

## Apellis Pharmaceuticals

## Syfovre 3Q revenues beat expectations but clarity needed on near-term dynamics

Reiterate Rating: NEUTRAL | PO: 44.00 USD | Price: 39.65 USD

## 3Q revs reflect continued demand after ORV reports

Apellis (APLS) announced preliminary Syfovre 3Q revenue of ~\$74mn (+10% q/q) ahead of consensus expectations (\$54mn). The company reported ~37K commercial vials and 10K sample vials distributed in 3Q. Importantly, the company also reported the rates of occlusive retinal vasculitis (ORV) remain low at ~0.01% after >100K vials distributed since the launch. We are encouraged by the update showing continued demand for Syfovre and low ORV rates. However, we await more color on the impact of the launch of competing drug Izervay over the coming months as well as the permanent J-code. We think detailed 24-month data for Izervay expected at AAO (American Academy of Ophthalmology, Nov 3-6), particularly the every-other-month arm, will likely better inform how physicians think about use of the two drugs. We reiterate our Neutral with new \$44 PO as we continue to monitor for updates on ORV rate near-term demand.

## 10 confirmed cases of ORV to-date

APLS highlighted a total of 10 cases of retinal vasculitis (7 occlusive, 3 non-occlusive) have been confirmed to-date and noted 2 more suspected events have been reported. One new event occurred since the last update on Aug 22 and 2 new suspected events were reported. Of the previous suspected cases, one was confirmed and the other was adjudicated as not retinal vasculitis. Out of the 10 confirmed cases, 6 patients have fully or partially recovered, 3 have severe vision impairment and 1 is still pending. We are encouraged by the ORV rates remaining low even under high vigilance and highlight that our previous survey suggested that a rate of 1 in 10K would be acceptable.

## Permanent J-code expands coverage for Syfovre

The company also highlighted the permanent J-code became effective on October 1<sup>st</sup>. The company estimates 93% of Medicare Advantage and 100% of Original Medicare now cover Syfovre and noted ~94% of US geographic atrophy patients are covered by Medicare. We await further color on how the J-code will impact the launch as some physicians had mentioned reimbursement as a hurdle for initial uptake.

## Adjusting our estimates

In our DCF-based model, we roll the quarter and adjust our 3Q estimates based on the company's announcement. We adjust our estimates based on the current demand but continue to model limited growth near-term. These changes result in our new \$44 PO (prev. \$43.)

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(8.86)	(6.12)	(4.64)	(3.51)	(3.25)
GAAP EPS	(8.86)	(6.15)	(4.65)	(3.52)	(3.26)
EPS Change (YoY)	-93.0%	30.9%	24.2%	24.4%	7.4%
Consensus EPS (Bloomberg)			(4.73)	(2.79)	0.47
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	5.3x	4.7x	4.4x	3.9x	3.8x
Free Cash Flow Yield*	-12.1%	-11.0%	-8.6%	-4.4%	-1.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

05 October 2023

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	43.00	44.00
2023E Rev (m)	269.6	338.9
2024E Rev (m)	386.6	452.6
2025E Rev (m)	558.7	575.4
2023E EPS	-5.19	-4.64
2024E EPS	-4.02	-3.51
2025E EPS	-3.37	-3.25

**Tazeen Ahmad**  
Research Analyst  
BofAS  
+1 646 855 4236  
[tazeen.ahmad@bofa.com](mailto:tazeen.ahmad@bofa.com)

**Daniel Giraldo**  
Research Analyst  
BofAS  
+1 646 855 0993  
[daniel.giraldoperez@bofa.com](mailto:daniel.giraldoperez@bofa.com)

**Jeremiah Lorentz**  
Research Analyst  
BofAS  
+1 616 743 2514  
[jeremiah.lorentz@bofa.com](mailto:jeremiah.lorentz@bofa.com)

## Stock Data

Price	39.65 USD
Price Objective	44.00 USD
Date Established	5-Oct-2023
Investment Opinion	C-2-9
52-Week Range	19.83 USD - 94.75 USD
Mrkt Val (mn) / Shares Out (mn)	4,668 USD / 117.7
Average Daily Value (mn)	119.50 USD
BofA Ticker / Exchange	APLS / NAS
Bloomberg / Reuters	APLS US / APLS.OQ
ROE (2023E)	-257.2%
Net Dbt to Eqty (Dec-2022A)	-254.8%
ESGMeter <sup>TM</sup>	High

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Timestamp: 05 October 2023 11:31AM EDT

# iQprofile<sup>SM</sup> Apellis Pharmaceuticals

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-60.6%	-77.7%	-80.3%	-54.6%	-36.3%
Return on Equity	-371.2%	-353.7%	-257.2%	-106.8%	-55.6%
Operating Margin	-805.7%	-788.4%	-154.4%	-87.2%	-63.8%
Free Cash Flow	(564)	(515)	(403)	(207)	(78)

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-223.3%	-254.8%	-139.3%	-104.0%	-97.8%
Interest Cover	-40.5x	-25.1x	-21.0x	-15.1x	-13.4x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	67	75	339	453	575
% Change	-73.4%	13.3%	349.4%	33.5%	27.1%
Gross Profit	67	75	339	453	575
% Change	-73.4%	13.3%	349.4%	33.5%	27.1%
EBITDA	843	957	1,029	1,158	1,185
% Change	99.1%	13.6%	7.4%	12.5%	2.4%
Net Interest & Other Income	(210)	(57)	(26)	(27)	(28)
<b>Net Income (Adjusted)</b>	<b>(748)</b>	<b>(649)</b>	<b>(550)</b>	<b>(422)</b>	<b>(397)</b>
<b>% Change</b>	<b>-117.0%</b>	<b>13.2%</b>	<b>15.4%</b>	<b>23.1%</b>	<b>6.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(746)	(652)	(550)	(423)	(398)
Depreciation & Amortization	1,379	1,552	1,552	1,552	1,552
Change in Working Capital	(67)	51	10	11	12
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(1,129)	(1,465)	(1,413)	(1,345)	(1,242)
Capital Expenditure	(1)	(2)	(2)	(2)	(2)
<b>Free Cash Flow</b>	<b>-564</b>	<b>-515</b>	<b>-403</b>	<b>-207</b>	<b>-78</b>
<b>% Change</b>	<b>-240.1%</b>	<b>8.7%</b>	<b>21.7%</b>	<b>48.7%</b>	<b>62.1%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	640	552	483	676	997
Trade Receivables	10	8	8	9	10
Other Current Assets	174	159	171	184	199
Property, Plant & Equipment	6	6	8	10	12
Other Non-Current Assets	52	35	35	35	35
<b>Total Assets</b>	<b>882</b>	<b>759</b>	<b>704</b>	<b>913</b>	<b>1,253</b>
Short-Term Debt	8	30	30	30	30
Other Current Liabilities	124	138	151	166	182
Long-Term Debt	189	93	93	93	93
Other Non-Current Liabilities	362	330	172	93	54
<b>Total Liabilities</b>	<b>683</b>	<b>590</b>	<b>446</b>	<b>381</b>	<b>358</b>
<b>Total Equity</b>	<b>199</b>	<b>169</b>	<b>259</b>	<b>532</b>	<b>895</b>
<b>Total Equity &amp; Liabilities</b>	<b>882</b>	<b>759</b>	<b>704</b>	<b>913</b>	<b>1,253</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Biotechnology

## Company Description

Apellis Pharmaceuticals (APLS) is a biotechnology company developing therapeutics that target a part of our immune system called complement pathway. The company's lead asset pegcetacoplan is approved for paroxysmal nocturnal hemoglobinuria (PNH) and geographic atrophy (GA) in the US. APLS is also evaluating peg' in kidney, neurology and other hematology indications (in partnership with Sobi), and APL-9 in inhibiting complement activation in gene therapy.

## Investment Rationale

We rate APLS shares a Neutral. We believe that the mechanism of action of its lead asset is differentiated by targeting the master switch in the complement pathway. Clinical data and approval in lead indications, such as PNH and GA, in our view, is supportive of its potential in addressing indications of high undermet need. However, we look for more color on long-term of uptake in GA given recent reports of rare safety events that could limit uptake in this large indication.

## Stock Data

Average Daily Volume 3,013,945

## Quarterly Earnings Estimates

	2022	2023
Q1	-1.42A	-1.56A
Q2	-1.47A	-1.02A
Q3	-1.75A	-1.11E
Q4	-1.48A	-0.92E



## Price objective basis & risk

### Apellis Pharmaceuticals (APLS)

Our price objective (PO) of \$44 is based on a probability-adjusted net present value (NPV) analysis that includes \$17/share for peg' in PNH and \$37/share for peg' in GA and -\$11/share for pipeline/corporate expenses and cash. The remainder of our valuation comes from pipeline and net cash.

Our discounted cash flow (DCF)-based model assumes sales out to 2036 with no terminal growth, with weighted average cost of capital (WACC) of 9% for PNH and GA, and 12% for pipeline.

Upside risks to our PO are 1) better-than-expected penetration in PNH and/or GA, 2) clarity around reports of rare events of occlusive retinal vasculitis following Syfovre injection, 3) less-than-expected neovascularization event in GA in real-world use, 34) faster-than-expected uptake of peg' in GA, and 5) positive data from other complement-related indications, such as C3G, and CAD.

Downside risks to our PO are 1) higher-than-expected neovascularization or occlusive retinal vasculitis events in GA in real-world setting, 2) better-than-expected results from competitors, 3) delay or failure to obtain regulatory approval, and 4) failure to expand into other complement-related 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
<b>BUY</b>				
	4D Molecular Therapeutics, Inc.	FDMT	FDMT US	Tazeen Ahmad
	Achilles Therapeutics	ACHL	ACHL US	Tazeen Ahmad
	Alnylam Pharmaceuticals	ALNY	ALNY US	Tazeen Ahmad
	Amicus Therapeutics	FOLD	FOLD 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
	Neurocrine Biosciences	NBIX	NBIX US	Tazeen Ahmad
	PepGen Inc	PEPG	PEPG US	Tazeen Ahmad
	Prothena Corporation	PRTA	PRTA US	Tazeen Ahmad
	Rhythm Pharmaceuticals	RYTM	RYTM US	Tazeen Ahmad
	Sarepta Therapeutics	SRPT	SRPT US	Tazeen Ahmad
	Ultragenyx Pharmaceuticals	RARE	RARE US	Tazeen Ahmad
<b>NEUTRAL</b>				
	Acadia Pharmaceuticals	ACAD	ACAD US	Tazeen Ahmad
	Annexon Biosciences	ANNX	ANNX US	Tazeen Ahmad
	Apellis Pharmaceuticals	APLS	APLS US	Tazeen Ahmad
	Cerevel Therapeutics Holdings, Inc	CERE	CERE US	Tazeen Ahmad
	Cyteir Therapeutics	CYT	CYT US	Tazeen Ahmad
	Incyte Corporation	INCY	INCY US	Tazeen Ahmad
	SAGE Therapeutics	SAGE	SAGE US	Tazeen Ahmad

## US - Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>				
	ADC Therapeutics SA	ADCT	ADCT 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

**IQmethod<sup>SM</sup> 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**

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

**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  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + 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  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
Basic EBIT + Depreciation + Amortization

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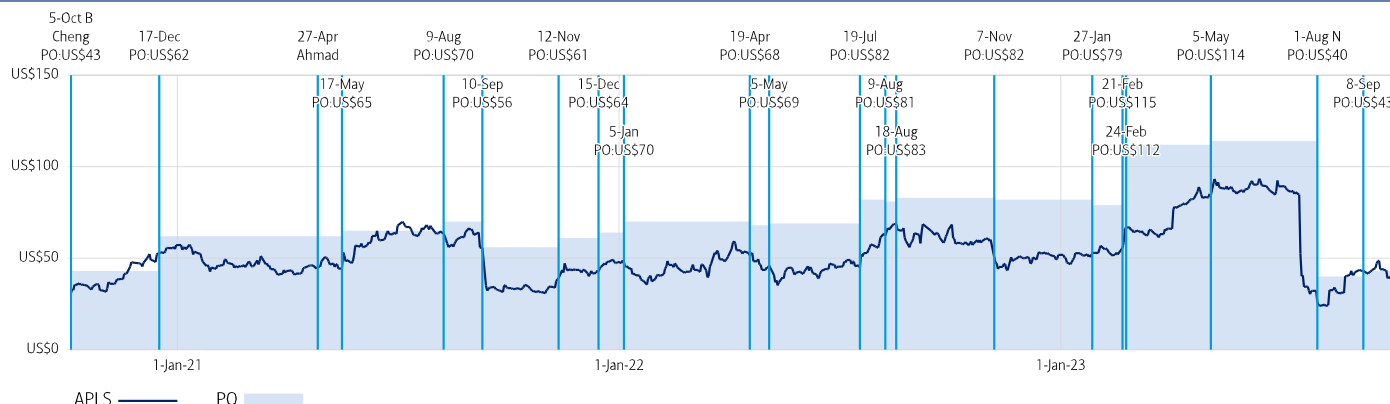
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### Apellis (APLS) Price Chart



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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	233	60.21%	Buy	113	48.50%
Hold	83	21.45%	Hold	33	39.76%
Sell	71	18.35%	Sell	25	35.21%

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
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