

Kiniksa Pharmaceuticals, Ltd.

Thoughts on 4Q – pre announcement

Reiterate Rating: BUY | PO: 28.00 USD | Price: 19.13 USD

2024 revenue guidance bolsters confidence

Kiniksa shares ended the day down -4.3% (NBI +0.6%), as the company met consensus estimates for 4Q Arcalyst sales in their earnings pre-announcement this morning (2023: \$233M; +90% y/y, BofA:\$266m, cons: \$232M) and set 2024 Arcalyst sales guidance at \$360 – \$380m, but released mixed trial results for it's KPL-404 candidate in arthritis. Accordingly, we are raising our 2024 revenue estimates to \$372M (cons: ~\$343M) as we continue to believe a meaningful opportunity exists for Arcalyst as the high unmet need in its target recurrent pericarditis population will drive adoption (currently low penetration rates) along with strong persistency rates for current patients.

We continue to view Kiniksa as differentiated from SMID biotech peers, and at current levels, we think the risk/ reward profile remains attractive with an improving macro backdrop. Indeed, Kiniksa has a proven track record of re-investing into the business, while providing optionality for its earlier pipeline and retaining strategic attractiveness given the growth of Arcalyst and a path to profitability. We reiterate our Buy rating and \$28 PO as Kiniksa continues to execute on both a commercial and pipeline perspective.

KPL-404 phase 2 trial results mixed

Kiniksa announced mixed phase 2 results for their KPL-404 trial this morning. While its 5 mg/kg weekly dose showed statistical significance and met its primary endpoint in rheumatoid arthritis, the biweekly dose did not. Accordingly, the company announced it completed enrollment for a 4th cohort in the study and expects data in 1H24. While it is the only drug the company has in clinical development, we don't view KPL-404 as a key component of Kiniksa's narrative, as the company's story is one of strategic execution. Rheumatoid arthritis (RA) is clearly a competitive market but one where even a modestly differentiated profile could lead to a reasonable market share. We excluded '404 from our model and await further data. Looking longer term, Kiniksa continues to pursue collaborative study agreements for mavrilimumab in rare cardiovascular diseases, which makes sense from a P&L perspective and provides optionality.

Model updates

We have updated our model to reflect 4Q pre-announced revenues and 2024 guidance - we now forecast 2023 revenue of \$261M (from \$266M) and GAAP EPS of -\$0.20 (from -\$0.15) and 2024 revenue of \$422M (from \$397M) and GAAP EPS of \$0.75 (from \$0.50). Please see page 3 for more details.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(2.30)	2.60	(0.20)	0.75	1.50
EPS Change (YoY)	11.9%	NM	NM	NM	100.0%
Consensus EPS (Bloomberg)			(0.22)	(0.44)	(0.27)
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	7.4x	NM	25.5x	12.8x
EV / EBITDA*	NM	91.7x	NM	26.6x	11.3x
Free Cash Flow Yield*	-9.6%	0.4%	0.2%	6.6%	10.8%

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

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Timestamp: 04 January 2024 05:05PM EST

04 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	266.0	260.9
2024E Rev (m)	396.8	422.4
2023E EPS	-0.15	-0.20
2024E EPS	0.50	0.75

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Stock Data

Price	19.13 USD
Price Objective	28.00 USD
Date Established	22-Feb-2022
Investment Opinion	C-1-9
52-Week Range	10.29 USD - 20.65 USD
Mrkt Val (mn) / Shares Out (mn)	1,325 USD / 69.3
Free Float	86.6%
Average Daily Value (mn)	9.39 USD
BofA Ticker / Exchange	KNXA / NAS
Bloomberg / Reuters	KNXA US / KNXA.OQ
ROE (2023E)	-3.3%
Net Dbt to Eqty (Dec-2022A)	-31.0%
ESGMeter™	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".

Abbreviations:

CV: cardiovascular
GM-CSF: granulocyte macrophage colony stimulating factor

iQprofileSM Kiniksa Pharmaceuticals, Ltd.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-55.7%	3.3%	-3.2%	7.2%	10.8%
Return on Equity	-63.5%	63.1%	-3.3%	9.9%	14.7%
Operating Margin	-406.4%	4.4%	-9.1%	9.9%	17.6%
Free Cash Flow	(127)	6	3	87	143

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	0x	NM	1.5x	1.1x
Asset Replacement Ratio	0.2x	0x	0x	0x	0x
Tax Rate	NM	NM	15.0%	NM	NM
Net Debt-to-Equity Ratio	-66.2%	-31.0%	-45.9%	-60.7%	-72.7%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	39	220	261	422	559
% Change	NA	471.2%	18.5%	61.9%	32.3%
Gross Profit	29	173	165	266	359
% Change	NA	505.5%	-4.6%	60.9%	34.9%
EBITDA	(154)	12	(22)	42	98
% Change	0.4%	NM	NM	NM	134.7%
Net Interest & Other Income	0	1	6	6	6
Net Income (Adjusted)	(158)	183	(15)	57	126
% Change	2.1%	NM	NM	NM	118.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont. Operations (GAAP)	(158)	183	(15)	57	126
Depreciation & Amortization	2	2	1	0	0
Change in Working Capital	1	(23)	(11)	(1)	(16)
Deferred Taxation Charge	0	(185)	0	0	0
Other Adjustments, Net	29	28	28	30	33
Capital Expenditure	0	0	0	0	0
Free Cash Flow	-127	6	3	87	143
% Change	7.4%	NM	-44.5%	NM	63.9%
Share / Issue Repurchase	6	3	99	99	199
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	122	123	225	411	753
Trade Receivables	4	13	29	34	55
Other Current Assets	70	108	108	108	108
Property, Plant & Equipment	3	2	0	0	0
Other Non-Current Assets	34	215	196	196	196
Total Assets	233	460	558	749	1,112
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	45	47	52	56	61
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	3	16	16	16	16
Total Liabilities	48	64	69	73	78
Total Equity	185	396	490	677	1,035
Total Equity & Liabilities	233	460	558	750	1,112

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

Company Sector

Biotechnology

Company Description

Kiniksa is a development stage biopharmaceutical company focusing on the development and commercialization of treatments for autoimmune and autoimmune diseases characterized by unmet need. Led by an experienced management team, Kiniksa has acquired and advanced a diverse pipeline of four clinical assets that range in development from registration-enabling phase 3 to first-in-human phase 1.

Investment Rationale

In our view, Kiniksa offers a compelling, longer-term opportunity for investors given its diversified pipeline. Led by an experienced management team, Kiniksa has advanced its pipeline, with many candidates already demonstrating some clinical validation, in contrast to many clinical stage peers. We look for continued progression and de-risking of the portfolio, which should provide meaningful upside to shares as Kiniksa continues its evolution into a commercial-stage Biopharma.

Stock Data

Average Daily Volume 490,966

Quarterly Earnings Estimates

	2022	2023
Q1	-0.36A	-0.18A
Q2	-0.29A	0.21A
Q3	3.18A	-0.20A
Q4	0.06A	-0.04E

Model Updates

Exhibit 1: Kiniksa BofA 2023 and 2024 estimate changes

We have updated our 2023/ 2024 estimates

	2023E		2024E	
	Prior	Current	Prior	Current
\$ in millions (ex. per share items)				
rilonacept	\$ 238	\$ 233	\$ 347	\$ 372
other	28	28	50	50
Net Product Sales	266	261	397	422
Total Revenue	\$ 266	\$ 261	\$ 397	\$ 422

	2023E		2024E	
	Prior	Current	Prior	Current
\$ in millions (ex. per share items)				
Revenue	\$ 266	\$ 261	\$ 397	\$ 422
COGS	95	96	125	156
Gross Profit	189	165	272	266
R&D	88	71	114	92
SG&A	118	118	130	132
Operating Income	(17)	(24)	27	42
Interest Income	4	6	4	6
Taxes	2	3	6	10
GAAP Net Income	(11)	(15)	38	57
GAAP EPS	(0.15)	(0.20)	0.50	0.75
Shares Outstanding - Diluted	73	73	77	77

Source: BofA Global Research

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Price objective basis & risk

Kiniksa Pharmaceuticals, Ltd. (KNSA)

We use a sum of the parts NPV model to value Kiniksa shares based on our risk adjusted revenue forecasts and estimated margin assumptions. Our \$28 price objective is based on a sum-of-the parts NPV analysis, forecasting sales of rilonacept out to 2030 using a WACC of 8%, respectively and a terminal value of -7.5%. Under our assumptions, we value rilonacept at \$25/share, the pipeline at \$0/share and net cash of approximately \$3/share.

Upside risks to our PO are: 1) stronger than expected phase 3/ phase 2 POC data, 2) upside to rilonacept launch expectations, and 3) rapid progression of KPL-404 and mavrilimumab development.

Downside risks to our PO are: 1) clinical trial failures, 2) greater than expected competitive threats, 3) delays in product approvals or pipeline developments, 4) unanticipated safety concerns, and 5) financial risks due to available cash.

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
	Erasca	ERAS	ERAS US	Alec W. Stranahan
	Exscientia	EXAI	EXAI US	Alec W. Stranahan
	Gilead Sciences Inc.	GILD	GILD US	Geoff Meacham
	HUTCHMED	HCM	HCM US	Alec W. Stranahan
	Immatics	IMTX	IMTX US	Alec W. Stranahan
	Insmmed 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
	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
	Rocket Pharmaceuticals, Inc.	RCKT	RCKT US	Greg Harrison, CFA
	Royalty Pharma	RPRX	RPRX US	Geoff Meacham
	Sana Biotechnology	SANA	SANA US	Geoff Meacham

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	Alecto, 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
	Esperion	ESPR	ESPR US	Jason Zemansky
	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.	RXR	RXR US	Alec W. Stranahan
	Revolution Medicines	RVMD	RVMD 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

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

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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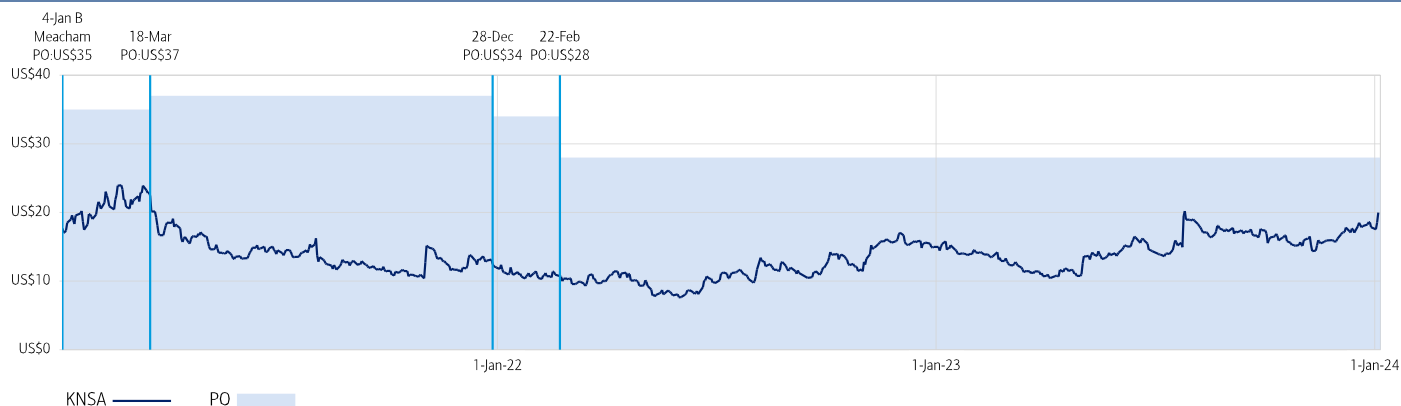
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Important Disclosures

Kiniksa Pharmaceutical (KNSA) 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%

^{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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