

## Arcus Biosciences

# Quemli OS encourages in PDAC—but given skepticism, much more likely needed

Maintain Rating: NEUTRAL | PO: 23.00 USD | Price: 16.90 USD

## OS impresses but trends, historicals, and MoA raise Q's

This afternoon, ahead of its ASCO GI presentation, Arcus provided a summary of ARC-8, its phase 1b of CD73 inhibitor quemliclustat (quemli) for 1L mPDAC. In our view, there were encouraging signals in the readout, highlighted by a blended OS of 15.7 mos in participants receiving 100mg of quemli, comparing well to a 9.8 mos matched synthetic control (NAPOLI-3 gemcitabine/ nab-paclitaxel control: 9.2 mos)—an arguably impressive benefit (if it holds) in an indication that has largely proven refractive to new therapies. That said, we suspect sentiment to be muted given an admittedly broad list of questions about the trends and data collection, which notably include: 1) the seeming over-performance of patients who did not receive zimberelimab (i.e., Cohort A2) and 2) a PFS (6.3 vs. 9-10 mos) and ORR (39% vs. >50%; see below) that fell below thresholds our KOLs were hoping to see to feel confident about moving forward (especially given the usual attenuation observed in clinical studies; see [our '24 outlook](#) report).

We certainly recognize phase 1 updates can be challenging to interpret, especially if spanning participants from across both escalation and expansion arms, with management also adding the performance can be easily explained by the presence/absence of liver metastases among patients. But while we don't disagree the OS is very promising, especially given the difficulties of treating PDAC as well as recent setbacks across the CD73 class (e.g., Incyte, covered by Tazeen Ahmad), we suspect considerably more de-risking data is needed before investors assign much credit to the program. For these reasons, despite the potential long-term potential upside, we remain Neutral and \$23 PO.

**Detailed results will be presented at ASCO GI. Friday, Jan 19 3:30 – 5:00pm ET**

## De minimis ORR may also be a point of focus

We wouldn't be surprised if investor questions similarly focus on the seeming lack of an ORR benefit, with the blended rate of 39% more or less in line with the NAPOLI3's G/nP control of 36.2%. Prior to the readout, our experts warned pancreatic cancer grows rapidly, and that if the primary site isn't controlled quickly, the patient can be lost rather quickly—arguing a high ORR (i.e., >50%) may be critical. In contrast, Arcus noted to us adenosine modulation is thought to enhance immune response vs. the cytotoxic effects of the chemotherapy, which could provide an explanation for the discrepancy. Admittedly, much about the adenosine pathway remains unclear; that said, we wouldn't be surprised if most investors look for clear confirmation before there's greater confidence in the mechanism.

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### Stock Data

|                                |                       |
|--------------------------------|-----------------------|
| Price                          | 16.90 USD             |
| Price Objective                | 23.00 USD             |
| Date Established               | 5-Sep-2023            |
| Investment Opinion             | C-2-9                 |
| 52-Week Range                  | 12.95 USD - 25.47 USD |
| Mkt Val (mn) / Shares Out (mn) | 1,265 USD / 74.9      |
| Free Float                     | 64.4%                 |
| Average Daily Value (mn)       | 13.33 USD             |
| BofA Ticker / Exchange         | RCUS / NYS            |
| Bloomberg / Reuters            | RCUS US / RCUS.N      |
| ROE (2023E)                    | -53.7%                |
| Net Dbt to Eqty (Dec-2022A)    | -31.4%                |
| ESGMeter™                      | Medium                |

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### Abbreviations:

**ASCO GI:** American Society of Clinical Oncology Gastrointestinal Cancers Symposium

**CD73:** cluster of differentiation 73

**mPDAC:** metastatic pancreatic ductal adenocarcinoma

**OS:** overall survival

**PFS:** progression free survival

**ORR:** objective response rate

**KOL:** key opinion leader

**MoA:** mechanism of action

**G/nP:** nab-paclitaxel+gemcitabine

## Price objective basis & risk

### Arcus Biosciences (RCUS)

Our 12-month price objective (PO) is based on our NPV analysis of revenue forecasts and estimated margin assumptions. We forecast sales of dom (anti-TIGIT), etruma (anti-A2a/A2b receptor), and zim (anti-PD-1), with profits and royalties distributed in accordance with partnership agreements. This includes sales of dom adjusted by an LOS range of 30-45% (vs. 20-30% prior) by indication, etruma (LOS: 15-20%) and zim (LOS: 15-45%). Given a WACC of 12% and a terminal growth rate ranging from 0% to -50%, we estimate a value of \$2/ share for the partnerships (\$5/sh for dom, \$2/sh for zim, \$1/sh for etruma, \$9/sh for licenses/ milestones). Together with \$13/sh for net cash and \$1/sh for the pipeline, our PO is \$23/ share.

Upside risks to our PO: 1) validation of clinical targets, 2) clear signals of clinical efficacy with good tolerability, 3) similar robust signals from the early pipeline, 4) expansion of collaboration deals for these assets, 5) accelerated regulatory timelines, and 6) strong commercial support from payers and providers

Downside risks to our PO: 1) clinical trial failures, 2) emergence of meaningful safety risks likely to pose regulatory and/or commercial headwinds, 3) limited signs of synergistic efficacy of combo regimens, 4) regulatory delays, 5) competition from other players, 6) financial risks due to available cash to fund activities, 7) commercial pushback from payers and providers, and 8) current partners opting to discontinue their collaborations.

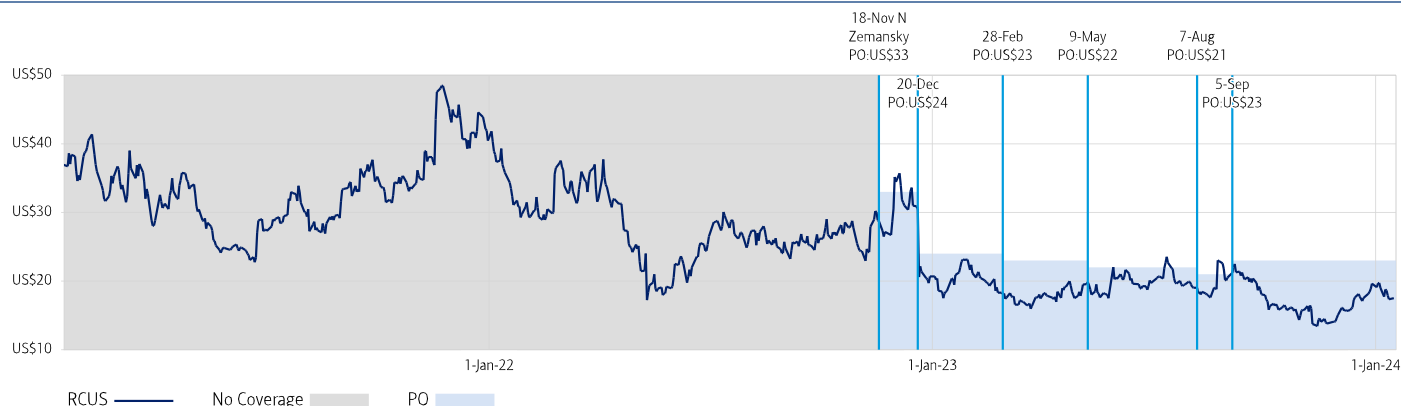
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### Arcus Biosciences (RCUS) Price Chart



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

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| 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%  |

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

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