

## Alkermes

# Competitor OX2R topline offers mixed read-through to ALKS

Maintain Rating: NEUTRAL | PO: 30.00 USD | Price: 26.77 USD

## OX2R works in NT1, but TAK's data raise Qs on ALKS2680

Tonight, Takeda (TAK) issued a topline data update from its Ph2 TAK-861 (OX2R) in narcolepsy which offered mixed read-across to ALKS' competitor pipeline drug. Per the update, TAK-861 met all study endpoints in the NT1 sub-population (~ half of narco) and the drug will be advanced into Ph3. However, Takeda also updated that it would not advance '861 for NT2 with very limited details in the press release. Both Takeda and Alkermes have the most advanced OX2R programs in development for treatment of narcolepsy type 1 and 2. The good news for Alkermes was that the '861 data add to feasibility that the OX2R class can achieve therapeutic window without liver tox (safety issue with prior OX2R) given reasonable sample size (n=150+) and follow-up (at least 8 weeks), but we see 2-3 month minimum follow-up as more desirable (to rule out). While ALKS is 1-2 years behind Takeda, we note the company's drug (ALKS'2680) has the potential to differentiate on dosing (1x/day vs. 2x/day) and now has a chance to emerge as the leader for the NT2 indication (Ph1 data in 1H24). However, the NT2 indication does require higher dose levels and it is unclear if '2680 can achieve a commercially acceptable risk-benefit profile in that setting; in prior testing, ALKS saw some cases of visual disturbance AEs which were attributed to OX2R sensitivity in individuals without orexin deficiency, but the lack of visual disturbance reports in Takeda's NT1 + NT2 trials (NT2: normal orexin level) raise the question whether that AE is molecule-specific. Post the '861 update, we believe more data will be needed to answer questions around the viability of OX2R outside of NT1. Key updates for ALKS will be '2680 Ph1 data in NT2 and 2025 Ph2 data in NT1. We maintain Neutral on ALKS given balanced risk/reward.

## Summary of Ph2 topline results of TAK-861 in narcolepsy

Takeda conducted two Ph2b trials of TAK-861, one in NT1 (n=112) and another in NT2 (n=60). The Ph2b trials evaluated patients for up to 8 or 12 weeks in NT1 and 8 weeks in NT2, followed by long-term extension (LTE; ongoing). According to the press release, the NT1 trial met the primary endpoint in maintenance of wakefulness test (MWT; p<0.001) and key secondary endpoints in Epworth Sleepiness Scale (ESS) and weekly cataplexy rate, and the improvements in these endpoints were "clinically meaningful". In both NT1/NT2 trials and in ongoing long-term extension (follow-up not disclosed), there were no reports of liver tox, visual disturbances, or treatment related serious AE.

## Timeline for OX2R development

In 1H, ALKS plans to present provide a couple of Ph1 data updates of ALKS2680 (full data in NT1 and initial data in NT2 and IH) and initiate a Ph2 trial of '2680 in NT1. For Takeda, the company plans to initiate a Ph3 NT1 trial of TAK-861 in 1H24 and continues to interrogate multiple orexin agonists (preclinical) for NT2. Takeda expects to present the Ph2b data of '861 in NT1/NT2 at an upcoming medical meeting. Centessa expects Ph1 data of ORX750 (OX2R) in healthy volunteers sometime in 2024. Lastly, we note Merck has MK-6552 (mechanism undisclosed) in a Ph1 trial for NT1.

08 February 2024

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### Stock Data

|                                 |                       |
|---------------------------------|-----------------------|
| Price                           | 26.77 USD             |
| Price Objective                 | 30.00 USD             |
| Date Established                | 8-Jan-2024            |
| Investment Opinion              | B-2-9                 |
| 52-Week Range                   | 20.46 USD - 31.34 USD |
| Mrkt Val (mn) / Shares Out (mn) | 4,467 USD / 166.9     |
| Free Float                      | 98.7%                 |
| Average Daily Value (mn)        | 36.80 USD             |
| BofA Ticker / Exchange          | ALKS / NAS            |
| Bloomberg / Reuters             | ALKS US / ALKS.OQ     |
| ROE (2023E)                     | 21.2%                 |
| Net Dbt to Eqty (Dec-2022A)     | -51.0%                |
| ESGMeter™                       | High                  |

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### Acronyms:

OX2R: orexin-2 receptor agonist  
NT1, NT2: narcolepsy type-1, type-2  
IH: idiopathic hypersomnia  
AE: adverse event  
LTE: long term extension

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Timestamp: 08 February 2024 11:15PM EST

## Price objective basis & risk

### Alkermes (ALKS)

Our \$30 PO is based on a blended mix of DCF and 2025E P/E. We believe our DCF is based on reasonable assumptions, including: (1) discount rate of 9%, and (2) risk-adjusted pipeline value for ALKS2680 in lieu of terminal value. Our assumption of 13x '25E EPS is within range of biopharma peers (7-17x) and comparable to 13x where ALKS trades at.

Upside risks: 1) better-than-expected product sales growth, 2) value accretive divestiture or partnership above our expectation.

Downside risks: 1) worse-than-expected product sales growth, 2) assets divested or partnered at values below our expectation.

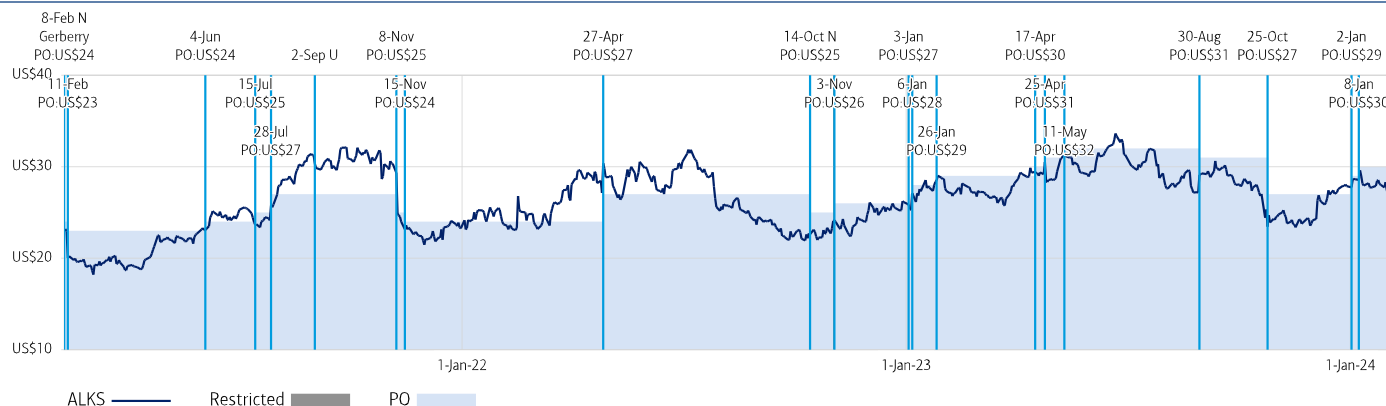
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ALKS — Restricted PO  
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%  |

### 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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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster <sup>R2</sup> |
|-------------------|---|--|
| Buy               | ≥ 10%   | ≤ 70%  |
| Neutral           | ≥ 0%  | ≤ 30%  |
| Underperform      | N/A   | ≥ 20%  |

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