Vertex Pharmaceuticals, Inc. (Nasdaq: VRTX)

Rating: Buy

Price Target: $500.00
Share Price: $470.37

Karen Sterling, PhD, CFA
ksterling@kingswoodus.com

Company Data

Average Daily Volume (M)	1.64
52-Week Range	377.85-519.88
Shares Outstanding (M)	257.53
Market Cap (B)	121.13
Enterprise Value (B)	116.31
Total Cash (B), mrq	6.52
Total Debt (B), mrq	1.77
Total Debt to Cap	10.19%

GAAP Estimates

FYE: Dec		2023A	2024E	2025E
EPS	Q1	2.69	4.21	3.86
	Q2	3.52	(13.92)	3.90
	Q3	3.97	4.01	3.96
	Q4	3.71	4.00	4.06
	FY	13.89	(1.57)	15.79
P/E		33.9x	NM	29.8x
Rev	Q1	2,374.8	2,690.6	2,750.0
	Q2	2,493.2	2,645.6	2,790.0
	Q3	2,483.5	2,771.9	2,845.0
	Q4	2,517.7	2,775.0	2,920.0
	FY	9,869.2	10,883.1	11,305.0
EV/Sales		11.8x	10.7x	10.3x

One-Year Performance Chart

As of February 3, 2025. Source: E*Trade.

February 4, 2025

Vertex Pharmaceuticals Announces FDA Approval of JOURNAVX™ (Suzetrigine) for Adults with Moderate to Severe Acute Pain

Significant public health milestone reached, as non-addictive, non-opioid oral pain drug represents first new class of pain medicine to be approved in more than 20 years, with blockbuster peak-sales potential

Summary

Shares of Vertex Pharmaceuticals gained over 7%, moving from $438 on January 30 to $470 after the company announced the FDA approval of its first-in-class, non-addictive, non-opioid oral pain drug, JOURNAVX™ (suzetrigine), for adults with moderate to severe acute (short-term) pain.

JOURNAVX is a highly selective NaV1.8 pain signal inhibitor that targets the voltage-gated sodium channel NaV1.8, relative to other NaV channels. NaV1.8 is expressed in peripheral pain-sensing neurons (nociceptors), transmitting pain signals from the periphery to the brain. JOURNAVX functions by intercepting and inhibiting peripheral pain signals before they can reach the brain.

In addition to opening up a third market stronghold for Vertex, beyond cystic fibrosis and sickle cell disease/beta-thalassemia, we consider the approval a significant public health milestone, as JOURNAVX represents the first new class of pain medicine approved in more than 20 years, creating an opportunity for Vertex to establish a new standard of care in pain management.

The medicine also addresses a previously unmet market need for a non-opioid treatment that delivers effective acute pain relief without addictive potential. 80 million Americans are prescribed a medicine for moderate to severe acute pain every year, which typically results from tissue injury following surgery, accidents or injuries. About half (40 million) of these prescriptions are for opioids, and nearly 10% (4 million) of acute pain patients initially treated with an opioid will continue to use opioids for extended periods of time. About 85,000 of these patients will develop opioid use disorder on an annual basis.

JOURNAVX will be sold in the U.S. at a wholesale acquisition cost of $15.50 per 50mg pill. Approved for twice-daily use, the medicine represents a significant economic opportunity for Vertex with blockbuster peak-sales potential.

In clinical trials, JOURNAVX proved safe and effective, without evidence of addictive potential. The drug's efficacy was tested in two randomized, double-blind, placebo- and active-controlled trials of acute surgical pain, both of which showed a statistically significant reduction in pain with JOURNAVX compared to placebo. While JOURNAVX delivered pain control similar to a weak opioid, it did not outperform it.

The most common adverse events in clinical trial participants receiving JOURNAVX were itching, muscle spasms, increased blood levels of creatine phosphokinase, and skin rashes.

Suzetrigine is also being evaluated in a Phase 3 pivotal trial for patients with chronic peripheral neuropathic pain (PNP) and a Phase 2 trial for patients with painful lumbosacral radiculopathy (sciatica).

Company Description

Founded in 1989, and headquartered in Boston, MA, and London, U.K., Vertex Pharmaceuticals, Inc., is a global biotechnology company focused on discovering, developing, manufacturing, and commercializing small molecule treatments for chronic and genetic diseases, for which there is acute medical need.

The firm's initial focus, and subject of ongoing research and development, is cystic fibrosis (CF), a genetic disease affecting the lungs and other organs. The Vertex portfolio of marketed CF medicines includes KALYDECO, ORKAMBI, SYMDEKO, TRIKAFTA, and ALYFTREK which improve lung function and reduce hospitalizations in CF patients.

The company has also received regulatory approval for CASGEVY™, the first CRISPR/Cas9 gene editing therapy that treats the underlying causes of two chronic, life-shortening diseases: sickle cell disease and transfusion-dependent beta thalassemia.

Vertex has a robust clinical pipeline of investigational therapies for other debilitating diseases and conditions, including non-opioid treatment of acute and chronic pain, Type 1 diabetes, alpha-1 antitrypsin deficiency, kidney disease, Duchenne muscular dystrophy, and myotonic dystrophy type 1.

The company has research and development sites and commercial offices in the United States, Canada, Latin America, the Middle East, Japan, Australia, and several European countries.

Valuation

As an established company in the cystic fibrosis space, Vertex leads its competitors across a spectrum of solvency, valuation, and profitability metrics, including having a 2023 P/E of 34.2x versus the competitor group median of 17.0x. The firm's 2023 enterprise value (EV)/Revenue was 11.1x versus its competitor group median of 6.6x. Vertex's 2023 EV/EBIT was 25.4x, versus its competitor group median of 15.6x. The company's 2023 gross margin was 87.2%, contrasted with its competitor group median of 74.2%, and its 2023 net margin was 36.7% against the competitor group median of 19.0%.

Combined with the above metrics, Vertex's rich valuation is, in our opinion, justified by its formidable cash resources, deep and broadening pipeline, historical successes in clinical trials, and the marketing of its drugs in key strategic regions.

We believe that additional shareholder value will be unlocked as Vertex's portfolio of approved products broadens. One example is the company's global launch of and reimbursement coverage for CASGEVY™, its gene therapy for SCD and beta thalassemia. Other ongoing product launches include ALYFTREK, the recently approved vanzacaftor/tezacaftor/deutivacaftor triple oral small molecule combination for cystic fibrosis, which employs a similar mechanism of action as Vertex's blockbuster drug TRIKAFTA, and JOURNAVX (suzetrigine), the company's non-opioid oral drug for moderate to severe acute pain, which is poised to capture a significant first mover share of the $80-90 billion global pain management market.

In light of Vertex's recent FDA approvals, we expect accelerating revenue and EPS growth in 2026. We recommend investors begin accumulating shares of Vertex during the next 12-18 months. Our 12-month price target of $500.00 is based on 2025 projected earnings of $15.79 and a P/E multiple of 31.7x.

Vertex Pharmaceuticals Financial Forecast											
	FY 23 A	MAR 24 A	JUN 24 A	SEP 24 A	DEC 24 E	FY 24 E	MAR 25 E	JUN 25 E	SEP 25 E	DEC 25 E	FY 25 E
Revenue	9,869.2	2,690.6	2,645.6	2,771.9	2,775.0	10,883.1	2,750.0	2,790.0	2,845.0	2,920.0	11,305.0
Cost of Sales	1,262.2	342.6	371.9	392.6	395.5	1,502.6	337.5	345.6	355.6	365.0	1,403.7
Gross Profit	**8,607.0**	**2,348.0**	**2,273.7**	**2,379.3**	**2,379.5**	**9,380.5**	**2,412.5**	**2,444.4**	**2,489.4**	**2,555.0**	**9,901.3**
Operating Expenses:											
R&D	3,162.9	789.1	966.6	875.9	888.0	3,519.6	935.0	948.6	967.3	992.8	3,843.7
Acquired in-process R&D	527.1	76.8	4,449.1	15.0	30.0	4,570.9	30.0	30.0	30.0	30.0	120.0
SG&A	1,136.6	342.7	372.2	371.8	374.6	1,461.3	357.5	362.7	369.9	379.6	1,469.7
Change in Fair Value of Contingent Consideration	-51.6	-0.1	0.5	0.3	0.5	1.2	-15.0	-15.0	-15.0	-15.0	-60.0
Total Operating Expenses	**4,775.0**	**1,208.5**	**5,788.4**	**1,263.0**	**1,293.1**	**9,553.0**	**1,307.5**	**1,326.3**	**1,352.2**	**1,387.4**	**5,373.4**
Operating Income	**3,832.0**	**1,139.5**	**-3,514.7**	**1,116.3**	**1,086.4**	**-172.5**	**1,105.0**	**1,118.1**	**1,137.3**	**1,167.6**	**4,528.0**
Interest Expense/Income, net	570.6	170.8	146.6	124.7	135.0	577.1	88.0	89.0	90.0	91.0	358.0
Other Income/Expense, net	-22.8	-31.2	-23.1	-16.9	-	-71.2	-	-	-	-	-
Earnings Before Tax	**4,379.8**	**1,279.1**	**-3,391.2**	**1,224.1**	**1,221.4**	**333.4**	**1,193.0**	**1,207.1**	**1,227.3**	**1,258.6**	**4,886.0**
Income Tax Expense	760.2	179.5	202.4	178.7	178.3	738.9	179.0	181.1	184.1	188.8	732.9
Net Income	**3,619.6**	**1,099.6**	**-3,593.6**	**1,045.4**	**1,043.1**	**-405.5**	**1,014.1**	**1,026.0**	**1,043.2**	**1,069.8**	**4,153.1**
Weighted Average Basic Shares Outstanding	257.7	258.2	258.1	258.0	257.9	258.0	259.8	260.0	260.4	260.7	260.2
Weighted Average Diluted Shares Outstanding	260.5	261.1	258.1	261.0	260.9	259.0	262.9	263.0	263.2	263.6	263.1
Net Income per Share, GAAP, Basic	$14.05	$4.26	-$13.92	$4.05	$4.04	-$1.57	$3.90	$3.95	$4.01	$4.10	$15.96
Net Income per Share, GAAP, Diluted	$13.89	$4.21	-$13.92	$4.01	$4.00	-$1.57	$3.86	$3.90	$3.96	$4.06	$15.79
All figures in millions of U.S. Dollar except per share items.											

Sources: Capital IQ, Kingswood Capital Partners Estimates.

Risks to Our Price Target

Clinical trial setbacks: The success of Vertex's drug development pipeline depends on the outcomes of clinical trials, which are subject to risks and uncertainties, including unexpected safety issues, serious side effects, or lack of efficacy.

Regulatory: Vertex may face delays caused by, or rejections from regulatory agencies of its applications for regulatory clearance and marketing authorizations, which in turn would delay or prevent commercialization.

Pricing and reimbursement: Payers such as medical insurers or government-underwritten health systems may limit patient access, or decline to reimburse Vertex's therapies if Vertex's prices are deemed too high, or the efficacy of its therapies are deemed insufficient.

Dependence on a few key products: Vertex's revenue is heavily dependent on its cystic fibrosis products, and any setbacks or competition in this area could have a significant impact on the company's financial performance.

Intellectual property challenges: Vertex's patents may be challenged by competitors, declared invalid by the Patent Trial and Appeal Board, or in court, which could lead to loss of intellectual property or formulary exclusivity, and increased competition.

Competition: Vertex operates in a highly competitive industry, and its competitors may develop equivalent or superior therapies, thereby eroding its market share and revenue.

Supply chain disruptions: Vertex relies on a complex global supply chain to manufacture its therapies, and disruptions or quality issues could impact production, sales, as well as clinical trial timelines.

DISCLOSURES

Analyst Certification

The Research Analyst(s) denoted by an "AC" on the cover of this report certifies (or, where multiple Research Analysts are primarily responsible for this report, the Research Analyst denoted by an "AC" on the cover or within the document individually certifies, with respect to each security or issuer that the Research Analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect the Research Analyst's personal views about any and all of the subject securities or issuers; and (2) no part of any of the Research Analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Research Analyst(s) in this report.

I, Karen Sterling, certify that (1) the views expressed in this report accurately reflect my own views about any and all of the subject companies and securities; and (2) no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by me in this report.

Explanation of Research Ratings (As of January 1, 2024), Designations and Analyst(s) Coverage Universe:

Kingswood Capital Partners, LLC uses the following rating system:

Buy - Buy-rated stocks are expected to have a total return of at least 15% over the following 12 months and are the most attractive stocks in the sector coverage area.

Hold - We believe this stock will perform in line with the average return of others in its industry over the following 12 months.

Sell - Sell-rated stocks are expected to have a negative total return of at least 15% over the following 12 months and are the least attractive stocks in the sector coverage area.

Not Rated (NR) – Kingswood Capital Partners, LLC DOES NOT cover this stock and therefore DOES NOT have forecasts, projections, target price, and recommendation on the shares of this company.

Company-Specific Disclosures

Distribution of Ratings Kingswood Capital Partners, LLC			Investment Banking Services/Past 12 Months	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY	4	80.00	1	25.00
HOLD	0	0.00	0	0.00
SELL	0	0.00	0	0.00
NOT RATED	1	20.00	1	100.00

As of January 2025.

Vertex Pharmaceuticals Rating History as of February 3, 2025

Source: E-Trade.

Other Disclosures

This report has been prepared by Kingswood Capital Partners, LLC. It does not constitute an offer or solicitation of any transaction in any securities referred to herein. Any recommendation contained in this report may not be suitable for all investors. Although the information contained herein has been obtained from recognized services, issuer reports or communications, or other services and sources believed to be reliable, its accuracy or completeness cannot be guaranteed. This report may contain links

to third-party websites, and Kingswood Capital Partners, LLC is not responsible for their content or any linked content contained therein. Such content is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or affiliation with Kingswood Capital Partners, LLC; access to these links is at your own risk. Any opinions, estimates or projections expressed herein may assume some economic, industry and political considerations and constitute current opinions, at the time of issuance, that are subject to change. Any quoted price is as of the last trading session unless otherwise noted. Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk. This information is being furnished to you for informational purposes only, and on the condition that it will not form a primary basis for any investment decision. Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the applicable legal, tax and accounting considerations and their own investment strategies. By virtue of this publication, neither the Firm nor any of its employees shall be responsible for any investment decision.