

Vir

4Q23 Earnings Takeaways: Clear catalyst path, positive data needed for rerating

Maintain Rating: NEUTRAL | PO: 14.00 USD | Price: 10.30 USD

Recent updates continue to weigh on shares

VIR stock trading down YTD (-2%; NBI: flat) with the next chapter for the company set to begin following exit (for the most part) from the rapidly shrinking COVID-19 market. The outlook for the company looks very different now as compared to a year ago with 2023 revenue declining from 2022 numbers (2023 rev: ~\$86.2M; 2022 rev: ~\$1615.8M; down -94.7%) which is largely driven by lower profit share from sales of sotrovimab under Vir's 2020 GSK agreement. From our conversation with management, while we see announcement of expanding strategic focus to autoimmune disease as incrementally positive for future development, but until they can translate abundance of capital into tangible value from the pipeline, we maintain Neutral and keep our \$14 PO.

Financial and corporate updates show strategic shifts

In December of 2023, the company announced strategic restructuring to focus its capital allocation on its most promising programs (hepatitis beta/delta), which included the closure of multiple R&D facilities in St. Louis and Portland in 2024. With the elimination of 12% of workforce and discontinuation of its small molecule group, the reductions are expected to be mostly completed by 1Q24e according to management, totaling reduction in cost of ~\$40M annually. Recent announcement of CMO stepping down adds to the changing winds at the company, but we think that the company's planned cost cutting measures to invest in assets with highest ROI may not be perceived as prudent, with over-analysis of the situation not warranted. That said, execution is key in upcoming months.

Upcoming catalysts in 2024 can reverse sentiment

2024 for Vir is shaping up to be quite fruitful in terms of data catalysts including **1)** phase 2 SOLSTICE clinical data (15 participants/regimen at 12w; 10 participants per regimen at 24w) for tobevibart mono/combo in chronic hepatitis delta in 2Q24e, **2)** VIR-1388 phase 1 initial immunogenicity data in HIV in 2H24e, **3)** phase 2 additional SOLSTICE clinical data (30 participants at 24w) for tobevibart mono/combo in chronic hepatitis delta in 4Q24e, **4)** phase 2 MARCH-B clinical data (tobevibart/elebsiran) in 4Q23e, **5)** VIR-7229 IND filings in 4Q23e. While we do not expect any of the data catalysts to be completely game-changing for the stock (multiple phase 3s still likely), we do see multiple chances for data to lead to potential sentiment reversal near-term.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.96	3.83	(3.70)	(4.07)	(3.87)
EPS Change (YoY)	NM	-3.3%	NM	-10.0%	4.9%
Consensus EPS (Bloomberg)			(4.67)	(4.29)	(3.76)
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	2.6x	2.7x	NM	NM	NM
EV / EBITDA*	2.5x	1.3x	NM	NM	NM
Free Cash Flow Yield*	-5.0%	115.1%	-24.3%	-27.5%	-25.1%

* For full definitions of *IQmethod™* measures, see page 6.

23 February 2024

Equity

Alec W. Stranahan
Research Analyst
BofAS
+1 646 743 2109
alec.stranahan@bofa.com

Geoff Meacham
Research Analyst
BofAS
+1 646 855 1004
geoff.meacham@bofa.com

Charlie Yang
Research Analyst
BofAS
+1 646 855 5732
charlie.yang@bofa.com

John Fan >>
Research Analyst
Merrill Lynch (Canada)
+1 917 634 7972
john.fan@bofa.com

Stock Data

Price	10.30 USD
Price Objective	14.00 USD
Date Established	8-Sep-2023
Investment Opinion	C-2-9
52-Week Range	7.72 USD - 28.07 USD
Mkt Val (mn) / Shares Out (mn)	1,386 USD / 134.5
Free Float	76.2%
Average Daily Value (mn)	11.80 USD
BofA Ticker / Exchange	VIR / NAS
Bloomberg / Reuters	VIR US / VIR.OQ
ROE (2023E)	-26.6%
Net Dbt to Eqty (Dec-2022A)	-39.6%
ESGMeter™	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"](#).

Abbreviations:

YTD: Year-to-date

ROI: Return on investment

HIV: Human immunodeficiency virus

IND: Investigational new drug

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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: 23 February 2024 05:00AM EST

iQprofileSM Vir

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	31.0%	30.2%	-23.9%	-32.9%	-42.1%
Return on Equity	49.2%	29.4%	-26.6%	-37.8%	-50.8%
Operating Margin	38.4%	51.6%	-885.3%	-1,872.4%	-2,044.7%
Free Cash Flow	(69)	1,595	(337)	(381)	(348)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	-0.1x	3.2x	NM	NM	NM
Asset Replacement Ratio	3.9x	-31.5x	0x	0x	0x
Tax Rate	3.9%	31.6%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	-22.7%	-39.6%	-29.6%	-9.9%	-135.6%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,095	1,616	79	41	36
% Change	1,334.4%	47.5%	-95.1%	-48.0%	-12.2%
Gross Profit	1,030	1,469	77	41	22
% Change	NM	42.7%	-94.8%	-46.7%	-46.5%
EBITDA	426	831	(689)	(761)	(732)
% Change	NM	94.9%	NM	-10.6%	3.8%
Net Interest & Other Income	129	(79)	29	31	32
Net Income (Adjusted)	528	516	(501)	(553)	(528)
% Change	NM	-2.4%	NM	-10.3%	4.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	529	516	(501)	(553)	(528)
Depreciation & Amortization	6	(2)	9	6	4
Change in Working Capital	145	(105)	48	53	58
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	(726)	1,254	107	113	118
Capital Expenditure	(22)	(68)	0	0	0
Free Cash Flow	-69	1,595	-337	-381	-348
% Change	64.9%	NM	NM	-13.1%	8.8%
Share / Issue Repurchase	15	5	5	5	6
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	31	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	348	849	523	148	1,156
Trade Receivables	773	NA	NA	NA	NA
Other Current Assets	442	1,670	1,707	1,707	357
Property, Plant & Equipment	43	106	88	74	61
Other Non-Current Assets	349	177	158	184	201
Total Assets	1,954	2,802	2,476	2,112	1,775
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	341	511	579	655	728
Long-Term Debt	23	25	25	25	25
Other Non-Current Liabilities	158	188	188	188	188
Total Liabilities	522	724	793	868	941
Total Equity	1,432	2,078	1,684	1,244	834
Total Equity & Liabilities	1,954	2,802	2,476	2,112	1,775

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

Company Sector

Biotechnology

Company Description

Vir is a clinical stage Biopharma focused on the development and commercialization of agents to prevent and treat serious infectious diseases. Led by an experienced management team, Vir has assembled a platform of four advanced technologies: antibodies, siRNA, T-cells, and innate immunity. Together with an innovative development strategy, Vir is advancing a portfolio of candidates starting with treatments for hepatitis B, hepatitis D, influenza, and COVID-19.

Investment Rationale

We have a Neutral rating on Vir because we believe near-term trial readouts in HBV are unlikely to materially change investor sentiment that could drive a re-rating. That said, we remain bullish on Vir's antibody platform and see the long-term opportunity in its infectious disease pipeline overall (e.g., hepatitis B/D, flu, and COVID-19).

Stock Data

Average Daily Volume 1,145,363

Quarterly Earnings Estimates

	2022	2023
Q1	3.93A	-1.06A
Q2	-0.58A	-1.45A
Q3	1.32A	-0.95E
Q4	-0.76A	-0.40E

Exhibit 1: Model Changes

Aligned OpEx with guidance specified on 4Q23 earnings call

\$ in thousands	2024E		2025E		2026E	
	Prior	Current	Prior	Current	Prior	Current
Product revenue	0	0	0	0	5	5
License revenue	41	23	36	18	33	33
Total Revenues	41	23	36	18	16	16
COGS	0	0	14	14	107	107
R&D	623	501	530	426	450	383
SG&A	186	160	229	203	294	267
Total Operating Expenses	809	661	773	643	851	758
Operating Income	(768)	(639)	(736)	(625)	(861)	(742)
Interest income	31	91	33	96	34	101
Interest expense	(0)	(0)	(0)	(0)	(0)	(0)
Pretax Income	(737)	(548)	(704)	(529)	(827)	(642)
Net income to common (GAAP)	(722)	(537)	(676)	(508)	(769)	(597)
Earnings per share (non-GAAP)	(5.32)	(3.95)	(4.96)	(3.73)	(5.62)	(4.36)
Shares outstanding diluted	135,810	135,810	136,310	136,310	136,810	136,810

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Vir (VIR)

Our \$14 PO is based on our NPV analysis of forecasted revenue and estimated margin assumptions. We forecast sales for '2218 and '3434 for hep B through 2035e modified by a risk-adjusted LOS of 30% and 30%, respectively, in line with similarly-staged assets. Given a WACC of 14%, in line with peers of similar size and risk, and a terminal growth rates of -30%, we estimate a value of \$2/sh for the pipeline programs and \$12 net cash.

Upside risks: 1) clear, early signals of efficacy of '2218 and '3434 in hepatitis B and hepatitis D, 2) setbacks for competing clinical programs, 3) strong commercial support from payers, 4) positive news on new, promising programs.

Downside risks: 1) clinical trial failures and setbacks/ delays materially altering timelines, 2) appearance of meaningful safety risks-especially those suggesting platform-level issues, 3) regulatory delays, 4) competition from other approved or novel therapies, 5) financial risks due to available cash to fund development and regulatory activities, and 6) commercial pushback from payers.

Analyst Certification

I, Alec W. Stranahan, 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
	Insmed Incorporated	INSM	INSM US	Jason Zemansky
	Intellia Therapeutics	NTLA	NTLA US	Greg Harrison, CFA
	Janux Therapeutics	JANX	JANX US	Alec W. Stranahan
	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
	Merck & Co.	MRK	MRK US	Geoff Meacham
	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

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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
	Kymera Therapeutics	KYMR	KYMR US	Geoff Meacham
	Moderna	MRNA	MRNA US	Geoff Meacham
	Pfizer	PFE	PFE US	Geoff Meacham
	Recursion Pharmaceuticals, Inc.	RXR	RXR US	Alec W. Stranahan
	Tyra Biosciences	TYRA	TYRA US	Greg Harrison, CFA
	Vir	VIR	VIR US	Alec W. Stranahan
	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
	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



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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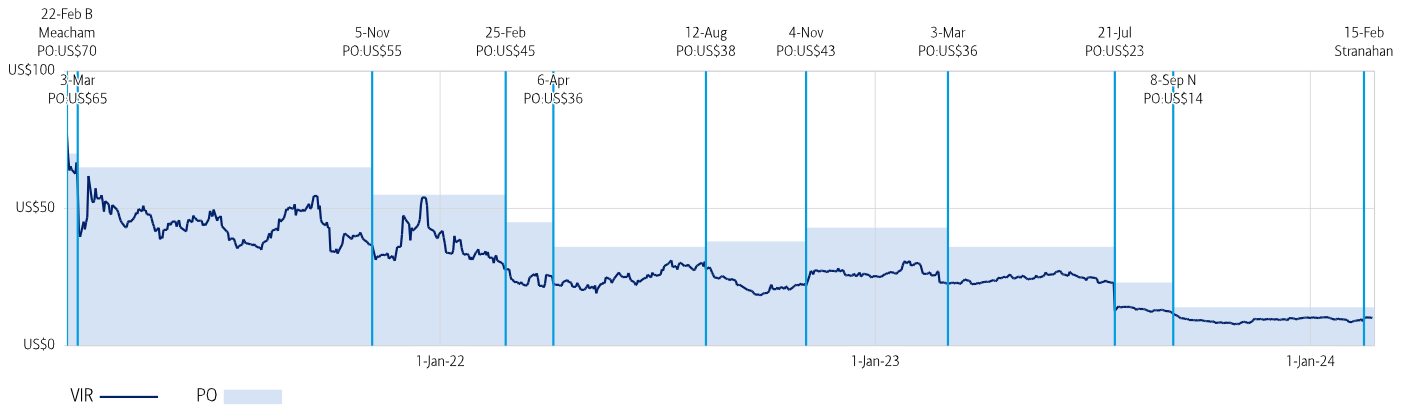
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Vir (VIR) Price Chart



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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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