

Vertex Pharmaceuticals Inc.

Initial Thoughts on 4Q23 Earnings

Maintain Rating: BUY | PO: 540.00 USD | Price: 428.89 USD

Robust guidance positions 2024 as a year of growth

Vertex had a strong 4Q, with outperformance on both the top- (revenue: \$2.5B, +\$8M), and bottom-line (\$4.20, +\$0.11) driven by Trikafta (\$2.3B; +\$22M) offsetting the other Cystic fibrosis (CF) revenue declines (\$184M; -\$18M). That said, we'd say investors are more focused on **1)** the strong pivotal results for its next-generation triple, for Cystic fibrosis (CF) and regulatory submission timeline of mid-2024, and **2)** 2024 CF revenue guidance of \$10.65B at the midpoint (BofA \$10.7B, cons \$10.6B). We expect investors will find this set up favorable, even with Vertex's 2025E P/E multiple of >20x, and believe there's potential for beat/ raises throughout 2024. Moreover, the guidance points to 2024 being a year of clinical + commercial execution, which makes sense based on Vertex's new product cycle. We maintain Buy rating and our \$540 PO as Vertex's new product cycle creates a dynamic new story, particularly following the pivotal results for VX-548 in acute pain (see [our thoughts on the results here](#); plans to submit NDA by mid 2024) that is supported by strong revenue from its core CF business.

2024 to be a year of clinical + commercial execution

Today's results for vanzacaftor in CF were a major positive, in our view, showing not only superior sweat chloride levels but also non-inferior ppFEV1 compared to Trikafta. On the call, we expect questions on commercial impact of the clinical differentiation. Notably, management also pointed to the ongoing exa-cel launch, in partnership with CRISPR, as making good progress (12 ATCs from 9 in early January), but based on our channel checks with prescribers + our discussions with management, we expect revenue to be weighted to 2H24 given the patient journey (see [our thoughts on Casgevy's approval here](#)). Vertex's call is TODAY at 4:30 PM ET. Public dial-in: (833) 630-2124 (US).

Exhibit 1: VRTX 4Q23 Variance Analysis

We're highlighting 4Q performance and 2024 guidance across Vertex's key products / metrics

\$ in millions	4Q23 Performance			4Q23 Growth		4Q23 Variance	
	4Q23A	vs. Cons	BofA	Consensus	Q/Q	Y/Y	BofA
Other CF products	\$184	MISS	\$212	\$202	(12.0%)	(34.5%)	(\$28)
Trikafta	\$2,333	BEAT	\$2,355	\$2,311	2.6%	15.5%	(\$22)
Total Product Revs	\$2,518	BEAT	\$2,567	\$2,510	1.4%	9.4%	(\$50)
COGS	\$364		\$301	\$299	14.8%	29.6%	\$63
R&D	\$699		\$728	\$727	(3.7%)	12.1%	(\$29)
SG&A	\$286		\$219	\$232	32.4%	26.6%	\$66
Net Income	\$1,097		\$1,049	\$1,067	3.1%	12.1%	\$47
Non-GAAP EPS	\$4.20	BEAT	\$4.03	\$4.09	2.9%	11.8%	\$0.17
2024 Guidance	2024E			Growth		Midpoint Variance	
	Low	High	BofA	Consensus	Y/Y	BofA	Consensus
Total CF Revenue (\$M)	10,550	10,750	ABOVE	9,919	9,859	8%	731
Non-GAAP OpEx (\$M)	4,300	4,400	ABOVE	3,678	3,717	3%	672
Non-GAAP Tax Rate	20.0%	21.0%	In-line	20.8%	20.6%	6%	-29 bps

Source: BofA Global Research, Bloomberg, Company reports, Visible Alpha

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Stock Data

Price	428.89 USD
Price Objective	540.00 USD
Date Established	26-Jan-2024
Investment Opinion	B-1-9
52-Week Range	283.60 USD - 448.40 USD
Mkt Val (mn) / Shares Out (mn)	111,769 USD / 260.6
Free Float	99.8%
Average Daily Value (mn)	573.24 USD
BofA Ticker / Exchange	VRTX / NAS
Bloomberg / Reuters	VRTX US / VRTX.OQ
ROE (2023E)	24.5%
Net Dbt to Eqty (Dec-2022A)	-77.5%
ESGMeter™	High

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Abbreviations:

ATC: authorized treatment centers

NDA: new drug application

Price objective basis & risk

Vertex Pharmaceuticals Inc. (VRTX)

Our 12-month price objective for Vertex of \$540/share is based on our net present value (NPV) analysis. We forecast sales for each of the approved products, Kalydeco, Orkambi, Symdeko, and Trikafta through 2030. We assume a weighted-average cost of capital (WACC) of 9%, in line with peer companies of similar size and risk and varying terminal growth rates for each asset based on its characteristics and patent life (-50% to 2%). Given these assumptions, we estimate a value of \$3/share for Kalydeco, \$1/share for Orkambi, \$0/share for Symdeko, \$399/share for Trikafta, \$18/share for Casgevy, \$8/share for VX-548, \$57/sh for vanzacaftor, \$46/share in net cash, and \$8/share for the pipeline.

Risks to our price objective are 1) payer pushback on pricing, 2) difficulty in securing reimbursement agreements, particularly in the EU, 3) clinical trial failures, and 4) new competitors in cystic fibrosis.

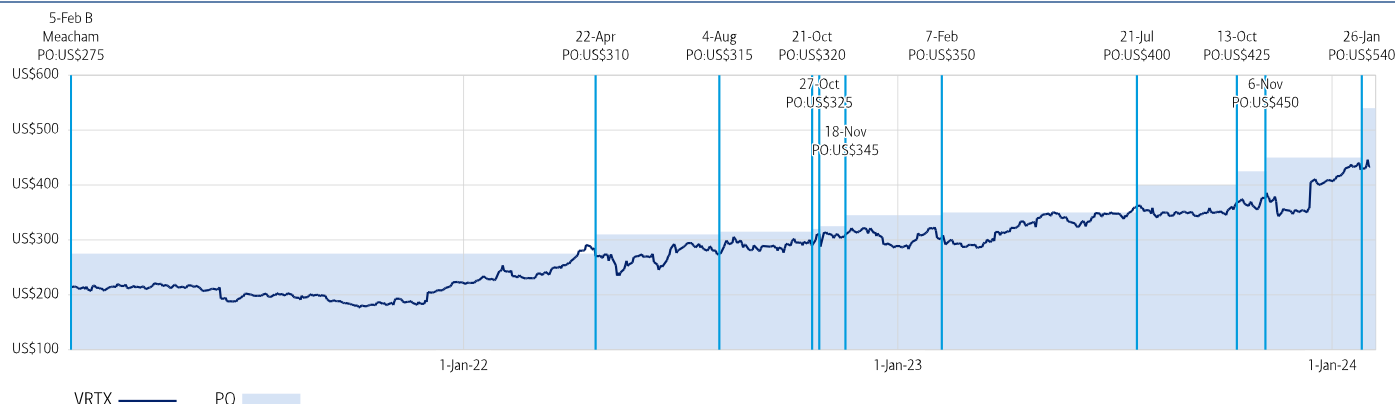
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Vertex Pharmaceutica (VRTX) Price Chart



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

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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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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