

Arvinas

# Takeaways from our dinner with ARVN management; Maintain Buy

Maintain Rating: BUY | PO: 50.00 USD | Price: 47.48 USD

## Multiple strategies being considered for vep' combo in 1L

We hosted ARVN mgmt (incl. CEO, CMO) on 2/6/24 to discuss recent updates and 2024 strategic outlook. Mgmt highlighted the recent positive vep' + palbo combo data that was presented at SABCS (see our [initial takes note](#)). ARVN highlights that an SLI study is ongoing for the ph 3 VERITAC-3 trial evaluating vep' + palbo in 1L mBC to determine the ideal palbo dose. However, given recent updates from program partner Pfizer, investors were interested in learning if mgmt is considering moving the ph 3 program forward in combo with Pfizer's CDK4i instead. Mgmt indicated this is a possible scenario and a relatively new development driven by Pfizer given palbo's upcoming 2027 LOE and promising early CDK4i data. The 2 companies recently initiated a DE combo study and guides to generating as much data as possible before deciding on next steps likely around YE. ARVN also expects to initiate a 2L ph 3 trial evaluating vep + palbo or other CDK4/6i's later this year. We are encouraged by the company exploring multiple combo strategies for vep' especially given feedback from our KOLs highlighting an increasingly ribo dominated market. Given next steps are uncertain, we await guidance before making changes to our model assumptions and maintain our Buy with \$50 PO.

## Potential 2025 launch for vep' mono in 2L mBC

ARVN highlighted the ph 3 VERITAC-2 study evaluating vep' in 2L mBC will readout data ~YE with a potential launch in 2025. Mgmt draws a direct comparison to Oserdu hoping to show a meaningful PFS benefit to what was shown in the ph 3 EMERALD study (treatment: 3.9-mos vs. SOC arm: 1.9-mos; HR=0.55). Given recent vep' combo data, ARVN anticipates a similar benefit for ESR1m and WT mBC pts to support a broader label than Oserdu. We plan to poll KOLs ahead of the readout to determine what would be meaningful data and to understand monotherapy usage expectations in 2L mBC.

## Other key takeaways from the dinner

Recall, ARVN decided to prioritize development of 2<sup>nd</sup>-gen PROTAC AR degrader, ARV-766, over 1<sup>st</sup>-gen asset, bav', given interim data that reaffirmed '766's broader efficacy potential and superior safety and tolerability profile (see [our Oct 23rd note](#)). We note ARV-766 was designed to target all AR LBD mutations that arise post-NHA (~25% of mCRPC pts). Mgmt guides to presenting initial PFS data in mid-24 and will initiate regulatory discussions in 2Q for ph 3 trial design alignment. ARVN also highlighted the recent IND/CTA acceptances for ARV-102 (LRRK2 PROTAC; CNS) and ARV-393 (BCL6 PROTAC; DLBCL) with HV studies expected to initiate in 1H. On discovery, mgmt expects to file INDs for a KRAS PROTAC and an undisclosed PROTAC around YE. ARVN is well-funded with a current cash runway into 2027 that includes a potential 1L vep' launch.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(3.82)	(5.31)	(5.87)	(8.42)	(8.82)
GAAP EPS	(3.82)	(5.11)	(5.87)	(8.42)	(8.82)
EPS Change (YoY)	-26.5%	-39.0%	-10.5%	-43.4%	-4.8%
Consensus EPS (Bloomberg)			(5.08)	(6.79)	(6.24)
DPS	0	0	0	0	0
<b>Valuation (Dec)</b>					
Free Cash Flow Yield*	17.2%	-8.7%	0.6%	1.1%	1.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

08 February 2024

### Equity

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### Stock Data

Price	47.48 USD
Price Objective	50.00 USD
Date Established	13-Nov-2023
Investment Opinion	C-1-9
52-Week Range	13.57 USD - 49.50 USD
Mkt Val (mn) / Shares Out (mn)	3,229 USD / 68.0
Free Float	88.9%
Average Daily Value (mn)	30.01 USD
BofA Ticker / Exchange	ARVN / NAS
Bloomberg / Reuters	ARVN US / ARVN.OQ
ROE (2023E)	-56.2%
Net Dbt to Eqty (Dec-2022A)	-15.2%
ESGMeter <sup>TM</sup>	Low

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"](#).

**See abbreviations on page 3**

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# iQprofile<sup>SM</sup> Arvinas

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-17.6%	-20.7%	-28.6%	-41.6%	-43.3%
Return on Equity	-26.8%	-42.0%	-56.2%	-80.4%	-82.0%
Operating Margin	-418.4%	-200.3%	-183.7%	-369.7%	-242.4%
Free Cash Flow	555	(280)	18	36	42

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	1.0x	1.1x	1.2x	1.3x	1.4x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-14.3%	-15.2%	-50.5%	-55.7%	-60.8%
Interest Cover	NM	-12.6x	-14.8x	-21.8x	-23.3x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	47	131	168	123	201
% Change	114.1%	181.6%	28.2%	-26.7%	62.9%
Gross Profit	47	131	168	123	201
% Change	114.1%	181.6%	28.2%	-26.7%	62.9%
EBITDA	(190)	(257)	(303)	(450)	(481)
% Change	-56.5%	-34.9%	-18.0%	-48.5%	-6.9%
Net Interest & Other Income	4	(9)	(9)	(9)	(9)
<b>Net Income (Adjusted)</b>	<b>(191)</b>	<b>(283)</b>	<b>(318)</b>	<b>(465)</b>	<b>(496)</b>
<b>% Change</b>	<b>-60.1%</b>	<b>-47.9%</b>	<b>-12.6%</b>	<b>-46.2%</b>	<b>-6.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(191)	(272)	(318)	(465)	(496)
Depreciation & Amortization	5	6	6	6	6
Change in Working Capital	678	(83)	21	21	21
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	67	75	316	482	520
Capital Expenditure	(5)	(7)	(7)	(8)	(9)
<b>Free Cash Flow</b>	<b>555</b>	<b>-280</b>	<b>18</b>	<b>36</b>	<b>42</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>98.9%</b>	<b>15.7%</b>
Share / Issue Repurchase	279	5	5	6	6
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	113	87	287	329	378
Trade Receivables	15	1	2	3	4
Other Current Assets	1,425	1,152	973	971	969
Property, Plant & Equipment	13	13	15	17	19
Other Non-Current Assets	16	15	14	14	14
<b>Total Assets</b>	<b>1,582</b>	<b>1,269</b>	<b>1,292</b>	<b>1,334</b>	<b>1,384</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	262	295	315	336	356
Long-Term Debt	1	1	1	1	1
Other Non-Current Liabilities	537	408	408	408	408
<b>Total Liabilities</b>	<b>800</b>	<b>704</b>	<b>724</b>	<b>744</b>	<b>765</b>
<b>Total Equity</b>	<b>782</b>	<b>565</b>	<b>567</b>	<b>590</b>	<b>619</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,582</b>	<b>1,269</b>	<b>1,292</b>	<b>1,334</b>	<b>1,384</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Biotechnology

## Company Description

Arvinas (ARVN) is a clinical-stage biotechnology company developing a pipeline of targeted protein degraders for oncology and neurodegenerative diseases. ARV-471 targeting estrogen receptor is in clinical development for ER+/HER2- breast cancer, and ARV-766 targeting androgen receptor is in the clinic for metastatic castration-resistant prostate cancer (mCRPC). The company is also developing a preclinical pipeline targeting central nervous system diseases and other indications.

## Investment Rationale

We rate ARVN shares Buy. We have a positive view of ARVN's targeted protein degradation platform utilizing proteolysis-targeting chimeras (PROTAC), given the clean safety profile and early efficacy observed in trials to date. ARVN is a leader in the clinical development of protein degraders, and we think the modality is highly differentiated from competitive therapies. We also see significant upside potential in the preclinical pipeline in central nervous system (CNS) indications and beyond.

## Stock Data

Average Daily Volume 632,040

## Quarterly Earnings Estimates

	2022	2023
Q1	-1.20A	-1.54A
Q2	-1.32A	-1.25A
Q3	-1.24A	-1.18A
Q4	-1.56A	-1.99E

# Abbreviations

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Abema: abemaciclib  
AR: androgen receptor  
Bav': bavdegalutamide  
BCL6: B-cell lymphoma 6  
CDK4/6i: cyclin-dependent kinase 4/6 inhibitors  
CEO: chief executive officer  
CMO: chief medical officer  
CNS: central nervous system  
CTA: clinical trial application  
DE: dose escalation  
DLBCL: diffuse large B cell lymphoma  
ESR1m: estrogen receptor 1 mutant  
HR: hazard ratio  
HV: healthy volunteer  
IND: investigational new drug  
KOL: key opinion leader  
KRAS: Kristen rat sarcoma virus  
LBD: ligand-binding domain  
LOE: loss of exclusivity  
LRRK2: leucine rich repeat kinase 2  
mBC: metastatic breast cancer  
mCRPC: metastatic castration-resistant prostate cancer  
mgmt: management  
NHA: novel hormonal agents  
Palbo: Palbociclib  
PFS: progression-free survival  
PROTAC: proteolysis targeting chimera  
Ph: phase  
Pts: patients  
Ribo: ribociclib  
SLI: safety lead-in  
SOC: standard of care  
Vep': vepdegestrant  
WT: wildtype



## Price objective basis & risk

### Arvinas (ARVN)

Our price objective (PO) of \$50 is based on a probability-adjusted net present value (NPV) analysis. Our valuation includes ARV-471 in ER+/HER2- breast cancer as 2L+ (\$6/share) and 1L+ (\$9/share) therapy, potential milestones for '471 from Pfizer (\$6/share), and ARV-766 in 3L+ mCRPC (-\$2/share). The remainder of our valuation comes from pipeline and net cash. Our discounted cash flow (DCF)-based model goes out to 2039, with 13% weighted-average cost of capital (WACC) for '471, 13% WACC for '766, and 14% WACC for pipeline expenses. We model no terminal value.

Upside risks to our PO are 1) better-than-expected clinical data in ongoing trials, 2) expansion into earlier lines of therapy, 3) accelerated approval for lead assets, and 4) positive clinical results for early-stage pipeline assets.

Downside risks to our PO are 1) failure to obtain approval for lead assets, 2) failure of '766 and '471 to differentiate from standard of care and competitive therapies, 3) lower-than-expected uptake in target indications, and 4) unexpected safety signals in ongoing trials.

## Analyst Certification

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### US - Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
	Rhythm Pharmaceuticals	RYTM	RYTM US	Tazeen Ahmad
	Sarepta Therapeutics	SRPT	SRPT US	Tazeen Ahmad
	Ultragenyx Pharmaceuticals	RARE	RARE US	Tazeen Ahmad
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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

## US - Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**iQmethod<sup>SM</sup> 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 &amp; 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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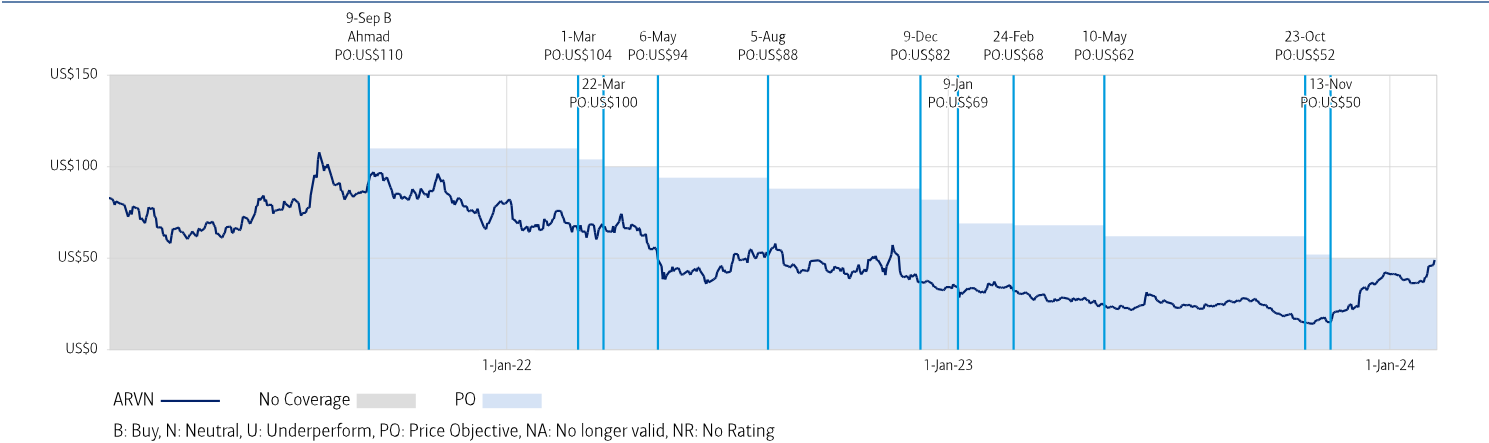
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Arvinas (ARVN) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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