

Schrodinger, Inc.

2024 updates: up to ~\$45mn in D.D. sales (well-below), focus on internal pipeline

Maintain Rating: NEUTRAL | PO: 38.00 USD | Price: 31.46 USD

SDGR continues strategic shift to internal drug discovery

This morning, Schrodinger (SDGR) provided a strategic update and gave some early color on 2024. The big surprise in the announcement was an outlook for Drug Discovery (D.D.) revenues to come in “similar to or lower than 2022” levels (which were \$45.4mn). This is well-below our forecast of \$116mn, and Street consensus of \$131.5mn. The rationale for the subdued outlook was that SDGR is increasingly allocating more resources to their own proprietary pipeline, is selective about entering into new collaborations, and that several partners ‘returned’ programs in 2023 (most notably [Bristol Myers Squibb in 3Q23, see our report linked here](#)). SDGR also noted that the Phase 1 studies of SGR-1505 in advanced B cell malignancies and SGR-2921 in AML/MDS is expected for initial data release in late 2024 or 2025. There was no color on Software outlook for 2024, nor how 4Q/2023 wrapped up. We maintain our Neutral rating as we continue to see SDGR’s proprietary platform as adding differentiated value, but think the stock is fairly valued given the long-term nature and unpredictable timing of the Drug Discovery segment (as evidenced by today’s update).

Expanded multi-year software agreement with Lilly

Additionally, SDGR announced an expanded, 3-year software agreement with Eli Lilly (LLY). This collaboration was initially established in 2022 and will provide LLY with large-scale access to SDGR’s full-suite of technologies across all stages of drug discovery. We’re not surprised to see continued adoption of SDGR’s software suite by large-pharma, which is consistent with the roadmap for that business for many years, although there were no financial details in the press release.

08 January 2024

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Stock Data

| | |
|---------------------------------|-----------------------|
| Price | 31.46 USD |
| Price Objective | 38.00 USD |
| Date Established | 12-Dec-2023 |
| Investment Opinion | C-2-9 |
| 52-Week Range | 18.02 USD - 59.24 USD |
| Mrkt Val (mn) / Shares Out (mn) | 2,322 USD / 73.8 |
| Free Float | 97.5% |
| Average Daily Value (mn) | 24.34 USD |
| BofA Ticker / Exchange | SDGR / NAS |
| Bloomberg / Reuters | SDGR US / SDGR.OQ |
| ROE (2023E) | 15.7% |
| Net Dbt to Eqty (Dec-2022A) | -21.4% |
| ESGMeter™ | Medium |

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AML: acute myeloid leukemia

MDS: myelodysplastic syndromes

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Timestamp: 08 January 2024 09:20AM EST

Price objective basis & risk

Schrodinger, Inc. (SDGR)

Our \$38 price objective is discounted cash flow (DCF)-based, with roughly 12.5% weighted-average cost of capital (WACC) and 4.5% terminal growth rate. This also equates to roughly 12x 2024E EV/Sales multiple, which is a premium to most names in the peer group, but reflects the additional long-term upside offered by the drug discovery business.

Downside risks are competition, drug development uncertainty, revenue volatility, and lack of profitability/potential need for further capital.

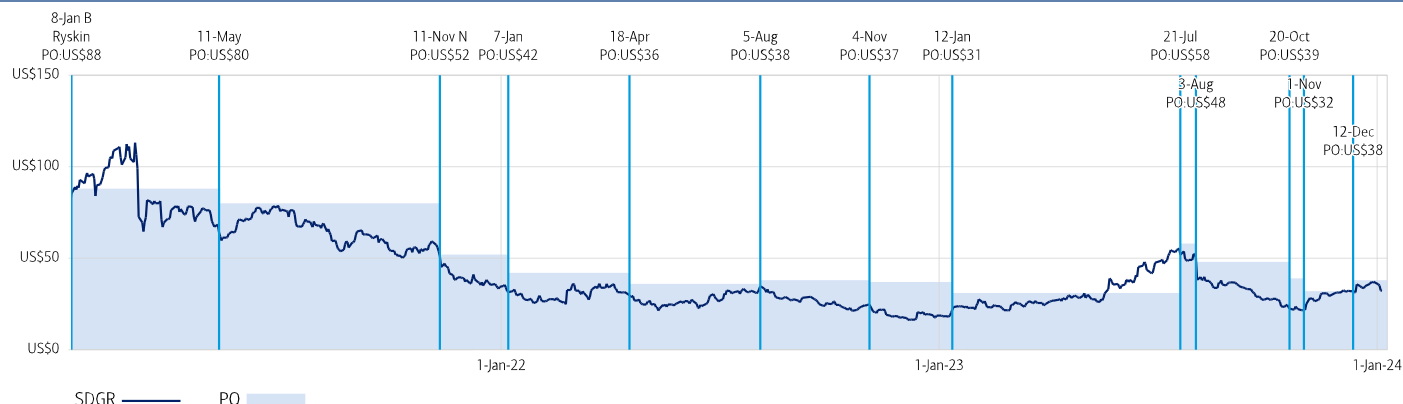
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Disclosures

Important Disclosures

Schrodinger (SDGR) 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% |

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