

## US Biopharmaceuticals

## Our Day 2 Conference Takeaways: RCUS, SNDX

## Industry Overview

Following day 2 of the January HC conference, we've highlighted below key takeaways from our discussions with management...

**RCUS: As TIGIT readouts approach, early pipeline maturing**

In our view, management struck an upbeat tone. While understandably unable to speak on Roche's (covered by Jain/ Parry) TIGIT update—the anticipated readout in NSCLC now expected 2H24 vs. 1Q prior (see [our YA24 takes](#))—Arcus remains optimistic for its domvanalimab pivotals (with Gilead/ Geoff Meacham) in 1L mNSCLC (STAR-121) and upper GI (STAR-221), both on track to complete enrollment 2024. While acknowledging skepticism within the clinical/ investing communities, the team is confident given positive signals across various datasets (the MoA is doing “something”), which together with its relatively favorable safety profile, could make the mechanism an appealing option—even as our KOLs are cautious (see [our ESMO KOL call transcript](#)). That said, we were more encouraged by updates from the early pipeline, which has been the primary driver of our overall positive thesis. Arcus is presenting dose escalation data from HIF-2α inhibitor AB521 at ASCO GI (Jan 18-20), and while admittedly a small cohort (N=12; 6 RCC), early safety data should provide some confidence the higher doses aren't driving worse on-target effects (e.g., anemia). Efficacy insights should follow 2H, with an update from 30 patients, which could help bolster the argument the improved PK/PD can indeed drive greater efficacy over Merck's Welireg—to be potentially confirmed in the Exelixis (Jason Gerberry) zanzalintinib/ AB521 combo study. The team also highlighted upcoming readouts from its adenosine portfolio: quemliclustat in PDAC (ARC-8) and etrumadenant in PDAC (MORPHEUS)/mCRC (ARC-9). We've had our reservations, but Arcus believes the key to unlocking the pathway requires immunogenic chemo—with reasons to believe in the company's small molecule portfolio. Admittedly, much de-risking remains ahead of any re-rating, but with the set-up still encouraging Maintain Neutral and \$23 PO.

**SNDX: While LT story develops, NT story still looks strong**

We were encouraged by our discussion with Syndax this afternoon, with management, in our view, offering a compelling argument for revumenib's platform potential. Indeed, we would argue overall sentiment on the MoA continues to improve on the back of the company's successful ASH (see [our takes on SAVE](#), [AUGMENT-101 LBA](#), and [the investor day](#)), with investors starting to look past the near-term upside in R/R AML/ ALL (see [our takes on AUGMENT-101's topline](#)) and towards the potential from combinations—key to accessing the broader market opportunities from earlier line settings (e.g., 1L and maintenance). Here, the team intends to push forward with regimens anchored by SoC options, with investigator sponsored studies to complement the strategy. All that said, Syndax still stressed it remains acutely focused on commercial execution to optimize its first mover advantage ahead of rivals Kura and J&J (covered by Geoff Meacham). Beyond its menin inhibitor program, management similarly flagged the favorable near-term commercial set-up with CSF-1R inhibitor axatilimab for cGVHD, with potential for longer term growth driven by synergies with other established agents—with the latter especially (we think) an underappreciated dynamic of the story. With growing confidence in the near-term set-up, we continue to see favorable risk/ reward for shares (especially at current levels), Maintain Buy and \$29 PO.

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Refer to important disclosures on page 5 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Timestamp: 09 January 2024 07:34PM EST

09 January 2024

Equity  
United States  
Biopharmaceuticals

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**Abbreviations:**

**TIGIT:** T cell immunoreceptor with Ig and ITIM domains

**mNSCLC:** metastatic non-small cell lung cancer

**1L:** frontline

**GI:** gastrointestinal

**HIF2α:** hypoxia-inducible factor 2-alpha, a potential cancer target

**RCC:** renal cell carcinoma

**PK/PD:** pharmacokinetic/ pharmacodynamic

**PDAC:** pancreatic ductal adenocarcinoma

**mCRC:** metastatic colorectal cancer

**ASCO:** American Society of Clinical Oncology

**KOLs:** key opinion leaders

**HC:** healthcare

**MoA:** mechanism of action

**ASH:** American Society of Hematology

**LBA:** late breaker abstract

**CSF-1R:** colony stimulating factor 1 receptor

**cGVHD:** chronic graft vs. host disease

**R/R:** relapsed/ refractory

**AML:** acute myeloid leukemia

**ALL:** acute lymphoblastic leukemia

**NT:** near term

**SoC:** standard of care

**SNDX:** Syndax

**RCUS:** Arcus Biosciences

**Exhibit 1: Stock Mentioned**

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
RCUS	RCUS US	Arcus Biosciences	US\$ 18.64	C-2-9
SNDX	SNDX US	Syndax	US\$ 22.64	C-1-9

Source: BofA Global Research

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## Price objective basis & risk

### Arcus Biosciences (RCUS)

Our 12-month price objective (PO) is based on our NPV analysis of revenue forecasts and estimated margin assumptions. We forecast sales of dom (anti-TIGIT), etruma (anti-A2a/A2b receptor), and zim (anti-PD-1), with profits and royalties distributed in accordance with partnership agreements. This includes sales of dom adjusted by an LOS range of 30-45% (vs. 20-30% prior) by indication, etruma (LOS: 15-20%) and zim (LOS: 15-45%). Given a WACC of 12% and a terminal growth rate ranging from 0% to -50%, we estimate a value of \$2/ share for the partnerships (\$5/sh for dom, \$2/sh for zim, \$1/sh for etruma, \$9/sh for licenses/ milestones). Together with \$13/sh for net cash and \$1/sh for the pipeline, our PO is \$23/ share.

Upside risks to our PO: 1) validation of clinical targets, 2) clear signals of clinical efficacy with good tolerability, 3) similar robust signals from the early pipeline, 4) expansion of collaboration deals for these assets, 5) accelerated regulatory timelines, and 6) strong commercial support from payers and providers

Downside risks to our PO: 1) clinical trial failures, 2) emergence of meaningful safety risks likely to pose regulatory and/or commercial headwinds, 3) limited signs of synergistic efficacy of combo regimens, 4) regulatory delays, 5) competition from other players, 6) financial risks due to available cash to fund activities, 7) commercial pushback from payers and providers, and 8) current partners opting to discontinue their collaborations.

### Syndax Pharmaceuticals (SNDX)

Our 12-month price objective (PO) is based on our NPV analysis of revenue forecasts and estimated margin assumptions. We model revumenib with the first approval in KMT2Ar R/R ALL/ AML in 2024 (LOS 85%), followed by NPM1m in 2025 (LOS 65%), and expansion into the frontline: KMT2Ar (2028: LOS 45%) and NPM1m (2029: LOS 40%). We also model axatilimab in R/R cGVHD in 2024 with a LOS of 85%. We assume a collective value for the pipeline. Given a WACC of 10%, in line with peers of similar size and risk, and a terminal growth rate between -10% and -50%, based on the molecule type, we estimate a value of \$29/ share PO, supporting our Buy rating.

Upside Risks to our PO:

1) near-term approval of revumenib in KMT2Ar AML and ALL, 2) approval of axatilimab in cGVHD, 3) robust efficacy/ synergy of revumenib in combination with SoC induction therapy in 1L, 4) solid efficacy/ safety as a maintenance therapy with a clean combination profile, and 5) indications of strong commercial support from payers/community-based providers to broadly administer portfolio candidates.

Downside Risks to our PO:

1) failure to achieve full approval of revumenib in KMT2Ar acute leukemias, 2) failure to achieve approval of axatilimab in R/R cGVHD, 3) regulatory delays, 4) safety issues complicating the combination profile, especially QTc prolongation, 5) lack of clinically

relevant activity in the maintenance setting, 6) competitive headwinds, and 7) commercial pushback from payers and providers.

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## US - Biopharmaceuticals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
	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
	Revolution Medicines	RVMD	RVMD 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
	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
<b>NEUTRAL</b>				
	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
	Erasca	ERAS	ERAS US	Alec W. Stranahan
	Esperion	ESPR	ESPR US	Jason Zemansky
	Exscientia	EXAI	EXAI US	Alec W. Stranahan
	IGM Biosciences	IGMS	IGMS US	Greg Harrison, CFA
	Johnson & Johnson	JNJ	JNJ US	Geoff Meacham
	Kymira 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
	Tyra Biosciences	TYRA	TYRA US	Greg Harrison, CFA
	Vir	VIR	VIR US	Geoff Meacham
	Y-mAbs Therapeutics, Inc	YMAB	YMAB US	Alec W. Stranahan
<b>UNDERPERFORM</b>				
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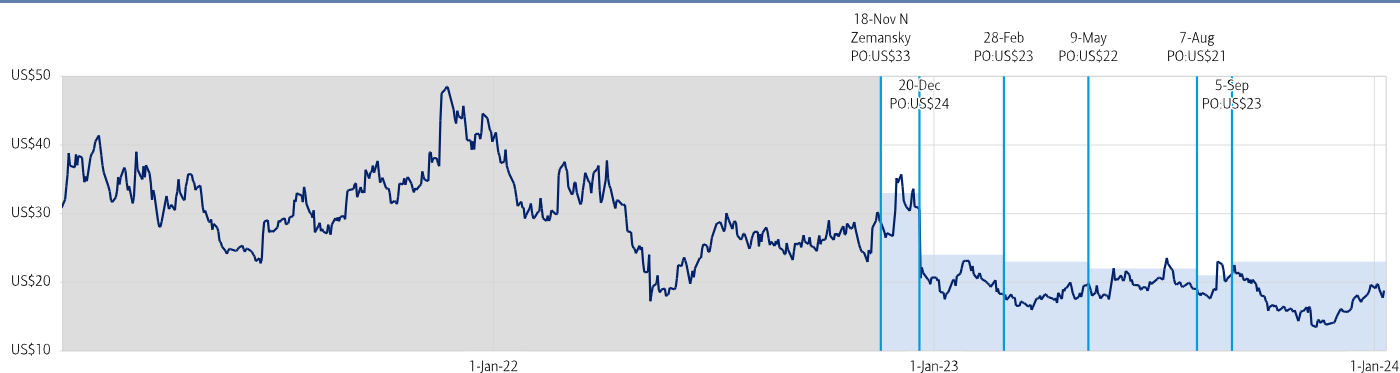
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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	CureVac	CVAC	CVAC US	Geoff Meacham
	Day One Biopharmaceuticals	DAWN	DAWN US	Alec W. Stranahan
	LianBio	LIAN	LIAN US	Geoff Meacham
	Novavax	NVAX	NVAX US	Alec W. Stranahan
	Regeneron Pharmaceuticals 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

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## Important Disclosures

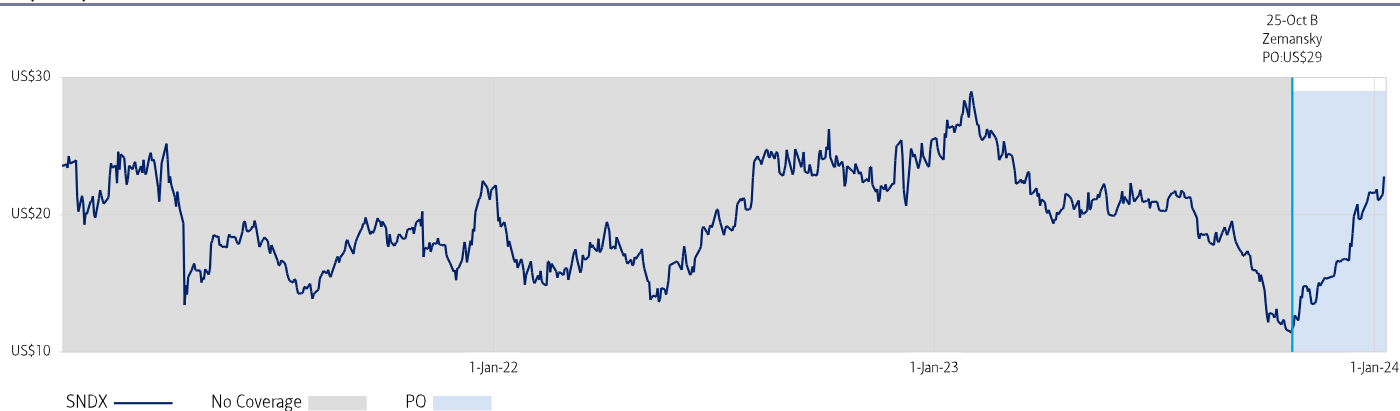
## Arcus Biosciences (RCUS) Price Chart



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.

## Syndax (SNDX) Price Chart



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

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**Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)**

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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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