

## Tarsus Pharmaceuticals

# 4Q wrap: solid beat in first full Xdemvy qtr, we raise ests + PO to \$60

Reiterate Rating: BUY | PO: 60.00 USD | Price: 33.16 USD

## Solid 4Q beat on better realized Xdemvy price

This morning, Tarsus delivered a strong revenue beat (\$13m vs. cons \$6.2m) in the first full quarter of the Xdemvy (demodex blepharitis) launch. Overall, total 4Q product volumes (bottles dispensed) of 15.7k tracked well (9% below total TRx) reported in IQVIA. Management noted IQVIA volumes are directionally accurate but vary weekly. A big driver of the 4Q beat was faster realization of net pricing with a 58% gross-to-net (GTN) deduction for FY23 vs. expected low 70%. We were encouraged to hear management indicate Xdemvy reimbursement improving with several commercial payer contracts coming online (1Q24+ benefit) and reiterated its view that the current sales force is right sized to adequately call on the initial wave of target prescribers. On recent pipeline updates, management sounded upbeat about the progress of its alternative lotilaner formulations, but each program (more below) requires a pending FDA meeting for clarity on a development pathway. Based on Xdemvy net pricing and volume trends, we increase our 2024e Xdemvy revenues to \$105m (from \$76m) and increase our Xdemvy ramp to \$1bn peak sales (2025-28 +8-38%), increasing our PO to \$60/sh (from \$55).

## Xdemvy launch remains key TARS catalyst

Tarsus launched Xdemvy in mid-3Q23 and the drug has launched well tracking >2K weekly prescriptions. Assuming continued growth, we estimate FY24 scripts could range from 120-130K with net pricing outlook improved (we model 55% FY24 vs. 60% prior). On the call, management indicated better net prices reflect better non-contracted coverage which could vary in '24E. TARS announced a major commercial plan has picked up Xdemvy with preferred status (19m covered lives) and still expects to reach broad commercial coverage by YE24 and Medicare Part D coverage by the start of 2025.

## Pipeline updates discussed; pending FDA meeting

Recently, Tarsus announced positive Ph2 results for TP-04 (topical lotilaner) for papulopustular rosacea demonstrating stat sig efficacy on 12-week measure of inflammatory lesions and investigator global assessment; these endpoints are coprimary endpoints used in generic ivermectin approval. On last week's Ph2 Lyme study update (TP-05; oral lotilaner), mgmt commented around unique mechanism relative to a vaccine (PFE is running ~10K pt Ph3), which portends a more cost efficient development path.

## Model changes: faster ramp to peak, slight offset by spend

We raise our Xdemvy forecast over 2024-26 and raise OpEx ~\$10m on salesforce spend.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(2.52)	(4.62)	(3.52)	(1.56)	0.44
EPS Change (YoY)	-276.1%	-83.3%	23.8%	55.7%	NM
Consensus EPS (Bloomberg)			(4.88)	(2.19)	2.08
DPS	0	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	NM	NM	NM	NM	75.4x
EV / EBITDA*	NM	NM	NM	NM	144.9x
Free Cash Flow Yield*	-4.5%	-12.9%	-9.5%	-4.3%	1.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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Timestamp: 27 February 2024 11:21AM EST

27 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	55.00	60.00
2024E Rev (m)	76.1	105.1
2025E Rev (m)	160.9	181.6
2026E Rev (m)	238.7	256.9
2024E EPS	-3.82	-3.52
2025E EPS	-1.88	-1.56
2026E EPS	-0.21	0.44

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### Stock Data

Price	33.16 USD
Price Objective	60.00 USD
Date Established	27-Feb-2024
Investment Opinion	C-1-9
52-Week Range	11.33 USD - 33.53 USD
Mkt Val (mn) / Shares Out (mn)	1,098 USD / 33.1
Free Float	92.1%
Average Daily Value (mn)	26.16 USD
BofA Ticker / Exchange	TARS / NAS
Bloomberg / Reuters	TARS US / TARS.OQ
ROE (2024E)	-85.2%
Net Dbt to Eqty (Dec-2023A)	-64.1%
ESGMeter <sup>TM</sup>	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".

# iQprofile<sup>SM</sup> Tarsus Pharmaceuticals

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-29.1%	-57.7%	-69.2%	-55.5%	16.5%
Return on Equity	-34.5%	-74.4%	-85.2%	-61.7%	18.3%
Operating Margin	-242.9%	-820.5%	-121.3%	-35.0%	2.3%
Free Cash Flow	(50)	(142)	(104)	(47)	14

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	1.7x
Asset Replacement Ratio	0.1x	0.2x	3.1x	36.6x	10.4x
Tax Rate	0%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-27.1%	-64.1%	-78.5%	-48.4%	-45.1%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	26	17	105	182	257
% Change	-54.7%	-32.4%	502.4%	72.8%	41.5%
Gross Profit	26	16	92	163	234
% Change	-54.7%	-38.6%	483.4%	76.7%	43.0%
EBITDA	(59)	(139)	(127)	(63)	7
% Change	-391.8%	-137.8%	8.6%	50.3%	NM
Net Interest & Other Income	1	7	10	10	10
<b>Net Income (Adjusted)</b>	<b>(62)</b>	<b>(136)</b>	<b>(117)</b>	<b>(53)</b>	<b>16</b>
<b>% Change</b>	<b>-349.1%</b>	<b>-118.9%</b>	<b>13.8%</b>	<b>54.6%</b>	<b>NM</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(62)	(136)	(117)	(53)	16
Depreciation & Amortization	4	4	0	0	1
Change in Working Capital	(1)	(21)	(5)	(5)	(11)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	10	12	18	20	20
Capital Expenditure	(1)	(1)	(1)	(9)	(13)
<b>Free Cash Flow</b>	<b>-50</b>	<b>-142</b>	<b>-104</b>	<b>-47</b>	<b>14</b>
<b>% Change</b>	<b>NM</b>	<b>-186.1%</b>	<b>26.4%</b>	<b>55.0%</b>	<b>NM</b>
Share / Issue Repurchase	74	100	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	20	10	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	72	140	81	34	48
Trade Receivables	0	3	22	40	60
Other Current Assets	154	64	29	29	34
Property, Plant & Equipment	1	1	2	11	22
Other Non-Current Assets	2	2	2	2	2
<b>Total Assets</b>	<b>228</b>	<b>210</b>	<b>135</b>	<b>116</b>	<b>166</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	15	9	32	46	59
Long-Term Debt	19	29	0	0	0
Other Non-Current Liabilities	0	0	0	0	0
<b>Total Liabilities</b>	<b>35</b>	<b>38</b>	<b>32</b>	<b>46</b>	<b>60</b>
<b>Total Equity</b>	<b>193</b>	<b>172</b>	<b>103</b>	<b>70</b>	<b>106</b>
<b>Total Equity &amp; Liabilities</b>	<b>228</b>	<b>210</b>	<b>135</b>	<b>116</b>	<b>166</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Biotechnology

## Company Description

Tarsus Pharmaceuticals (TARS) is a commercial-stage biotech company. Tarsus' TP-03, TP-04 and TP-05 are eye drop, topical cream and oral formulations of lotilaner that it in-licensed from Elanco (ELAN). Tarsus' lead asset TP-03 is a first-in-class novel drug undergoing Ph3 studies for the treatment of demodex infestation in blepharitis.

## Investment Rationale

We rate TARS Buy on Xdemvy launch as the first FDA approved therapy for demodex blepharitis. We forecast peak sales \$1bn given strength of Xdemvy profile, large TAM and lack of competitive alternatives. We view early prescription data as supportive of a favorable launch and look to upcoming quarterly results for validation that the launch uptake is durable and reimbursement is at favorable net pricing. TARS trades at <1x EV/peak sales, and we expect launch validation to drive a share re-rating

## Stock Data

Average Daily Volume 788,918

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.88A	-1.06E
Q2	-1.17A	-1.03E
Q3	-1.28A	-0.77E
Q4	-1.31A	-0.78E

## Price objective basis & risk

### Tarsus Pharmaceuticals (TARS)

Our \$60 price objective (PO) is based on a risk-adjusted DCF of TP-03 lead program. Key assumptions: 1) we forecast cash flows through 2038 patent life of TP-03, 2) TP-03 generates \$630m in 2030E risk-adjusted sales, 3) discount rate of 9% and no terminal value.

Downside risks to our PO are (1) slower-than-expected commercial uptake of TP-03, (2) potential dilutive cash raises to commercialize the drug.

Upside risks to our PO are (1) commercial uptake of TP-03, (2) acquisition at a premium price.

## Analyst Certification

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### US - Specialty Pharma & Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Arcellx, Inc.	ACLX	ACLX US	Jason M. Gerberry
	Arrowhead Pharmaceuticals	ARWR	ARWR US	Jason M. Gerberry
	bluebird bio	BLUE	BLUE US	Jason M. Gerberry
	Exelixis	EXEL	EXEL US	Jason M. Gerberry
	Fractyl Health	GUTS	GUTS US	Jason M. Gerberry
	Immunovant, Inc.	IMVT	IMVT US	Jason M. Gerberry
	Intra-Cellular Therapies	ITCI	ITCI US	Jason M. Gerberry
	Ionis	IONS	IONS US	Jason M. Gerberry
	Jazz Pharmaceuticals	JAZZ	JAZZ US	Jason M. Gerberry
	Lyra Therapeutics	LYRA	LYRA US	Jason M. Gerberry
	Oculus Holding AG	OCS	OCS US	Jason M. Gerberry
	Relay Therapeutics	RLAY	RLAY US	Jason M. Gerberry
	Tarsus Pharmaceuticals	TARS	TARS US	Jason M. Gerberry
	Teva Pharmaceuticals	TEVA	TEVA US	Jason M. Gerberry
	Vaxcyte Inc	PCVX	PCVX US	Jason M. Gerberry
	Xenon Pharmaceuticals	XENE	XENE US	Jason M. Gerberry
<b>NEUTRAL</b>				
	Alkermes	ALKS	ALKS US	Jason M. Gerberry
	Amphastar Pharmaceuticals	AMPH	AMPH US	Jason M. Gerberry
	Axsome Therapeutics	AXSM	AXSM US	Jason M. Gerberry
	Galapagos	GLPG	GLPG US	Jason M. Gerberry
	ProKidney Corp	PROK	PROK US	Jason M. Gerberry
	Roivant	ROIV	ROIV US	Chi M. Fong
<b>UNDERPERFORM</b>				
	Bausch Health Cos Inc	BHC	BHC US	Jason M. Gerberry
	FibroGen Inc.	FGEN	FGEN US	Jason M. Gerberry
	Harmony Biosciences	HRMY	HRMY US	Jason M. Gerberry
	Organon	OGN	OGN US	Jason M. Gerberry
	Viartis Inc.	VTRS	VTRS US	Jason M. Gerberry



## US - Specialty Pharma &amp; Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**iQmethod<sup>SM</sup> 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 &amp; 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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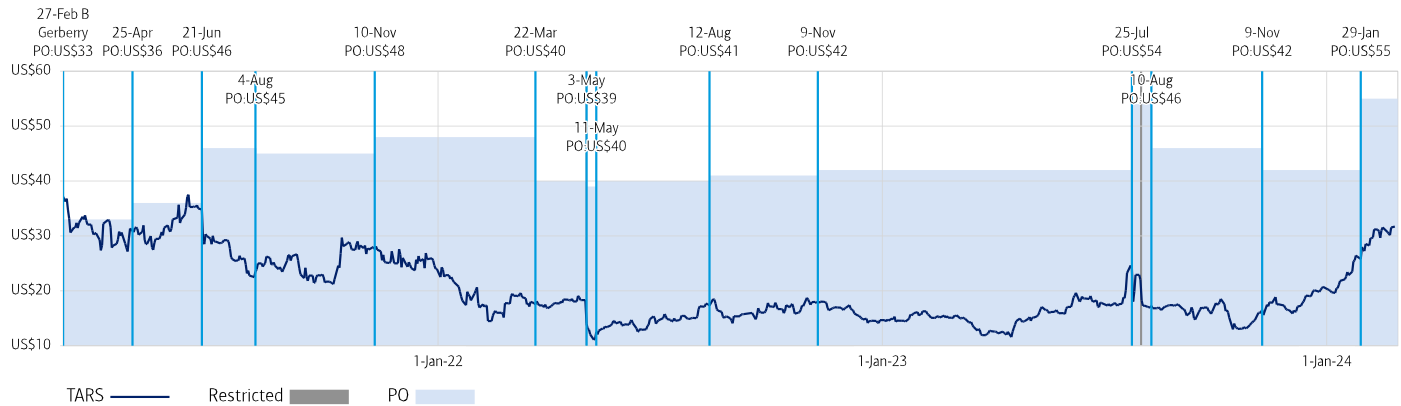
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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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