

Vertex Pharmaceuticals Inc.

Thoughts post the 4Q call

Reiterate Rating: BUY | PO: 550.00 USD | Price: 428.89 USD

Multiple clinical wins point to continued pipeline execution

Vertex had a solid 4Q, in our view, with revenue guidance coming in at \$10.65B at the midpoint (+8% y/y), highlighting 2024 as another year of commercial growth, in large part driven by Trikafta's expected outperformance (BofA \$10.1B; cons \$9.7B). However, we'd flag that there's more to the Vertex story than just Cystic fibrosis (CF) following robust pivotal results for VX-548 in acute pain (see [our thoughts on the acute pain data report](#)) + vanzacaftor in CF, where Vertex expects to complete regulatory submissions by mid-2024. Notably, management highlighted it expects to use a priority review voucher (PRV) for vanzacaftor, bolstering our confidence in a solid 2025 launch (BofA \$230M). While there was some pushback on the call for broad vanzacaftor use as it didn't show numerically better ppFEV1 vs. Trikafta in patients ≥6 years, we'd argue the superiority on SwCl + convenience of a once-a-day oral provides some market differentiation. Indeed, we'd expect uptake in 1) patients who have discontinued Trikafta due to AEs or tolerability (~6k patients), 2) younger patients (SwCL is used as a diagnostic) where pancreatic sufficiency is a potential, and 3) patients with a suboptimal response to Trikafta. Thus, given our bullishness in Vertex's CF portfolio, we remain higher than the Street on non-GAAP EPS for 2025E-2027E at \$20.50, \$23.60, and \$27.15. We reiterate our Buy rating and are raising PO to \$550 from \$540 based on vanzacaftor phase 3 data.

New product cycle remains in focus

Unsurprisingly, the focus of the 4Q call was more on Vertex's new product cycle which includes VX-548 (pain), vanzacaftor combo (CF) and exa-cel (sickle cell / beta-thal). On VX-548, Vertex is focusing on the ~2000 hospitals that write most of the acute pain prescriptions (a top-down approach vs. targeting surgeons) with tailwinds expected from Federal + State legislation (e.g., the NO PAIN Act, effective in 2025). Indeed, we think this strategy makes a lot of sense and see 2024 as a foundational year for Vertex to build out infrastructure ahead of VX-548's launch.

Model changes

We've updated our model to reflect 2023 actuals and following the new 2024 guidance, we have updated our 2024E revenue to \$10.98B (from \$10.6B) and non-GAAP EPS to \$18.00 (from \$16.90). See page 3 for more details.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	14.88	15.23	18.00	20.50	23.60
GAAP EPS	12.82	13.88	16.60	19.03	22.07
EPS Change (YoY)	14.3%	2.4%	18.2%	13.9%	15.1%
Consensus EPS (Bloomberg)			16.61	18.33	20.47
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	28.8x	28.2x	23.8x	20.9x	18.2x
GAAP P/E	33.5x	30.9x	25.8x	22.5x	19.4x
EV / EBITDA*	18.9x	20.6x	16.6x	14.6x	12.6x
Free Cash Flow Yield*	3.5%	3.7%	4.4%	5.0%	5.7%

* For full definitions of *iQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 05 February 2024 09:14PM EST

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	540.00	550.00
2024E Rev (m)	10,667.6	10,978.7
2025E Rev (m)	11,535.2	12,252.6
2026E Rev (m)	13,037.2	13,729.0
2024E EPS	16.90	18.00
2025E EPS	18.30	20.50
2026E EPS	21.50	23.60

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Stock Data

Price	428.89 USD
Price Objective	550.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-1-9
52-Week Range	283.60 USD - 448.40 USD
Mrkt Val (mn) / Shares Out (mn)	111,769 USD / 260.6
Free Float	99.8%
Average Daily Value (mn)	573.24 USD
BofA Ticker / Exchange	VRTX / NAS
Bloomberg / Reuters	VRTX US / VRTX.OQ
ROE (2024E)	22.5%
Net Dbt to Eqty (Dec-2023A)	-81.3%
ESGMeter™	High

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iQprofileSM Vertex Pharmaceuticals Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	29.0%	22.7%	21.2%	19.4%	18.3%
Return on Equity	32.1%	24.6%	22.5%	20.3%	19.0%
Operating Margin	53.7%	44.3%	49.8%	51.0%	52.6%
Free Cash Flow	3,925	4,177	4,909	5,570	6,391

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.1x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.4x	1.4x	1.4x	1.4x	1.4x
Tax Rate	20.8%	19.4%	20.5%	20.5%	20.5%
Net Debt-to-Equity Ratio	-77.5%	-81.3%	-84.0%	-86.0%	-87.5%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,931	9,869	10,979	12,253	13,729
% Change	17.9%	10.5%	11.2%	11.6%	12.0%
Gross Profit	7,860	8,616	9,707	10,753	11,950
% Change	17.7%	9.6%	12.7%	10.8%	11.1%
EBITDA	4,941	4,524	5,628	6,417	7,400
% Change	10.6%	-8.4%	24.4%	14.0%	15.3%
Net Interest & Other Income	74	548	434	480	530
Net Income (Adjusted)	3,855	3,967	4,694	5,351	6,166
% Change	13.9%	2.9%	18.3%	14.0%	15.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,322	3,615	4,327	4,968	5,767
Depreciation & Amortization	148	150	158	166	175
Change in Working Capital	324	30	36	41	47
Deferred Taxation Charge	(276)	0	0	0	0
Other Adjustments, Net	612	589	606	624	643
Capital Expenditure	(205)	(207)	(218)	(229)	(241)
Free Cash Flow	3,925	4,177	4,909	5,570	6,391
% Change	63.0%	6.4%	17.5%	13.5%	14.7%
Share / Issue Repurchase	186	186	186	186	186
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	10,779	14,884	19,680	25,107	31,315
Trade Receivables	1,442	1,594	1,773	1,979	2,217
Other Current Assets	1,014	1,121	1,247	1,391	1,559
Property, Plant & Equipment	1,108	1,166	1,226	1,289	1,355
Other Non-Current Assets	3,808	3,988	4,201	4,446	4,730
Total Assets	18,151	22,752	28,127	34,212	41,176
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,742	3,030	3,371	3,762	4,215
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,496	1,411	1,325	1,240	1,154
Total Liabilities	4,238	4,441	4,696	5,002	5,369
Total Equity	13,913	18,311	23,431	29,210	35,807
Total Equity & Liabilities	18,151	22,752	28,127	34,212	41,176

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Biotechnology

Company Description

Vertex is a biopharmaceutical company focused on the discovery, development, and marketing of new therapies for the treatment of cystic fibrosis.

Investment Rationale

We rate Vertex as Buy on differentiated growth profile compared to peer companies, potential for upside from the ongoing Trikafta launch, and an emerging orphan disease pipeline.

Stock Data

Average Daily Volume 1,336,562

Quarterly Earnings Estimates

	2023	2024
Q1	3.05A	4.34E
Q2	3.89A	4.34E
Q3	4.08A	4.40E
Q4	4.20A	4.91E

Exhibit 1: Vertex Model Changes for 2024e and 2025e

We highlight changes in key model parameters below

\$ in millions	2024E		2025E	
	Prior	Current	Prior	Current
Other CF	744	744	596	596
Trikafta	9,815	10,130	10,317	11,020
Total Revenue	10,668	10,979	11,535	12,253
COGS	1,236	1,271	1,421	1,499
Gross Profit	9,431	9,707	10,115	10,753
R&D	3,018	3,033	3,187	3,203
SG&A	971	1,046	1,058	1,140
EBIT	5,155	5,470	5,579	6,251
Non-GAAP Net Income	\$4,407	\$4,694	\$4,776	\$5,351
Non-GAAP EPS - Diluted	\$16.90	\$18.00	\$18.30	\$20.50
Shares Outstanding - Diluted	261	261	261	261

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Abbreviations:

CF: cystic fibrosis

SCD: sickle cell disease

TDT: Transfusion-dependent beta-thalassemia

ppFEV1: Percent Predicted Forced Expiratory Volume in 1 Second

SwCl: sweat chloride

AE: adverse events

Price objective basis & risk

Vertex Pharmaceuticals Inc. (VRTX)

Our 12-month price objective for Vertex of \$550/share is based on our net present value (NPV) analysis. We forecast sales for each of the approved products, Kalydeco, Orkambi, Symdeko, and Trikafta through 2030. We assume a weighted-average cost of capital (WACC) of 9%, in line with peer companies of similar size and risk and varying terminal growth rates for each asset based on its characteristics and patent life (-50% to 2%). Given these assumptions, we estimate a value of \$3/share for Kalydeco, \$1/share for Orkambi, \$0/share for Symdeko, \$417/share for Trikafta, \$6/share for Casgevy, \$8/share for VX-548, \$58/sh for vanzacaftor, \$53/share in net cash, and \$4/share for the pipeline.

Risks to our price objective are 1) payer pushback on pricing, 2) difficulty in securing reimbursement agreements, particularly in the EU, 3) clinical trial failures, and 4) new competitors in cystic fibrosis.

Analyst Certification

I, Geoff Meacham, 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 - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	89bio, Inc	ETNB	ETNB US	Geoff Meacham
	Acumen Pharma	ABOS	ABOS US	Geoff Meacham
	Agios Pharmaceuticals	AGIO	AGIO US	Greg Harrison, CFA
	Amylyx Pharmaceuticals	AMLX	AMLX US	Geoff Meacham
	BioMarin	BMRN	BMRN US	Geoff Meacham
	BioXcel Therapeutics	BTAI	BTAI US	Greg Harrison, CFA
	BridgeBio Pharma	BBIO	BBIO US	Greg Harrison, CFA
	Caribou	CRBU	CRBU US	Geoff Meacham
	CRISPR Therapeutics	CRSP	CRSP US	Geoff Meacham
	Eli Lilly and Company	LLY	LLY US	Geoff Meacham
	Gilead Sciences Inc.	GILD	GILD US	Geoff Meacham
	HUTCHMED	HCM	HCM US	Alec W. Stranahan
	Immatics	IMTX	IMTX US	Alec W. Stranahan
	Insmid Incorporated	INSM	INSM US	Jason Zemansky
	Intellia Therapeutics	NTLA	NTLA US	Greg Harrison, CFA
	Janux Therapeutics	JANX	JANX US	Geoff Meacham
	Keros	KROS	KROS US	Greg Harrison, CFA
	Kiniksa Pharmaceuticals, Ltd.	KNSA	KNSA US	Geoff Meacham
	Krystal Biotech	KRYS	KRYS US	Alec W. Stranahan
	Kura Oncology	KURA	KURA US	Jason Zemansky
	Liquidia Corporation	LQDA	LQDA US	Greg Harrison, CFA
	Lyell Immunopharma	LYEL	LYEL US	Geoff Meacham
	MeiraGTx	MGTX	MGTX US	Alec W. Stranahan
	Mineralys Therapeutics	MLYS	MLYS US	Greg Harrison, CFA
	Neumora Therapeutics	NMRA	NMRA US	Geoff Meacham
	Rani Therapeutics	RANI	RANI US	Geoff Meacham
	Regenxbio, Inc.	RGNX	RGNX US	Alec W. Stranahan
	Revolution Medicines	RVMD	RVMD US	Alec W. Stranahan
	Rocket Pharmaceuticals, Inc.	RCKT	RCKT US	Greg Harrison, CFA
	Royalty Pharma	RPRX	RPRX US	Geoff Meacham
	Sana Biotechnology	SANA	SANA US	Geoff Meacham
	SpringWorks	SWTX	SWTX US	Alec W. Stranahan
	Syndax Pharmaceuticals	SNDX	SNDX US	Jason Zemansky
	Traverse Therapeutics Inc	TVTX	TVTX US	Greg Harrison, CFA
	Turnstone Biologics	TSBX	TSBX US	Geoff Meacham

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Vertex Pharmaceuticals Inc.	VRTX	VRTX US	Geoff Meacham
	Werewolf Therapeutics	HOWL	HOWL US	Jason Zemansky
	Xencor	XNCR	XNCR US	Alec W. Stranahan
NEUTRAL				
	AbbVie	ABBV	ABBV US	Geoff Meacham
	Alector, Inc	ALEC	ALEC US	Greg Harrison, CFA
	Amgen Inc.	AMGN	AMGN US	Geoff Meacham
	Arcus Biosciences	RCUS	RCUS US	Jason Zemansky
	Beam Therapeutics	BEAM	BEAM US	Greg Harrison, CFA
	Biogen Inc.	BIIB	BIIB US	Geoff Meacham
	Bristol-Myers Squibb	BMJ	BMJ US	Geoff Meacham
	Cytokinetics, Incorporated	CYTK	CYTK US	Jason Zemansky
	Editas Medicine	EDIT	EDIT US	Greg Harrison, CFA
	Erasca	ERAS	ERAS US	Alec W. Stranahan
	Esperion	ESPR	ESPR US	Jason Zemansky
	Exscientia	EXAI	EXAI US	Alec W. Stranahan
	IGM Biosciences	IGMS	IGMS US	Greg Harrison, CFA
	Johnson & Johnson	JNJ	JNJ US	Geoff Meacham
	Kymira Therapeutics	KYMR	KYMR US	Geoff Meacham
	Moderna	MRNA	MRNA US	Geoff Meacham
	Pfizer	PFE	PFE US	Geoff Meacham
	Recursion Pharmaceuticals, Inc.	RXRX	RXRX US	Alec W. Stranahan
	Tyra Biosciences	TYRA	TYRA US	Greg Harrison, CFA
	Vir	VIR	VIR US	Geoff Meacham
	Y-mAbs Therapeutics, Inc	YMAB	YMAB US	Alec W. Stranahan
UNDERPERFORM				
	AlloVir, Inc.	ALVR	ALVR US	Jason Zemansky
	CureVac	CVAC	CVAC US	Geoff Meacham
	Day One Biopharmaceuticals	DAWN	DAWN US	Alec W. Stranahan
	LianBio	LIAN	LIAN US	Geoff Meacham
	Novavax	NVAX	NVAX US	Alec W. Stranahan
	Regeneron Pharmaceuticals Inc.	REGN	REGN US	Geoff Meacham
	Reneo Pharmaceuticals	RPHM	RPHM US	Jason Zemansky
	TG Therapeutics	TGTX	TGTX US	Alec W. Stranahan
	United Therapeutics Corporation	UTHR	UTHR US	Greg Harrison, CFA
RSTR				
	Merck & Co.	MRK	MRK US	Geoff Meacham



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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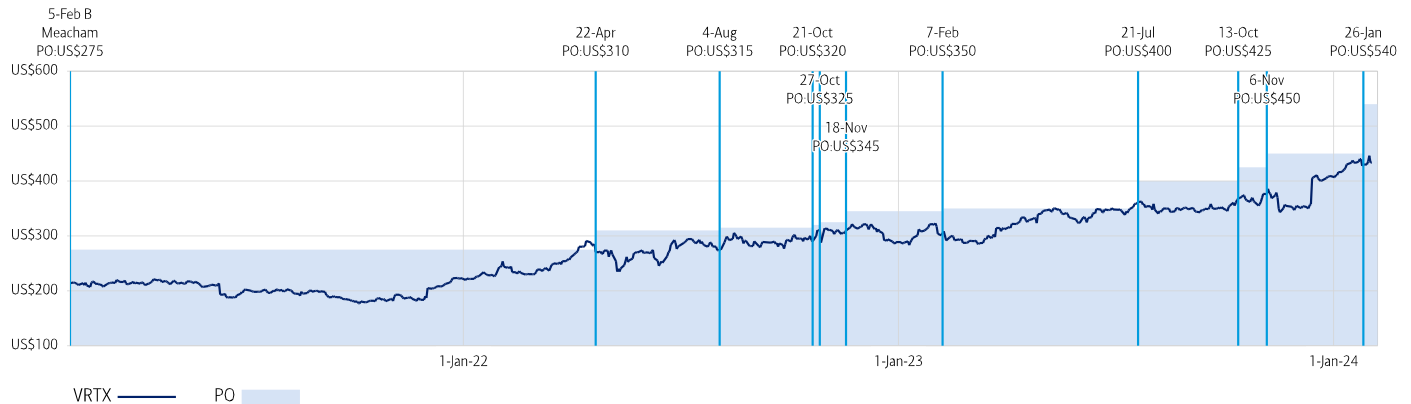
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Disclosures

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Vertex Pharmaceutica (VRTX) 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 ^{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%

^{R1} 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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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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