**Quarterly Report (Q3– 2023)**

**-Arvind Krishna Report Date: Dec. 12, 2023**

**VRTX**

Vertex beat Q3 estimates for earnings (by $0.11) but missed the target in Sales;

VRTX Q4 earnings announcement: Feb 01- 2024

The stock has outperformed the industry so far this year. Vertex’s shares have risen 21.3% so far this year against a decrease of 23.1% for the industry.

SSG % change - Sales from year ago quarter: 6.4% - double-digit revenue growth over the last several yrs.

SSG % change - Earnings per Share from year ago quarter: 10.6%

**Is company meeting our target sales & earnings estimates?** VRTX Q3 reported total revenues of $2.48 billion, comprising cystic fibrosis (CF) product revenues. Total Revenues rose 6.4% yr. to yr., primarily driven by higher international sales of Trikafta. The adjusted EPS rose 10.6% year over year, driven by strong growth in product revenues.

**Analyst Estimates SSG Sales 2 yrs. Estimates:** +8.9%

**Analyst Estimates SSG EPS LT Estimates:** +44.7%

Pre-tax Profit on sales trend? **UP**

Return on equity trends? **Down**

Debt? (Up, even, down) **Down**

5 Yr. LT Historical Sales Forecast: 8% (13,122) - Historical EPS Forecast: 9.0% (19.73) Calculated by PP method

Current P/E is **26.7** where does it fall in my estimated High/Low range of P/E's? **In-line with High**

Signature (Average) P/E = (**22.4** Corrected with deleting High and Low P/Es for 2019)

**Dividend Yield:** None

MICNOVA Club cost basis: **$220.20** Current Price (12/12/2023) is **$356.29 (12/11/23)**

 (From latest valuation) (52 WK. Range: $387.42 - $282.21), 11/6/23 – 1/9/23

**Morningstar** Current Fair Value (11/16/23): **$314** – **3 star** (11/16/2023) **HOLD**

**CFRA 12 - Month Target (**12/08/23**): $427.0 Fair Value Calculation (**12/10/23**): $403.81 – 4 star – BUY**

**VL (12/1/2023) - 3 to 5-Year Target Price Range: $405 - $495; 18-Month Target Price Range: $233 - $418 w. Mid $326**

**ZACK:** 6/12 Months target - $369 **(**08/29/23**) Recommend: Neutral**

**ARGUS:** 9/12/2023, **BUY,** Argus target price is $385.00

**Fidelity Equity Ratings: Bullish Schwab Rating: BUY Reuters:** **BUY**

**Manifest Investing (9/23):** Quality – 51; PAR – 4.9%; Fin– 76; EPS- 44; Projected Avg. Price: $424.43

**My SSG Results – HOLD (12/11/23)** Forecasted Low Price: **$244** High Price: **$523**

Total Return (HIGH P/E) is **8.0%**  Projected Return (AVG. P/E) is **4.7%**

Upside downside Ratio: **1.5 to 1** Market Appreciation based on Forecasted High Price: **46.8%**

Buy price - satisfy US/DS of 3 to 1 (15% return): **$260; Recommend BUY at or below: $313.4**

**SSG Analysis: HOLD – Buy Zone**: $244 - $314; **Hold Zone:** $314 - $453; **Sell Zone:** $453 - $523

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**What Will Drive Future Growth?**

**Launch of New Therapy Approved by FDA** (Dec 8, 2023)

The U.S. FDA approved **exa-cel** (CASGEVY) developed with CRISPR Therapeutics, for the treatment of severe sickle cell disease, on December 8, which is expected to be followed with a potential launch by year-end by VRTX. The therapy was also approved in the U.K. during November. Vertex also has a PDUFA date (when a final approval decision can be expected) of March 30, 2024 for exa-cel for the treatment of transfusion-dependent beta thalassemia (TDT).

VRTX is excited to share comprehensive data set with the broader community on Dec 11, just days after FDA approval of **CASGEVY** for the treatment of severe sickle cell disease - CASGEVY is a one-time therapy used to treat people aged 12 years and older with sickle cell disease who have frequent crises.

**ZACK** (11/20/23**)** –Vertex’s CF sales continue to grow driven by its triple therapy, Trikafta/Kaftrio. New reimbursement agreements in ex-U.S. markets and label expansions to younger age groups in US are driving its sales higher. Consistent Rise in CF Product Sales; Strong CF Portfolio; Rapidly Progressing Non-CF Pipeline; Collaborations Broadening Pipeline; and Favorable Debt Profile:

**Negatives:** VRTX dependence on just the CF franchise for growth is concerning. Several other companies are working on bringing their CF products to market. Competing Therapies are in Development. Any set backs on the pipeline/regulatory front on non CF therapies undergoing clinical trials can have an adverse impact on shares

**VL** (12/01/2023) **–** Vertex stock has been range-bound of late. Investors are likely awaiting exacel’s approval. While the CF lineup and other key drug opportunities should be a boon, VRTX stock’s long-term appeal is modest. Note that the **Safety Rank** here has been raised to 1**.**

**CFRA** (12/08/23) **–** Recommend “Buy” following Q3 earnings. VRTX has a first-mover advantage in CF treatment, complemented by potential early- to mid-stage clinical programs outside of CF. Strong patient reliance on VRTX’s CF drugs and currently limited competition to the CF franchise support the cost of diversifying into non-CF businesses. Particularly optimistic about CTX001, a potential one-time cure for sickle cell disease. See continued opportunities for Trikafta to outperform consensus expectations as VRTX continues to obtain additional reimbursement agreements outside the U.S. and expands the treatable population.

**NEGATIVES**: Risks to CFRA opinion and target price include unfavorable regulatory rulings, the emergence of competitive threats (including Abbvie’s potential CF drug), weaker-than-expected margins, and pricing or reimbursement pressures.

**MS (Bulls) 11/16/23** – The firm's CF therapies are poised to dominate the lucrative market for the foreseeable future, based on the disease-modifying potential of the drugs, chronic use by patients, and limited competition. Vertex's leading drug candidates were mostly discovered in-house, lending credibility to its drug-discovery technology and potential to generate additional pipeline candidates. Vertex's combination therapies have lengthy patents, protecting the profitable CF portfolio from generics.

**MS (BEARS)** - Vertex is highly dependent on the success of its cystic fibrosis franchise, and it could fail to diversify if its other pipeline candidates are not successful. Pricing pressure could erode returns, given the high price tag of Vertex's therapies. Gene-editing programs could disrupt Vertex's hold in the CF market.

**ECONOMIC MOAT: Narrow**

Vertex's portfolio of patent-protected CF drugs forms the basis of **narrow economic moat**. The company is well supported by lengthy patent protections extending as far as 2037 and first mover status in the lucrative CF market. Additionally, Vertex holds significant patient share as nearly 50% of patients worldwide are currently treated for CF using its medicines.