

## Exelixis

# 4Q: uneventful quarter not a surprise following pre-announcement in Jan

Reiterate Rating: BUY | PO: 27.00 USD | Price: 21.83 USD

## 4Q: no new update; outcome on Cabo IP dispute in 1H24E

Exelixis's (EXEL) reported an in-line 4Q print after the company previously pre-announced preliminary quarterly results and provided FY24 guidance in early January. There were no pipeline updates offered on the call and EXEL continues to expect to file cabo sNDA label expansion submissions in NET and prostate in 2024E, while exact timing for new zanza data updates remain TBD. Model wise, we tweak EPS<sub>e</sub> based on 4Q print. Near term, the key stock catalyst remains cabo IP dispute resolution (vs. MSN), with post-trial briefs due Feb 20<sup>th</sup> followed by trial ruling (expected 1H / Spring). We reiterate Buy on EXEL on upside potential from resolution of Cabo IP.

## Management provided added color on Cabo outlook in '24

EXEL reaffirmed FY24E guidance provided in early January. On pricing, EXEL expects Cabo gross-to-net discount (GTN) to be around 30% for FY24E vs seasonally higher discount in 1Q24. EXEL continues to expect clinical trial sales to be choppy between quarters in FY24 similar to prior years. Lastly, EXEL noted Cabo inventory increased by ~1000 units around YE23 and partial inventory drawdown in the first few weeks of Jan.

## Cabo prostate an area of focus on conference call

Management fielded several questions on EXEL's cabo mCRPC/prostate Ph3 data (post-one line of NHT) recently presented at ASCO GU. Following the data presentation, the discussant raised questions on the choice of control arm between second NHT (used in CONTACT-02) and chemotherapy (discussant's view of standard of care in that setting). EXEL noted the company had worked with regulators and KOLs in the field to finalize the trial design of CONTACT-02, and that the trial design is relevant to current treatment algorithm, given atezo/cabo reflects an option for patients who prefer a non-chemo option or are not eligible for chemo as well as patients who have progressed on chemo (~25% of CONTACT-02 enrollees). On possible treatment sequencing of CONTACT-02 vs chemo and radio-agents, EXEL noted the market is large enough to accommodate multiple players, citing ~50% of real-world patients have already been exposed to one NHT prior to 1L castrate-resistant setting.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.82	0.90	1.29	1.61	2.10
GAAP EPS	0.56	0.65	1.06	1.38	1.87
EPS Change (YoY)	-18.8%	9.8%	43.3%	24.8%	30.4%
Consensus EPS (Bloomberg)			1.39	1.73	2.29
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	26.6x	24.3x	16.9x	13.6x	10.4x
GAAP P/E	39.0x	33.6x	20.6x	15.8x	11.7x
EV / EBITDA*	16.1x	17.9x	9.7x	7.6x	5.8x
Free Cash Flow Yield*	4.5%	4.5%	6.1%	8.0%	10.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

06 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
2024E EPS	1.28	1.29
2025E EPS	1.60	1.61
2026E EPS	2.08	2.10

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### Stock Data

Price	21.83 USD
Price Objective	27.00 USD
Date Established	12-Oct-2023
Investment Opinion	B-1-9
52-Week Range	16.15 USD - 24.34 USD
Mkt Val (mn) / Shares Out (mn)	6,619 USD / 303.2
Free Float	97.4%
Average Daily Value (mn)	44.45 USD
BofA Ticker / Exchange	EXEL / NAS
Bloomberg / Reuters	EXEL US / EXELOQ
ROE (2024E)	13.6%
Net Dbt to Eqty (Dec-2023A)	-45.7%
ESGMeter <sup>TM</sup>	Medium

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NET: neuroendocrine tumors  
sNDA: supplemental new drug application  
IP: intellectual property, MSN: MSN Lab  
TBD: to be determined, ASCO GU: medical meeting  
NHT: novel hormonal therapy  
KOL: oncologist experts, 1L: front-line

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Timestamp: 06 February 2024 08:26PM EST

# iQprofile<sup>SM</sup> Exelixis

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.9%	10.4%	13.2%	14.3%	16.0%
Return on Equity	11.2%	10.8%	13.6%	14.7%	16.4%
Operating Margin	19.2%	15.1%	27.1%	31.9%	38.6%
Free Cash Flow	295	299	406	526	696

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.0x	1.0x	1.0x
Asset Replacement Ratio	NA	NA	NA	NA	NA
Tax Rate	22.4%	20.5%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	-39.0%	-45.7%	-52.2%	-58.6%	-64.7%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,611	1,830	1,897	2,041	2,227
% Change	12.3%	13.6%	3.7%	7.6%	9.1%
Gross Profit	1,553	1,758	1,815	1,952	2,130
% Change	12.4%	13.2%	3.2%	7.6%	9.1%
EBITDA	309	277	515	652	860
% Change	-24.0%	-10.3%	85.6%	26.7%	32.0%
Net Interest & Other Income	33	87	18	21	25
<b>Net Income (Adjusted)</b>	<b>265</b>	<b>289</b>	<b>420</b>	<b>532</b>	<b>700</b>
<b>% Change</b>	<b>-18.1%</b>	<b>9.0%</b>	<b>45.3%</b>	<b>26.5%</b>	<b>31.6%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	265	289	420	532	700
Depreciation & Amortization	0	0	0	0	0
Change in Working Capital	12	(7)	(33)	(23)	(33)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	34	35	36	36	36
Capital Expenditure	(16)	(18)	(17)	(18)	(7)
<b>Free Cash Flow</b>	<b>295</b>	<b>299</b>	<b>406</b>	<b>526</b>	<b>696</b>
<b>% Change</b>	<b>-12.3%</b>	<b>1.3%</b>	<b>35.7%</b>	<b>29.7%</b>	<b>32.2%</b>
Share / Issue Repurchase	24	24	24	24	24
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	983	1,307	1,737	2,288	3,008
Trade Receivables	248	282	292	314	343
Other Current Assets	908	927	922	925	927
Property, Plant & Equipment	110	118	124	131	126
Other Non-Current Assets	677	677	677	677	677
<b>Total Assets</b>	<b>2,927</b>	<b>3,311</b>	<b>3,753</b>	<b>4,336</b>	<b>5,082</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	318	363	336	338	335
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	85	89	90	92	95
<b>Total Liabilities</b>	<b>403</b>	<b>452</b>	<b>425</b>	<b>430</b>	<b>430</b>
<b>Total Equity</b>	<b>2,524</b>	<b>2,859</b>	<b>3,328</b>	<b>3,906</b>	<b>4,652</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,927</b>	<b>3,311</b>	<b>3,753</b>	<b>4,336</b>	<b>5,082</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Biotechnology

## Company Description

Exelixis (EXEL) is a commercial-stage biotechnology company that develops and commercializes novel kinase inhibitors for treating advanced cancer, including kidney (RCC) and liver (HCC). EXEL's cabozantinib franchise (incl. Cabometyx and Cometriq) and collaboration revenue generated \$1.5bn in 2022. Pipeline includes 1) new indications for Cabo, 2) zanzalintinib - next generation Cabo, 3) XB002 - a tissue-factor ADC (antibody-drug conjugate).

## Investment Rationale

We rate EXEL Buy as we believe the company provides favorable risk/reward on resolution of cabo IP dispute, continued progression of pipeline portfolio, and possible cabo label expansion opportunities. In 2024, we look to data updates on cabo prostate and mid-to-late-stage programs ie zanza and XB002 (TF-ADC).

## Stock Data

Average Daily Volume 2,036,300

## Quarterly Earnings Estimates

	2023	2024
Q1	NAA	NA
Q2	NAA	NA
Q3	NAA	NA
Q4	NAA	NA

## Price objective basis & risk

### Exelixis (EXEL)

Our \$27 price objective (PO) is based on DCF analysis. We assume the following: 1) Cabometyx US revenue climbs to \$1.8bn by '25E as the product maintains market leading position among approved TKIs, with modest 1L market share for RCC (we model 2L+ mCRPC at 55% likelihood of success adjustment), 2) exclusivity for Cabo though January 2030E, 3) 9.5% discount rate and no terminal value.

Downside risks to our PO: 1) clinical trial failure, 2) patent loss or settlement allowing generic entry prior to 2030 expiry of polymorph patent, 3) widening gross-to-net discount for Cabo with increase in Medicare Part D coverage gap.

## Analyst Certification

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### US - Specialty Pharma & Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Arcellx, Inc.	ACLX	ACLX US	Jason M. Gerberry
	Arrowhead Pharmaceuticals	ARWR	ARWR US	Jason M. Gerberry
	bluebird bio	BLUE	BLUE US	Jason M. Gerberry
	Exelixis	EXEL	EXEL US	Jason M. Gerberry
	Immunovant, Inc.	IMVT	IMVT US	Jason M. Gerberry
	Intra-Cellular Therapies	ITCI	ITCI US	Jason M. Gerberry
	Ionis	IONS	IONS US	Jason M. Gerberry
	Jazz Pharmaceuticals	JAZZ	JAZZ US	Jason M. Gerberry
	Lyra Therapeutics	LYRA	LYRA US	Jason M. Gerberry
	Oculis Holding AG	OCS	OCS US	Jason M. Gerberry
	Relay Therapeutics	RLAY	RLAY US	Jason M. Gerberry
	Tarsus Pharmaceuticals	TARS	TARS US	Jason M. Gerberry
	Teva Pharmaceuticals	TEVA	TEVA US	Jason M. Gerberry
	Vaxcyte Inc	PCVX	PCVX US	Jason M. Gerberry
	Xenon Pharmaceuticals	XENE	XENE US	Jason M. Gerberry
<b>NEUTRAL</b>				
	Alkermes	ALKS	ALKS US	Jason M. Gerberry
	Amphastar Pharmaceuticals	AMPH	AMPH US	Jason M. Gerberry
	Axsome Therapeutics	AXSM	AXSM US	Jason M. Gerberry
	Galapagos	GLPG	GLPG US	Jason M. Gerberry
	ProKidney Corp	PROK	PROK US	Jason M. Gerberry
	Roivant	ROIV	ROIV US	Chi M. Fong
<b>UNDERPERFORM</b>				
	Bausch Health Cos Inc	BHC	BHC US	Jason M. Gerberry
	FibroGen Inc.	FGEN	FGEN US	Jason M. Gerberry
	Harmony Biosciences	HRMY	HRMY US	Jason M. Gerberry
	Organon	OGN	OGN US	Jason M. Gerberry
	Viartis Inc.	VTRS	VTRS US	Jason M. Gerberry



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### 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

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### 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

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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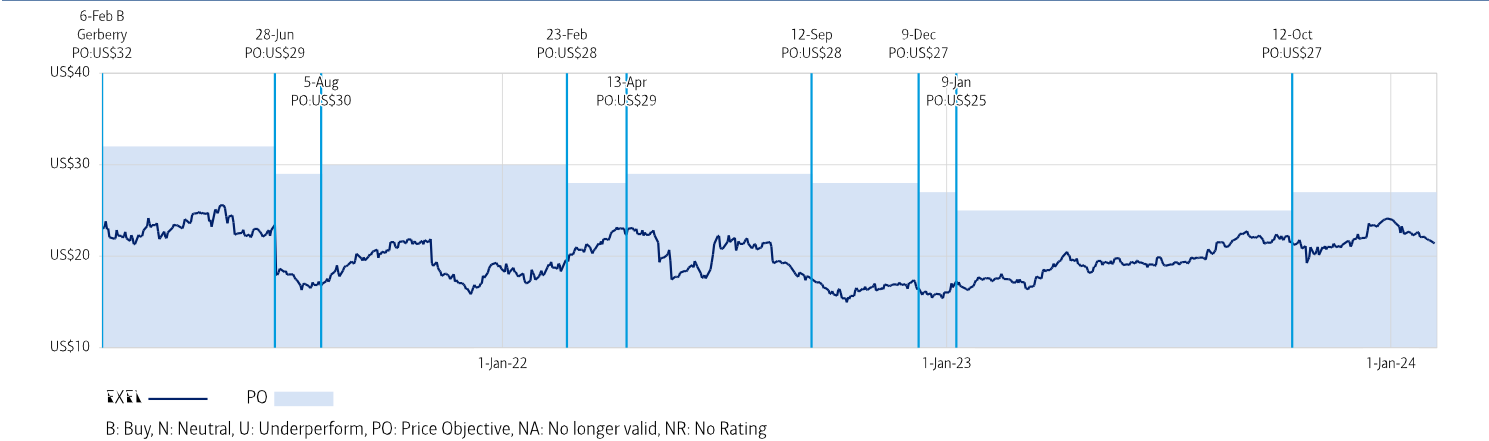
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### Exelixis (EXEL) Price Chart



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

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