

Vertex Pharmaceuticals Inc.

Our Conference Takeaways

Maintain Rating: BUY | PO: 450.00 USD | Price: 416.50 USD

New product cycle in focus, but CF remains the anchor

We wouldn't say that Vertex provided a meaningfully different picture of its Cystic fibrosis (CF) franchise or new product pipeline during the competitor conference, but management did a good job highlighting its many growth opportunities, which differentiates it versus Biopharma peers. Indeed, Vertex's new product cycle has been in acute focus for some time and management has made impressive progress, as demonstrated by VRTX share strength in 2023 (+41% versus NBI index: +4%). Nevertheless, investors have been skeptical on the potential for continued outperformance as there's only a few impactful catalysts expected in 2024: 1) the three phase 3 results for VX-548, the Nav1.8 inhibitor, in acute pain, reaffirmed for early 2024, 2) phase 3 results for next-generation CF triple, vanzacaftor, reaffirmed for early 2024, and 3) launch of Casgevy, in partnership with CRISPR, for Sickle cell disease (SCD) + Transfusion-dependent beta-thalassemia (TDT; PDUFA March 30th, 2024). That said, we continue to think the Vertex story is quite dynamic, with room for strength based on revenue growth acceleration in 2025+ attributed to the new product cycle (five launches over five years) and portfolio diversification with new therapeutic areas (e.g., SCD/ TDT and pain). In addition, Vertex's robust core CF business should continue to drive its P&L in the near-term, providing a platform for which management can continue investing in a broad range of R&D programs to drive further shareholder value (e.g., VX-522 in "X-mutation" CF and VX-670 for DM1). Ultimately, we continue to think the risk/ reward for Vertex looks promising at current levels and maintain our Buy rating and \$450 PO.

R&D strategy and commercial execution in focus

While there's been investor concerns on the potential for growth of Vertex's CF franchise, we though management robustly defended its strategy, highlighting not only that the number of patients living with CF is larger than expected (92k from 88k), but also the ability of vanzacaftor to drive further penetration through improved efficacy + convenience. Vertex also focused on the launch trajectory for Casgevy, highlighting more favorable epidemiology (30k from 25K for SCD; 7k from 5k for TDT) and an agreement with Synergie Medication Collective (covers 100M people) to provide access to Casgevy. That said, we still expect the launch to take time to inflect, particularly given the busulfan conditioning regimen. On pain, Vertex remains confident in positive phase 3 results for its acute pain program (recall we think a recapitulation of the phase 2 results will be a homerun) with VX-548 likely a second line asset behind anti-inflammatory/ analgesics, but before opioids, which makes sense based on our channel checks.

Thesis impact

Overall, we'd characterize the presentation impact as incremental to our thesis, with investor focus remaining on "what's the encore to CF", even though we expect Vertex's P&L to be driven by CF in the near-term. Moreover, while we suspect Vertex will have >\$15B in cash by 2023e, based on precedent and today's comments, we don't expect Vertex to invest in M&A, but rather its range of R&D programs which remain underappreciated by the Street, in our view. See: [our 2024 Company Profiles](#).

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Timestamp: 08 January 2024 12:09PM EST

08 January 2024

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Stock Data

Price	416.50 USD
Price Objective	450.00 USD
Date Established	6-Nov-2023
Investment Opinion	B-1-9
52-Week Range	282.21 USD - 418.71 USD
Mkrt Val (mn) / Shares Out (mn)	108,540 USD / 260.6
Free Float	99.8%
Average Daily Value (mn)	602.02 USD
BofA Ticker / Exchange	VRTX / NAS
Bloomberg / Reuters	VRTX US / VRTX.OQ
ROE (2023E)	24.4%
Net Dbt to Eqty (Dec-2022A)	-77.5%
ESGMeter™	High

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Abbreviations:

CF: Cystic fibrosis
PDUFA: Prescription Drug User Fee Act
AMKD: APOL1-mediated kidney disease
T1D: Type 1 diabetes
R&D: Research and development
M&A: Mergers and acquisitions
DM1: Myotonic Dystrophy Type 1
TAM: total addressable market

Price objective basis & risk

Vertex Pharmaceuticals Inc. (VRTX)

Our 12-month price objective for Vertex of \$450/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 \$4/share for Kalydeco, \$2/share for Orkambi, \$0/share for Symdeko, \$335/share for Trikafta, \$31/share for CTX001, \$17/share for VX-548, \$46/share in net cash, and \$15/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.

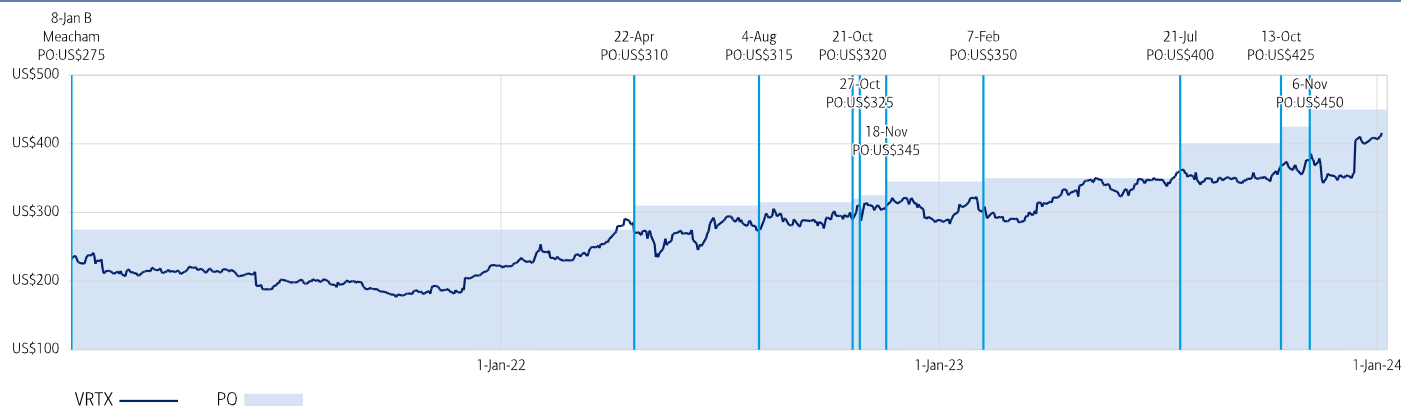
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Vertex Pharmaceutica (VRTX) Price Chart



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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
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