

LianBio

Downgrading to Underperform on lower pipeline optionality / quiet 2024

Rating Change: UNDERPERFORM | PO: 3.00 USD | Price: 4.37 USD

Current pipeline offers less optionality in the near term

We are moving to Underperform from Buy on LianBio and lowering our PO to \$3 (from \$5) given lower pipeline optionality and a less strategic clarity going forward. While the sale of the company's rights to mavacamten in Asia for \$350M to Bristol in 2023 was a major positive and extended the Lian's cash runway dramatically, it isn't clear to us what the cash deployment picture looks like to preserve pipeline / portfolio optionality. Indeed, we thought the sale reduced the impact factor of pipeline, with recent management changes adding to the uncertainty. Already, LianBio is down two assets following the phase 2 failure of TP-03 in Demodox Blepharitis and earlier sale of NBTXR3 to J&J for \$25M in late December earlier this year. While the company currently has \$6 of cash per share, we see significant opex expenditures for the company to execute its reorganization plan without a clear path to profitability. Overall, given the pipeline is expected to yield little data throughout 2024, we could see LIAN shares weaken, supporting an Underperform rating, \$3 PO.

Strategic review and recent management exits

Looking to 2024, LianBio is scheduled to provide an update on its strategic review in 1H24. Since initiating the review in October, the company has declined a takeover offer from Concentra Biosciences and has seen the departure of both its CEO Yizhe Wang and CFO Yi Larson with Adam Stone (CIO of Perceptive Advisors) and Ehong Gu (Head of Global Finance for Lianbio) serving as interim CEO and CFO respectively. We think there is much wood to chop despite the sizeable cash on hand as Lian must both fill open leadership roles and provide clarity on the company's strategic direction. We are doubtful that Lian will provide satisfactory updates on both by mid-year.

Model Changes

Our PO decrease is driven by reducing the expected revenue for TP-03, adding license proceeds from and removing future costs and revenues from Mavacamten and NBTXR3, increasing opex spend, and increasing the WACC to 20% (From 16%) due to near term uncertainty over the company's strategic direction. Our 2023E EPS is now \$2.40 (\$2.15 prior), our 2024E EPS remains unchanged and our 2025 EPS is now -\$1.70 (-\$1.45 prior). See abbreviations on page 3.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(5.71)	(1.02)	2.40	(1.35)	(1.70)
EPS Change (YoY)	50.7%	82.1%	NM	NM	-25.9%
Consensus EPS (Bloomberg)			0	(0.86)	(0.95)
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	1.8x	NM	NM
EV / EBITDA*	NM	NM	0.4x	NM	NM
Free Cash Flow Yield*	-34.9%	-21.4%	72.3%	-16.6%	-26.8%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 03 January 2024 06:00AM EST

03 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-1-9	C-3-9
Inv. Rating	BUY	UNDERPERFORM
Price Obj.	5.00	3.00
2023E Rev (m)	350.0	375.0
2025E Rev (m)	80.9	53.3
2023E EPS	2.15	2.40
2025E EPS	-1.45	-1.70

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Stock Data

Price	4.37 USD
Price Objective	3.00 USD
Date Established	3-Jan-2024
Investment Opinion	C-3-9
52-Week Range	1.33 USD - 4.78 USD
Mrkt Val (mn) / Shares Out (mn)	472 USD / 108.1
Free Float	0%
Average Daily Value (mn)	1.26 USD
BofA Ticker / Exchange	LIAN / NAS
Bloomberg / Reuters	LIAN US / LIAN.OQ
ROE (2023E)	58.7%
Net Dbt to Eqty (Dec-2022A)	-27.0%
ESGMeter TM	NLA

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".

iQprofileSM LianBio

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-51.4%	-30.8%	50.0%	-24.1%	-34.1%
Return on Equity	-135.8%	-33.2%	58.7%	-26.2%	-38.4%
Operating Margin	NA	NA	63.7%	-356.0%	-503.5%
Free Cash Flow	(165)	(101)	341	(78)	(126)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	1.3x	NM	NM
Asset Replacement Ratio	1.8x	1.8x	1.5x	1.5x	1.5x
Tax Rate	NM	0.3%	NM	NM	NM
Net Debt-to-Equity Ratio	-58.9%	-27.0%	-67.7%	-71.0%	-74.0%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	0	0	375	50	53
% Change	NA	NA	NA	-86.7%	6.6%
Gross Profit	0	0	375	50	53
% Change	NA	NA	NA	-86.7%	6.6%
EBITDA	(195)	(124)	240	(176)	(265)
% Change	-44.7%	36.2%	NM	NM	-50.9%
Net Interest & Other Income	0	15	19	31	73
Net Income (Adjusted)	(196)	(113)	258	(149)	(198)
% Change	-40.7%	42.5%	NM	NM	-32.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(196)	(110)	260	(147)	(195)
Depreciation & Amortization	1	1	1	2	3
Change in Working Capital	14	8	63	51	51
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	18	2	19	19	19
Capital Expenditure	(1)	(2)	(2)	(3)	(5)
Free Cash Flow	-165	-101	341	-78	-126
% Change	-66.5%	38.7%	NM	NM	-61.6%
Share / Issue Repurchase	313	2	11	99	99
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	228	79	396	394	353
Trade Receivables	0	0	0	0	0
Other Current Assets	171	234	309	365	412
Property, Plant & Equipment	2	3	4	5	7
Other Non-Current Assets	25	4	1	2	3
Total Assets	426	320	710	766	776
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	15	24	113	189	267
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	24	3	13	22	31
Total Liabilities	39	26	126	211	298
Total Equity	387	294	584	555	478
Total Equity & Liabilities	426	320	710	766	776

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Biotechnology

Company Description

LianBio is a clinical-stage biopharmaceutical company with a business model focused on in-licensing, developing and commercializing medicines for high unmet need indications in Greater China. Led by an experienced management team, LianBio has acquired and advanced 9 assets, spanning 5 therapeutic areas.

Investment Rationale

Our Underperform rating on LIAN is based on the limited optionality of its current pipeline which lacks high impact candidates, and concerns over high opex spending / strategic uncertainty over the company's future.

Stock Data

Average Daily Volume

288,972

Quarterly Earnings Estimates

	2022	2023
Q1	0.26A	-0.22A
Q2	-0.40A	-0.22A
Q3	-0.29A	-0.22E
Q4	-0.17A	-0.43E

Abbreviations:

TP-03 – Drug Candidate in Demodex Blepharitis

NBTXR3 – Radiopharma drug candidate

Opex – Operating Expense



Price objective basis & risk

LianBio (LIAN)

Our \$3/share price objective is based on a probability adjusted NPV of TP-03 (\$-2/sh), infigratinib (-\$1/sh), and cash (\$6/sh). We apply a WACC of 20%, which is comparable to our valuation methodology for other biopharmaceutical companies of similar size and stage of development.

Upside risks to our PO are 1) stronger-than-expected phase 3/ phase 2 data, 2) upside to TP-03 launch expectations, and 3) rapid scaling from in-licensing differentiated assets.

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, 5) financial risks due to available cash, and 6) Chinese regulatory risk.

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
	Esperion	ESPR	ESPR US	Jason Zemansky
	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
	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
	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
	SpringWorks	SWTX	SWTX US	Alec W. Stranahan
	Syndax Pharmaceuticals	SNDX	SNDX US	Jason Zemansky

US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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
	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

MethodSM 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

EV / EBITDA

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



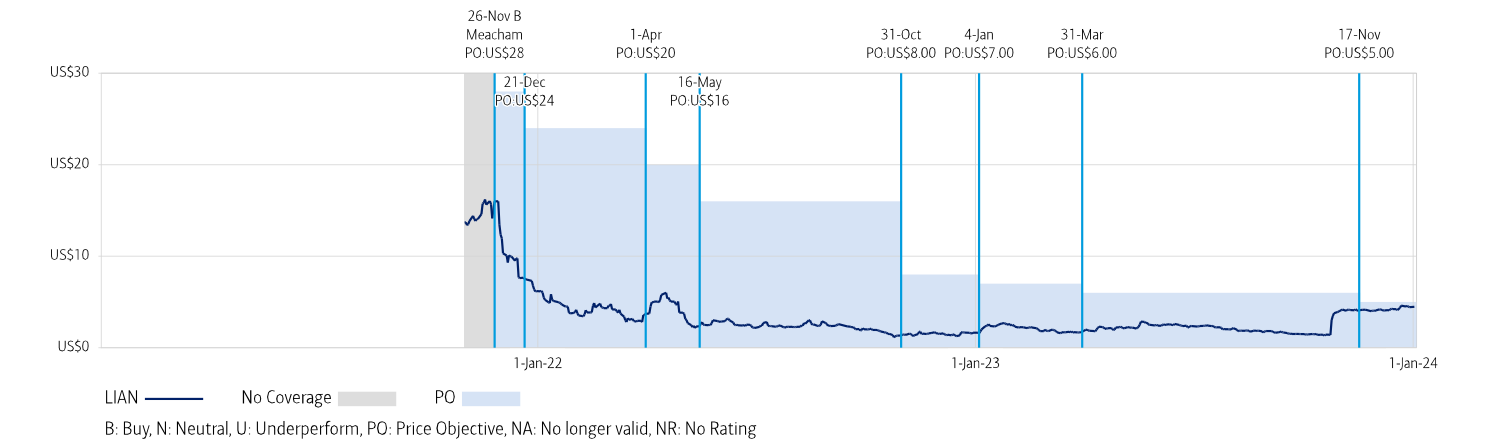
Valuation Toolkit	Numerator	Denominator
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LianBio (LIAN) Price Chart



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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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