS Change (YoY) | -975.0% | -9.3% | 25.5% | 0% | 8.6% |
| Consensus EPS (Bloomberg) | | | (0.88) | (0.79) | (0.54) |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Valuation (Dec) | | | | | |
| EV / EBITDA* | NM | NM | NM | 0.4x | 0.4x |
| Free Cash Flow Yield* | 0.5% | 0.3% | 0.2% | 0.4% | 0.5% |

* For full definitions of *IQmethod*SM measures, see page 4.

11 March 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|-----------|----------|---------|
| 2024E EPS | -0.83 | -0.70 |
| 2025E EPS | -0.83 | -0.70 |
| 2026E EPS | -0.80 | -0.64 |

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Stock Data

| | |
|---------------------------------|----------------------|
| Price | 9.73 USD |
| Price Objective | 15.00 USD |
| Date Established | 9-Feb-2024 |
| Investment Opinion | C-1-9 |
| 52-Week Range | 2.00 USD - 11.31 USD |
| Mrkt Val (mn) / Shares Out (mn) | 1,446 USD / 148.6 |
| Free Float | 96.7% |
| Average Daily Value (mn) | 23.31 USD |
| BofA Ticker / Exchange | OCUL / NAS |
| Bloomberg / Reuters | OCUL US / OCULOQ |
| ROE (2024E) | -53.0% |
| Net Dbt to Eqty (Dec-2023A) | -207.3% |

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Timestamp: 11 March 2024 06:42PM EDT

iQprofileSM Ocular Therapeutix

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|---------|---------|---------|---------|--------|
| Return on Capital Employed | -47.3% | -42.1% | -24.8% | -20.7% | -21.1% |
| Return on Equity | -115.2% | -127.6% | -53.0% | -39.8% | -40.8% |
| Operating Margin | -152.7% | -141.0% | -130.6% | -107.7% | -84.4% |
| Free Cash Flow | 8 | 4 | 3 | 5 | 7 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|---------|---------|---------|---------|---------|
| Cash Realization Ratio | NM | NM | NM | NM | NM |
| Asset Replacement Ratio | 1.2x | 2.0x | 2.2x | 0x | 0x |
| Tax Rate | NM | NM | NM | NM | NM |
| Net Debt-to-Equity Ratio | -264.6% | -207.3% | -126.1% | -128.6% | -116.3% |
| Interest Cover | -11.2x | -7.3x | -7.9x | -7.6x | -7.3x |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|----------------|---------------|---------------|--------------|--------------|
| Sales | 51 | 58 | 72 | 87 | 110 |
| % Change | 18.3% | 13.5% | 22.6% | 21.4% | 26.4% |
| Gross Profit | 47 | 53 | 65 | 78 | 99 |
| % Change | 20.0% | 13.2% | 21.5% | 21.4% | 26.4% |
| EBITDA | (76) | (79) | (91) | 2,889 | 2,890 |
| % Change | -0.1% | -4.9% | -14.1% | NM | 0% |
| Net Interest & Other Income | 8 | 2 | (13) | (13) | (13) |
| Net Income (Adjusted) | (71) | (81) | (106) | (107) | (106) |
| % Change | -984.1% | -13.7% | -31.7% | -0.3% | 0.5% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|-----------|---------------|---------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | (79) | (82) | (94) | (94) | (93) |
| Depreciation & Amortization | 3 | 3 | 3 | 2,983 | 2,983 |
| Change in Working Capital | 1 | (7) | (7) | (7) | (7) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 86 | 97 | 107 | (2,869) | (2,867) |
| Capital Expenditure | (4) | (6) | (7) | (7) | (8) |
| Free Cash Flow | 8 | 4 | 3 | 5 | 7 |
| % Change | NM | -42.8% | -25.0% | 64.8% | 37.4% |
| Share / Issue Repurchase | NA | NA | NA | NA | NA |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | 0 | 0 | 0 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|------------|------------|------------|------------|------------|
| Cash & Equivalents | 102 | 196 | 399 | 298 | 350 |
| Trade Receivables | 21 | 26 | 31 | 37 | 42 |
| Other Current Assets | 6 | 10 | 14 | 19 | 24 |
| Property, Plant & Equipment | 10 | 12 | 15 | 20 | 25 |
| Other Non-Current Assets | 10 | 8 | 8 | 8 | 8 |
| Total Assets | 149 | 252 | 468 | 381 | 449 |
| Short-Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other Current Liabilities | 31 | 35 | 36 | 38 | 40 |
| Long-Term Debt | 9 | 7 | 7 | 8 | 8 |
| Other Non-Current Liabilities | 74 | 119 | 114 | 110 | 107 |
| Total Liabilities | 114 | 161 | 158 | 156 | 155 |
| Total Equity | 35 | 91 | 310 | 226 | 294 |
| Total Equity & Liabilities | 149 | 252 | 468 | 382 | 449 |

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Biotechnology

Company Description

Ocular Therapeutix is a commercial-stage biotechnology company focusing on developing extended-release therapies for ophthalmic indications. Its lead asset is Apxali, an intravitreal insert for long-term sustained delivery of axitinib, with potential in wet age-related macular degeneration (wAMD) currently in phase 3. The company also has an approved product, Dextenza, and has programs in diabetic retinopathy, glaucoma and dry eye disease.

Investment Rationale

We rate OCUL at Buy. We think the extended-release delivery platform in different ophthalmic indication has potential to be differentiated. View Apxali's data in wAMD as differentiated and suggesting potential to decrease high treatment burden, which could represent an attractive commercial opportunity given this wAMD is a large market. The company also has an FDA-approved product, Dextenza, which represents a modest commercial opportunity and additional shots on goal in other eye indications.

Stock Data

Average Daily Volume 2,395,708

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|--------|--------|
| Q1 | -0.39A | -0.20E |
| Q2 | -0.26A | -0.15E |
| Q3 | -0.01A | -0.16E |
| Q4 | -0.32A | -0.20E |

Price objective basis & risk

Ocular Therapeutix (OCUL)

Our \$15 PO is based on a probability adjusted net present value analysis. Our valuation consists of \$11/sh for Axpaxli in wAMD, \$3/sh for Dextenza in post-cataract surgery pain and \$1/sh for pipeline and cash. Our DCF-based model goes out to 2040. We assume 9% WACC for Dextenza, 10% WCC for Axpaxli and 14% WACC for pipeline. We assume no terminal value.

Upside risks to our PO are: 1) positive clinical data from the phase 3 program of Axpaxli, 2) positive clinical data for programs in the pipeline, and 3) better than expected market penetration of Dextenza.

Downside risks to our PO are: 1) slow than expected enrollment in the phase 3 program of Axpaxli, 2) negative results from ongoing clinical trials, 3) unexpected safety signals resulting from the use of intraocular inserts, and 4) increasing competitive pressure from other extended-release inserts or gene therapies in wAMD.

Analyst Certification

I, Tazeen Ahmad, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Biotechnology Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|---------------------------------|-------------|------------------|--------------|
| BUY | | | | |
| | 4D Molecular Therapeutics, Inc. | FDMT | FDMT US | Tazeen Ahmad |
| | Alnylam Pharmaceuticals | ALNY | ALNY US | Tazeen Ahmad |
| | Amicus Therapeutics | FOLD | FOLD US | Tazeen Ahmad |
| | Annexon Biosciences | ANNX | ANNX US | Tazeen Ahmad |
| | Apellis Pharmaceuticals | APLS | APLS US | Tazeen Ahmad |
| | Argenx SE | ARGX | ARGX US | Tazeen Ahmad |
| | Arvinas | ARVN | ARVN US | Tazeen Ahmad |
| | Ascendis Pharma | ASND | ASND US | Tazeen Ahmad |
| | Biocryst Pharmaceuticals Inc | BCRX | BCRX US | Tazeen Ahmad |
| | BioNTech | BNTX | BNTX US | Tazeen Ahmad |
| | Denali Therapeutics | DNLI | DNLI US | Tazeen Ahmad |
| | Inozyme Pharma, Inc. | INZY | INZY US | Tazeen Ahmad |
| | Merus | MRUS | MRUS US | Tazeen Ahmad |
| | Neurocrine Biosciences | NBIX | NBIX US | Tazeen Ahmad |
| | Ocular Therapeutix | OCUL | OCUL US | Tazeen Ahmad |
| | PepGen Inc | PEPG | PEPG US | Tazeen Ahmad |
| | Rhythm Pharmaceuticals | RYTM | RYTM US | Tazeen Ahmad |
| | Sarepta Therapeutics | SRPT | SRPT US | Tazeen Ahmad |
| | Ultragenyx Pharmaceuticals | RARE | RARE US | Tazeen Ahmad |
| NEUTRAL | | | | |
| | Acadia Pharmaceuticals | ACAD | ACAD US | Tazeen Ahmad |
| | Incyte Corporation | INCY | INCY US | Tazeen Ahmad |
| | Prothena Corporation | PRTA | PRTA US | Tazeen Ahmad |
| | SAGE Therapeutics | SAGE | SAGE US | Tazeen Ahmad |
| UNDERPERFORM | | | | |
| | Achilles Therapeutics | ACHL | ACHL US | Tazeen Ahmad |



US - Biotechnology Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|----------------------|-------------|------------------|--------------|
| | Fate Therapeutics | FATE | FATE US | Tazeen Ahmad |
| | Fulcrum Therapeutics | FULC | FULC US | Tazeen Ahmad |
| | Pharvaris | PHVS | PHVS US | Tazeen Ahmad |
| | PTC Therapeutics | PTCT | PTCT US | Tazeen Ahmad |

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

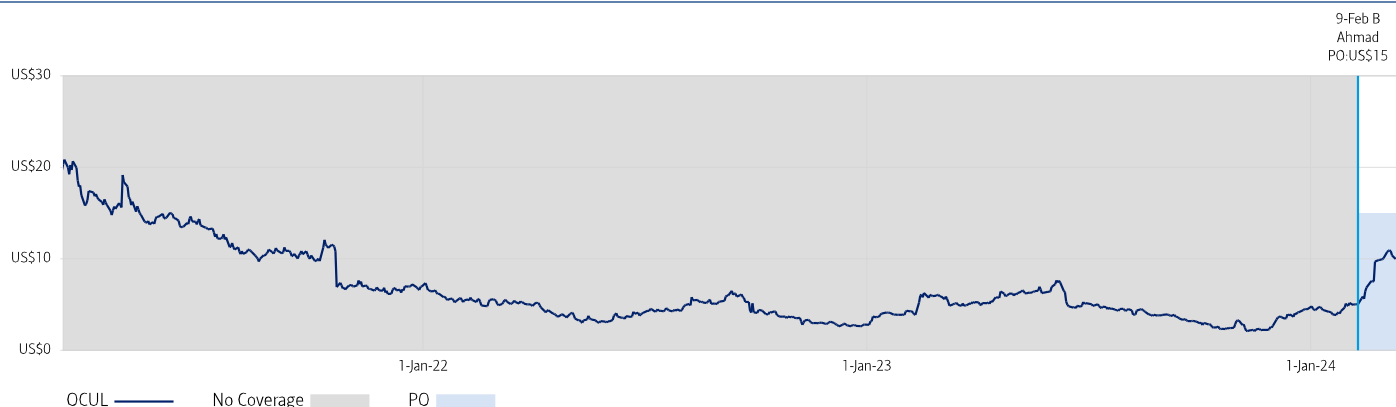
Sales

Basic EBIT + Depreciation + Amortization

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Disclosures**Important Disclosures****Ocular (OCUL) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 234 | 60.94% | Buy | 115 | 49.15% |
| Hold | 80 | 20.83% | Hold | 36 | 45.00% |
| Sell | 70 | 18.23% | Sell | 29 | 41.43% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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