

Novavax

Cost-cutting not unexpected, positive step but more likely needed

Maintain Rating: UNDERPERFORM | PO: 4.00 USD | Price: 4.03 USD

Cost-cutting underway, good remedy but not immediate

NVAX stock has traded down further in 2024 (-12.6%; NBI: +1.37%) which in our view is driven by a shrinking C-19 market and diminishing vaccine demand. We had a chance to catch up with the company following the announcement, and while the cost-cutting plan announced today is both expected and needed as hinted at the SF conference in January of 2024 ([see our thoughts on the presentation here](#)), we see addressing cashflow issues as just one piece of a multi-part effort needed to reverse sentiment for shares. The cost-cutting plan would reduce 12% of the company's global workforce (9% global employees and the rest contractors and consultants), costing \$4M-\$7M to implement (including employee severance/benefit costs), with 85% of the benefit expected this year. We see this as well-telegraphed already, with the company still guiding to lower 2023 OpEx (~\$1.15B-\$1.25B; prior: \$1.3B-\$1.4B) and 2024 OpEx (~\$750M) through multiple cost-cutting efforts, including today's announcement. However, with NVAX continuing to command a fringe share of the shrinking C-19 market (as evident from the YoY step-down in sales for Moderna's mRNA vaccines: 2022: ~\$18.4B; 2023: ~\$6B; 2024 guidance: ~\$4B), we remain reserved on a near-term rebound for shares. Maintain Underperform and \$4 PO.

Where to go from here? We see two paths for turnaround

We see there being two ways for the company to reverse negative sentiment so far including: **1)** continuation of cost-cutting to decrease cost pressure on business operations until cash flow positive, or **2)** expand the product pipeline (unlikely to become a meaningful driver for stock until 2025+). Our prior conversations with management revealed that the commercial overhang is mostly removed, with the ball now in Novavax's court to execute on the guided ~\$0.96-1.14B product sales in 2023 (we should get an update on uptake on full-year earnings call 1Q24e). Furthermore, we see this season's commercial uptake as further complicated by the multi-dose format of Novavax vaccine, with each carton containing 10 doses (2 vials total) totaling ~\$1,300 WAC price, with unused doses discarded if not used within 12 hours after first puncture. Therefore in a scenario where demand is low, we could see pharmacies delaying or electing not to stock the vaccine in subsequent months. We will be looking for inventory write-downs as an indicator of this in the company's 4Q23 earnings. Either way, with mRNA-based vaccines already off to a shaky start, we expect an uptick in 4Q23 product sales could lead to sharp declines in 1H24 if vaccine demand remains low.

31 January 2024

Equity

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Stock Data

Price	4.03 USD
Price Objective	4.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-3-9
52-Week Range	3.98 USD - 12.50 USD
Mrkt Val (mn) / Shares Out (mn)	479 USD / 118.8
Free Float	94.3%
Average Daily Value (mn)	35.77 USD
BofA Ticker / Exchange	NVAX / NAS
Bloomberg / Reuters	NVAX US / NVAX.OQ
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	Low

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Abbreviations:

FDA: Food and drug administration
CDC: Center of disease control
C-19: Covid 19
EUA: Emergency use approval
WAC: Wholesale acquisition cost
NBI: Nasdaq biotech index

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Timestamp: 31 January 2024 02:11PM EST

Price objective basis & risk

Novavax (NVAX)

Our \$4/sh price objective is based on probability-adjusted net present value (NPV) of lead assets Nuvaxovid (\$-3/share), NanoFlu (\$2/share), ResVax (\$0/share), other pipeline (\$-1/share), and cash (\$6/share). We use a weighted-average cost of capital (WACC) of 10-13% and terminal values ranging from -12% (COVID-19) to 2% (other pipeline). We apply probabilities of success including 100% for Nuvaxovid in EU/ROW, 64% for NanoFlu, 7% for ResVax, and 4% for other pipeline.

Upside risks: 1) Nuvaxovid use could be stronger than expected, 2) assets in flu, RSV, and malaria may find a path to regulatory approval, 3) additional pipeline candidates may be nominated for novel disease areas, 4) competing therapies may show worse-than-expected efficacy/safety.

Downside risks: 1) omicron efficacy and heterologous boost benefit could wane, 2) Nuvaxovid revenue durability may miss consensus' high expectations, 3) sustained operating expense may erode profits, 4) regulatory path unclear for RSV/flu, 5) competition across pipeline disease areas could continue to intensify, 6) lack of early pipeline could leave a profitability gap 2023-2027.

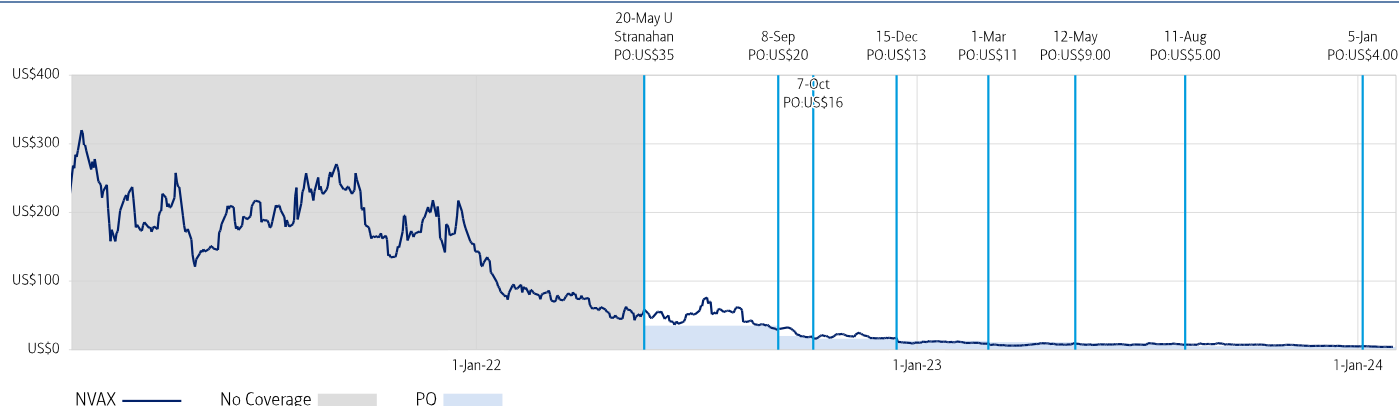
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Novavax (NVAX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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
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