

Sarepta Therapeutics

Strong commercial performance as we await Elevidys label expansion; Reit. Buy

Reiterate Rating: BUY | PO: 166.00 USD | Price: 137.50 USD

Elevidys Label Expansion PDUFA on June 21st

Sarepta (SRPT) reported FY23 total product revenues of \$1.1bn including \$200.4mn in Elevidys revenue in DMD. The company highlighted the strong commercial execution in the Elevidys launch in the 4–5-yo population and reiterated their expectation of a label expansion inclusive of all DMD pts regardless of age or ambulatory status by the June 21st PDUFA. Mgmt noted they expect to move through the 4–5-yo population in the first half of the year and do not expect significant growth in this time frame, but highlighted the label expansion would accelerate the cadence of the launch. We remain confident in the potential for a label expansion but note we think a label inclusive of all ambulatory pts is the most likely scenario, and a broader label could represent significant upside to our estimates. We currently model 35% peak penetration and \$2.5bn in risk-adjusted peak sales for Elevidys. We await further color on the regulatory review and additional metrics of the cadence of the Elevidys launch. We reiterate our Buy rating with \$166 PO.

Limited impact to PMO franchise in 2024

On the exon skipping franchise, the company noted that they continue to see strong signs of growth for Amondys and Vyondys as well as minimal signs of cannibalization from Elevidys in 2023. While they expect Elevidys will have a long-term impact on the franchise, they do not expect any significant impact in 2024 as the label is still restricted to a small subset of pts.

First patients dosed in ph 3 EMERGENCE trial in LGMD2E

The company also highlighted progress in the pipeline with the first patient in the EMERGENCE trial evaluation SRP-9003 in LGMD2E being dosed. They noted EMERGENCE will enroll 15 pts and evaluate beta-sarcoglycan expression after 60 days as the primary endpoint. Results from EMERGENCE together with VOYAGENE, which is expected to read out in 2024, and study SRP-9003-101 are expected to support a regulatory filing in LGMD2E. We are encouraged by the progress in LGMD, which we think could be an attractive commercial opportunity for the company.

Model changes

In our DCF-based model, we update for FY23 results, cash and share count. We adjust our COGS estimates for Elevidys to reflect mgmt guidance of ~80% margins at steady state. We also adjust our exon skipping franchise estimates to reflect more modest near-term impact from Elevidys and tweak our op ex estimates in-line with recent trend. These changes result in our new \$166 PO (prev. \$169).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(8.03)	(5.77)	1.58	11.59	27.06
EPS Change (YoY)	-55.9%	28.1%	NM	633.5%	133.5%
Consensus EPS (Bloomberg)			4.36	9.29	10.51
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	87.0x	11.9x	5.1x
EV / EBITDA*	NM	NM	76.6x	11.3x	4.8x
Free Cash Flow Yield*	-2.8%	-4.5%	1.5%	9.9%	22.1%

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

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Timestamp: 28 February 2024 07:38PM EST

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	169.00	166.00
2024E Rev (m)	1,836.2	1,782.7
2025E Rev (m)	3,076.5	3,008.9
2026E Rev (m)	NA	4,690.0
2024E EPS	0.96	1.58
2025E EPS	13.97	11.59
2026E EPS	NA	27.06

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Stock Data

Price	137.50 USD
Price Objective	166.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-1-9
52-Week Range	55.25 USD - 159.89 USD
Mrkt Val (mn) / Shares Out (mn)	12,905 USD / 93.9
Free Float	95.6%
Average Daily Value (mn)	139.69 USD
BofA Ticker / Exchange	SRPT / NAS
Bloomberg / Reuters	SRPT US / SRPT.OQ
ROE (2024E)	13.9%
Net Dbt to Eqty (Dec-2023A)	94.2%
ESGMeter TM	Medium

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](#)".

See inside for abbreviations

iQprofileSM Sarepta Therapeutics

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-18.5%	-8.1%	5.2%	28.2%	41.4%
Return on Equity	-107.2%	-86.2%	13.9%	55.2%	62.6%
Operating Margin	-57.5%	-21.5%	7.0%	37.5%	58.1%
Free Cash Flow	(356)	(577)	191	1,283	2,853

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	1.8x	1.2x	1.1x
Asset Replacement Ratio	0.7x	1.7x	1.7x	1.7x	1.7x
Tax Rate	NM	NM	19.0%	5.0%	3.4%
Net Debt-to-Equity Ratio	150.0%	94.2%	-13.1%	-60.2%	-77.3%
Interest Cover	-15.3x	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	933	1,243	1,783	3,009	4,690
% Change	32.9%	33.3%	43.4%	68.8%	55.9%
Gross Profit	793	1,093	1,515	2,577	4,070
% Change	31.1%	37.8%	38.6%	70.1%	58.0%
EBITDA	(494)	(223)	174	1,183	2,784
% Change	-17.2%	54.8%	NM	578.3%	135.4%
Net Interest & Other Income	(154)	(252)	62	63	64
Net Income (Adjusted)	(703)	(536)	152	1,132	2,696
% Change	-68.0%	23.8%	NM	646.9%	138.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(703)	(536)	152	1,132	2,696
Depreciation & Amortization	42	44	49	54	59
Change in Working Capital	(39)	(481)	(181)	(91)	(110)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	376	472	256	281	309
Capital Expenditure	(31)	(76)	(84)	(92)	(101)
Free Cash Flow	-356	-577	191	1,283	2,853
% Change	26.1%	-62.0%	NM	571.3%	122.3%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	202	(7)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	967	428	1,305	2,807	5,644
Trade Receivables	215	400	480	576	692
Other Current Assets	1,376	1,751	1,167	1,055	1,182
Property, Plant & Equipment	180	227	262	300	343
Other Non-Current Assets	390	458	458	458	458
Total Assets	3,128	3,265	3,672	5,196	8,319
Short-Term Debt	0	105	0	0	0
Other Current Liabilities	620	548	603	663	730
Long-Term Debt	1,544	1,133	1,133	1,133	1,133
Other Non-Current Liabilities	580	619	619	619	619
Total Liabilities	2,743	2,405	2,355	2,415	2,481
Total Equity	385	859	1,318	2,782	5,838
Total Equity & Liabilities	3,128	3,265	3,672	5,196	8,319

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

Company Sector

Biotechnology

Company Description

Sarepta (SRPT) is a biopharmaceuticals company developing exon-skipping therapeutics and gene therapy for the treatment of Duchenne muscular dystrophy (DMD) and Limb Girdle muscular dystrophy (LGMD). The company's approved assets include Exondys, approved for DMD amenable to exon 51 skipping, Vyondys, approved for DMD amenable to exon 53 skipping, and Amondys, approved for DMD amenable to exon 45 skipping. SRPT also has a next-gen PPMO platform and gene therapy programs in DMD and LGMD.

Investment Rationale

We rate SRPT shares Buy. We believe SRPT's assets address the current under-met need in the treatment of rare muscular dystrophies. The exon skipping assets, in our view, should continue to provide floor valuation and generate sustained revenue streams. We believe the company is well positioned to drive upside potential and deliver shareholder value over time given existing assets and strategic partnerships in gene therapy programs with Nationwide, Lacerta, and Lysogene.

Stock Data

Average Daily Volume 1,015,922

Quarterly Earnings Estimates

	2023	2024
Q1	-5.85A	0.08E
Q2	-0.27A	0.33E
Q3	-0.46A	0.36E
Q4	0.49A	0.80E

Abbreviations

COGS: Cost of goods sold

DMD: Duchenne muscular dystrophy

LGMD2E: Limb-girdle muscular dystrophy type 2E

Mgmt: management

PDUFA: Prescription drug user fee act

pts: patients

Price objective basis & risk

Sarepta Therapeutics (SRPT)

Our \$166 PO is based on a probability-adjusted net present value (NPV) analysis that includes \$15/share for Exondys, \$7/share for Vyondys, \$20/share for Amondys, \$78/share for micro-dystrophin gene therapy, \$37/share for LGMD assets. The remainder of our valuation comes from pipeline and cash (\$9/share). Our discounted cash flow (DCF) analysis assumes sales out to 2035, with weighted average cost of capital (WACC) of 9-13%.

Upside risks to our PO are 1) better-than-expected market uptake from its exon skipping assets, 2) SRP-9001 US label expansion, and 3) EU approval of SRP-9001 and other assets.

Downside risks to our PO are 1) failure and delay in approval for exon skipping assets, 2) unexpected safety or durability findings in gene therapy programs, 3) other micro dystrophin competitors, and 4) higher-than-expected royalty payments.

Analyst Certification

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US - Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	4D Molecular Therapeutics, Inc.	FDMT	FDMT US	Tazeen Ahmad
	Alnylam Pharmaceuticals	ALNY	ALNY US	Tazeen Ahmad
	Amicus Therapeutics	FOLD	FOLD US	Tazeen Ahmad
	Annexon Biosciences	ANNX	ANNX US	Tazeen Ahmad
	Apellis Pharmaceuticals	APLS	APLS 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
	Merus	MRUS	MRUS US	Tazeen Ahmad
	Neurocrine Biosciences	NBIX	NBIX US	Tazeen Ahmad
	Ocular Therapeutix	OCUL	OCUL US	Tazeen Ahmad
	PepGen Inc	PEPG	PEPG US	Tazeen Ahmad
	Rhythm Pharmaceuticals	RYTM	RYTM US	Tazeen Ahmad
	Sarepta Therapeutics	SRPT	SRPT US	Tazeen Ahmad
	Ultragenyx Pharmaceuticals	RARE	RARE US	Tazeen Ahmad
NEUTRAL				
	Acadia Pharmaceuticals	ACAD	ACAD US	Tazeen Ahmad
	Incyte Corporation	INCY	INCY US	Tazeen Ahmad
	Prothena Corporation	PRTA	PRTA US	Tazeen Ahmad
	SAGE Therapeutics	SAGE	SAGE US	Tazeen Ahmad
UNDERPERFORM				
	Achilles Therapeutics	ACHL	ACHL 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

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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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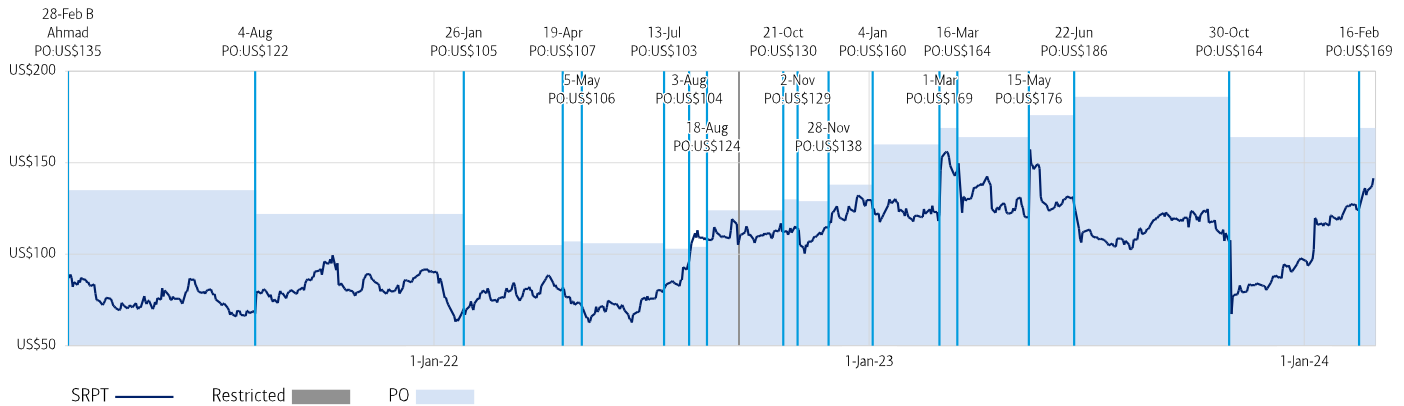
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Sarepta (SRPT) Price Chart



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 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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