

Sarepta Therapeutics

Efficacy supplement for Elevidys label expansion accepted with priority review

Reiterate Rating: BUY | PO: 169.00 USD | Price: 135.49 USD

Decision on Elevidys label expansion by June 21

Sarepta (SRPT) announced the acceptance of the efficacy supplement to expand the Elevidys label in Duchenne muscular dystrophy (DMD). The filing was accepted with priority review with a review goal date of June 21st, which we think reinforces management commentary on FDA's commitment to an expedited review. Importantly, FDA confirmed they do not plan to hold an advisory committee to review the supplement. We think this is a key step in the review process and reinforces our confidence in a positive outcome for the label expansion. We reiterate our view that a label expansion inclusive of all ambulatory DMD patients is the most likely scenario but think a broader label inclusive of non-ambulatory DMD patients is not out of the question. In our view, the acceptance with priority as well as recent updates including Roche's commentaries about EU filing (see our [Feb 1 note](#)) and recent remarks from FDA leadership about the high unmet need in DMD (see our [Jan 9 note](#)) signal a positive outcome. We increase our likelihood of success in the US to 80% based on the update. We now model \$2.5bn in risk-adjusted peak sales with a 35% peak penetration and think that a broader label would represent additional upside to our estimates. This results in our new \$169 PO (prev. \$164). We reiterate SRPT as one of our top picks with a Buy rating as we await the final decision by June 21st.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(5.15)	(8.03)	(7.58)	0.96	13.97
EPS Change (YoY)	27.6%	-55.9%	5.6%	NM	NM
Consensus EPS (Bloomberg)			(1.17)	5.19	9.75
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	141.1x	9.7x
EV / EBITDA*	NM	NM	NM	80.9x	10.1x
Free Cash Flow Yield*	-3.8%	-2.8%	-3.3%	2.8%	12.6%

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

16 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	164.00	169.00
2024E Rev (m)	1,792.2	1,836.2
2025E Rev (m)	2,998.6	3,076.5
2024E EPS	0.67	0.96
2025E EPS	13.37	13.97

Tazeen Ahmad
Research Analyst
BofAS
+1 646 855 4236
tazeen.ahmad@bofa.com

Daniel Giraldo
Research Analyst
BofAS
+1 646 855 0993
daniel.giraldo@bofa.com

Jeremiah Lorentz
Research Analyst
BofAS
+1 616 743 2514
jeremiah.lorentz@bofa.com

Stock Data

Price	135.49 USD
Price Objective	169.00 USD
Date Established	16-Feb-2024
Investment Opinion	C-1-9
52-Week Range	55.25 USD - 159.89 USD
Mrkt Val (mn) / Shares Out (mn)	12,675 USD / 93.5
Free Float	95.6%
Average Daily Value (mn)	166.87 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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Timestamp: 16 February 2024 10:07AM EST

iQprofileSM Sarepta Therapeutics

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-15.7%	-18.5%	-13.1%	4.8%	35.9%
Return on Equity	-49.6%	-107.2%	-350.9%	44.2%	106.6%
Operating Margin	-65.5%	-57.5%	-27.2%	6.7%	43.3%
Free Cash Flow	(482)	(356)	(421)	361	1,591

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	4.5x	1.3x
Asset Replacement Ratio	1.0x	0.7x	0.7x	0.7x	0.7x
Tax Rate	0%	NM	NM	0.6%	0%
Net Debt-to-Equity Ratio	-109.8%	150.0%	NM	121.9%	-46.8%
Interest Cover	-6.7x	-15.3x	-9.6x	3.5x	38.0x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	702	933	1,234	1,836	3,077
% Change	30.0%	32.9%	32.3%	48.8%	67.5%
Gross Profit	605	793	1,078	1,651	2,793
% Change	26.9%	31.1%	35.9%	53.2%	69.1%
EBITDA	(422)	(494)	(290)	174	1,387
% Change	21.8%	-17.2%	41.3%	NM	698.4%
Net Interest & Other Income	41	(154)	(320)	(35)	(35)
Net Income (Adjusted)	(419)	(703)	(673)	88	1,296
% 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)	88	1,296
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	361	1,591
% Change	NM	26.1%	-18.1%	NM	341.3%
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	1,059	2,496
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	3,272	4,983
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)	398	2,034
Total Equity & Liabilities	3,148	3,128	2,804	3,272	4,983

* 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 1,231,639

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 \$169 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, \$82/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
	Ocular Therapeutix	OCUL	OCUL 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
NEUTRAL				
	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
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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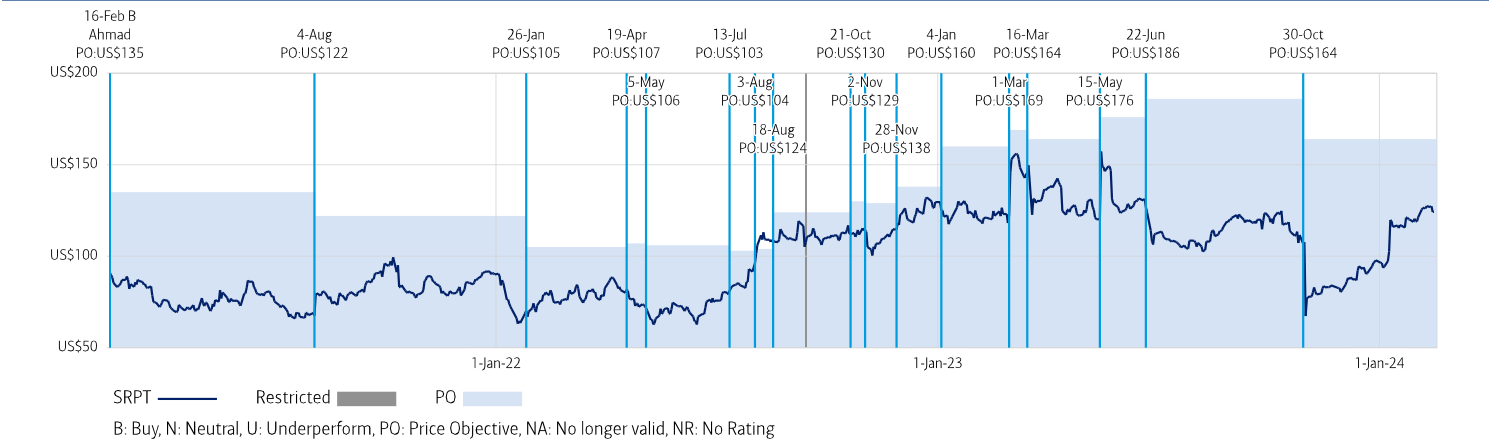
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Sarepta (SRPT) Price Chart



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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%

^{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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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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