

Vaxcyte Inc

4Q wrap: focus on capital deployment +
Ph2 VAX-31 update

Reiterate Rating: BUY | PO: 102.00 USD | Price: 81.05 USD

PCV pipeline programs remain on track

Vaxcyte's (PCVX) 4Q EPS did not include any major updates but the company CC offered some details on how PCVX plans to develop its clinical-stage pipeline of pneumococcal vaccines (VAX-24 + VAX-31). First, following a recent financing, the company discussed how it plans to deploy some of the ~\$2bn in pro forma cash over the next few years, including a step-up in R&D (Y/Y) + 2024-26 capital costs associated with its pre-launch manufacturing build-out (Lonza mfg suite; more below). On PCVX's key catalyst, Ph2 for VAX-31 (vs. PFE's PCV20) adult vaccine (data 3Q24), mgmt. offered some added color around framing a win/prioritizing VAX-31 over VAX-24 (more below). Otherwise, the early-stage pipeline could potentially see a program move to IND filing by YE24. We reiterate our Buy rating given favorable risk/reward and upside potential tied to PCVX's best-in-category vaccines. Our model changes (Exhibit 1) reflect higher nominal peak share for PCVs (60% vs 55% prior) in higher valency US adult market to reflect strength of VAX-31 supportive data partly offset by higher spend, driving our PO increase to \$102 (prior \$92).

VAX-31 Ph2: perfection not needed to prioritize

Recall management has delayed Ph3 adult trials (for VAX-24) pending Ph2 data for VAX-31. Effectively, PCVX will move into Ph3 the better of the two vaccines – a decision that will leverage preclinical data and cross-trial Ph2 comparative data (both large, head-to-head datasets vs. Prevnar-20). Not surprisingly, management is looking for VAX-31 to establish added serotype coverage relative to VAX-31 but caveated that “perfection is not required”; management has long espoused the view Ph2 trials with less statistical power require a nuanced analysis considering strength of point estimates where statistical non-inferiority is not achieved. Last, given limited data on Merck's registration-stage V116, management believes additional disclosure for that product (possibly this week's ACIP meeting) could help inform choose of future Ph3 adult active comparator.

4Q call offered added details on R&D vs CapEx

PCVX's 4Q cash burn was higher than expected with \$332m in FY23 R&D (vs. our \$270m) which included VAX-31 Ph2 costs and VAX-24's Ph2 infant trial costs. Management guided to substantially higher R&D (vs. FY23) and modestly more than 4Q run-rate R&D (\$417m). Separately, management guided to capital costs (not booked in R&D or income statement) ranging from \$300-350m that will be incurred in 2024-26 of which 70% will be recognized in PPE and 30% in other assets.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(3.44)	(4.14)	(4.28)	(4.34)	(4.00)
EPS Change (YoY)	-78.2%	-20.3%	-3.4%	-1.4%	7.8%
Consensus EPS (Bloomberg)			(4.20)	(4.26)	(4.38)
DPS	0	0	0	0	0
Valuation (Dec)					
Free Cash Flow Yield*	-2.0%	-3.6%	-5.5%	-5.5%	-4.0%

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

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27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	92.00	102.00
2024E EPS	-2.68	-4.28
2025E EPS	-2.68	-4.34
2026E EPS	-2.50	-4.00

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Stock Data

Price	81.05 USD
Price Objective	102.00 USD
Date Established	27-Feb-2024
Investment Opinion	C-1-9
52-Week Range	34.11 USD - 81.65 USD
Mkt Val (mn) / Shares Out (mn)	8,786 USD / 108.4
Free Float	92.1%
Average Daily Value (mn)	81.00 USD
BofA Ticker / Exchange	PCVX / NAS
Bloomberg / Reuters	PCVX US / PCVX.OQ
ROE (2024E)	-34.1%
Net Dbt to Eqty (Dec-2023A)	-32.0%
ESGMeter TM	Low

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

ACIP: advisory committee on immunization practices

IND: investigational new drug
Mfg: manufacturing

W

iQprofileSM Vaxcyte Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-29.9%	-37.8%	-30.3%	-31.2%	-34.8%
Return on Equity	-36.1%	-36.7%	-34.1%	-35.2%	-39.4%
Operating Margin	NA	NA	NA	NA	NA
Free Cash Flow	(176)	(313)	(482)	(480)	(354)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	2.3x	5.1x	10.3x	6.4x	0.3x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-87.5%	-32.0%	-41.4%	-12.1%	-21.8%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	0	0	0	0	0
% Change	NA	NA	NA	NA	NA
Gross Profit	0	0	0	0	0
% Change	NA	NA	NA	NA	NA
EBITDA	(207)	(465)	(480)	(484)	(475)
% Change	-102.9%	-124.9%	-3.3%	-0.8%	1.9%
Net Interest & Other Income	(14)	66	0	0	0
Net Income (Adjusted)	(223)	(402)	(492)	(503)	(504)
% Change	-123.3%	-80.0%	-22.3%	-2.2%	-0.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(223)	(402)	(492)	(503)	(504)
Depreciation & Amortization	3	3	12	19	29
Change in Working Capital	13	81	(9)	(4)	1
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	38	21	130	130	130
Capital Expenditure	(6)	(16)	(123)	(123)	(10)
Free Cash Flow	-176	-313	-482	-480	-354
% Change	-37.9%	-77.3%	-53.9%	0.3%	26.4%
Share / Issue Repurchase	861	644	816	0	500
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	835	397	679	147	293
Trade Receivables	0	0	0	0	0
Other Current Assets	108	699	700	705	705
Property, Plant & Equipment	10	80	190	294	274
Other Non-Current Assets	53	232	232	232	232
Total Assets	1,006	1,408	1,802	1,377	1,505
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	41	145	138	139	140
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	12	22	22	22	22
Total Liabilities	53	167	160	161	162
Total Equity	954	1,240	1,642	1,217	1,343
Total Equity & Liabilities	1,006	1,408	1,802	1,377	1,505

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

Company Sector

Biotechnology

Company Description

Vaxcyte (PCVX) is a clinical-stage biotech company leveraging its proprietary technology to design next-generation vaccines. Vaxcyte's lead candidate VAX-24 is a pneumococcal conjugate vaccine (PCV) molecule that is in pivotal trials. Pneumococcal vaccine is a >\$7bn global sales drug category. Vaxcyte also has a broader-spectrum PCV candidate, VAX-31, in Ph1/2 trials, in addition to other pipeline vaccine molecules in preclinical stage including VAX-A1 (Group A strep) and VAX-PG (periodontitis).

Investment Rationale

We like PCVX for three key reasons: 1) Pneumococcal conjugate vaccine is the largest vaccine market with >\$7bn global sales, where PCVX's VAX-24 has the potential to offer the broadest coverage against disease causing pathogens vs. key frontrunners in PCV pipeline, 2) Vaxcyte's novel technology may allow the company to overcome protein carrier immunosuppression, which is an issue for conventional approaches used by major players, 3) VAX-24's clinical data support a best-in-class profile.

Stock Data

Average Daily Volume 999,334

Quarterly Earnings Estimates

	2023	2024
Q1	-0.70A	-1.24E
Q2	-0.70A	-1.27E
Q3	-0.91A	-1.30E
Q4	-1.25A	-1.27E

Exhibit 1: Summary of model changes
We summarize estimate changes made with this report

Ticker	PO (\$)		Revenue (\$m)						EPS (\$)					
			Old			Current			Old			Current		
	Old	New	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
PCVX	92	102	0	0	0	0	0	0	(2.68)	(2.68)	(2.50)	(4.28)	(4.34)	(4.06)

Source: BofA Global Research estimates

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Price objective basis & risk

Vaxcyte Inc (PCVX)

Our \$102 price objective (PO) is based on a risk-adjusted DCF analysis. Key assumptions:

1) we forecast cash flows through 2034, with VAX-24 launching in 2028E, 2) we see 60% likelihood to market for VAX-24, 3) we expect VAX-24 to generate \$4.4bn in nominal sales by 2034E, 4) we apply a discount rate of 11% and +2% terminal growth rate.

Downside risks to our PO are (1) failure of VAX-24 or VAX-31 to show desired results in clinical trials, (2) slower-than-expected commercial uptake, (3) potential dilutive cash raises to develop and commercialize the drug.

Upside risks to our PO are (1) better-than-expected clinical data and/or commercial uptake of VAX-24 or VAX-31, (2) acquisition at a premium price.

Analyst Certification

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US - Specialty Pharma & Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
	Fractyl Health	GUTS	GUTS 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
	Oculus 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
NEUTRAL				
	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
UNDERPERFORM				
	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
	Viatis Inc.	VTRS	VTRS US	Jason M. Gerberry

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

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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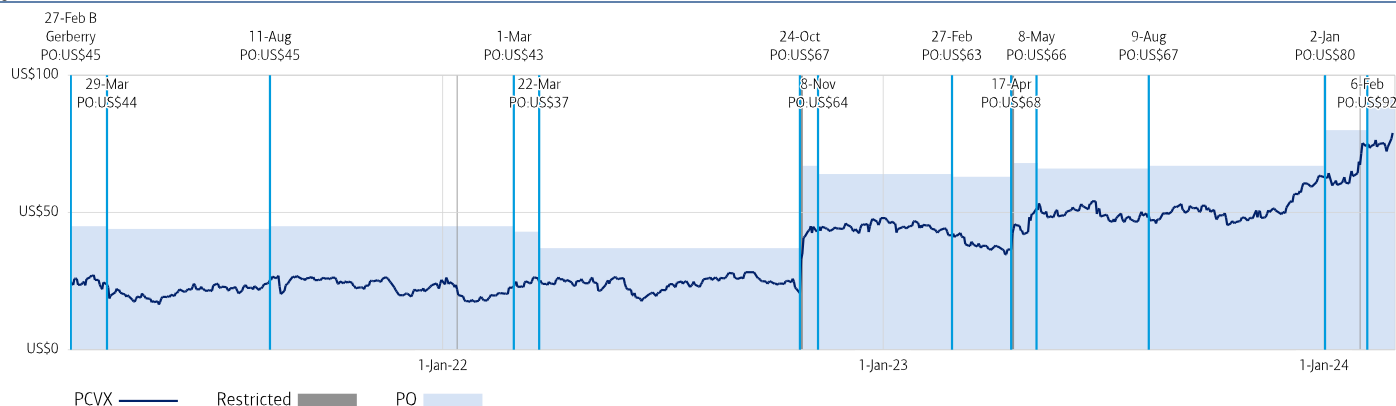
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Vaxcyte (PCVX) Price Chart



PCVX — Restricted 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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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