

Rhythm Pharmaceuticals

Takeaways from our dinner with RYTM mgmt; Reiterate Buy

Reiterate Rating: BUY | PO: 49.00 USD | Price: 43.42 USD

4Q rev impacted by Medicaid policy changes in 1 state

We hosted RYTM mgmt (incl. CEO, CFO) to discuss 4Q earnings and 2024 company outlook. RYTM reported 4Q Imcivree sales of \$24.2mn (+8% q/q) citing >100 new BBS prescriptions and >70 positive reimbursement decisions for the quarter. Mgmt highlighted 4Q revenue impacts of a ~\$2mn decrease due to a single state changing their Medicaid Imcivree coverage policy to now require an ophthalmology consult to confirm BBS diagnosis. As such, 30 pts stopped commercial Imcivree early in 4Q and were placed in the company's bridging program (free drug) until coverage issues can be sorted. We note the policy change was due to a higher than expected BBS prevalence in that state resulting in Imcivree spend going over the payer's budget. RYTM stresses the situation was unique to this state and does not expect policy impact for other states. Mgmt did not provide guidance on when to expect resolution but commented they continue to expect strong growth in 2024 despite this headwind. We slightly lower our FY24 Imcivree estimates to \$149mn (prev. \$155mn) but note improved payer dynamics could provide upside to our estimates. We reiterate our Buy with \$49 PO.

Topline ph 3 HO data expected in 1H25

RYTM highlighted the ph 3 study evaluating setmelanotide in HO has completed enrollment with topline data expected in 1H25. Recall, our KOLs were particularly impressed with the 25.5% weight loss reduction seeing the 1-yr LTE HO study considering it a significant improvement over GLP-1 combo (<13%) and single agent (<10%) options. Given the available data, they would offer setmelanotide to 100% of their HO pts. However, we continue expect patient access to be the biggest hurdle for uptake given KOL feedback on Imcivree coverage challenges. Other catalysts include: 1) initiate 2 ph 2 studies for LB54640 (oral MC4R agonist) in HO and PPL later this year, 2) initiate a ph 1 finding dose study for RM-718 (weekly injectable MC4R agonist) in 1H, 3) submit sNDA for Imcivree usage in 2-6-yr-old BBS and PPL pts in 1H, 4) ph 2 DAYBREAK stage 2 data in 2H, and 5) complete enrollment in 2 or more EMANATE cohorts in 2H.

Changes to our DCF-based model

We roll the quarter, update for 4Q results, cash and share count, and tweak our op ex estimates in line with guidance. We also add Japan territory value for Imcivree in HO given company alignment with the PDMA to add a 12 pt Japanese cohort to the ongoing ph 3 HO study to support a bid for approval. We initially model 5K pts (mgmt estimates 5-8K pts), 35% peak penetration, 50% discount to US annual price, and a 50% LoS with similar compliance (10%) and dropout dynamics to the US (yearly 5% step-up to 25%).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(3.47)	(3.20)	(4.25)	(0.66)	2.88
EPS Change (YoY)	-147.9%	7.8%	-32.8%	84.5%	NM
Consensus EPS (Bloomberg)			(3.83)	(2.15)	(0.32)
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	NM	15.1x
EV / EBITDA*	NM	NM	NM	NM	13.4x
Free Cash Flow Yield*	-6.7%	-6.3%	-9.0%	-1.4%	17.7%

* For full definitions of *IQmethod*SM measures, see page 5.

01 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	155.3	149.1
2025E Rev (m)	291.6	308.0
2026E Rev (m)	NA	593.5
2024E EPS	-2.25	-4.25
2025E EPS	-0.35	-0.66
2026E EPS	NA	2.88

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Stock Data

Price	43.42 USD
Price Objective	49.00 USD
Date Established	11-Jan-2024
Investment Opinion	C-1-9
52-Week Range	15.50 USD - 52.57 USD
Mkt Val (mn) / Shares Out (mn)	2,599 USD / 59.8
Free Float	99.2%
Average Daily Value (mn)	27.69 USD
BofA Ticker / Exchange	RYTM / NAS
Bloomberg / Reuters	RYTM US / RYTM.OQ
ROE (2024E)	-212.5%
Net Dbt to Eqty (Dec-2023A)	-81.4%
ESGMeter TM	Medium

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Timestamp: 01 March 2024 06:34AM EST

See page 3 for abbreviations

iQprofileSM Rhythm Pharmaceuticals

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-50.1%	-50.2%	-117.3%	-23.7%	48.8%
Return on Equity	-66.0%	-73.5%	-212.5%	-50.3%	69.2%
Operating Margin	-1,101.1%	-238.1%	-177.6%	-14.2%	33.0%
Free Cash Flow	(174)	(163)	(235)	(37)	460

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	2.4x
Asset Replacement Ratio	0.2x	10.0x	10.0x	10.0x	10.0x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-18.6%	-81.4%	261.0%	-55.7%	-135.2%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	17	77	149	308	593
% Change	435.3%	358.6%	92.6%	106.5%	92.7%
Gross Profit	15	68	133	274	528
% Change	477.3%	361.8%	94.8%	106.5%	92.7%
EBITDA	(181)	(185)	(265)	(44)	195
% Change	-5.6%	-2.2%	-43.5%	83.3%	NM
Net Interest & Other Income	(2)	0	0	0	0
Net Income (Adjusted)	(181)	(185)	(264)	(43)	196
% Change	-160.2%	-2.0%	-43.2%	83.7%	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(181)	(184)	(264)	(43)	196
Depreciation & Amortization	2	1	1	1	1
Change in Working Capital	(20)	(7)	(3)	(32)	219
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	26	33	37	43	50
Capital Expenditure	0	(5)	(5)	(5)	(5)
Free Cash Flow	-174	-163	-235	-37	460
% Change	-18.6%	6.2%	-44.1%	84.4%	NM
Share / Issue Repurchase	204	125	0	150	0
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	128	272	50	168	629
Trade Receivables	6	11	20	52	116
Other Current Assets	220	46	50	81	148
Property, Plant & Equipment	2	17	21	26	30
Other Non-Current Assets	26	16	16	16	16
Total Assets	383	361	157	343	939
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	40	45	68	104	454
Long-Term Debt	78	78	78	78	78
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Total Liabilities	118	124	146	182	532
Total Equity	264	238	11	161	407
Total Equity & Liabilities	383	361	157	343	939

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Biotechnology

Company Description

Rhythm Pharmaceuticals is a biopharma company focused on developing and commercializing peptides for treatment of rare genetic metabolic disorders. Lead asset Imcivree (setmelanotide) is approved in POMC/PSCK1 and LepR deficiency obesities and Bardet-Biedl syndrome and is in late-stage development for multiple additional rare genetic diseases causing early-onset obesity.

Investment Rationale

We rate RYTM shares Buy. We believe that RYTM's lead asset, Imcivree, will address a severe unmet need in rare forms of early-onset obesity caused by genetic mutations. While launch in initial indications was slow given the limited number of patients, we see a larger market opportunity as the company expands to other indications including Bardet-Biedl syndrome. We look for signs of commercial sustainability as the launch progresses and potential impact from next-gen obesity drugs.

Stock Data

Average Daily Volume 637,684

Quarterly Earnings Estimates

	2023	2024
Q1	-0.92A	-2.39E
Q2	-0.82A	-0.73E
Q3	-0.76A	-0.70E
Q4	-0.70A	-0.61E

Abbreviations

BBS: Bardet-Biedl syndrome

CEO: Chief Executive Officer

CFO: Chief Financial Officer

GLP-1: glucagon-like peptide 1

HO: hypothalamic obesity

KOL: key opinion leader

LoS: likelihood-of-success

LTE: long-term extension

MC4R: melanocortin 4 receptor

Mgmt: management

PDMA: Pharmaceuticals and Medical Devices Agency

Ph: phase

PPL: POMC (proopiomelanocortin), PCSK1 (proprotein convertase subtilisin/kexin type 1) and LepR (leptin receptor) rare obesities

Pts: patients

sNDA: supplemental New Drug Application

Price objective basis & risk

Rhythm Pharmaceuticals (RYTM)

Our DCF-derived PO of \$49/share includes \$26/share for Imcivree (setmelanotide) for treatment of POMC null, leptin receptor deficiency (LepR), Bardet-Biedl syndrome (BBS) and basket indication, and \$18/sh for hypothalamic obesity (HO). We use a 14% WACC on pipeline expenses, 11% on basket and HO, and 9% in approved indications including PPL deficiency and BBS. We assume no terminal value, consistent with other companies under coverage. The remainder of our valuation is cash and pipeline.

Downside risks to our price objective and estimates are unsuccessful clinical trials, lower-than-expected diagnosis rate, higher-than-expected operating costs, lower-than-expected market penetration, potential for dilutive cash raises in the future and any unexpected management changes.

Upside risks are faster-than-anticipated commercial uptake and progress in additional genetic obesity indications.

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
	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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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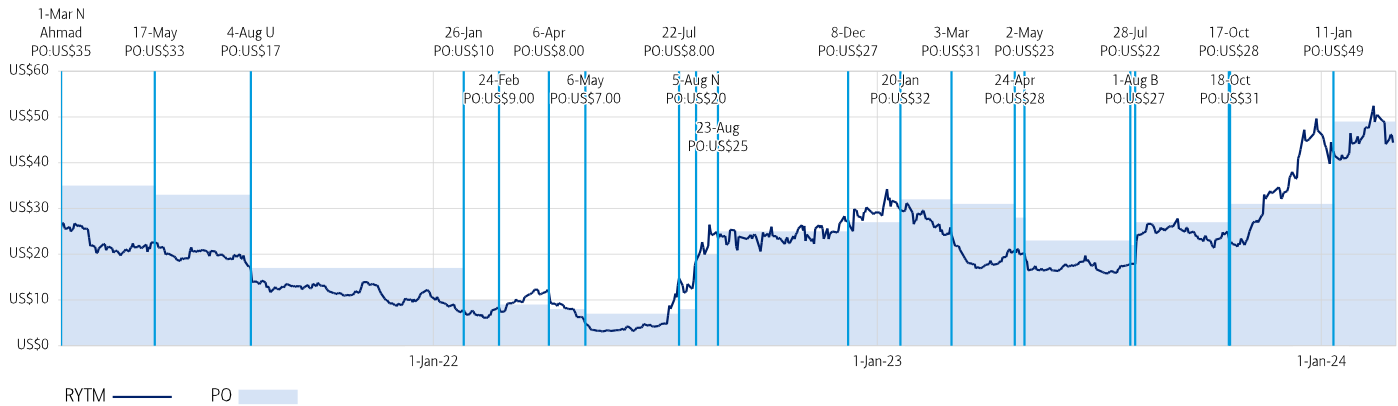
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Rhythm Pharmaceu (RYTM) Price Chart



RYTM — PO ■■■■
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)

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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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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