

Life Sciences & Diagnostic Tools

4Q23 CERT and DNA earnings review and model updates

Price Objective Change

4Q'23 CERT & DNA model updates

Certara (CERT) and Ginkgo Bioworks (DNA) reported 4Q'23 results after market close. Here, we update our models and provide additional commentary.

CERT: Solid 4Q23; FY24 sales ahead on M&A contribution

CERT reported 4Q23 revenues of \$88mn (+2% y/y reported, +1% on a CC (Constant Currency)) vs BofAe/Street \$86/87mn. Software revenues of \$34mn (+15% y/y, +14% CC) were in line with BofAe, while Services revenues of \$54mn (-5% y/y, -6% CC) were slightly ahead of BofAe \$52mn. Adj. EBITDA were \$30mn vs BofAe/Street \$26/29mn, with a margin of 34% (vs. BofAe of 31%). Adj. EPS was 9c vs BofAe/Street 8/11c. Mgmt. provided FY24 guidance with sales of \$385-400mn (+11% yoy), ahead of BofAe/Street \$370/364mn. For adj. EBITDA, CERT sees 31-33% margin, implying \$125mn (vs BofAe/Street \$122/127mn), and Adj EPS of 41-46c (vs BofAe/Street 40/48c).

While the sales guide was much better than expected, we note that the organic growth is expected to be only mid-single digits, while M&A (Formedix and Applied Biomath) will contribute ~6% to sales growth. Despite the higher revenue, FY24 Adj EBITDA was in-line with Street estimates, as Mgmt. continues to invest in both R&D and Sales Force. We update our estimates, incl. FY24-25E sales to \$392/425mn (vs prior \$370/410mn). On higher estimates, our PO moves to \$21 (was \$20), still based on 9x our updated FY'24E EV/Sales est. We reiterate our Buy rating given CERT's leading position in bio-simulation and long-term growth drivers, and meaningful upside to our PO.

DNA: FY24 guide falls short on lower Foundry revenues

Ginkgo Bioworks (DNA) reported 4Q'23 results below the company's 1/10 preliminary announcement due to a contract amendment, with total sales of \$35mn vs BofAe/Street \$38/42mn. Foundry sales were \$27mn vs. BofAe/Street \$29/30mn (Visible Alpha), while Biosecurity contributed \$8mn vs. BofAe/Street \$9mn. On lower sales and one-time adjustments, the adj. EBITDA loss was \$(96)mn vs. BofAe/Street of \$(128)/(148)mn.

FY24 guidance was also below expectation, with total sales of "at least" \$215-235mn vs. BofAe/Street \$275/279mn. Core foundry is expected to generate \$165-185mn, with growth mainly coming from biopharma and government, (vs BofAe \$223mn). Notably, mgmt. looks to add 100-120 new programs (vs BofAe 100), implying that each program is expected to generate lower recognized sales in FY24. Biosecurity is expected to generate >\$50mn (vs BofAe \$46mn). The sales guide does not include any downstream revenues from royalties or milestones, as they are uncertain.

We update our model, lowering our 2024-25E sales forecast to \$225mn/310mn (from \$275/350mn). As a result, our DCF-based PO (14% WACC & 4% terminal growth rate are unchanged) falls to \$1.25 from \$1.50. Overall, we remain positive on synthetic biology's industry and DNA's platform, but it will likely take longer-than-expected to mature. To revisit our thesis, we would look for the market's appetite for longer duration growth stories to return and for greater visibility into DNA's future revenue streams. We reiterate our Underperform rating.

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Refer to important disclosures on page 3 to 7. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Exhibit 1: PO Change Table

PO changes

Ticker	New	Old	Rating
CERT	\$21.00	\$20.00	Buy
DNA	\$1.25	\$1.50	Underperform

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 2: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CERT	CERT US	Certara	US\$ 16.88	C-1-9
DNA	DNA US	Ginkgo Bioworks Hold	US\$ 1.52	C-3-9

Source: BofA Global Research

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Price objective basis & risk

Certara (CERT)

Our \$21 price objective is based on 9x 2024e EV/Sales, in-line with closest peers. This is a modest premium to the broader comp group (which includes other high-growth Life Science Tools and HCIT names, as well as Application Software businesses), which is justified given the unique hybrid positioning of the stock and secular growth story.

Downside risks are competition, technology risk, and regulatory risk as it relates to pharma R&D pipelines.

Ginkgo Bioworks Holdings, Inc (DNA)

Our \$1.25 PO is based on a DCF analysis assuming a 14% WACC and 4% terminal growth rate.

Upside risks are better than expected program growth, significant platform validating partnerships, the acquisition of the company, or the realization of meaningful downstream milestones, royalties, and equity investments.

Downside risks are technology, competition, market, execution, intellectual property, regulatory, market volatility, and product liability.

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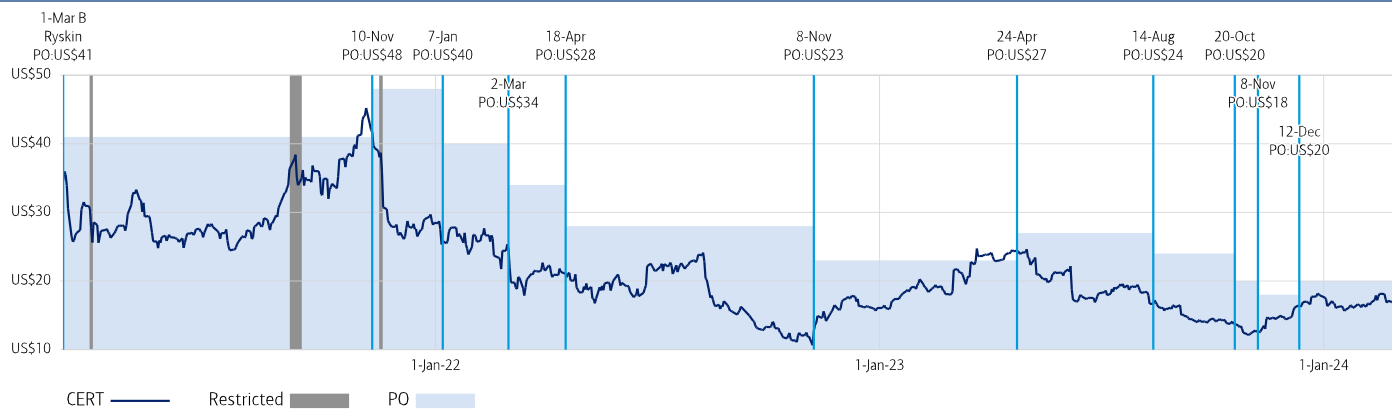


US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

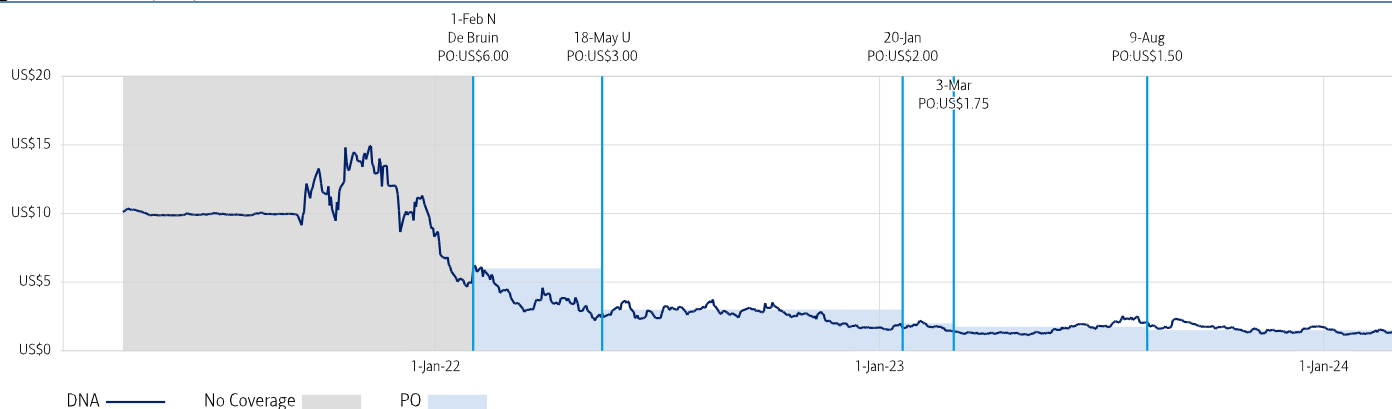
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Certara (CERT) Price Chart

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

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Ginkgo Bioworks Hold (DNA) 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 ^{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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^{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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