

Tarsus Pharmaceuticals

Early Xdemvy launch indicators are promising; we raise PO to \$55/sh

Reiterate Rating: BUY | PO: 55.00 USD | Price: 25.80 USD

Increase PO on Xdemvy launch ramp and peak sales

We are raising our TARS PO to \$55/share reflecting higher peak revenue estimates for Xdemvy (demodex blepharitis; eye disease) based on early launch feedback and launch tracking metrics. Our PO is entirely attributable to our new Xdemvy forecast reaching out-year peak of \$1bn reached by 2038 and our 2024E and 2025E are relatively in-line with Bloomberg consensus. We believe the Xdemvy launch a) would be durable given massive end-market prevalence – see below; and b) should get quality pricing and reimbursement over time as the only FDA approved treatment for DB and time-limited course likely limits payer pushback. We see TARS as an attractive biotech launch story with undemanding valuation (\$55/share DCF) and trades at <1x peak de-risked revenue.

Early Xdemvy launch indicators are positive

Xdemvy prescriptions tracking has been spotty in the early launch period as vendors like Symphony poorly track the drug's specialty pharmacies. IQVIA is the main tracker and had to downward adjust script estimates by 27% (on 1/12) and TARS' management has indicated the data source offers directional indicator of growth trend. As such, when we look to 2024, the drug tracking at 2k weekly TRx could imply '24E revenues in the \$100-120m range but we forecast \$73m on conservatism of data capture. Our physician checks (our prior published [takeaway](#)) indicate ease of use and favorable payer coverage.

Launch comp: we look to Lamisil

One investor pushback is around Xdemvy launch comps –particularly for acute use drugs. We look to Novartis' Lamisil (onychomycosis; US LOE in 2007) which achieved \$574m US peak and est. 700-900k pts on drug at peak year (\$850 for full treatment vs. \$1850 Xdemvy). Similar to Xdemvy, Lamisil had a massive prevalence and short-duration use (90-day vs. Xdemvy 6-wk) and Lamisil was similarly easy to dose with curative outcome (+ some retreatment). Given Xdemvy out-year pricing, we believe it's reasonable to have a similar out-year patient number needed to make the drug a blockbuster.

Pipeline interest but TBD

Tarsus has two near-term Ph2 data readouts for TP-04 (topical lotilaner) for rosacea and TP-05 (oral lotilaner) for lyme. While we expect TP-04 to work for rosacea, the efficacy endpoints for the small study are exploratory, the market has produced many commercially niche drugs and TARS would still need to discuss data with FDA regarding strategy to develop a differentiated label (vs. gx ivermectim). On TP-05 for lyme, we believe data would need to be highly compelling to attract a partner to make investment in large prevention Ph3, thus we exclude from our model. We reiterate our Buy rating.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.67)	(2.52)	(4.53)	(3.82)	(1.88)
EPS Change (YoY)	84.5%	-276.1%	-79.8%	15.7%	50.8%
Consensus EPS (Bloomberg)			(4.63)	(4.82)	(2.07)
DPS	0	0	0	0	0
Valuation (Dec)					
Free Cash Flow Yield*	0.4%	-5.8%	-15.9%	-13.4%	-6.6%

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

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Timestamp: 29 January 2024 05:00AM EST

29 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	42.00	55.00
2023E Rev (m)	17.9	14.4
2024E Rev (m)	60.6	76.1
2025E Rev (m)	125.1	160.9
2023E EPS	-4.42	-4.53
2024E EPS	-4.02	-3.82
2025E EPS	-2.05	-1.88

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Stock Data

Price	25.80 USD
Price Objective	55.00 USD
Date Established	27-Jan-2024
Investment Opinion	C-1-9
52-Week Range	11.33 USD - 27.05 USD
Mkt Val (mn) / Shares Out (mn)	854 USD / 33.1
Free Float	92.1%
Average Daily Value (mn)	18.33 USD
BofA Ticker / Exchange	TARS / NAS
Bloomberg / Reuters	TARS US / TARS.OQ
ROE (2023E)	-71.5%
Net Dbt to Eqty (Dec-2022A)	-27.1%
ESGMeter™	Low

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iQprofileSM Tarsus Pharmaceuticals

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-6.5%	-29.1%	-56.3%	-75.6%	-77.1%
Return on Equity	-8.3%	-34.5%	-71.5%	-93.1%	-85.8%
Operating Margin	-21.3%	-242.9%	-967.3%	-177.5%	-44.9%
Free Cash Flow	3	(50)	(135)	(115)	(56)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	2.4x	0.1x	0.2x	3.1x	32.4x
Tax Rate	NM	0%	NM	NM	NM
Net Debt-to-Equity Ratio	-102.8%	-27.1%	-66.3%	-78.9%	-37.9%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	57	26	14	76	161
% Change	NA	-54.7%	-44.4%	430.1%	111.5%
Gross Profit	57	26	12	67	145
% Change	NA	-54.7%	-52.8%	448.8%	116.3%
EBITDA	(12)	(59)	(135)	(135)	(72)
% Change	55.7%	-392.7%	-130.2%	0.2%	46.6%
Net Interest & Other Income	(2)	1	7	8	8
Net Income (Adjusted)	(14)	(62)	(132)	(127)	(64)
% Change	48.4%	-349.1%	-112.4%	3.7%	49.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(14)	(62)	(132)	(127)	(64)
Depreciation & Amortization	0	4	4	0	0
Change in Working Capital	1	(1)	(18)	(5)	(5)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	16	10	12	18	20
Capital Expenditure	(1)	(1)	(1)	(1)	(8)
Free Cash Flow	3	-50	-135	-115	-56
% Change	NM	NM	-173.5%	15.3%	50.9%
Share / Issue Repurchase	0	74	100	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	20	10	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	171	72	146	76	20
Trade Receivables	0	0	3	16	36
Other Current Assets	5	154	64	26	27
Property, Plant & Equipment	1	1	1	2	10
Other Non-Current Assets	2	2	2	2	2
Total Assets	179	228	216	122	94
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	11	15	10	25	41
Long-Term Debt	0	19	29	0	0
Other Non-Current Liabilities	1	0	0	0	0
Total Liabilities	12	35	39	25	41
Total Equity	167	193	176	97	53
Total Equity & Liabilities	179	228	216	122	94

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

Company Sector

Biotechnology

Company Description

Tarsus Pharmaceuticals (TARS) is a commercial-stage biotech company. Tarsus' TP-03, TP-04 and TP-05 are eye drop, topical cream and oral formulations of lotilaner that it in-licensed from Elanco (ELAN). Tarsus' lead asset TP-03 is a first-in-class novel drug undergoing Ph3 studies for the treatment of demodex infestation in blepharitis.

Investment Rationale

We rate TARS Buy on Xdemvy launch as the first FDA approved therapy for demodex blepharitis. We forecast peak sales >\$900m given strength of Xdemvy profile, large TAM and lack of competitive alternatives. We view early prescription data as supportive of a favorable launch and look to upcoming quarterly results for validation that the launch uptake is durable and reimbursement is at favorable net pricing. TARS trades at <1x EV/peak sales, and we expect launch validation to drive a share re-rating

Stock Data

Average Daily Volume 710,416

Quarterly Earnings Estimates

	2022	2023
Q1	-0.98A	-0.88A
Q2	-0.24A	-1.17A
Q3	-0.84A	-1.28A
Q4	-0.50A	-1.17E

Acronyms:

DB: demodex blepharitis

FDA: Food & Drug Administration

TRx: prescription

LOE: loss of exclusivity

Ph2: phase 2

Price objective basis & risk

Tarsus Pharmaceuticals (TARS)

Our \$55 price objective (PO) is based on a risk-adjusted DCF of TP-03 lead program. Key assumptions: 1) we forecast cash flows through 2038 patent life of TP-03. 2) 100% probability of success for TP-03 and 90% probability of achieving market expansion. 3) TP-03 generates \$513m in 2030E risk-adjusted sales, 4) discount rate of 10% and no terminal value.

Downside risks to our PO are (1) failure of TP-03 to show desired results in clinical trials, (2) slower-than-expected commercial uptake of TP-03, (3) potential dilutive cash raises to commercialize the drug.

Upside risks to our PO are (1) better-than-expected clinical data and/or commercial uptake of TP-03, (2) acquisition at a premium price.

Analyst Certification

I, Jason M. Gerberry, 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 - 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
	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
	Viartis 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

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 & 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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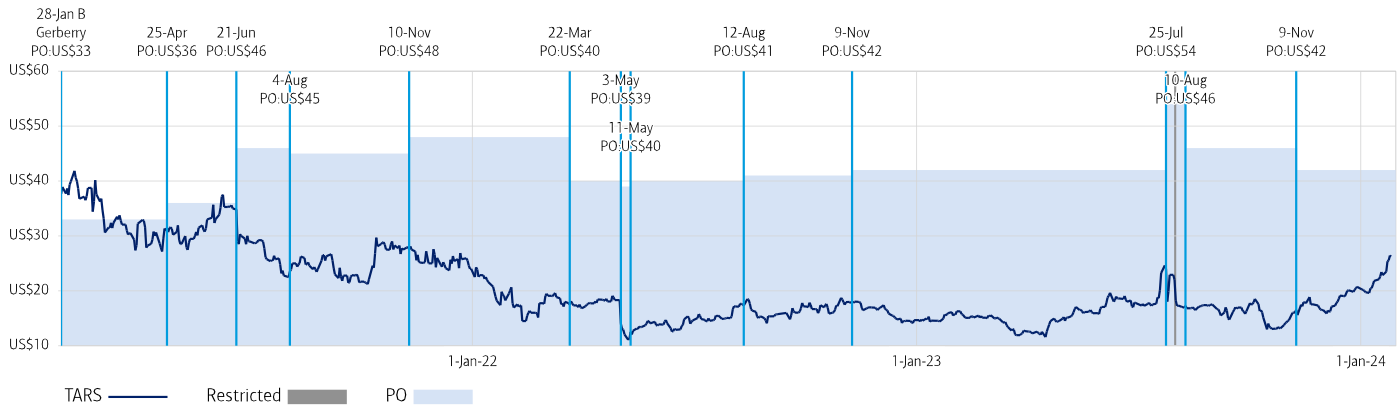
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Tarsus Pharma (TARS) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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Underperform	N/A	≥ 20%

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