

## Guardant Health

## Shield CRC AdCom delayed until 2Q; initial FY24 guidance looks conservative

Reiterate Rating: BUY | PO: 35.00 USD | Price: 22.27 USD

## 4Q23 sales in-line with preliminary results

Guardant Health (GH) preannounced upside 4Q23 top-line results (see [our earlier note for details](#)), and so there were few surprises regarding the quarterly results. As such, much of the call focused on GH's initial '24 guide and pipeline updates.

## FY24 sales midpoint below Street, ahead of BofAe

The midpoint of the FY24 sales guide for \$655-670mn (+16-19% yoy) was just ahead of our \$660mn but below Street's \$670mn. Precision Oncology (PO) is expected to grow ~20% yoy (vs Street ~21%), with Clinical up at least 20% & Biopharma up low-double-digits. Developmental services revenues are expected to be flat y/y. We see this initial guide as conservative given positive pricing and test volume trends, suggesting upside potential as the year progresses. GH continues to control costs, as OpEx are expected to grow 1-3% Y/Y, inclusive of ~\$200mn spending for the Shield program. After ending FY23 with \$1.2bn in cash, mgmt. sees a modestly lower cash burn of ~\$325mn in FY24.

## AdCom delayed till late 2Q24 due to FDA staffing issues

Beyond guidance, the key takeaway from the call was an update on the FDA Advisory Committee (AdCom) for GH's Shield CRC (Colorectal Cancer) screening test. Due to the timing of the recruiting of panel members, the AdCom is now expected to convene late in 2Q24 instead of 3/28 as previously communicated. As the AdCom was already a point of controversy, the delay may not sit well with investors. However, mgmt. noted that FDA approval is independent of the AdCom and that approval and CMS reimbursement are still expected in 2024. Regarding the label, GH has not had discussions with FDA, but it is not dependent on the AdCom. Our model assumes that Shield will be approved as a second-line option targeting an unscreened patient population of ~50mn persons, but we don't see >\$100mn until FY28 given the need for guideline inclusion.

## Update ests &amp; lower PO to \$35; Core business progressing

We update our forecasts, raising FY24 sales but trimming outyear estimates largely for more conservative MRD (minimal residual disease) test volumes. As a result, our DCF-based PO (still 11% WACC, 3% terminal rate) is lowered to \$35 from \$38. The AdCom and Shield approval, as well as expected competitor news, may overhang for the stock in 1H24. However, the core business is progressing (G360 is cash flow breakeven) and mgmt. seems willing to jettison Shield if it goes against them. We reiterate our Buy rating on GH given the company's leading position in the liquid biopsy market and attractive valuation for the core franchise.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(4.26)	(3.19)	(2.50)	(1.85)	(1.20)
GAAP EPS	(6.41)	(3.95)	(3.35)	(2.70)	(2.10)
EPS Change (YoY)	-91.0%	25.1%	21.6%	26.0%	35.1%
Consensus EPS (Bloomberg)			(3.10)	(2.76)	(2.27)
DPS	0	0	0	0	0
Valuation (Dec)					
Free Cash Flow Yield*	-11.4%	-12.0%	-12.7%	-10.0%	-7.2%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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22 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	38.00	35.00
2024E EPS	-2.85	-2.50
2025E EPS	-2.15	-1.85
2026E EPS	NA	-1.20
2024E EBITDA (m)	-278.1	-293.4
2025E EBITDA (m)	-193.0	-216.1
2026E EBITDA (m)	NA	-134.6

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## Stock Data

Price	22.27 USD
Price Objective	35.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-1-9
52-Week Range	20.67 USD - 41.06 USD
Mkt Val (mn) / Shares Out (mn)	2,711 USD / 121.7
Free Float	95.9%
Average Daily Value (mn)	34.68 USD
BofA Ticker / Exchange	GH / NAS
Bloomberg / Reuters	GH US / GH.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	4.1%
ESGMeter <sup>TM</sup>	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".

# iQprofile<sup>SM</sup> Guardant Health

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-28.6%	-28.9%	-28.6%	-32.3%	-29.6%
Return on Equity	-123.5%	-322.0%	NM	NM	NM
Operating Margin	-121.1%	-85.3%	-66.2%	-45.3%	-29.8%
Free Cash Flow	(309)	(325)	(344)	(270)	(194)

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0x	0x	1.3x	1.3x	1.3x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	NM	4.1%	NM	NM	NM
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	450	564	663	805	990
% Change	20.3%	25.5%	17.6%	21.4%	23.0%
Gross Profit	293	337	392	479	591
% Change	16.9%	14.9%	16.3%	22.1%	23.5%
EBITDA	(403)	(344)	(293)	(216)	(135)
% Change	-74.3%	14.7%	14.8%	26.3%	37.7%
Net Interest & Other Income	(9)	46	40	40	40
<b>Net Income (Adjusted)</b>	<b>(435)</b>	<b>(352)</b>	<b>(299)</b>	<b>(223)</b>	<b>(146)</b>
<b>% Change</b>	<b>-92.7%</b>	<b>19.1%</b>	<b>15.3%</b>	<b>25.2%</b>	<b>34.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(555)	(436)	(400)	(325)	(256)
Depreciation & Amortization	36	43	46	50	54
Change in Working Capital	6	34	(25)	(25)	(26)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	203	35	93	94	101
Capital Expenditure	0	0	(58)	(63)	(68)
<b>Free Cash Flow</b>	<b>-309</b>	<b>-325</b>	<b>-344</b>	<b>-270</b>	<b>-194</b>
<b>% Change</b>	<b>-13.7%</b>	<b>-5.0%</b>	<b>-5.8%</b>	<b>21.5%</b>	<b>28.0%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
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	142	1,134	695	330	381
Trade Receivables	97	89	95	105	129
Other Current Assets	953	125	141	167	166
Property, Plant & Equipment	168	145	157	170	184
Other Non-Current Assets	250	294	294	294	294
<b>Total Assets</b>	<b>1,610</b>	<b>1,786</b>	<b>1,382</b>	<b>1,065</b>	<b>1,155</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	193	206	204	213	212
Long-Term Debt	1,137	1,140	1,140	1,141	1,491
Other Non-Current Liabilities	219	282	282	282	282
<b>Total Liabilities</b>	<b>1,550</b>	<b>1,628</b>	<b>1,626</b>	<b>1,636</b>	<b>1,985</b>
<b>Total Equity</b>	<b>60</b>	<b>159</b>	<b>(243)</b>	<b>(571)</b>	<b>(830)</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,610</b>	<b>1,786</b>	<b>1,382</b>	<b>1,065</b>	<b>1,155</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Healthcare Technology & Distribution

## Company Description

Guardant Health (GH) is a high growth genomics-based molecular diagnostics company that develops and commercializes precision medicine tests for the study and treatment of cancer. The company is an early mover and leader in the emerging liquid biopsy-based cancer testing market. The company has one commercial clinical product, a gene panel called Guardant360, and an intriguing pipeline of potentially disruptive products. GH also has numerous biopharma R&D and companion diagnostics partnerships.

## Investment Rationale

We are bullish on Guardant Health given early leadership in liquid biopsy-based testing for cancer. We estimate GH's total addressable market to be above \$35b. We see upside from higher test volumes/commercial clinical test pricing, increasing uptake of the company's cancer recurrence monitoring products, and cancer screening programs. While still facing many competitive, commercial, and regulatory risks, we believe GH's technology is differentiated.

## Stock Data

Average Daily Volume 1,557,305

## Quarterly Earnings Estimates

	2023	2024
Q1	-1.06A	-0.66E
Q2	-0.82A	-0.65E
Q3	-0.67A	-0.61E
Q4	-0.64A	-0.58E

## Price objective basis & risk

### Guardant Health (GH)

Our PO of \$35 is based on a discounted cash flow (DCF) analysis, which assumes a 3% terminal growth rate and a 11% weighted-average cost of capital (WACC). We believe that a DCF analysis better reflects the company's business given that both sales and operating expenses are expected to ramp significantly in future years.

Downside risks to our PO are regulatory approval for the company's SHIELD CRC (colorectal cancer) screening assay, inclusion of SHIELD in practice guidelines, CMS and commercial payer reimbursement for SHIELD and Guardant's other liquid-biopsy products, execution risks, market risks, competition, commercial risks, lingering headwinds from the COVID-19 pandemic, technology risks, and additional dilutive capital raises. Upside risks are faster than expected product uptake, higher reimbursement levels, successful pipeline developments, greater market penetration, and the acquisition of the company.

## Analyst Certification

I, Derik de Bruin, 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 - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Marava	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
<b>NEUTRAL</b>				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
<b>UNDERPERFORM</b>				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin



## US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

**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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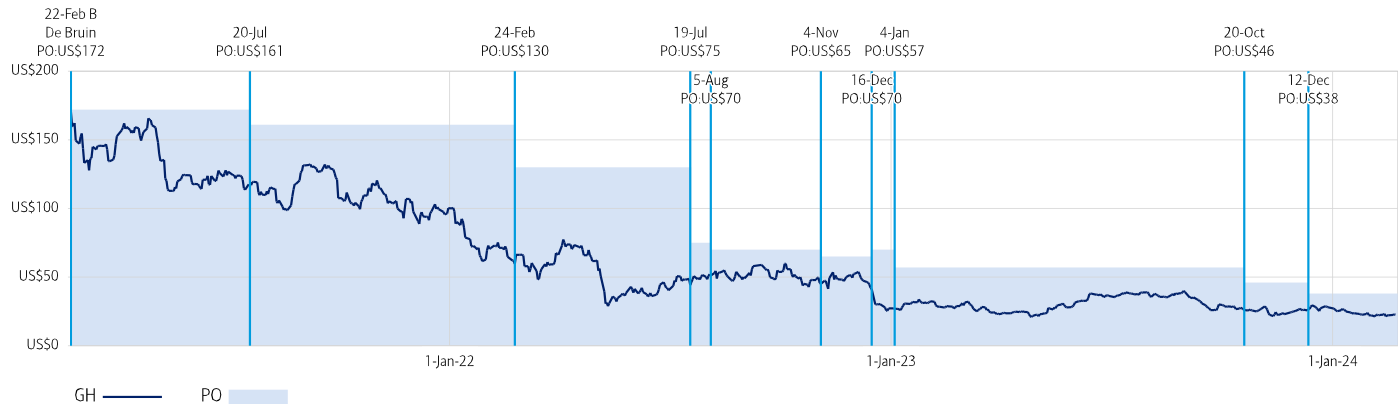
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### Guardant Health (GH) Price Chart



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### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

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%

<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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