

Apellis Pharmaceuticals

Eyeing continued strength in Syfovre sales;
reiterate Buy

Reiterate Rating: BUY | PO: 84.00 USD | Price: 69.36 USD

Medicare seasonality not hindering demand

Apellis reported FY23 Syfovre revenues of \$114mn and Empaveli revenues of \$91mn (+40% y/y). The company highlighted the strong performance of the Syfovre launch despite headwinds in 2023. They noted >200K vials have been delivered since launch (160K in 2023). Management commented that despite seeing some seasonality in 1Q, January and February were the two of strongest months since the launch, and they continue to see strong demand heading into March (with continued double-digit growth per week in number of prescribers). Based market research, they estimate the US market to be larger than first anticipated with ~1.5mn GA patients (prev. 1mn). On the EU re-examination, the company commented the process has initiated with two new rapporteurs. They highlighted the revised dossier will focus on addressing concerns with the original application but reiterated this will be a challenging process and successful appeals are rare. We remain encouraged by the strong commercial performance of Syfovre in the US and look for color on the potential path forward in EU (next meeting in April) and reiterate our Buy with \$84 PO.

Phase 3 VALIANT readout expected in mid-24

On Empaveli, the company highlighted they continue to see high compliance rates and 10% of demand coming from treatment-naïve patients. While they remain encouraged by Empaveli's differentiated profile, they noted that the entry of a twice-daily oral option for PNH will likely increase competitive pressure. Management also highlighted that topline data for the phase 3 VALIANT trial evaluating subcutaneous pegcetacoplan in C3G and IC-MPGN is expected in mid-24. The company also highlighted focus on advancing the early-stage pipeline in 2024 with initial phase 1 data for APL-3007 (C3 siRNA) and updates on the gene therapy collaboration with Beam expected in 2024.

Revisiting our estimates and PO

In our DCF-based model, we update for FY23 results, cash and share count. We increase our GA prevalence estimates to 1.2mn based on management commentary. We now model \$4bn in risk-adjusted peak sales for Syfovre. We also assume a more conservative stance on Empaveli based on recent trend and increased competition expected in 2024. We now model \$240mn in peak sales for Empaveli. We also increase our pipeline value by \$200mn to account for early-stage programs and include expected net proceeds of ~\$100mn from the unwinding of capped call transactions. We also adjust our op ex estimates based on management commentary. Accordingly, our PO moves from \$77 to \$84.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(6.12)	(4.48)	(1.62)	0.13	3.24
GAAP EPS	(6.15)	(4.45)	(1.62)	0.13	3.24
EPS Change (YoY)	30.9%	26.8%	63.8%	NM	NM
Consensus EPS (Bloomberg)			(1.15)	1.75	3.43
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	533.5x	21.4x
EV / EBITDA*	8.3x	6.3x	5.0x	4.4x	3.6x
Free Cash Flow Yield*	-6.2%	-7.1%	-0.8%	2.0%	6.9%

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

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Timestamp: 27 February 2024 02:04PM EST

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	77.00	84.00
2024E Rev (m)	713.9	734.6
2025E Rev (m)	1,003.5	946.0
2026E Rev (m)	NA	1,378.5
2024E EPS	-1.93	-1.62
2025E EPS	0.12	0.13
2026E EPS	NA	3.24

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Stock Data

Price	69.36 USD
Price Objective	84.00 USD
Date Established	27-Feb-2024
Investment Opinion	C-1-9
52-Week Range	19.83 USD - 94.75 USD
Mkt Val (mn) / Shares Out (mn)	8,364 USD / 120.6
Free Float	84.7%
Average Daily Value (mn)	103.36 USD
BofA Ticker / Exchange	APLS / NAS
Bloomberg / Reuters	APLS US / APLS.OQ
ROE (2024E)	-46.0%
Net Dbt to Eqty (Dec-2023A)	-93.7%
ESGMeter TM	High

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iQprofileSM Apellis Pharmaceuticals

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-77.7%	-75.2%	-21.1%	2.3%	26.4%
Return on Equity	-353.7%	-292.6%	-46.0%	2.1%	33.2%
Operating Margin	-788.4%	-130.4%	-25.5%	3.4%	31.4%
Free Cash Flow	(515)	(595)	(65)	166	578

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	9.9x	1.4x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	NM	NM	NM	22.1%	1.7%
Net Debt-to-Equity Ratio	-254.8%	-93.7%	-76.7%	-73.8%	-80.7%
Interest Cover	-25.1x	NM	-20.6x	3.4x	43.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	75	397	735	946	1,378
% Change	13.3%	425.8%	85.2%	28.8%	45.7%
Gross Profit	75	397	735	946	1,378
% Change	13.3%	425.8%	85.2%	28.8%	45.7%
EBITDA	957	1,267	1,597	1,816	2,216
% Change	13.6%	32.3%	26.0%	13.7%	22.0%
Net Interest & Other Income	(57)	(9)	(10)	(10)	(11)
Net Income (Adjusted)	(649)	(531)	(200)	17	414
% Change	13.2%	18.2%	62.3%	NM	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(652)	(529)	(200)	17	414
Depreciation & Amortization	1,552	1,784	1,784	1,784	1,784
Change in Working Capital	51	59	13	14	15
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(1,465)	(1,909)	(1,660)	(1,648)	(1,635)
Capital Expenditure	(2)	(1)	(1)	(1)	(1)
Free Cash Flow	-515	-595	-65	166	578
% Change	8.7%	-15.6%	89.1%	NM	248.6%
Share / Issue Repurchase	400	450	400	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	552	351	688	853	1,431
Trade Receivables	8	206	227	250	275
Other Current Assets	159	209	227	248	270
Property, Plant & Equipment	6	1	2	3	4
Other Non-Current Assets	35	21	21	21	21
Total Assets	759	789	1,165	1,375	2,001
Short-Term Debt	30	76	76	76	76
Other Current Liabilities	138	172	188	206	226
Long-Term Debt	93	93	93	93	93
Other Non-Current Liabilities	330	251	131	71	41
Total Liabilities	590	592	489	447	437
Total Equity	169	195	677	928	1,564
Total Equity & Liabilities	759	786	1,165	1,375	2,001

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

Company Sector

Biotechnology

Company Description

Apellis Pharmaceuticals (APLS) is a biotechnology company developing therapeutics that target a part of our immune system called complement pathway. The company's lead asset pegcetacoplan is approved for paroxysmal nocturnal hemoglobinuria (PNH) and geographic atrophy (GA) in the US. APLS is also evaluating peg' in kidney, neurology and other hematology indications (in partnership with Sobi), and APL-9 in inhibiting complement activation in gene therapy.

Investment Rationale

We rate APLS shares a Buy. We believe that the mechanism of action of its lead asset is differentiated by targeting the master switch in the complement pathway. Clinical data and approval in lead indications, such as PNH and GA, in our view, is supportive of its potential in addressing indications of high unmet need. We think the risk/benefit profile of Syfovre has largely been resolved following initial reports of ORV, which is reflected by the strong trajectory of the launch so far.

Stock Data

Average Daily Volume 1,490,129

Quarterly Earnings Estimates

	2023	2024
Q1	-1.56A	-0.67E
Q2	-1.02A	-0.54E
Q3	-1.17A	-0.44E
Q4	-0.75A	-0.36E

Price objective basis & risk

Apellis Pharmaceuticals (APLS)

Our price objective (PO) of \$84 is based on a probability-adjusted net present value (NPV) analysis that includes \$4/share for peg' in PNH (previously \$15) and \$82/share for peg' in GA (previously \$73) and -\$2/share for pipeline/corporate expenses and cash (previously -\$11). The remainder of our valuation comes from pipeline and net cash.

Our discounted cash flow (DCF)-based model assumes sales out to 2036 with no terminal growth, with weighted average cost of capital (WACC) of 9% for PNH and GA, and 12% for pipeline.

Upside risks to our PO are 1) better-than-expected penetration in PNH and/or GA, 2) clarity around reports of rare events of occlusive retinal vasculitis following Syfovre injection, 3) less-than-expected neovascularization event in GA in real-world use, 34) faster-than-expected uptake of peg' in GA, and 5) positive data from other complement-related indications, such as C3G, and CAD.

Downside risks to our PO are 1) higher-than-expected neovascularization or occlusive retinal vasculitis events in GA in real-world setting, 2) better-than-expected results from competitors, 3) delay or failure to obtain regulatory approval, and 4) failure to expand into other complement-related indications.

Analyst Certification

I, Tazeen Ahmad, 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 - Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	4D Molecular Therapeutics, Inc.	FDMT	FDMT US	Tazeen Ahmad
	Alnylam Pharmaceuticals	ALNY	ALNY US	Tazeen Ahmad
	Amicus Therapeutics	FOLD	FOLD US	Tazeen Ahmad
	Annexon Biosciences	ANNX	ANNX US	Tazeen Ahmad
	Apellis Pharmaceuticals	APLS	APLS US	Tazeen Ahmad
	Argenx SE	ARGX	ARGX US	Tazeen Ahmad
	Arvinas	ARVN	ARVN US	Tazeen Ahmad
	Ascendis Pharma	ASND	ASND US	Tazeen Ahmad
	Biocryst Pharmaceuticals Inc	BCRX	BCRX US	Tazeen Ahmad
	BioNTech	BNTX	BNTX US	Tazeen Ahmad
	Denali Therapeutics	DNLI	DNLI US	Tazeen Ahmad
	Inozyme Pharma, Inc.	INZY	INZY US	Tazeen Ahmad
	Merus	MRUS	MRUS US	Tazeen Ahmad
	Neurocrine Biosciences	NBIX	NBIX US	Tazeen Ahmad
	Ocular Therapeutix	OCUL	OCUL US	Tazeen Ahmad
	PepGen Inc	PEPG	PEPG US	Tazeen Ahmad
	Rhythm Pharmaceuticals	RYTM	RYTM US	Tazeen Ahmad
	Sarepta Therapeutics	SRPT	SRPT US	Tazeen Ahmad
	Ultragenyx Pharmaceuticals	RARE	RARE US	Tazeen Ahmad
NEUTRAL				
	Acadia Pharmaceuticals	ACAD	ACAD US	Tazeen Ahmad
	Incyte Corporation	INCY	INCY US	Tazeen Ahmad
	Prothena Corporation	PRTA	PRTA US	Tazeen Ahmad
	SAGE Therapeutics	SAGE	SAGE US	Tazeen Ahmad
UNDERPERFORM				
	Achilles Therapeutics	ACHL	ACHL US	Tazeen Ahmad



US - Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Fate Therapeutics	FATE	FATE US	Tazeen Ahmad
	Fulcrum Therapeutics	FULC	FULC US	Tazeen Ahmad
	Pharvaris	PHVS	PHVS US	Tazeen Ahmad
	PTC Therapeutics	PTCT	PTCT US	Tazeen Ahmad

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

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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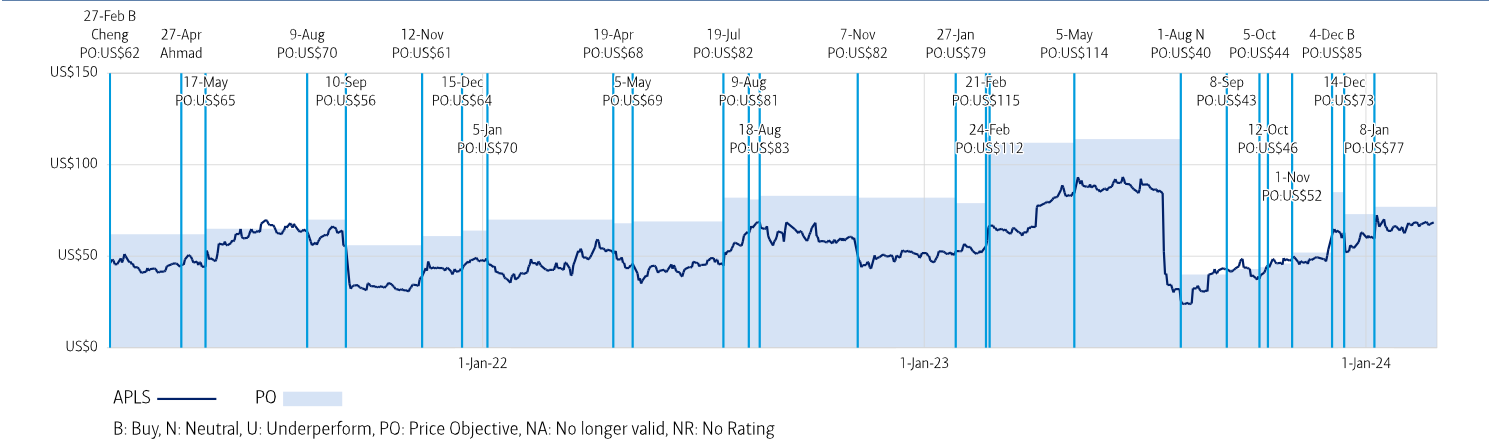
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Apellis (APLS) Price Chart



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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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