

Sarepta Therapeutics

Encouraging dystrophin expression from MOMENTUM Part B; Maintain Buy

Maintain Rating: BUY | PO: 164.00 USD | Price: 121.02 USD

'5051 could provide layer of protection to current revs

Sarepta (SRPT) announced positive Part B data from the phase 2 MOMENTUM trial evaluating SRP-5051 (next-gen exon skipping) in Duchenne muscular dystrophy (DMD) patients (DMD) amenable to exon 51 skipping. Data from 20 patients dosed at ~30mg/kg Q4W showed mean dystrophin expression of 5.17% representing a 4.53% change from baseline ($p < 0.0001$) at week 28. These results suggest ~12.2-fold higher dystrophin expression compared to eteplirsen at week 24. Management commented they expect to have a pre-NDA meeting with the FDA in 3Q to discuss the data and potential path forward. On the potential for SRP-5051 in the treatment paradigm, the company commented that this will likely depend on the breadth of the Elevidys potential label expansion and feedback from regulators, but highlighted the favorable profile so far compared to standard of care. We are encouraged by the update suggesting significant improvement in dystrophin expression over eteplirsen but await more color on the regulatory path forward and the evolving competitive dynamics of the DMD treatment landscape. We already provide significant value to '5051 in our \$1.7bn pipeline value and await further details before assigning standalone value. We think the positive data could help position '5051 in the treatment paradigm and could serve as an additional revenue stream in case of a restricted Elevidys label. In our view, Elevidys continues to be the key value driver and we remain focused on the outcome of the label expansion application, which could provide additional upside to our estimates. We reiterate SRPT as one of our 2024 top picks. We maintain our Buy rating with \$164 PO.

Dystrophin expression independent of ambulatory status

Dystrophin expression correlated with mean exon skipping of 11.11% at ~30mg/kg. Additionally, dystrophin expression was consistent across ambulatory (4.76%, N=11) and non-ambulatory patients (5.67%, N=9), which suggests potential benefit to both DMD populations. Part B also evaluated the ~20mg/kg Q4W dose. At 20mg/kg, mean dystrophin expression change from baseline was 1.60% and mean exon skipping was 2.47%.

Hypomagnesemia can be managed prophylactically

On safety, the most common treatment-related adverse events were hypomagnesemia (95.2%) and hypokalemia (41.9%) in-line with previous reports. Management commented hypomagnesemia was well-managed with prophylactic magnesium supplementation and none of these events resulted in discontinuation. Glomerular filtration rate decreases were seen in 6.5% of patients but did not correlate with other biomarkers.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(5.15)	(8.03)	(7.58)	0.67	13.37
EPS Change (YoY)	27.6%	-55.9%	5.6%	NM	NM
Consensus EPS (Bloomberg)			(1.22)	5.79	10.34
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	180.6x	9.1x
EV / EBITDA*	NM	NM	NM	86.5x	9.5x
Free Cash Flow Yield*	-4.3%	-3.1%	-3.7%	2.9%	13.6%

* For full definitions of *IQmethod*SM measures, see page 5.

29 January 2024

Equity

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Stock Data

Price	121.02 USD
Price Objective	164.00 USD
Date Established	30-Oct-2023
Investment Opinion	C-1-9
52-Week Range	55.25 USD - 159.89 USD
Mkt Val (mn) / Shares Out (mn)	11,321 USD / 93.5
Free Float	95.6%
Average Daily Value (mn)	175.35 USD
BofA Ticker / Exchange	SRPT / NAS
Bloomberg / Reuters	SRPT US / SRPT.OQ
ROE (2023E)	-350.9%
Net Dbt to Eqty (Dec-2022A)	150.0%
ESGMeter TM	Medium

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Abbreviations

FDA: Food and Drug Administration

NDA: New drug application

Q4W: Every 4 weeks

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iQprofileSM Sarepta Therapeutics

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-15.7%	-18.5%	-13.1%	3.8%	35.0%
Return on Equity	-49.6%	-107.2%	-350.9%	32.8%	106.8%
Operating Margin	-65.5%	-57.5%	-27.2%	5.4%	42.6%
Free Cash Flow	(482)	(356)	(421)	334	1,536

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	6.1x	1.3x
Asset Replacement Ratio	1.0x	0.7x	0.7x	0.7x	0.7x
Tax Rate	0%	NM	NM	0.8%	0%
Net Debt-to-Equity Ratio	-109.8%	150.0%	NM	137.9%	-44.5%
Interest Cover	-6.7x	-15.3x	-9.6x	2.7x	36.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	702	933	1,234	1,792	2,999
% Change	30.0%	32.9%	32.3%	45.2%	67.3%
Gross Profit	605	793	1,078	1,611	2,723
% Change	26.9%	31.1%	35.9%	49.5%	69.0%
EBITDA	(422)	(494)	(290)	147	1,332
% Change	21.8%	-17.2%	41.3%	NM	806.8%
Net Interest & Other Income	41	(154)	(320)	(35)	(35)
Net Income (Adjusted)	(419)	(703)	(673)	61	1,241
% Change	24.4%	-68.0%	4.4%	NM	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(419)	(703)	(673)	61	1,241
Depreciation & Amortization	38	42	46	51	56
Change in Working Capital	(98)	(39)	(16)	(22)	(30)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	36	376	256	282	310
Capital Expenditure	(38)	(31)	(34)	(37)	(41)
Free Cash Flow	-482	-356	-421	334	1,536
% Change	NM	26.1%	-18.1%	NM	360.2%
Share / Issue Repurchase	549	0	0	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	0	202	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	2,116	967	738	1,032	2,413
Trade Receivables	153	215	258	309	371
Other Current Assets	335	1,376	1,250	1,358	1,586
Property, Plant & Equipment	191	180	168	155	140
Other Non-Current Assets	353	390	390	390	390
Total Assets	3,148	3,128	2,804	3,245	4,900
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	453	620	682	750	825
Long-Term Debt	1,097	1,544	1,544	1,544	1,544
Other Non-Current Liabilities	670	580	580	580	580
Total Liabilities	2,220	2,743	2,805	2,874	2,949
Total Equity	928	385	(1)	371	1,952
Total Equity & Liabilities	3,148	3,128	2,804	3,245	4,900

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Biotechnology

Company Description

Sarepta (SRPT) is a biopharmaceuticals company developing exon-skipping therapeutics and gene therapy for the treatment of Duchenne muscular dystrophy (DMD) and Limb Girdle muscular dystrophy (LGMD). The company's approved assets include Exondys, approved for DMD amenable to exon 51 skipping, Vyondys, approved for DMD amenable to exon 53 skipping, and Amondys, approved for DMD amenable to exon 45 skipping. SRPT also has a next-gen PPMO platform and gene therapy programs in DMD and LGMD.

Investment Rationale

We rate SRPT shares Buy. We believe SRPT's assets address the current under-met need in the treatment of rare muscular dystrophies. The exon skipping assets, in our view, should continue to provide floor valuation and generate sustained revenue streams. We believe the company is well positioned to drive upside potential and deliver shareholder value over time given existing assets and strategic partnerships in gene therapy programs with Nationwide, Lacerta, and Lysogene.

Stock Data

Average Daily Volume 1,448,970

Quarterly Earnings Estimates

	2022	2023
Q1	-1.20A	-5.85A
Q2	-2.65A	-0.27A
Q3	-2.94A	-0.46A
Q4	-1.24A	-1.03E



Price objective basis & risk

Sarepta Therapeutics (SRPT)

Our \$164 PO is based on a probability-adjusted net present value (NPV) analysis that includes \$17/share for Exondys, \$8/share for Vyondys, \$22/share for Amondys, \$78/share for micro-dystrophin gene therapy, \$38/share for LGMD assets. The remainder of our valuation comes from pipeline and cash. Our discounted cash flow (DCF) analysis assumes sales out to 2035, with weighted average cost of capital (WACC) of 9-13%.

Upside risks to our PO are 1) better-than-expected market uptake from its exon skipping assets, 2) SRP-9001 US label expansion, and 3) EU approval of SRP-9001 and other assets.

Downside risks to our PO are 1) failure and delay in approval for exon skipping assets, 2) unexpected safety or durability findings in gene therapy programs, 3) other micro dystrophin competitors, and 4) higher-than-expected royalty payments.

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
	PepGen Inc	PEPG	PEPG US	Tazeen Ahmad
	Prothena Corporation	PRTA	PRTA 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
	SAGE Therapeutics	SAGE	SAGE US	Tazeen Ahmad
UNDERPERFORM				
	Achilles Therapeutics	ACHL	ACHL US	Tazeen Ahmad
	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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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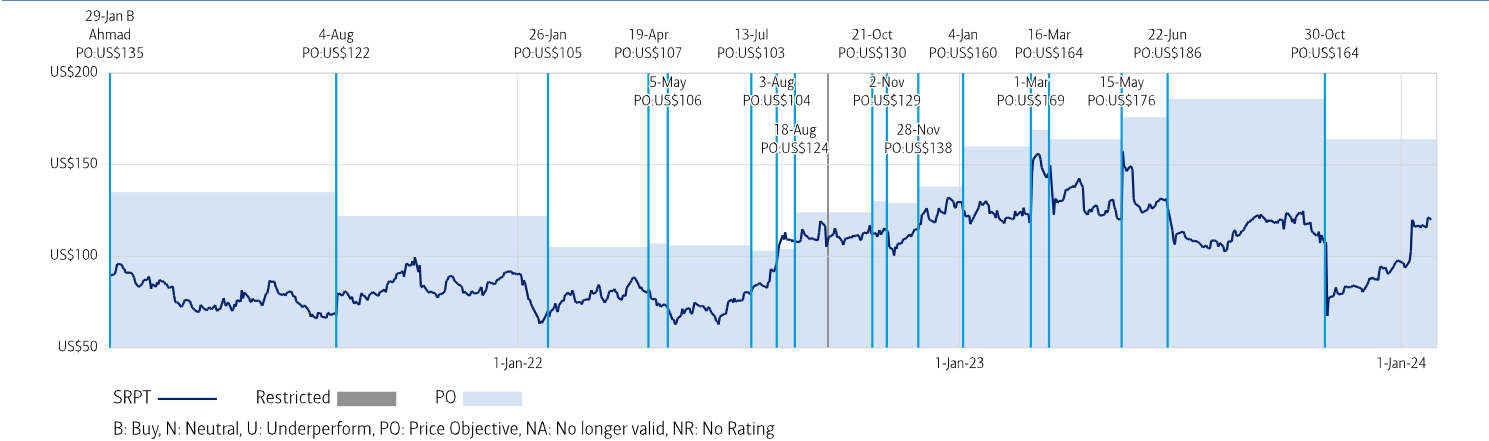
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Sarepta (SRPT) Price Chart



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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%

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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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