

Alkermes

4Q wrap: margin profile boosts '24 outlook; orexin pipe remains a key focus

Reiterate Rating: NEUTRAL | PO: 33.00 USD | Price: 32.56 USD

1H NT2 data in focus, but future Ph2's needed to derisk

On today's earnings call, ALKS shared its views on a recent competitor (Takeda) Ph2 orexin/narcolepsy update, wherein advancement of TAK861 was stopped for the narcolepsy type-2 (NT2) population (reasons unspecified). Like our [first take](#) (see report), ALKS believes Takeda terminating '861/ NT2 most likely reflects limited dose-flexibility while ALKS remains comfortable dosing NT2 pts with ALKS2680 at 2-3x (or higher) the NT1/Ph2 levels. Ahead of ALKS Ph1 NT2 data (1H24), management still sees a 20 min change in maintenance of wakefulness test (MWT) as clinically meaningful but clarified NT1 will evaluate higher doses to cover the upper end and hedge against potential tachyphylaxis reported by Takeda at lower doses. Fundamentally, ALKS appears to differ from Takeda on whether liver tox is dose related, instead hypothesizing '2680 lacks the reactive metabolite that caused liver tox with TAK994 (noting Takeda never confirmed TAK861 lacked reactive metabolite). Post-4Q call, we raise our PO to \$33 (from \$30) on higher EPS_e (more below). Maintain Neutral on balanced risk/reward.

Balancing margin targets with need to acquire pipeline

While ALKS plans to deliver 30% EBITDA margins in '24E, the company talked about "maintaining healthy" out-year margins while retaining some flexibility to bring in-house tuck-in acquisition assets that would not significantly disrupt the margin structure. Per management, the deal focus is not limited to neuropsychiatry but more broadly CNS assets where the biology is well defined and where there is a high unmet need. Lastly, ALKS announced a \$400m share repurchase program it will use opportunistically; management had suggested the possibility of a buyback in early January.

Model changes

Based on FY24 guidance which calls for lower operating expenses than we previously assumed, we are raising 2024-25E non-GAAP EPS estimates (+12-13%) driven by higher operating margins. We make small tweaks to topline forecast but make no major changes to sales forecast of ALKS' key proprietary products.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026
EPS	0.35	1.42	2.83	2.65	NA
GAAP EPS	(0.97)	2.08	2.05	1.91	NA
EPS Change (YoY)	-55.1%	305.7%	99.3%	-6.4%	NA
Consensus EPS (Bloomberg)			2.33	2.30	2.73
DPS	0	0	0	0	NA
Valuation (Dec)					
P/E	93.0x	22.9x	11.5x	12.3x	NA
GAAP P/E	NM	15.7x	15.9x	17.0x	NA
EV / EBITDA*	NM	11.5x	8.6x	9.4x	NA
Free Cash Flow Yield*	0.7%	6.9%	9.0%	8.4%	NA

* For full definitions of *IQmethod*SM measures, see page 4.

15 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	30.00	33.00
2024E Rev (m)	1,524.1	1,540.0
2025E Rev (m)	1,541.4	1,542.2
2024E EPS	2.52	2.83
2025E EPS	2.34	2.65
2024E EBITDA (m)	397.6	485.3
2025E EBITDA (m)	381.6	445.4

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Stock Data

Price	32.56 USD
Price Objective	33.00 USD
Date Established	15-Feb-2024
Investment Opinion	B-2-9
52-Week Range	20.46 USD - 32.71 USD
Mrkt Val (mn) / Shares Out (mn)	5,437 USD / 167.0
Free Float	98.5%
Average Daily Value (mn)	48.50 USD
BofA Ticker / Exchange	ALKS / NAS
Bloomberg / Reuters	ALKS US / ALKS.OQ
ROE (2024E)	27.9%
Net Dbt to Eqty (Dec-2023A)	-60.3%
ESGMeter TM	High

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](#)".

CNS: central nervous system
NT1, NT2: narcolepsy type-1, -2^W

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Timestamp: 15 February 2024 06:03PM EST

iQprofileSM Alkermes

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Return on Capital Employed	-7.9%	16.7%	16.5%	13.0%	NA
Return on Equity	5.3%	18.8%	27.9%	21.1%	NA
Operating Margin	-12.8%	17.4%	27.3%	25.1%	NA
Free Cash Flow	37	373	487	458	NA

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash Realization Ratio	1.3x	1.7x	1.1x	1.1x	NA
Asset Replacement Ratio	0.8x	1.1x	0.6x	0.7x	NA
Tax Rate	5.4%	NM	16.0%	15.0%	NA
Net Debt-to-Equity Ratio	-51.0%	-60.3%	-71.5%	-78.1%	NA
Interest Cover	-10.9x	12.6x	43.7x	40.2x	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Sales	1,112	1,663	1,540	1,542	NA
% Change	-5.3%	49.6%	-7.4%	0.1%	NA
Gross Profit	894	1,410	1,301	1,288	NA
% Change	-8.5%	57.8%	-7.7%	-1.0%	NA
EBITDA	(58)	364	485	445	NA
% Change	NM	NM	33.5%	-8.2%	NA
Net Interest & Other Income	(25)	7	(1)	2	NA
Net Income (Adjusted)	58	244	487	459	NA
% Change	-55.2%	320.9%	99.9%	-5.7%	NA

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Net Income from Cont Operations (GAAP)	(158)	356	352	331	NA
Depreciation & Amortization	85	73	65	59	NA
Change in Working Capital	85	(113)	20	18	NA
Deferred Taxation Charge	(29)	0	0	0	NA
Other Adjustments, Net	95	98	90	90	NA
Capital Expenditure	(40)	(40)	(40)	(40)	NA
Free Cash Flow	37	373	487	458	NA
% Change	-49.7%	907.0%	30.4%	-6.1%	NA
Share / Issue Repurchase	2	0	0	0	NA
Cost of Dividends Paid	0	0	0	0	NA
Change in Debt	(1)	0	0	0	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash & Equivalents	842	1,215	1,702	2,160	NA
Trade Receivables	244	365	338	339	NA
Other Current Assets	199	227	206	218	NA
Property, Plant & Equipment	296	263	238	219	NA
Other Non-Current Assets	395	395	395	395	NA
Total Assets	1,976	2,465	2,880	3,331	NA
Short-Term Debt	3	3	3	3	NA
Other Current Liabilities	471	507	479	509	NA
Long-Term Debt	293	293	293	293	NA
Other Non-Current Liabilities	139	139	139	139	NA
Total Liabilities	905	941	913	944	NA
Total Equity	1,071	1,524	1,966	2,387	NA
Total Equity & Liabilities	1,976	2,465	2,880	3,331	NA

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Pharmaceuticals

Company Description

Alkermes is a mid-cap biopharma company focused on developing drugs for central nervous system diseases. The company generated about \$1.1bn in revenue during 2022, of which and about \$780m from sales of its own proprietary products (Vivitrol, Aristada, Lybalvi) and remainder from manufacturing and royalty revenues.

Investment Rationale

We are Neutral on ALKS on balanced risk/reward. We believe ALKS' product portfolio is relatively mature with minimal opportunities for upside to consensus: 1) '27 Vivitrol LOE limits the likelihood of a material stock re-rating, 2) we expect Lybalvi (key launch) to have an outsized contribution to ALKS growth, but we see limited upside to cons peak sale, 3) on orexin (key pipe), we believe our risk-adj. est. is priced into stock and key de-risking events (own Ph2 data) are likely to occur 2025+.

Stock Data

Average Daily Volume 1,489,453

Quarterly Earnings Estimates

	2023	2024
Q1	NAA	NA
Q2	NAA	NA
Q3	NAA	NA
Q4	NAA	NA

Price objective basis & risk

Alkermes (ALKS)

Our \$33 PO is based on a blended mix of DCF and 2025E P/E. We believe our DCF is based on reasonable assumptions, including: (1) discount rate of 9%, and (2) risk-adjusted pipeline value for ALKS2680 in lieu of terminal value. Our assumption of 13x '25E EPS is within range of biopharma peers (7-17x) and comparable to 13x where ALKS trades at.

Upside risks: 1) better-than-expected product sales growth, 2) value accretive divestiture or partnership above our expectation.

Downside risks: 1) worse-than-expected product sales growth, 2) assets divested or partnered at values below our expectation.

Analyst Certification

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US - Specialty Pharma & Biotechnology Coverage Cluster

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BUY				
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	Arrowhead Pharmaceuticals	ARWR	ARWR US	Jason M. Gerberry
	bluebird bio	BLUE	BLUE US	Jason M. Gerberry
	Exelixis	EXEL	EXEL 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
	Oculis 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
NEUTRAL				
	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
UNDERPERFORM				
	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



iQmethodSM 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

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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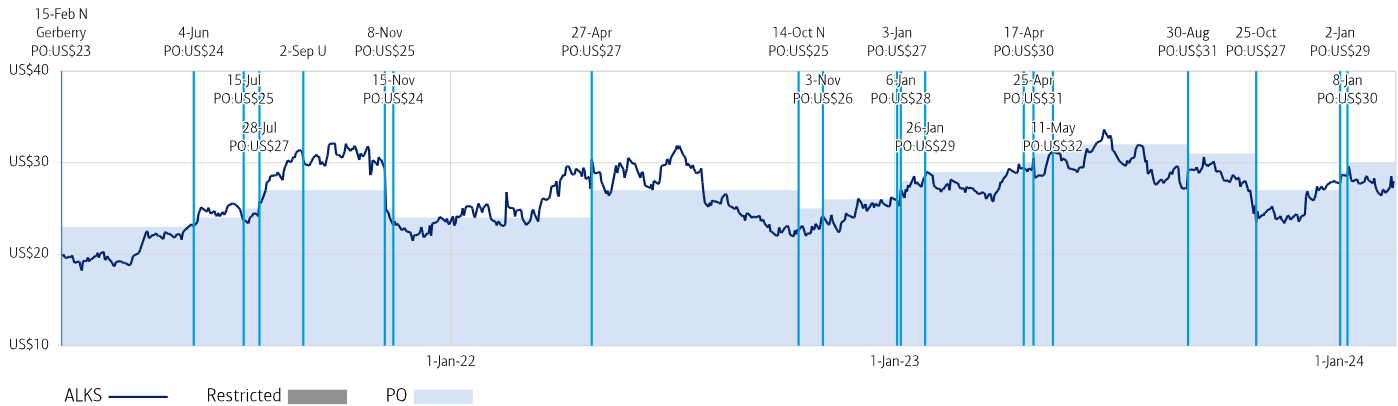
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Alkermes (ALKS) Price Chart



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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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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