

## Ocular Therapeutix

## Several retinal experts join the OCUL management team

Maintain Rating: BUY | PO: 15.00 USD | Price: 9.70 USD

## PIPE provides funding for Axpaxli pivotal program

Ocular Therapeutix (OCUL) announced recent changes to the board of directors and senior management team to include several industry and retinal specialist leaders. The company announced that Pravin Dugel, MD will join as Executive Chairman, Jeffrey Heier, MD will join as Chief Scientific Officer, Peter Kaiser, MD will join as Medical Director and Sanjay Nayak, MBBS, PhD will become Chief Strategy Officer. We think the addition of several retinal clinical experts will help accelerate the clinical development of Axpali in retinal indications and underscores its potential to be a transformative therapy in this space based on the available data to-date. Additionally, the company announced a \$325mn private placement (PIPE). Management commented that the additional funds will help accelerate the clinical development plan for Axpaxli in wet age-related macular degeneration (wAMD) and diabetic retinopathy. They highlighted the trial design of SOL in wAMD gives them high confidence in the potential for a positive outcome based on data suggesting only ~20% of patients maintain vision after an aflibercept injection after 36 weeks compared to 73% of patients on Axpaxli. They noted enrollment will be the key challenge but noted the special protocol assessment (SPA) significantly expands the number of addressable patients. We are encouraged by the updates signaling confidence from key thought leaders in the retinal disease space as well as removing an overhang on the funding for the pivotal Axpaxli program. We await further updates on enrollment progress in wAMD and the topline data from the HELIOS study in non-proliferative diabetic retinopathy in 2H. We maintain our Buy rating with \$15 PO.

22 February 2024

## Equity

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

## Stock Data

Price	9.70 USD
Price Objective	15.00 USD
Date Established	9-Feb-2024
Investment Opinion	C-1-9
52-Week Range	2.00 USD - 9.91 USD
Mkt Val (mn) / Shares Out (mn)	1,114 USD / 114.8
Free Float	96.6%
Average Daily Value (mn)	15.11 USD
BofA Ticker / Exchange	OCUL / NAS
Bloomberg / Reuters	OCUL US / OCULOQ
ROE (2023E)	-115.2%
Net Dbt to Eqty (Dec-2022A)	-264.6%

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.08)	(0.86)	(0.81)	(0.83)	(0.83)
GAAP EPS	(0.09)	(0.92)	(0.83)	(0.83)	(0.83)
EPS Change (YoY)	96.9%	-975.0%	5.8%	-2.5%	0%
Consensus EPS (Bloomberg)			(0.99)	(0.94)	(0.81)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	NM	NM	NM	0.5x
Free Cash Flow Yield*	-5.4%	0.7%	1.6%	1.8%	2.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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# iQprofile<sup>SM</sup> Ocular Therapeutix

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-33.9%	-47.3%	-49.2%	-61.8%	-144.1%
Return on Equity	-8.0%	-115.2%	-115.2%	-188.0%	NM
Operating Margin	-179.3%	-152.7%	-137.4%	-134.2%	-112.6%
Free Cash Flow	(60)	8	18	20	22

## 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	0.5x	1.8x	1.9x	2.1x	0x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-179.8%	-264.6%	-163.0%	-517.6%	NM
Interest Cover	-11.7x	-11.2x	-8.4x	-9.4x	-9.2x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	44	51	60	72	87
% Change	150.1%	18.3%	16.9%	19.0%	21.4%
Gross Profit	39	47	54	65	78
% Change	155.3%	20.0%	15.6%	19.0%	21.4%
EBITDA	(76)	(77)	(81)	(94)	2,011
% Change	-25.9%	-1.2%	-5.3%	-16.6%	NM
Net Interest & Other Income	71	8	10	(1)	(2)
<b>Net Income (Adjusted)</b>	<b>(7)</b>	<b>(71)</b>	<b>(72)</b>	<b>(97)</b>	<b>(100)</b>
<b>% Change</b>	<b>95.8%</b>	<b>-984.1%</b>	<b>-1.9%</b>	<b>-34.6%</b>	<b>-2.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(78)	(79)	(83)	(96)	(98)
Depreciation & Amortization	2	2	2	2	2,109
Change in Working Capital	(3)	1	2	2	2
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	20	87	101	116	(1,987)
Capital Expenditure	(1)	(4)	(4)	(4)	(5)
<b>Free Cash Flow</b>	<b>-60</b>	<b>8</b>	<b>18</b>	<b>20</b>	<b>22</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>129.2%</b>	<b>12.8%</b>	<b>10.1%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
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	164	102	156	79	1
Trade Receivables	21	21	22	22	22
Other Current Assets	6	6	6	6	6
Property, Plant & Equipment	7	10	12	14	17
Other Non-Current Assets	7	10	10	10	10
<b>Total Assets</b>	<b>205</b>	<b>149</b>	<b>206</b>	<b>131</b>	<b>57</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	26	31	33	34	36
Long-Term Debt	6	9	9	10	10
Other Non-Current Liabilities	85	74	74	74	75
<b>Total Liabilities</b>	<b>117</b>	<b>114</b>	<b>115</b>	<b>118</b>	<b>120</b>
<b>Total Equity</b>	<b>88</b>	<b>35</b>	<b>90</b>	<b>13</b>	<b>(64)</b>
<b>Total Equity &amp; Liabilities</b>	<b>205</b>	<b>149</b>	<b>206</b>	<b>131</b>	<b>57</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Biotechnology

## Company Description

Ocular Therapeutix is a commercial-stage biotechnology company focusing on developing extended-release therapies for ophthalmic indications. Its lead asset is Axpaxli, an intravitreal insert for long-term sustained delivery of axitinib, with potential in wet age-related macular degeneration (wAMD) currently in phase 3. The company also has an approved product, Dextenza, and has programs in diabetic retinopathy, glaucoma and dry eye disease.

## Investment Rationale

We rate OCUL at Buy. We think the extended-release delivery platform in different ophthalmic indication has potential to be differentiated. View Axpaxli's data in wAMD as differentiated and suggesting potential to decrease high treatment burden, which could represent an attractive commercial opportunity given this wAMD is a large market. The company also has an FDA-approved product, Dextenza, which represents a modest commercial opportunity and additional shots on goal in other eye indications.

## Stock Data

Average Daily Volume 1,558,109

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.15A	-0.39A
Q2	-0.23A	-0.26A
Q3	-0.31A	-0.01A
Q4	-0.19A	-0.19E

## Price objective basis & risk

### Ocular Therapeutix (OCUL)

Our \$15 PO is based on a probability adjusted net present value analysis. Our valuation consists of \$11/sh for Axpaxli in wAMD, \$3/sh for Dextenza in post-cataract surgery pain and \$1/sh for pipeline and cash. Our DCF-based model goes out to 2040. We assume 9% WACC for Dextenza, 10% WCC for Axpaxli and 14% WACC for pipeline. We assume no terminal value.

Upside risks to our PO are: 1) positive clinical data from the phase 3 program of Axpaxli, 2) positive clinical data for programs in the pipeline, and 3) better than expected market penetration of Dextenza.

Downside risks to our PO are: 1) slow than expected enrollment in the phase 3 program of Axpaxli, 2) negative results from ongoing clinical trials, 3) unexpected safety signals resulting from the use of intraocular inserts, and 4) increasing competitive pressure from other extended-release inserts or gene therapies in wAMD.

## 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
	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
<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



## US - Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

iQmethod<sup>SM</sup> 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 &amp; 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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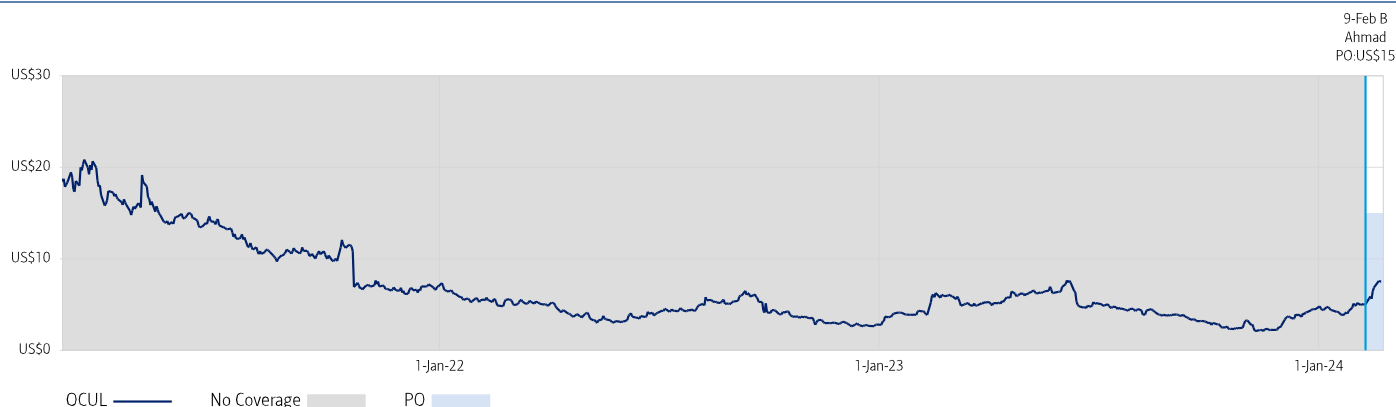
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## Important Disclosures

## Ocular (OCUL) 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 <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%

<sup>R1</sup> 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 <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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