

Arcellx, Inc.

4Q wrap: no new update as ACLX closed out productive 2023

Reiterate Rating: BUY | PO: 77.00 USD | Price: 67.32 USD

4Q: nothing thesis changing; reiterate Buy

Arcellx (ACLX) is a clinical stage biotech that develops cell therapies (CAR-Ts) for cancer, notably multiple myeloma (MM). ACLX's 4Q contained no new information or updates, but nonetheless highlighted a productive 2023 which included a positive Ph1 data update on lead asset anito-cel in r/r MM and expanded partnership with GILD (covered by Geoff Meacham). We continue to like ACLX on 1) competitive profile of anito-cel with potential differentiation on neuro safety and activity in difficult-to-treat EMD patients, 2) good manufacturing process (Ph1 data) coupled with partnership with an experienced CAR-T manufacturer ie GILD/Kite, 3) well capitalized with >\$700m in cash and runway into 2027. We also raise our PO to \$77 (vs \$65 prior) on higher revenue forecast of anito-cel and layering in incremental pipeline revenue (see below for model changes).

Preliminary pivotal data in 2H remains a focus

In 2024, we are most focused on preliminary pivotal (Ph2) data of anito-cel in r/r MM in 2H. We will look for robustness of efficacy profile measure by complete response (CR) and confirmation of anito-cel's possible differentiation in EMD patient subgroup and neuro safety profile, in a larger patient sample relative to Ph1 data. More near term, on March 15th, we look to FDA advisory committee discussion on competitor BCMA CAR-Ts (Abecma, Carvykti) for read-through, as it pertains to possible category expansion into earlier line of MM in the US.

Model changes

Following GILD opt-in for ACLX's follow-on CAR-T program (ARC-SparX), we now layer in incremental revenue risk-adjusted at 35% POS (given earlier stage). Given recent positive CHMP opinion on competitor CAR-T (Carvykti; Cartitude-4), we believe the update helped de-risk the commercial expansion of BCMA CAR-T category in earlier line MM (bigger market) thus we raise our ex-US revenue for ACLX's anito-cel on higher BCMA category penetration rate in 2L+. These changes collectively lead to 5-20% higher total company nominal revenue in 2026-30E.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(5.19)	(1.46)	(1.63)	1.35	0.70
GAAP EPS	(5.19)	(1.48)	(1.63)	1.35	0.70
EPS Change (YoY)	96.4%	71.9%	-11.6%	NM	-48.1%
Consensus EPS (Bloomberg)			(2.20)	(2.58)	(2.96)
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	49.9x	96.2x
EV / EBITDA*	NM	NM	NM	41.6x	72.9x
Free Cash Flow Yield*	-2.9%	-1.0%	-1.5%	2.5%	1.3%

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

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	65.00	77.00
2024E Rev (m)	127.0	126.5
2026E Rev (m)	184.4	194.1
2024E EPS	-1.54	-1.63
2025E EPS	1.33	1.35
2026E EPS	0.71	0.70

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Stock Data

Price	67.32 USD
Price Objective	77.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-1-9
52-Week Range	26.32 USD - 68.12 USD
Mkt Val (mn) / Shares Out (mn)	3,554 USD / 52.8
Free Float	73.9%
Average Daily Value (mn)	27.35 USD
BofA Ticker / Exchange	ACLX / NAS
Bloomberg / Reuters	ACLX US / ACLX.OQ
ROE (2024E)	-10.6%
Net Dbt to Eqty (Dec-2023A)	-82.8%
ESGMeter TM	NLA

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Acronyms: see page 3

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iQprofileSM Arcellx, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-92.8%	-15.0%	-8.9%	7.5%	3.6%
Return on Equity	-119.1%	-14.4%	-10.6%	8.8%	4.2%
Operating Margin	NA	-81.5%	-62.1%	25.9%	23.4%
Free Cash Flow	(102)	(35)	(54)	90	47

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	1.4x	1.5x
Asset Replacement Ratio	1.7x	1.6x	1.3x	1.0x	1.0x
Tax Rate	NM	NM	NM	1.0%	1.0%
Net Debt-to-Equity Ratio	-31.3%	-82.8%	-89.9%	-90.9%	-90.9%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	0	110	126	280	194
% Change	NA	NA	14.6%	121.2%	-30.6%
Gross Profit	0	110	126	280	194
% Change	NA	NA	14.6%	121.2%	-30.6%
EBITDA	(190)	(88)	(76)	71	41
% Change	-196.9%	53.6%	13.7%	NM	-43.0%
Net Interest & Other Income	3	20	0	0	0
Net Income (Adjusted)	(189)	(70)	(79)	67	35
% Change	-190.3%	62.9%	-12.3%	NM	-47.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(189)	(71)	(79)	67	35
Depreciation & Amortization	1	2	2	4	5
Change in Working Capital	4	10	0	(1)	(5)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	84	27	25	24	17
Capital Expenditure	(2)	(3)	(3)	(4)	(5)
Free Cash Flow	-102	-35	-54	90	47
% Change	-69.2%	65.8%	-54.7%	NM	-47.8%
Share / Issue Repurchase	260	93	0	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	64	635	641	731	778
Trade Receivables	0	1	1	3	2
Other Current Assets	203	201	141	141	138
Property, Plant & Equipment	11	12	13	13	13
Other Non-Current Assets	36	36	36	36	36
Total Assets	314	885	832	924	966
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	57	66	67	67	58
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	52	52	52	52	52
Total Liabilities	109	118	119	119	110
Total Equity	205	767	713	804	856
Total Equity & Liabilities	314	885	832	924	966

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

Company Sector

Biotechnology

Company Description

Arcellx is a clinical stage biopharmaceutical company focused on the development of novel autologous CAR-T cell therapies for the treatment of cancers. The company's lead candidate, ddBCMA, is in clinical-stage for the treatment of relapse/refractory multiple myeloma (R/R MM). The company is also expecting to bring its ARC-SparX CAR-T technology into the clinic in the near term, which offers potential for a unique, differentiated approach to CAR-T treatment.

Investment Rationale

We rate Arcellx Buy and like the company based on 1) encouraging Ph1 clinical data for anito-cel (ddBCMA) which looks competitive relative to more advanced players in the relapsed/refractory multiple myeloma CAR-T space, 2) 2024 data readouts are material catalysts with potential to de-risk anito-cel, and 3) upside optionality with SparX approach (we do not currently include SparX programs [early stage] in model).

Stock Data

Average Daily Volume 406,301

Quarterly Earnings Estimates

	2023	2024
Q1	-0.58A	NA
Q2	-0.51A	NA
Q3	-0.81A	NA
Q4	0.44A	NA

Acronyms:

GILD: Gilead

EMD: extramedullary disease

POS: likelihood of success

r/r: relapsed / refractory

BCMA: antigen

Ph: Phase

FDA: US Food and Drug Administration

Price objective basis & risk

Arcellx, Inc. (ACLX)

Our \$77 per share price objective is based on a risk-adjusted, sum-of-the-parts DCF. We assume 1) a discount rate of 10% for a pivotal clinical-stage company, 2) a Probability of Success of 80% for ddBCMA program given that it will soon enter pivotal testing. 3) terminal value with terminal growth rate of 0% to reflect a durable market position for ddBCMA given high capital barriers to competitor entry

Downside risks are: 1) ddBCMA trial failure, 2) worse-than-expected ddBCMA clinical data

Upside risks are: 1) better-than-expected ddBCMA clinical data and 2) acquisition at a premium.

Analyst Certification

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US - Specialty Pharma & Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arcellx, Inc.	ACLX	ACLX US	Jason M. Gerberry
	Arrowhead Pharmaceuticals	ARWR	ARWR US	Jason M. Gerberry
	bluebird bio	BLUE	BLUE US	Jason M. Gerberry
	Exelixis	EXEL	EXEL US	Jason M. Gerberry
	Fractyl Health	GUTS	GUTS 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
	Oculus 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
	Viatis 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

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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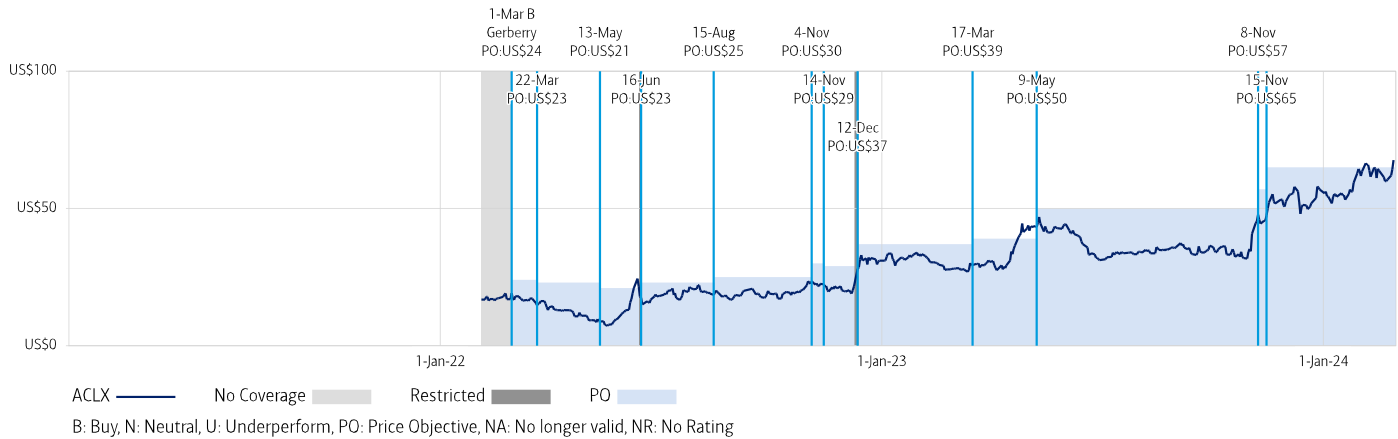
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Arcellx (ACLY) Price Chart



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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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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